2017
Annual Report 年報

粵海制革有限公司
GUANGDONG TANNERY LIMITED
(股份代號 Stock Code: 1058)

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

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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		
	2017	2016	Change
Sales volume of cowhides (in thousand square feet)	**16,684**	23,122	-27.8%
Revenue (in thousand HK$)	**322,146**	456,722	-29.5%
Loss for the year (in thousand HK$)	**(99,623)**	(39,994)	-149.1%
Basic loss per share (in HK cent)	**(18.52)**	(7.43)	-149.3%

	As at 31 December		
Key Indicators	**2017**	2016	Change
Current Ratio[1]	**2.75 times**	2.43 times	+13.2%
Quick Ratio[2]	**0.99 times**	1.05 times	-5.7%
Debt to asset ratio[3]	**64.1%**	59.4%	+7.9%
Total assets (in thousand HK$)	**420,915**	555,623	-24.2%
Net asset value per share (HK$)	**0.28**	0.42	-33.3%

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 2017 was HK$99,623,000 (2016: HK$39,994,000), representing an increase in loss of 149.1%. Basic loss per share was HK18.52 cents (2016: HK7.43 cents).

DIVIDEND

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

REVIEW

The year of 2017 witnessed an overcapacity in the footwear leather market, up-and-coming new materials as alternatives, a sharp fall in demand for leather, the nation’s more stringent environmental regulations, the regulatory standards governing the leather industry being raised, coupled with a sharp spike in the industry’s operating costs in respect to wages, environmental protection and energy consumption, all of which constituted ginormous pressure for the production and operations of the leather processing industry. Meanwhile, the emergence of online sales triggered a price war, which became an accelerator of a vicious cycle, resulting in a rising demand for low-priced finished leather produced by other players in the industry whereas the composite selling price was going downward, further eroding the profitability of the leather processing industry. Bearing the brunt of the aforesaid operating environment, the Group’s operating results experienced a further decline during the year. Adhering to the business strategy of “stable operations to ensure asset safety”, the Group managed to reasonably adjust the scale of production by virtue of consolidating production capacity, which to a certain extent alleviated the pressure of soaring costs and controlled environmental protection risks. Meanwhile, the Group stepped up its efforts in product research and development, promoted the use of clean production technology, endeavored to maintain stable production and operations as well as mitigated the risks arising from operating business under the weak economic environment.

In response to the footwear leather market’s predicament, at the beginning of the year, the Group implemented budget management to set its production and business targets. Against the backdrop of a turbulent industry and tightening environmental protection policies, production plan adjustments were made in time during the year in parallel with reinforcing production sites management as well as products quality inspection, testing and control. The Group also actively pushed forward boiler technology revolution in an effort to mitigate adverse effects arising from changes in the operating environment. In terms of sales, the Group encapsulated its marketing positioning approaches, scaled up research and development, promotion and sales of inventory hide supplies, thereby achieving market access for its products. In addition, the Group took active steps in exploring new business models and making a foray into businesses which guaranteed cash flows with its own platform as the foundation so as to gain better marginal benefits. In terms of procurement, with the aim to lower the inventory level during the year, the Group spared no effort in reducing existing inventory level as well as closely monitored fluctuations in exchange rates and prices of cowhides. Procurement was carried out in tandem with the need to explore new products. Dynamic warehouse management was strengthened so as to keep new slow-moving inventory at bay and minimize the risk of stagnant inventory.

Chairman's Statement (Continued)

PROSPECTS

In 2018, economic downturn is expected to carry on in the industry. Given drastic changes in the external market environment, de-capacity continuing to gain momentum, a steep plunge in demand, and the enforcement of stricter environmental protection policies, an icy period has descended upon the tannery industry with more formidable challenges on the horizon. The Group would follow through with each strategic deployment in a holistic approach, adhere to the business strategy of "stable operations to ensure asset safety", and go above and beyond to rise above a plethora of unfavorable circumstances at present. The Group would continue to hold on to its sales-determined strategy in production and strive to reduce costs on one hand and vigorously promote research and development, product marketing and delicacy management on the other hand. The Group would likewise continue to press ahead with the following tasks: strengthening safety production; promoting the establishment of a comprehensive risk control system; performing research, development, and application of eco-leather, creating a green eco-system; actively reducing inventory level and converting inventory to cash flows, making every effort to mitigate all risks and striving to reduce losses.

Sun Jun
Chairman

Hong Kong, 23 March 2018

Management Discussion and Analysis

RESULTS

The Group's consolidated loss attributable to shareholders for the year ended 31 December 2017 was HK$99,623,000, representing an increase of loss of HK$59,629,000, or 149.1% as compared to the consolidated loss attributable to shareholders of HK$39,994,000 for last year.

The net asset value of the Group as at 31 December 2017 was HK$151,272,000, representing a decrease of HK$74,120,000 and HK$53,261,000 as compared to the net asset value as at 31 December 2016 and 30 June 2017, respectively.

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2017.

BUSINESS REVIEW

In 2017, amid a slowdown in the nation's macro-economic growth and governance of the tannery industry being scaled up due to the nation's de-capacity and environmental protection requirements, a succession of footwear manufacturers of various sizes had either closed down or merely sustained basic production, resulting in continuous shrinkage of the footwear leather market under the siege of hindered international sales and sloppy domestic sales, thus exerting hefty pressure on the production and operations of the leather processing industry. During the year, the Group adhered to its prudent operating strategy with "stable operations to ensure asset safety" as its principal operating concept. Nonetheless, the Group's operating results experienced a decline under the circumstances of surging production costs, the fall of both sales volume and selling prices, which further eroded the profitability. During the year, for the purposes of moderating environmental protection risks and improving efficiency in management, the Group reasonably adjusted its production plan in an endeavor to cut production costs. In addition, the Group integrated its own production capacity, optimized the commercial model design, explored new business models, and strived to improve the utilization of its production platform so as to increase production volume and reduce fixed costs. Meanwhile, the Group continued to promote the use of clean production technology so as to ensure steady operations while meeting environmental protection targets. To a certain extent, the above measures have mitigated the risks arising from operating business under the weak economic environment.

