粵海制革有限公司
GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2007 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Guangdong Tannery Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 together with comparative figures.

CONSOLIDATED INCOME STATEMENT

	Notes	**2007** *HK$'000*	2006 *HK$'000*
REVENUE	*4*	**626,618**	419,975
Cost of sales		**(587,381)**	(383,245)
Gross profit		**39,237**	36,730
Other income and gains	*4*	**8,288**	3,609
Selling and distribution costs		**(2,086)**	(1,346)
Administrative expenses		**(17,138)**	(21,966)
Gain on disposal of subsidiaries		**—**	14,119
Finance costs	*5*	**(10,846)**	(5,726)
PROFIT BEFORE TAX	*5*	**17,455**	25,420
Tax	*6*	**(5,879)**	(4,763)
PROFIT FOR THE YEAR		**11,576**	20,657
EARNINGS PER SHARE	*7*		
— Basic		**2.16 cents**	3.94 cents
— Diluted		**2.16 cents**	3.92 cents

CONSOLIDATED BALANCE SHEET

	Notes	**2007**	2006
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**39,239**	32,600
Investment property		**2,280**	2,185
Prepaid land lease payments		**5,693**	—
Interest in an associate		**—**	1,219
Total non-current assets		**47,212**	36,004
CURRENT ASSETS			
Inventories		**338,128**	210,076
Receivables, prepayments and deposits	*9*	**125,817**	81,358
Pledged deposits		**19,213**	12,888
Cash and cash equivalents		**60,995**	41,536
Total current assets		**544,153**	345,858
CURRENT LIABILITIES			
Trade and bills payables	*10*	**57,711**	51,403
Other payables and accruals		**22,376**	23,736
Interest-bearing bank and other borrowings		**97,544**	15,451
Due to a PRC joint venture partner		**1,131**	1,131
Loans from the immediate holding company		**21,358**	—
Loan from a fellow subsidiary		**—**	54,600
Provision		**3,406**	3,162
Tax payable		**651**	1,212
Total current liabilities		**204,177**	150,695
NET CURRENT ASSETS		**339,976**	195,163
TOTAL ASSETS LESS CURRENT LIABILITIES		**387,188**	231,167

	Notes	2007	2006
		HK$'000	*HK$'000*
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**31,708**	30,258
Loan from a fellow subsidiary		**54,600**	—
Convertible notes	*11*	**56,741**	—
Deferred tax liabilities		**957**	1,188
Total non-current liabilities		**144,006**	31,446
Net assets		**243,182**	199,721
EQUITY			
Issued capital		**53,750**	52,415
Reserves		**189,432**	147,306
Total equity		**243,182**	199,721

Notes:

(1) BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment property and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars 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 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

HKFRS 7	*Financial Instruments: Disclosures*
HKAS 1 Amendment	*Capital Disclosures*
HK(IFRIC)-Int 8	*Scope of HKFRS 2*
HK(IFRIC)-Int 9	*Reassessment of Embedded Derivatives*
HK(IFRIC)-Int 10	*Interim Financial Reporting and Impairment*

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

HKFRS 2 Amendment	*Share-based Payment — Vesting Conditions and Cancellation*[1]
HKFRS 3 (Revised)	*Business Combinations*[5]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
HK(IFRIC)-Int 11	*HKFRS 2 — Group and Treasury Share Transactions*[2]
HK(IFRIC)-Int 12	*Service Concession Arrangements*[3]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[4]
HK(IFRIC)-Int 14	*HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 July 2009.

The directors of the Company anticipate that the applicable of these new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

(3) SEGMENT INFORMATION

No separate analysis of segment information is presented by the Group as over 90% of the Group's revenue and assets related to the processing and sale of semi-finished and finished leather in Mainland China.

(4) REVENUE, OTHER INCOME AND GAINS

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

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

	2007	2006
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**626,618**	419,975
Other income		
Gross rental income	**746**	805
Interest income	**1,318**	752
Reinvestment tax refunds#	**1,730**	—
Sale of scrap materials	**1,777**	1,016
Others	**2,518**	1,036
	8,089	3,609
Gains		
Fair value gain on an investment property	**95**	—
Surplus on revaluation of buildings	**104**	—
	199	—
	8,288	3,609

According to the Income Tax Law of the PRC, the Group is entitled to refunds of corporate income taxes, subject to the approval from the relevant offices of the Tax Bureau in the Mainland China. During the year, the Group reinvested the profit distributions received from its wholly-owned subsidiary into the same subsidiary in Mainland China. Approvals from the Tax Bureau in relation to the reinvestment tax refunds were received by the Group during the year. The refunds are determined based on certain percentages of the profit distributions reinvested.