On environmental protection, in order to reduce pollutant emissions from the sources, better environmental quality and turn green development into reality as early as possible, the national government has incessantly moved up the bottom line for lawful and environment-friendly operations as well as enforced more stringent environmental regulations in recent years. During the year, the Group ramped up its clean production technology and the standard of its waste processing technology, imposed stringent control to ensure sound operations of its sewage operation system as well as insisted on processing with due regulatory compliance and compliance with sewage discharge standards. Meanwhile, the Group also took active steps in following up with the connection work concerning sewage cleanup and transportation, speeded up sewage transshipment and ensured that environmental protection accidents which the Group was liable for were non-existent. In late November 2017, pursuant to the notices regarding coal-fired boilers issued by the "Two Reductions, Six Remediations and Three Enhancements" Specific Action Leading Group Office of Jiangsu Suining Economic Development Zone, Jiangsu Provincial Government, as part of the PRC government's policy of remediation request regarding coal-fired boilers, the Group's only coal-fired boiler for cowhides processing was removed on 1 December 2017, resulting in the Group's temporary suspension of production. Capitalizing on the opportunity of steely "coal-to-natural gas" adjustments to boilers, the Group immediately acted upon the plan of purchasing a natural gas boiler and executed contingency measures, exerted great efforts in search of energy-saving and consumption reduction methods, went to great lengths to reduce resources consumption and resumed production in mid-December with the aim to mitigate the losses resulting from suspension of operations however possible.

BUSINESS REVIEW (CONTINUED)

During the year, the total production volume of cowhides was 16,380,000 sq. ft., representing a decrease of 5,808,000 sq. ft. or 26.2% as compared to 22,188,000 sq. ft. last year. The production volume of grey hides was 7,708 tons, representing an increase of 583 tons or 8.2% as compared to 7,125 tons for last year. During the year, the total sales volume of cowhides was 16,684,000 sq. ft., representing a decrease of 6,438,000 sq. ft. or 27.8% as compared to 23,122,000 sq. ft. last year. The sales volume of grey hides was 7,722 tons, representing an increase of 573 tons or 8.0% as compared to 7,149 tons for last year.

The consolidated turnover of the Group for 2017 was HK$322,146,000, representing a decrease of HK$134,576,000 or 29.5% from HK$456,722,000 for last year, of which the sales value of cowhides amounted to HK$296,705,000 (2016: HK$431,019,000), representing a decrease of 31.2%, and that of grey hides and other products amounted to HK$25,441,000 (2016: HK$25,703,000), representing a decrease of 1.0%. During the year, the footwear leather market suffered from overall diminishing demand due to the impact of destocking by manufacturers specializing in domestic sales of footwear and their liquidity shortage, resulting in a tumble in both sales volume and unit prices of footwear leather products.

In terms of sales, in light of the use of diversified footwear materials in the current market and consumers' shifted preference for super fiber leather or other emerging materials, changes in consumption needs led to a slump in sales volume across the downstream footwear manufacturing industry whereas branded footwear manufacturers are frequently seen shutting down operations, all resulting in year-on-year decrease in demand in the tannery market, further exacerbating the pace of imbalanced demand and supply and intensifying fierce competition in the market. Facing the abovementioned hardship, during the year, the Group vigorously stepped up its endeavor in marketing and expansion, integrated latest market trends with fluctuations in leather sales during off and peak seasons, stepped up efforts in product research and development, improved its customer portfolio and endeavored to scale up sales volume under the premise of safeguarding its assets. Besides, the Group took active steps in strengthening production sites control and management together with enhancing the quality and the added value of products.

In terms of purchasing, the fraction of high quality cowhide supplies is dwindling amidst a growing trend for overseas farming practices to forsake pharmaceutical products in pest control to comply with more stringent food safety requirements in recent years. The Group closely monitored the market of imported cowhides, kept a watchful eye on dynamic changes in both prices and quality so as to make reasonable purchases of cowhides in phases. During the year, raw materials were procured in tandem with the demand by adopting a strategy whereby purchases and production were determined according to sales such that the funding pressure could be eased. In addition, the Group took active steps to engage itself in bargaining and price negotiation with suppliers of chemicals in parallel with reinforcing its dynamic management of warehouses, thereby mitigating the risks of chemicals being spoiled and inventory becoming stagnant. During the year, the total purchases amounted to HK$291,909,000, representing a decrease of 23.5% as compared to the same period last year.

As at 31 December 2017, the Group's consolidated inventory amounted to HK$218,900,000 (31 December 2016: HK$258,591,000), representing a decrease of HK$39,691,000 or 15.3% over that of 31 December 2016. With the review of the current market conditions and the ageing of stock, a provision for inventories of HK$24,004,000 (2016: reversal of provision for inventories of HK$2,916,000) was made for the year ended 31 December 2017. During the year, the Group continued to vigorously step up its destocking efforts, constantly optimized its design regarding the aggregate volume of existing inventory as well as adopted a periodic inventory replenishment policy which featured small quantities and quick turnaround time to mitigate the risk of residual inventory. In addition, the Group speeded up the advancement of technical skills and reasonable group processing in line with the structure of inventory while factoring in market demand in a bid to transform slow-moving inventory into cash flows and ensure funding for the Group's normal operations.

BUSINESS REVIEW (CONTINUED)

As at 31 December 2017, the Group's property, plant and equipment amounted to HK$65,887,000 (31 December 2016: HK$87,308,000), representing a decrease of HK$21,421,000 or 24.5% over that of 31 December 2016. Due to the decline in the operating results of the Group, an impairment assessment was performed on the property, plant and equipment of the factories by using a value in use calculation based on the discounted cash flow method and an impairment loss of HK$21,794,000 (2016: HK$5,262,000) was made for the year ended 31 December 2017.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group's cash and cash equivalents amounted to HK$29,108,000 (31 December 2016: HK$48,291,000), representing a decrease of HK$19,183,000 or 39.7% as compared to the same as at 31 December 2016, which was denominated in Hong Kong dollars (2.3%), Renminbi (96.1%) and United States dollars (1.6%). During the year, net cash outflow from operating activities was HK$67,744,000, which was mainly attributable to the repayment of trust receipt loans, resulting in an increase in net cash outflow. Net cash inflow from investing activities was HK$6,457,000, which was mainly attributable to a decrease in pledged deposits. Net cash inflow from a financial activity amounted to HK$39,707,000, which mainly consisted of short-term loans from a fellow subsidiary.

As at 31 December 2017, the Group's interest-bearing borrowings amounted to HK$128,956,000 in total (31 December 2016: HK$173,745,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK$65,000,000, interest-bearing borrowings in RMB amounted to HK$41,177,000, and interest-bearing borrowings in United States dollars amounted to HK$22,779,000. The Group's borrowings mainly consisted of: (1) short-term unsecured loans from a fellow subsidiary with the balance of HK$41,177,000; and (2) long-term unsecured borrowings from the immediate holding company with the balance of HK$87,779,000. The above internal long-term unsecured borrowings were charged at floating interest rates.

As at 31 December 2017, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 46.0% (31 December 2016: 43.5%). During the year, the annual interest rates of the borrowings ranged from approximately 2.0% to 4.4%. Among the Group's total borrowings, all were repayable within one year except for the loans from the immediate holding company amounting to HK$87,779,000. The Group's interest expenses during the year amounted to HK$6,808,000, representing an increase of 30.0% from the same period last year, which was mainly attributable to an increase in both the loan amounts and interest rates during the year.

As at 31 December 2017, the total banking facilities of the Group was HK$119,630,000 (31 December 2016: HK$157,594,000), of which banking facilities of HK$Nil (31 December 2016: HK$85,966,000) were utilised and banking facilities of HK$119,630,000 (31 December 2016: HK$71,628,000) were unutilised. Taking into account of the existing cash resources and available credit facilities, the Group has adequate financial resources to meet its day-to-day operational requirements.

FINANCIAL REVIEW (CONTINUED)

CAPITAL EXPENDITURE

As at 31 December 2017, the carrying net value of non-current assets including prepaid land lease payments and property, plant and equipment amounted to HK$78,200,000, representing a decrease of HK$20,897,000 over the net value as at 31 December 2016 of HK$99,097,000. The capital expenditure for the year amounted to HK$4,661,000 (2016: HK$5,116,000), 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 2017, certain of the Group's bank balances with a total of HK$1,066,000 (31 December 2016: HK$11,610,000) were pledged to banks to secure general banking facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, United States dollars, European dollars or Renminbi. The Group is exposed to foreign currency risk primarily from import purchases from overseas suppliers that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States 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 2017, a total of 461 employees (31 December 2016: 570) were employed by the Group. The Group's remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees focusing on "accountability and performance". The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group's operating net cash flow and profit after tax, calculated by various profit rankings and by applying a measure that links bonuses with the operating results of the Group and further taking into account of the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurances and pension schemes to all employees in different areas.

Biographical Details of Directors and Senior Management

(A) EXECUTIVE DIRECTOR

Mr. Sun Jun (Age: 44)

Mr. Sun Jun 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: 54)

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. 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. He was appointed the general manager of the Legal Department 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 for the period from October 2015 to June 2016 and has acted as the chief legal officer of Guangdong Holdings and GDH since June 2016.

(B) NON-EXECUTIVE DIRECTORS (CONTINUED)

Mr. Kuang Hu (Age: 40)

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, 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 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: 39)

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 joined 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. He acted as general manager of Strategic Development Department of Guangdong Holdings and GDH for the period from October 2015 to December 2016. He was also appointed the chairman of Supertime Development Limited, a wholly-owned subsidiary of GDH, in January 2017. He also acts as a director of certain subsidiaries of Guangdong Holdings and GDH. Mr. Ran had acted 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), all of which are wholly-owned subsidiaries of the Company and resigned in February 2018.

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Lak (Age: 70)

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: 72)

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: 68)

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. Mr. Chan is currently a director of a tax consultancy company and an independent non-executive director of Medicskin Holdings Limited. He had acted as an independent non-executive director of Wasion Group Holdings Limited and retired in May 2015. He had also acted as an independent non-executive director of Man Sang International Limited and resigned in December 2016.

(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: 43)

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 2017.

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 43 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 2017 and the financial position of the Group at that date are set out in the financial statements on pages 37 to 96 of this Annual Report.

No interim dividend was paid during the year and the board of Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2017.

BUSINESS REVIEW

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

The financial risk management objective and policies of the Group are shown in note 33 to the financial statements on pages 91 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 Corporate Governance Report on page 31 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 page 31 of this Annual Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The following section lists out the key risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties apart from the key areas outlined below. In addition, this Annual Report is not intended to provide any advice or opinion to any person on making investment in the securities of the Company. Investors should exercise their own judgment or consult their investment advisors before investing in the securities of the Company.

MARKET RISK

Market risk mainly arose from changes in internal and external environments, such as changes in macroeconomic conditions, market demand and supply, competition and relationships with business partners. In recent years, industry governance was scaled up due to de-capacity across the tannery industry and more stringent environmental protection requirements in place, resulting in the shutting down of small footwear manufacturers whereas large footwear manufacturers merely sustaining basic production. All these factors brought additional risks and uncertainties to the Group's production, operations and profitability. In this regard, the Group adhered to a market-oriented principle, adjusted product structure, kept in close step with the market, adopted a broad spectrum of marketing strategies, stepped up research and development and facilitated market access for its products in an effort to achieve higher brand value and stronger competitiveness in the industry.

ENVIRONMENTAL COMPLIANCE RISK

Environmental compliance risk mainly arose from the prescriptive requirements under the environmental policies, laws and regulation of the PRC. In recent years, the central and local governments constantly stepped up law enforcement in environmental protection, which in turn increased the operating costs and legal risks of the Group. In this regard, the Group took active steps in promoting clean production technology and ramping up the standard of its waste processing technology in conjunction with enhancing communication with local governmental departments to establish long-term, effective and close communication channels in a bid to ensure compliance of laws and regulations.

COST FLUCTUATION RISK

The cost elements of the Group mainly include the cost of cowhides, chemicals and labours and the expenses relating to production. Price fluctuation of cowhides, under-development of products and inconsistent quality could possibly increase the likelihood of inventory impairment risk for the Group. In this regard, the Group closely monitored dynamic changes and trends of price and quantity in the market of raw materials, adopted a strategy whereby purchases were determined according to sales, factored in the current inventory status to purchase cowhides in stages as and when appropriate, as well as conducted theme-based research and development and marketing for inventory in an effort to mitigate inventory risk and alleviate cash flow pressure.

LIQUIDITY RISK

Insufficient fund availability is a significant constraint for enterprises to carry out necessary activities. When any liability falls due, the contract performance risk may be increased. In recent years, demand in the tannery market witnessed a year-on-year slippage. Downstream footwear manufactures were frequently found encountering difficulties in operations or having shut the operations down, which could possibly result in receivables unable to be recovered. Instability in the financial market may lead to an increase in interest and exchange rate risks. In this regard, in managing liquidity risk, the Group has set out higher risk consciousness, timely monitor and analyze interest and exchange rate movements in the market, create a model to calculate and forecast cash flows, ensure the formation of a cash flow-oriented production, supply and sales model, take active steps in reducing current inventory level and guarantee cash flows for normal business operations so as to mitigate the impact arising from cash flow fluctuations.