(5) PROFIT BEFORE TAX

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

	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold	**578,686**	380,669
Auditors' remuneration	**1,200**	990
Depreciation	**5,987**	11,789
Interest on:		
Bank loans and discounting bills receivable to banks	**4,347**	1,493
Convertible notes	**1,377**	—
Loans from the immediate holding company	**1,621**	1,394
Loans from a fellow subsidiary	**3,501**	2,839
	10,846	5,726
Employee benefits expense (excluding directors' remuneration):		
Wages and salaries	**17,420**	11,805
Pension scheme contributions (defined contributions scheme)*	**1,691**	1,273
Equity-settled share option expense	**—**	110
	19,111	13,188
Provision for inventories	**8,695**	2,576
Minimum lease payments under operating leases in respect of land and buildings	**641**	464
Recognition of prepaid land lease payments	**—**	79
Net rental income from investment properties	**(387)**	(337)
Other rental income	**(359)**	(468)
Changes in fair value of investment property	**(95)**	95
(Surplus)/deficit on revaluation of buildings	**(104)**	93
Write-off of items of property, plant and equipment	**—**	31
Gain on disposal of items of property, plant and equipment, net	**(226)**	(393)
Impairment of trade receivables	**281**	184
Foreign exchange differences, net	**(187)**	(5)

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

(6) 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 (2006: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Xuzhou Nanhai Leather Factory Co., Ltd. ("Xuzhou Tannery"), a wholly-owned PRC subsidiary of the Company, was exempt from the PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws. For the year ended 31 December 2007, which is the fourth profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 15%.

Certain other subsidiaries of the Company established in the PRC, which exempt from the PRC corporate income tax for two years commencing from its first profit-making year of operations, and are eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws, have not generated any accumulated assessable profit since their establishments. Thus, the tax exemption periods to which these subsidiaries are entitled have not commenced.

	2007	2006
	HK$'000	*HK$'000*
Group:		
Current — Mainland China	**5,984**	4,793
Deferred	**(105)**	(30)
Total tax charge for the year	**5,879**	4,763

(7) EARNINGS PER SHARE

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

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

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

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**11,576**	20,657
Interest on convertible notes	**1,377***	—
Profit for the year, before interest on convertible notes	**12,953**	20,657

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**535,918,932**	524,154,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**1,038,687**	2,956,433
Convertible notes	**32,368,421***	—
	569,326,040	527,110,433

* Because the diluted earnings per share amount is increased when taking convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit for the year of HK$11,576,000 and the weighted average of 536,957,619 ordinary shares in issue during the year.

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2006: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2007, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$107,130,000 (2006: HK$65,880,000) due from the Group's customers.

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

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

	2007	2006
	HK$'000	*HK$'000*
Current	**103,144**	62,097
Less than 3 months	**2,200**	2,401
3 to 6 months	**1,504**	553
Over 6 months	**1,985**	2,251
	108,833	67,302
Impairment	**(1,703)**	(1,422)
	107,130	65,880

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

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**1,422**	2,991
Impairment losses recognised	**298**	184
Impairment losses reversed	**(17)**	—
Amount written off as uncollectible	**—**	(1,753)
At 31 December	**1,703**	1,422

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

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

	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**103,144**	62,097
Less than 1 month past due	**1,929**	1,526
1 to 3 months past due	**271**	875
Over 3 months past due	**1,786**	1,382
	107,130	65,880

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

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

At 31 December 2007, bills receivable of approximately HK$41,193,000 (2006: Nil) were pledged to secure the general banking facilities granted to the Group.

(10) TRADE AND BILLS PAYABLES

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

	2007	2006
	HK$'000	*HK$'000*
Within 3 months	**27,313**	25,420
3 to 6 months	**24,718**	21,776
6 to 12 months	**1,253**	796
Over 12 months	**4,427**	3,411
	57,711	51,403

The trade and bills payable of the Group are non-interest-bearing and are normally settled on 60 to 90 day terms. Other payables of the Group are non-interest-bearing and have an average term of three months.

(11) CONVERTIBLE NOTES

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

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

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

	2007	2006
	HK$'000	*HK$'000*
Nominal value of convertible notes issued during the year	**61,500**	—
Equity component	**(5,599)**	—
Direct transaction costs attributable to the liability component	**(537)**	—
Liability component at the issuance date	**55,364**	—
Interest expense	**1,377**	—
Liability component at 31 December	**56,741**	—

(12) COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Land and buildings	**8,372**	—
Leasehold improvements	**762**	748
Plant and machinery	**1,207**	2,437
	10,341	3,185
Authorised, but not contracted for:		
Land and buildings	**66,191**	—
Plant and machinery	**80,355**	—
	146,546	—
	156,887	3,185

(13) POST BALANCE SHEET EVENT

On 19 March 2008, the Group entered into an agreement with the local government in Jiawang, Xuzhou City of the PRC, under which the Group agreed to establish a wholly-owned subsidiary to construct and operate production facilities (the "Jiawang Factory") for the upstream processing of leather products in Jiawang, Xuzhou City. The Group anticipated that a total capital expenditure of HK$60.32 million would be invested for such purpose and the construction of the Jiawang Factory would commence in 2009, and is expected to be completed within 24 months.

CHAIRMAN'S STATEMENT

Results

I am pleased to report to the shareholders that the Group's consolidated net profit attributable to shareholders for 2007 was HK$11,576,000 (2006: HK$20,657,000), a decrease of 44.0% over last year. The basic earnings per share was HK cents 2.16 (2006: HK cents 3.94), representing a decrease of 45.2% compared with last year. The decrease in consolidated net profit was mainly due to the non-operating income from the disposal of subsidiaries of HK$14,119,000 was included in the profit of last year. Excluding such factor, the Group's consolidated net operating profit attributable to shareholders was increased significantly by HK$5,038,000 (77.1%).

Dividend

The Board of the Company does not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

Review

During the year under review, the Group maintained a pragmatic strategy of large-scale operation and implemented a sound enterprise development strategy in a timely manner. As a result, the Group's overall market position and operating results have been further improved and the Company's strategic development has taken the crucial first step as well. In the area of production management, the Group continued to improve its operation management capabilities by carrying out operating budgetary control system, realize large-scale operation by outsourcing upstream processing activities, consolidate and expand its supply and sales market efficiently by increasing direct sales to renowned footwear manufacturers and establishing a strategic cooperation mechanism with suppliers. In the area of strategic development, with the ground-breaking progress in both the relocation and technical renovation project of Xuzhou Nanhai Leather Factory Co., Ltd. and the planning of a new Jinsanqiao project in Xuzhou Economic Development Zone, the Group has entered in a positive stage of rapid development.

2007 was a difficult year for the tannery industry in China. Firstly, due to the high anti-dumping tax imposed by the European Union on footwear products originating from China, the footwear industry suffered a decline and the upstream leather manufacturing market was weakened. Secondly, China launched a set of macroeconomic regulation and control policies, such as lowering or abolishing the export tax refund rate for leather products, tightening the environmental protection policy and the monetary policy. These have imposed enormous pressure on the tannery industry in terms of costs, funding and environmental protection. Besides, the surging prices of agricultural and its by-products (such as cooking oil and feeds) coupled with that of basic energy products (such as crude oil) resulting in the constant price increase in raw materials and chemical materials for producing leather products, and thus reducing the profitability of the tannery industry. Facing the above difficulties, the Group implemented the dual strategies of large-scale operation and rolling development. The large-scale operation enabled the Group to earn profit and get through the difficult times, while the rolling and gradual development of new projects enabled the Group to have a solid foundation for future development.