Report of the Directors (Continued)

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				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**322,146**	456,722	652,729	767,185	594,644
Profit/(loss) from operating activities	**(92,074)**	(34,735)	(28,357)	11,967	18,689
Finance costs	**(6,808)**	(5,238)	(10,533)	(6,676)	(6,035)
Profit/(loss) before tax	**(98,882)**	(39,973)	(38,890)	5,291	12,654
Income tax credit/(expense)	**(741)**	(21)	541	(3,293)	(6,923)
Profit/(loss) for the year	**(99,623)**	(39,994)	(38,349)	1,998	5,731

Assets and Liabilities

	As at 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment, and prepaid land lease payments	**78,200**	99,097	116,202	117,999	121,434
Current assets	**342,715**	456,526	490,816	641,054	515,890
Total assets	**420,915**	555,623	607,018	759,053	637,324
Liabilities					
Current liabilities	**124,610**	188,086	175,714	404,909	283,208
Non-current liabilities	**145,033**	142,145	140,689	1,591	1,304
Total liabilities	**269,643**	330,231	316,403	406,500	284,512
Net assets	**151,272**	225,392	290,615	352,553	352,812

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 Group as at 31 December 2017 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 24 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 Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2017, 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 (2016: Nil).

Report of the Directors (Continued)

DIRECTORS

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

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*

In accordance with Articles 82 to 84 of the Articles of Association of the Company, Mr. Xiao Zhaoyi and Mr. Chan Cheong Tat will retire by rotation at the forthcoming annual general meeting of the Company to be held on Friday, 8 June 2018 (the "2018 AGM") and, being eligible, have offered themselves for re-election.

Mr. Xiao Zhaoyi and Mr. Chan Cheong Tat, 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 2021 and (ii) 30 June 2021, subject to earlier determination in accordance with the Articles of Association of the Company and/or any applicable laws and regulations.

DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the boards of the subsidiaries of the Company during the year ended 31 December 2017 are set out below (in alphabetical order):

Mr. Kuang Hu, Ms. Lee Wai Mei, Mr. Qiao Jiankang, Mr. Ran Bo, Mr. Sun Jun, Mr. Zhou Hao and Mr. Zhuang Xiaobin

DIRECTORS' SERVICE CONTRACT

No Director proposed for re-election at the 2018 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 and 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 2017. 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 2017, 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 2017, 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 to 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

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 2017.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

INTERESTS AND SHORT POSITIONS IN THE COMPANY (CONTINUED)

Save as disclosed above, as at 31 December 2017, 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 2017, 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)*
廣東粤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 2017.

2. The attributable interest which 廣東粤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 2017, 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

During the year ended 31 December 2017, no share options have been granted, exercised, cancelled or lapsed under the share option scheme adopted by the Company on 24 November 2008 (the "2008 Scheme"). As at 31 December 2017 and 31 December 2016, there were no share options outstanding under the 2008 Scheme. The detailed terms of the 2008 Scheme are set out in note 24 to the financial statements.

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 section headed "SHARE OPTIONS OF THE COMPANY" of the report and in note 24 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 2017, the amount of purchases attributable to the Group's largest supplier represented 30% 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 73% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 11% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 34% 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.

Report of the Directors (Continued)

CHANGES IN DIRECTORS' INFORMATION

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

(1) The salaries, allowances and benefits in kind of Mr. Sun Jun amounted to approximately RMB35,960 per month for the period from 1 January 2017 to 26 March 2017 and was adjusted to approximately HK$49,350 per month with effect from 27 March 2017.

(2) Mr. Ran Bo ceased to act 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) with effect from 12 February 2018.

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 2018 AGM 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, 23 March 2018

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 had complied with the code provisions and, where appropriate, the applicable recommended best practices in the CG Code throughout the year ended 31 December 2017 except for the following:

The code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual (the Company regards that the term "chief executive" has the same meaning as the Managing Director of the Company).

Mr. Sun Jun serves as both the Chairman and the Managing Director of the Company with effect from 26 February 2016. 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. It 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 will review the current structure from time to time to ensure appropriate and timely action to meet changing circumstances.

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.

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 2017, four 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 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 will 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 2017 to brief the Directors on the topic of "Cyber Security" 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 2017.

Name of Director	Seminar and Conferences	Reading materials
Executive Director		
Sun Jun	✓	✓
Non-Executive Directors		
Xiao Zhaoyi	✓	✓
Kuang Hu	✓	✓
Ran Bo	✓	✓
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.

BOARD DIVERSITY POLICY (CONTINUED)

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 of the Board 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.

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

(i) compiled the Environmental, Social and Governance Reporting for the year of 2017;

(ii) 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. The 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 2017, the Remuneration Committee held two meetings to approve the annual review of the remuneration package for the Executive Director. 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 2017 are set out in note 8 to the financial statements.

NOMINATION COMMITTEE

The Company established the Nomination Committee in June 2005. The 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 2017, the Nomination Committee held one meeting (i) to review the structure, size and composition of the Board; (ii) to assess the independence of Independent Non-Executive Directors; and (iii) to make recommendations to the Board for 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. The 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.

AUDIT COMMITTEE (CONTINUED)

During the financial year ended 31 December 2017, the Audit Committee held five meetings. It reviewed the 2016 annual results, the 2017 interim results and the 2017 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 five 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. The Audit Committee further ensures that the management has put in place effective systems of risk management and 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, internal audit 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	1,375
Review of Interim Results	340

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 2017 are set out below:

Name of Director	Board Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Audit Committee Meeting	Annual General Meeting
Executive Director					
Sun Jun	4/4	–	1/1	–	1/1
Non-Executive Directors					
Xiao Zhaoyi	4/4	–	–	–	1/1
Kuang Hu	4/4	–	–	–	1/1
Ran Bo	2/4	–	–	–	0/1
Independent Non-Executive Directors					
Fung Lak	4/4	2/2	1/1	5/5	1/1
Choi Kam Fai, Thomas	4/4	2/2	1/1	5/5	1/1
Chan Cheong Tat	4/4	2/2	1/1	5/5	1/1

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2017, 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 2017, 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 2017, 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 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls, risk management 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 Internal Audit Department and the Board has reviewed, among other things, the profile of the significant risks and identified, evaluated and managed the significant risks faced by the Group including the changes in the nature and extent of significant risks, and the ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems, and updating the systems of risk management and internal control when there are changes to business environment or regulatory guidelines. In addition, the management review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committee which enables it to assess control of the Group and the effectiveness of risk management, any significant failing or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Group's processes for financial reporting and Listing Rules compliance.