To solve the long-existing problems of lacking synergy between the upstream and downstream processing capacities and insufficient capacity in environmental protection issues, the Group had undertaken two measures: (i) increase the outsourcing of upstream processing activities to meet downstream production's demand for chromed hides, hence, realizing the synergy between the upstream and downstream processing capacities and reducing the pressure on sewage discharge; (ii) carry out the relocation and technical renovation project of Xuzhou Nanhai Leather Factory Co., Ltd., enhancing the insufficient production capacity in its existing upstream production. The project is estimated to be completed and become operational in the fourth quarter of 2008. By then, the problem of lacking synergy between the upstream and downstream processing capacities will be resolved fundamentally, and the pressure on environmental protection issues will also be greatly relieved.

Apart from the result of large-scale operation and outsourcing strategy, the other important factors for the steady growth of the operating results in Xuzhou production base are as follows: (i) The Group became vice president unit of the China Leather Industry Association during the year. Through its active participation in the industry association, the Group enhanced its understanding on the policy and developing trends of the industry, strengthened its influence on the formulation of industry policy, and obtained first-hand information on the development policy, product trends and market information of the leather industry. Besides, the Group also established the information collecting mechanism of the market and competitors through its sales and supply channels, so as to grasp the pulse of the market and the industry in a timely manner; (ii) The production division reinforced the three aspects of production management, namely, "work, technology and statistics". As a result, a harmonious combination between different production elements in production processes was achieved, the importance of production technology was further highlighted, the consistent style and quality, greater variety and a further optimized structure of the products were gained; (iii) By establishing the strategic cooperation mechanism with suppliers, the Group further enforced measures like direct purchase, procurement through tender processes and foresighted strategic procurement, so as to meet the demand for large-scale production, establish a diversified and transparent supervision system on procurement, control cost efficiently within a reasonable range even in the period of the substantial price surging in raw materials, and create a safe and sound supplier channel; and (iv) By successfully fostering and developing a multi-level sales network with direct sales to renowned footwear manufacturers as the main channel, the Group was able to meet the market demand better. The Group also pursued diversification in its product mix. The Group not only has high-end products for branding and occupying the high-end market, but also has low-end products for disposing products with minor defects and thus reducing production and sales costs. In addition to expanding its business to new markets and building its brand image, the Group also adjusted its product structure by increasing the production of high-end products with high added value. This would capture more market share and develop a comprehensive platform for the Group's sustainable profit growth.

Prospects

2007 was the first year when the Group implemented the strategic development plan and a year when the tannery industry in China suffered the most from industry consolidation. Although the macroeconomic regulation and control policies promulgated from time to time have imposed significant impact to the tannery industry, the Group continues to, based on the core enterprise culture of "faith, integrity and efficiency", focus on the core mission of corporate development and adhered to a practical and steady development strategy, making concerted efforts and working hard. As such, the Group has achieved a great progress and accelerated the further growth of its overall market share and operating results.

We anticipate that the Group will have to encounter a number of difficulties in 2008. Nevertheless, the Group will strive to implement a series of measures to overcome those difficulties. Such measures consist of (1) continue to consolidate the existing operation, steady the processing channels of upstream production activities, accelerate the development of relocation and technical renovation project of Xuzhou Nanhai Leather Factory Co. Ltd, and the Group recently confirmed the construction of upstream production processing project with Xuzhou Jiawang People's Government and acquire scarce resources such as lands and environment protection quotas; (2) continue to improve the supply and sales channels, manage the raw material resources and optimize the structure of customers, so as to maintain a robust financial condition. Furthermore, the Group will actively seek opportunities in industry upgrade. It will increase its effort in the research and production of high-tech leather products with higher add-value, and to expand its market share in a proper way, thus to strengthen its position in the tannery industry and lay out solid basis for the goal of being the top in the industry.

On behalf of the Board, I would like to take this opportunity to thank sincerely the customers and shareholders of the Group for their support over the past years and express my earnest gratitude to each dedicated member of staff.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2007 was HK$11,576,000, representing a decrease of HK$9,081,000 or 44.0% when compared with the profit for the same period of last year. The decrease in profit was mainly due to the gain from disposal of subsidiaries of HK$14,119,000 was included in the profit of last year. Excluding such factor, the Group's consolidated net operating profit attributable to shareholders was increased significantly by HK$5,038,000 (77.1%).

The net asset value of the Group as at 31 December 2007 was HK$243,182,000, representing an increase of HK$43,461,000 and HK$23,864,000 as compared to the net asset value as at 31 December 2006 and 30 June 2007 respectively.

The Board does not recommend the payment of final dividend for the year ended 31 December 2007.

Business Review

After the completion of disposal of idle assets last year, the Group continues with the large scale operating strategy. The business in Xuzhou production base has been growing rapidly. By increasing the volume of outsourced upstream processing activities, the problem originated from the lack of synergy between upstream and downstream processing capacities has been solved and the environmental protection pressure has been effectively lessened as well. Meanwhile, the bottleneck problem in production has been solved due to the expansion of production venues and reconstruction of equipment, and the productivity has been further enhanced. The Group's cowhides production volume for the year was 31,922,000 sq. ft., an increase of 8,875,000 sq. ft. compared to 23,047,000 sq. ft. for the same period last year. It laid out a solid foundation for the implementation of the large scale operating strategy.

During the year, the consolidated turnover of the Group was HK$626,618,000, representing an increase of HK$206,643,000, or 49.2% from HK$419,975,000 of the same period of last year. The turnover of cowhides amounted to HK$542,642,000 (2006: HK$373,013,000), an increase of 45.5%; the turnover of grey hides and other products amounted to HK$83,976,000 (2006: HK$46,962,000), an increase of 78.8%. Being affected by the negative factors such as price increase in agricultural by-products, output limitation by environmental protection issues and the cease of operation due to governance, the unit cost of cowhides has been pushed even higher. Facing the pressures above, the Group activated the strategic cooperation mechanism with suppliers to obtain a more favorable credit policy than those of market standard. Meanwhile, the Group further enforced measures such as direct purchase, procurement through tender processes and foresighted strategic procurement, aiming to lower costs and satisfy the needs of large-scale operation.

During the year, the Group has achieved a break through in strategic development. Under the State's constant launch of macroeconomic regulation and control policies such as "Energy Conservation & Emission Reduction" and "Regulating Land Supply", with multi-party effort and negotiation, the Group entered into an investment project agreement with the Suining Government and the Xuzhou Economic Development Management Committee, respectively, on 5 November 2007. The Group committed to construct a new factory in both Suining County and Xuzhou Economic Development Zone. The Suining County project ("Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd.") will engage in upstream processing of leather products while the Xuzhou Economic Development Zone project ("Xuzhou Jinsanqiao Economic Development Zone New Project") will engage in downstream processing of leather products. With a construction contract amounting to approximately HK$80,331,000, the monthly production capacity of the Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd. will be 3,500,000 sq. ft. and it is expected to become operational in the fourth quarter of 2008. With a construction contract amounting to approximately HK$80,757,000, the monthly production capacity of Xuzhou Jinsanqiao Economic Development Zone New Project will be 1,500,000 sq. ft. and it is expected to become operational by the end of 2009. Upon the projects are fully in operation, the Group will be equipped with a monthly production capacity of 5,000,000 sq. ft. from upstream and downstream processing activities.

In addition, the Group entered into a project agreement with Xuzhou Jiawang People's Government on 19 March 2008, pursuant to which the Group undertook to construct production plant in Jiawang Chemical Industrial Development Zone in Xuzhou City for the upstream processing of leather products. The construction contract amount is anticipated to be approximately HK$60,320,000. The production plant is expected to become operational by 2010 and achieve an upstream production capacity of 3,500,000 sq. ft. per month. The profitability of the Group is expected to further improve in the future.

Financial Review

Liquidity and Financial Resources

As at 31 December 2007, the Group's cash and cash equivalents amounted to HK$60,995,000 (as at 31 December 2006: HK$41,536,000), representing an increase of HK$19,459,000 or 46.8% when compared with the same as at 31 December 2006, which were denominated in Hong Kong dollars (47.2%), Renminbi (51.6%) and US dollars (1.2%) respectively. During the year, net cash outflow from operating activities was HK$97,379,000, which mainly represented our foresighted purchase strategy on a mass scale of raw materials to ensure our production and minimize the effect of rise in prices of raw materials. Our net cash inflow from financing activities was HK$133,311,000, which was used to fund the general production need and new projects.