The risk management and internal control systems 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 control and assessing the effectiveness of internal control 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, internal audit 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. It carried out an entity-level risk assessment which includes identification, evaluation and prioritization of risk factors that the Company is facing. It completed the risk assessment and has submitted the assessment results (including the annual internal audit plan) to the management of the Company for review and reported to the Audit Committee and the Board for approval. 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.

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

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 system. The Board is satisfied that the systems of risk management and internal control in place for the year under review and up to the date of issuance of the annual report are reasonably effective and adequate.

There are also procedures including pre-clearance on dealing in the Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors and relevant employees, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

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 is 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 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' RIGHTS (CONTINUED)

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 PROTECTION AND LEGAL COMPLIANCE

The Group devotes to protect the environment where it operates. Also, it is committed to ensuring compliance of the environmental standards and the relevant laws and regulations that are applicable to its business operation. During the year, the Group has obtained the requisite permits and environmental approvals for its business and production facilities, and has complied with the relevant laws, rules and regulations. For further information on the work done by the Group in respect to environmental protection and legal compliance, please refer to the Management Discussion and Analysis on pages 6 to 9 in this annual report.

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, 23 March 2018

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of Guangdong Tannery Limited (the "Company") and its subsidiaries (the "Group") set out on pages 37 to 96, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of plant and equipment	
As at 31 December 2017, the carrying amount of plant and equipment (the "PE"), net of accumulated impairment and depreciation, amounted to approximately HK$15.1 million, and represented approximately 19.3% of the total non-current assets of the Group. In view of the operating loss for the year ended 31 December 2017, management performed an impairment assessment on the Group's cash-generating unit ("CGU") to which the PE belonged at the end of the reporting period. Based on the results of the impairment assessment, the Group recognised an impairment loss of HK$21.8 million in the consolidated statement of profit or loss for the year ended 31 December 2017. The impairment assessment of the CGU was determined based on a discounted cash flow calculation (value in use approach). This assessment requires the use of significant judgment and assumptions by management to determine the key assumptions including sales growth rate, selling prices and discount rate applied in the discounted cash flows. Relevant disclosures are included in notes 3 and 11 to the consolidated financial statements.	In evaluating management's impairment assessment, our procedures included (i) evaluating the key assumptions used in the discounted cash flow forecast, including sales growth rate, estimated selling price and operating expenses based on the latest operating performance and historical data; (ii) involving our valuation specialist in evaluating the methodology and key assumptions adopted by management; and (iii) performing sensitivity analyses on key inputs in the discounted cash flows for any significant impact on the recoverable amount of the CGU.
Provision for inventories	
As at 31 December 2017, the Group's inventories amounted to approximately HK$218.9 million which was net of the provision of HK$38.7 million, and represented approximately 63.9% of total current assets of the Group. Significant management judgement and estimates are involved in determining the net realisable values with reference to, amongst others, the ageing of inventories, historical sales performance, post year-end sales, latest selling prices and expectation of future saleability of the inventories. Relevant disclosure are included in note 3 to the consolidated financial statements.	In evaluating management's assessment of provision for inventories, our audit procedures included (i) obtaining an understanding of the basis of inventory provision policy adopted by the Group; (ii) test checking the ageing of inventories balances and past sales/utilisation history; and (iii) evaluating the basis of inventories provision made by management by reviewing the net realisable value of selected samples with reference to the latest selling prices subsequent to the year end and the estimated costs to be incurred for completion and for sale.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor’s Report (Continued)

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Fok Lai Ching.

Ernst & Young
Certified Public Accountants
Hong Kong

23 March 2018

Consolidated Statement of Profit or Loss

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
REVENUE	5	**322,146**	456,722
Cost of sales		**(369,583)**	(456,114)
Gross profit/(loss)		**(47,437)**	608
Other income and gains	5	**5,894**	2,709
Selling and distribution expenses		**(2,131)**	(2,256)
Administrative expenses		**(28,015)**	(30,534)
Impairment on items of property, plant and equipment		**(21,794)**	(5,262)
Other operating income, net		**1,409**	—
Finance costs	6	**(6,808)**	(5,238)
LOSS BEFORE TAX	6	**(98,882)**	(39,973)
Income tax expense	7	**(741)**	(21)
LOSS FOR THE YEAR		**(99,623)**	(39,994)
LOSS PER SHARE	10		
— Basic		**HK(18.52) cents**	HK(7.43) cents
— Diluted		**HK(18.52) cents**	HK(7.43) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Notes	2017 *HK$'000*	2016 *HK$'000*
LOSS FOR THE YEAR		**(99,623)**	(39,994)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Surplus on revaluation of buildings	*11*	**4,185**	913
Income tax effect	*21*	**(1,046)**	(228)
		3,139	685
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**22,364**	(25,914)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**25,503**	(25,229)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(74,120)**	(65,223)

Consolidated Statement of Financial Position

31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**65,887**	87,308
Prepaid land lease payments	12	**12,313**	11,789
Total non-current assets		**78,200**	99,097
CURRENT ASSETS			
Inventories	13	**218,900**	258,591
Receivables, prepayments and deposits	14	**93,641**	138,030
Tax recoverable		**—**	4
Pledged bank balances	15	**1,066**	11,610
Cash and bank balances	15	**29,108**	48,291
Total current assets		**342,715**	456,526
CURRENT LIABILITIES			
Trade payables	16	**49,551**	61,275
Other payables and accruals	16	**28,902**	36,149
Tax payable		**33**	—
Loan from a fellow subsidiary	17,19	**41,177**	—
Interest-bearing bank borrowings	17	**—**	85,966
Due to a PRC joint venture partner	18	**1,131**	1,131
Provision	20	**3,816**	3,565
Total current liabilities		**124,610**	188,086
NET CURRENT ASSETS		**218,105**	268,440
TOTAL ASSETS LESS CURRENT LIABILITIES		**296,305**	367,537
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	17,19	**141,138**	139,925
Deferred tax liabilities	21	**3,895**	2,220
Total non-current liabilities		**145,033**	142,145
Net assets		**151,272**	225,392
EQUITY			
Share capital	22	**75,032**	75,032
Other reserves	23	**76,240**	150,360
Total equity		**151,272**	225,392

Sun Jun
Director

Xiao Zhaoyi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Note	Share capital HK$'000	Equity component of convertible notes HK$'000	General reserve fund HK$'000 (Note 23(i))	Reserve funds HK$'000 (Note 23(iii))	Capital reserve HK$'000 (Note 23(iv))	Exchange translation reserve HK$'000	Property revaluation reserve HK$'000	Special capital reserve HK$'000 (Note 23(ii))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016		75,032	5,545	167,746	20,054	3,639	81,181	6,531	1,190	(70,303)	290,615
Loss for the year		–	–	–	–	–	–	–	–	(39,994)	(39,994)
Other comprehensive income/(loss) for the year:											
Changes in fair value of buildings, net of tax		–	–	–	–	–	–	685	–	–	685
Exchange differences on translation of foreign operations		–	–	–	–	–	(25,914)	–	–	–	(25,914)
Total comprehensive loss for the year		–	–	–	–	–	(25,914)	685	–	(39,994)	(65,223)
Transfer to accumulated losses in accordance with the undertaking	*23(ii)*	–	–	–	–	–	–	–	(1,190)	1,190	–
At 31 December 2016 and 1 January 2017		**75,032**	**5,545***	**167,746***	**20,054***	**3,639***	**55,267***	**7,216***	**–***	**(109,107)***	**225,392**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(99,623)**	**(99,623)**
Other comprehensive income/(loss) for the year:											
Changes in fair value of buildings, net of tax		**–**	**–**	**–**	**–**	**–**	**–**	**3,139**	**–**	**–**	**3,139**
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**–**	**–**	**22,364**	**–**	**–**	**–**	**22,364**
Total comprehensive loss for the year		**–**	**–**	**–**	**–**	**–**	**22,364**	**3,139**	**–**	**(99,623)**	**(74,120)**
At 31 December 2017		**75,032**	**5,545***	**167,746***	**20,054***	**3,639***	**77,631***	**10,355***	**–***	**(208,730)***	**151,272**

* These reserve accounts comprise the consolidated other reserves of HK$76,240,000 (2016: HK$150,360,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(98,882)	(39,973)
Adjustments for:			
Finance costs	6	6,808	5,238
Interest income	5	(68)	(58)
Depreciation	6	11,024	11,138
Provision/(reversal of provision) for inventories	6	24,004	(2,916)
Provision for trade receivables	6	1,616	—
Impairment on items of property, plant and equipment		21,794	5,262
Provision for other receivables	6	76	—
Amortisation of prepaid land lease payments	6	291	295
Loss/(gain) on disposal of items of property, plant and equipment		136	(3)
Write-off of items of property, plant and equipment	6	1,567	—
Reversal of accruals	6	(4,804)	—
		(36,438)	(21,017)
Decrease in inventories		31,758	36,911
Decrease/(increase) in receivables, prepayments and deposits		44,114	(17,589)
Decrease in trade payables		(15,420)	(20,753)
Increase/(decrease) in other payables and accruals		(98)	4,863
Increase/(decrease) in interest-bearing bank borrowings		(88,711)	37,192
Cash from/(used in) operations		(64,795)	19,607
Interest received		68	58
Interest paid		(2,961)	(1,761)
Overseas tax paid		(56)	(1)
Net cash flows from/(used in) operating activities		(67,744)	17,903
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(4,661)	(5,116)
Proceeds from disposal of items of property, plant and equipment		165	96
Decrease/(increase) in pledged bank balances		10,953	(3,905)
Net cash flows from/(used in) investing activities		6,457	(8,925)
CASH FLOWS FROM A FINANCING ACTIVITY			
Increase in a loan from a fellow subsidiary		39,707	—
Net cash flows from a financing activity		39,707	—

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(21,580)**	8,978
Cash and cash equivalents at beginning of year		**48,291**	42,156
Effect of foreign exchange rate changes, net		**2,397**	(2,843)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**29,108**	48,291
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*15*	**29,108**	48,291

Notes to Financial Statements

31 December 2017

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, 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	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 of which the 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 2017. 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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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 HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 28 to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 28 to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as no subsidiaries in the Group are classified as a disposal group held for sale as at 31 December 2017.

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.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[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 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
Amendments to HKAS 28	*Long-term interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018. Whilst management has performed an assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed an assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

Upon adoption of HKFRS 9, the classification and measurement of financial assets depend on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group's bills receivable are managed with a business model under which bills receivable are not held to collect contractual cash flows as the Group regularly discounts bills receivable to banks prior to their expiry date. Accordingly, these bills receivable will be reclassified as financial assets at fair value through profit or loss.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group anticipated that, due to the unsecured nature of its trade and other receivables, the provision for impairment will be slightly increased.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018 and plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sale of goods.

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of these disclosure requirements will not be significant. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

Other than HKFRS 15 and HKFRS 9, 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 asset.

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;

(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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. An annual transfer from the property revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

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.

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.

The Group's financial assets include trade and bills receivables, deposits and other receivables, pledged bank balances, and cash and bank balances.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. An 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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 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.

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, loans from the immediate holding company, and a loan from a fellow subsidiary.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, including term deposits, and assets similar in nature to cash, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 24 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, except for the Group's employer voluntary contributions, which are proportionately refunded to the Group upon employee's termination of services in accordance with the vesting scales of 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, ageing of inventories, and current market conditions. Management reassesses the estimation at the end of each reporting period. The carrying amount of inventories as at 31 December 2017 was HK$218,900,000 (2016: HK$258,591,000).

Impairment of trade and bills receivables

The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors 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. The carrying amount of trade and bills receivables as at 31 December 2017 was HK$90,536,000 (2016: HK$130,143,000).

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. The carrying amount of property, plant and equipment, excluding construction in progress, as at 31 December 2017 was HK$64,207,000 (2016: HK$86,983,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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 2017 was HK$178,360,000 (2016: HK$135,904,000). Further details are set out in note 21 to the financial statements.

Impairment of plant and equipment

The Group assesses at the end of each reporting period whether there is an indication that plant and equipment may be impaired. If any indication exists, the Group estimates the recoverable amount of the Group's cash-generating unit ("CGU") to which plant and equipment belong to. The Group measures the recoverable amount of the CGU 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 plant and equipment and a suitable discount rate in order to calculate the present value. As at 31 December 2017, the carrying amount of plant and equipment was approximately HK$15,128,000 (2016: HK$39,874,000). Further details are set out in note 11 to the financial statements.

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$34,726,000 (2016: HK$56,450,000) was derived from sales to a single customer, which constituted 10.8% (2016: 12.4%) of the total revenue during the year ended 31 December 2017.

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:

	2017 *HK$'000*	2016 *HK$'000*
Revenue		
Processing and sale of leather	322,146	456,722
Other income and gains		
Interest income	68	58
Sale of scrap materials	1,240	1,461
Processing of second-layer grey leather	849	—
Government grants*	15	1,089
Gain on disposal of items of property, plant and equipment	—	3
Foreign exchange gains, net	3,648	—
Others	74	98
	5,894	2,709

* During the year ended 31 December 2017, the Group received HK$15,000 (2016: HK$1,089,000) from the PRC local government as a support to the Group's PRC operations.

6. LOSS BEFORE TAX

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

	Notes	**2017** **HK$'000**	2016 HK$'000
Cost of inventories sold		**345,579**	459,030
Auditor's remuneration		**1,375**	1,350
Depreciation	*11*	**11,024**	11,138
Interest on:			
Bank loans and discounting bills receivable to banks		**2,556**	1,761
Loans from the immediate holding company		**3,847**	3,477
Loan from a fellow subsidiary		**405**	—
		6,808	5,238
Employee benefit expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		**29,032**	29,584
Pension scheme contributions (defined contribution schemes)*		**3,347**	3,724
		32,379	33,308
Foreign exchange differences, net		**(3,648)**	3,660
Provision/(reversal of provision) for inventories**		**24,004**	(2,916)
Minimum lease payments under operating leases in respect of land and buildings		**900**	911
Amortisation of prepaid land lease payments	*12*	**291**	295
Provision for trade receivables#	*14*	**1,616**	—
Write-off of items of property, plant and equipment#	*11*	**1,567**	—
Loss on disposal of items of property, plant and equipment#		**136**	—
Provision for other receivables#	*14*	**76**	—
Reversal of accruals#		**(4,804)**	—

* At 31 December 2017 and 2016, 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.

These items are included in the "Other operating income, net" 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 (2016: 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.

	2017	2016
	HK$'000	*HK$'000*
Current – Mainland China		
Charge for the year	**74**	4
Underprovision in prior years	**17**	17
Deferred *(note 21)*	**650**	—
Total tax charge for the year	**741**	21

A reconciliation of the tax expense applicable to 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 at the effective tax rates is as follows:

2017

	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Loss before tax	**(5,311)**	**(93,571)**	**(98,882)**
Tax at the statutory tax rate	**(876)**	**(23,393)**	**(24,269)**
Adjustments in respect of current tax of previous periods	**—**	**(17)**	**(17)**
Income not subject to tax	**(6,582)**	**(1,256)**	**(7,838)**
Expenses not deductible for tax	**6,636**	**15,246**	**21,882**
Tax loss not recognised	**822**	**10,161**	**10,983**
Tax charge at the Group's effective rate	**—**	**741**	**741**

7. INCOME TAX (CONTINUED)

2016

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Loss before tax	(9,134)	(30,839)	(39,973)
Tax at the statutory tax rate	(1,507)	(7,710)	(9,217)
Adjustments in respect of current tax of previous periods	—	17	17
Income not subject to tax	(114)	(1,322)	(1,436)
Expenses not deductible for tax	842	1,244	2,086
Tax loss utilised from previous periods	—	(242)	(242)
Tax loss not recognised	779	8,034	8,813
Tax charge at the Group's effective rate	—	21	21

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:

	2017 ***HK$'000***	2016 *HK$'000*
Fees	**450**	450
Other emoluments:		
Salaries, allowances and benefits in kind	**604**	592
Performance related bonuses	**—**	210
Pension scheme contributions	**153**	102
	757	904
	1,207	1,354

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

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

	2017 HK$'000	2016 HK$'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 (2016: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2017					
Executive director:					
Mr. Sun Jun	–	604	–	153	757
	–	604	–	153	757
Non-executive directors:					
Mr. Ran Bo	–	–	–	–	–
Mr. Xiao Zhaoyi	–	–	–	–	–
Mr. Kuang Hu	–	–	–	–	–
	–	–	–	–	–
	–	604	–	153	757

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$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2016					
Executive directors:					
Mr. Chen Hong*	—	75	—	34	109
Mr. Sun Jun	—	517	210	68	795
	—	592	210	102	904
Non-executive directors:					
Mr. Qiao Jiankang^	—	—	—	—	—
Mr. Ran Bo	—	—	—	—	—
Mr. Xiao Zhaoyi#	—	—	—	—	—
Mr. Kuang Hu#	—	—	—	—	—
	—	—	—	—	—
	—	592	210	102	904

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

* Mr. Chen Hong resigned as executive director of the Company on 26 February 2016.

^ Mr. Qiao Jiankang resigned as a non-executive director of the Company on 26 February 2016.

\# Mr. Xiao Zhaoyi and Mr. Kuang Hu were appointed as non-executive directors of the Company on 26 February 2016.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2016: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2016: four) highest paid employees who are not directors of the Company are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Salaries and allowances	**1,696**	1,915
Pension scheme contributions	**258**	130
	1,954	2,045

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

	Number of employees	
	2017	2016
Nil to HK$1,000,000	**4**	4

10. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year and the weighted average number of ordinary shares of 538,019,000 (2016: 538,019,000) in issue during the year.

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

	2017 ***HK$'000***	2016 *HK$'000*
Loss		
Loss for the year, used in the basic loss per share calculation	**(99,623)**	(39,994)

	Number of shares	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**538,019,000**	538,019,000

No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2017 and 2016 in the calculation of diluted loss per share as there was no dilutive events during the years ended 31 December 2017 and 2016.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improve-ments HK$'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 2017								
At 1 January 2017:								
Cost or valuation	47,434	23,338	116,947	4,175	497	6,073	325	198,789
Accumulated depreciation and impairment	–	(16,409)	(84,946)	(3,800)	(483)	(5,843)	–	(111,481)
Net carrying amount	47,434	6,929	32,001	375	14	230	325	87,308
At 1 January 2017, net of accumulated depreciation and impairment	47,434	6,929	32,001	375	14	230	325	87,308
Additions	106	1,206	105	–	–	–	3,244	4,661
Surplus on revaluation *(note (a))*	4,185	–	–	–	–	–	–	4,185
Impairment *(note (b))*	–	(3,955)	(17,530)	(133)	–	(176)	–	(21,794)
Write-off	(1,179)	(388)	–	–	–	–	–	(1,567)
Depreciation provided during the year	(2,169)	(1,901)	(6,698)	(130)	(10)	(116)	–	(11,024)
Transfer	–	–	1,784	–	–	194	(1,978)	–
Disposals	–	–	(222)	(42)	–	(37)	–	(301)
Exchange realignment	2,382	432	1,462	16	–	38	89	4,419
At 31 December 2017, net of accumulated depreciation and impairment	50,759	2,323	10,902	86	4	133	1,680	65,887
At 31 December 2017:								
Cost or valuation	50,759	24,179	125,027	3,507	497	5,969	1,680	211,618
Accumulated depreciation and impairment	–	(21,856)	(114,125)	(3,421)	(493)	(5,836)	–	(145,731)
Net carrying amount	50,759	2,323	10,902	86	4	133	1,680	65,887
Analysis of cost or valuation:								
At cost	–	24,179	125,027	3,507	497	5,969	1,680	160,859
At 31 December 2017 valuation	50,759	–	–	–	–	–	–	50,759
	50,759	24,179	125,027	3,507	497	5,969	1,680	211,618

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings HK$'000	Leasehold improve-ments HK$'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 2016								
At 1 January 2016:								
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
At 1 January 2016, net of accumulated depreciation and impairment	50,300	9,197	39,690	488	25	85	3,528	103,313
Additions	–	1,139	96	107	–	290	3,484	5,116
Surplus on revaluation *(note (a))*	913	–	–	–	–	–	–	913
Impairment *(note (b))*	–	(922)	(4,259)	(50)	–	(31)	–	(5,262)
Depreciation provided during the year	(2,230)	(1,768)	(6,932)	(142)	(11)	(55)	–	(11,138)
Transfer	949	–	5,651	–	–	–	(6,600)	–
Disposals	–	–	(71)	–	–	(22)	–	(93)
Exchange realignment	(2,498)	(717)	(2,174)	(28)	–	(37)	(87)	(5,541)
At 31 December 2016, net of accumulated depreciation and impairment	47,434	6,929	32,001	375	14	230	325	87,308
At 31 December 2016:								
Cost or valuation	47,434	23,338	116,947	4,175	497	6,073	325	198,789
Accumulated depreciation and impairment	–	(16,409)	(84,946)	(3,800)	(483)	(5,843)	–	(111,481)
Net carrying amount	47,434	6,929	32,001	375	14	230	325	87,308
Analysis of cost or valuation:								
At cost	–	23,338	116,947	4,175	497	6,073	325	151,355
At 31 December 2016 valuation	47,434	–	–	–	–	–	–	47,434
	47,434	23,338	116,947	4,175	497	6,073	325	198,789

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) The Group's buildings were revalued individually at 31 December 2017 based on the valuations performed by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate open market value of HK$50,759,000 (2016: HK$47,434,000) based on their existing use, with a revaluation surplus of HK$4,185,000 (2016: revaluation surplus of HK$913,000) 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 2017 would have been approximately HK$35,783,000 (2016: HK$36,020,000).

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 2017 using		
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	HK$'000	***HK$'000***	***HK$'000***
Recurring fair value measurement for properties held for own use	**—**	**—**	**50,759**

	Fair value measurement as at 31 December 2016 using		
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	HK$'000	*HK$'000*	*HK$'000*
Recurring fair value measurement for properties held for own use	—	—	47,434

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 (2016: Nil).

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 2016	50,300
Additions for the year (transfer from construction in progress)	949
Depreciation charge for the year	(2,230)
Gain from fair value measurement recognised in other comprehensive income	913
Exchange realignment	(2,498)
Carrying amount at 31 December 2016 and 1 January 2017	**47,434**
Additions for the year	**106**
Depreciation charge for the year	**(2,169)**
Gain from fair value measurement recognised in other comprehensive income	**4,185**
Write-off during the year	**(1,179)**
Exchange realignment	**2,382**
Carrying amount at 31 December 2017	**50,759**

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

	Valuation technique	**Significant unobservable inputs**	**2017 Range**	2016 Range
Properties held for own use	Market approach	Market price per square metre	**RMB150 per square metre**	RMB136 per square metre
	Depreciated replacement cost method	Estimated hard cost of construction per square metre	**RMB400 to RMB900 per square metre**	RMB400 to RMB900 per square metre
		Estimated construction period	**1 year**	1 year
		Estimated soft cost of construction	**3% to 4.35 % on estimated hard cost of construction**	3% to 4.35% on estimated hard cost of construction

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(a) Fair value hierarchy (Continued)

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 fact that 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 an 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.

A significant increase in the market land price per square metre in isolation would result in a significant increase in fair value of the properties, and vice versa. A significant increase in hard and soft costs of construction in isolation would result in a significant increase in the fair value of the properties, and vice versa.

(b) During the year ended 31 December 2017, the consolidation of factories for integration of production capacity and temporary suspension of production for compliance of environmental regulations led to a decline in the sales and production activities of the Group. As a result, the Group's operating results have been adversely affected.

In light of a decline in the business activities and the performance of the manufacture and sale of the leather business, the directors of the Company reassessed the recoverable amounts of plant and equipment as at 31 December 2017 and 31 December 2016 by reference to its value in use (the "VIU") as at 31 December 2017 and 31 December 2016. Based on the VIU, impairment losses of HK$21,794,000 and HK$5,262,000 were recognised in the consolidated statements of profit or loss for the years ended 31 December 2017 and 2016, respectively.

According to the VIU, the recoverable amounts of HK$15,128,000 and HK$39,874,000 as at 31 December 2017 and 2016, respectively, were determined based on discounted cash flow calculations which were derived from the present value of expected future cash flows to be generated from the sale of semi-finished and finished leather. The pre-tax discount rate applied to the projected cash flows was 20.1% for 2017 (2016: 23.4%).

12. PREPAID LAND LEASE PAYMENTS

	2017	2016
	HK$'000	*HK$'000*
Carrying amount at 1 January	**12,071**	13,190
Recognised during the year *(note 6)*	**(291)**	(295)
Exchange realignment	**836**	(824)
Carrying amount at 31 December	**12,616**	12,071
Current portion included in receivables, prepayments and deposits	**(303)**	(282)
Non-current portion	**12,313**	11,789

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

13. INVENTORIES

	2017 HK$'000	2016 HK$'000
Raw materials	9,639	59,252
Work in progress	169,766	157,380
Finished goods	39,495	41,959
	218,900	258,591

In light of the deteriorating market conditions, the turnover days of inventories had increased and the selling prices had decreased at the end of the reporting period. Management reassessed the net realisable value of inventories and a provision of HK$24,004,000 was made for the year ended 31 December 2017 (2016: a reversal of provision of HK$2,916,000).

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2017, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$90,536,000 (2016: HK$130,143,000) 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 60 days of issuance, except for certain well-established customers, where the terms are extended to 150 days. 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 