As at 31 December 2007, the Group's interest-bearing borrowings amounted to HK$261,951,000 (as at 31 December 2006: HK$100,309,000). Of which, interest-bearing borrowings in Hong Kong dollars amounted to HK$67,091,000, interest-bearing borrowings in Renminbi amounted to HK$70,855,000, and interest-bearing borrowings in US dollars amounted to HK$124,005,000. The Group's borrowings are consisting of: (1) balances of short-term bank borrowings of HK$97,544,000; (2) balances of long-term and short-term intra-group borrowings of HK$107,666,000; and (3) balances of convertible notes held by the Group's immediate holding company of HK$56,741,000. During the year, the Group entered into the Subscription Agreement with GDH, the immediate holding company of the Group, in relation to the subscription of the convertible notes in an aggregate principal amount of HK$61,500,000 with a term of three years. The interest rate is 1% per annum and the conversion price is HK$1.90 per conversion share. The proceeds are used to fund the needs of the Group's general operation and production. Other than the convertible notes, which was charged at 1% per annum, all of these interest-bearing borrowings were charged at floating interest rate.

As at 31 December 2007, after deduction of the cash and bank balances, the Group's gearing ratio of the net value of interest-bearing borrowings to adjusted capital (including convertible notes and shareholders' equity) plus net value of interest-bearing borrowings was 32.5% (as at 31 December 2006: 23.0%). The annual interest rate of the borrowings was approximately 4.9% to 7.5%. Of the Group's total borrowings, all are repayable within one year except for the amount due to immediate holding company and convertible notes with an aggregate amount of HK$86,308,000 and HK$56,741,000 respectively. During the year, the Group's interest expenses amounted to HK$10,846,000, an increase of 89.4% from the same period of last year.

At present, the Group mainly raises funds through internal funding from operating activities, borrowings advanced from immediate holding company and credit facilities granted by banks. To cater for the development needs of several new projects, it is expected that in the future the Group will invest a substantial amount of capital expenditure for building new factories. Nonetheless, it is believed that the Group has sufficient funds to satisfy the needs of current production. We are also committed to maintain a good inventory system, strengthen risk control over account receivables, increase market share, and examine various means of funding to provide sufficient fund in order to satisfy the development needs of future projects.

Capital Expenditure

As at 31 December 2007, the net value of non-current assets including land, property, plant and equipments and investment property amounted to HK$47,212,000, an increase of HK$12,427,000 over the net value as at 31 December 2006 of HK$34,785,000. The capital expenditure for the year amounted to HK$15,826,000 (2006: HK$6,525,000), which was mainly due to the renewal and purchase of leather manufacturing machines and equipments, and the deposits for the land and construction works of Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd., to cope with the production and development requirements of the production base in Xuzhou.

Pledge of Assets

As at 31 December 2007, certain of the Group's bank deposits, note receivables, inventories, buildings, plant and equipments with a total net book value of HK$91,844,000 (as at 31 December 2006: HK$16,568,000) were pledged to secure general banking facilities granted to the Group.

Risk of Exchange Rate

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

Remuneration Policy for Employees

As at 31 December 2007, a total of 993 employees (2006: 871) were employed by the Group. The remuneration policy is based on the Group's operating results and the employee's performance. The Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a share option scheme in May 2002, and the purpose of which is to provide incentives to participants to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Prospects

2007 was the first year when the Group implemented the strategic development plan and a year when the tannery industry in China suffered the most from industry upgrade. Facing the launch of macroeconomic regulation and control policies in China, the Group will continue to uphold the beliefs of "faith, integrity and efficiency". In addition to seeking business development upon a solid foundation, the Group will actively seize the opportunity of industry upgrade so as to consolidate our position in the industry. We will also further accelerate the constructing pace of new projects, and look forwards to have a greater profit contribution from fully operational projects.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2007.

REVIEW OF RESULTS

The results of the Group for the year ended 31 December 2007 have been reviewed by the audit committee of the Company.

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.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.gdtann.com.hk) and Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk). The annual report of the Company for 2007 containing all the information required by the Listing Rules will be dispatched to shareholders and made available on the above websites in due course.

By order of the Board
Zhang Chunting
Chairman

Hong Kong, 8 April 2008

As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. Zhang Chunting and Mr. Ren Yingguo; three Non-Executive Directors, namely Mr. Zhang Yaping, Mr. Xiong Guangyang and Mrs. Ho Lam Lai Ping, Theresa; and three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat.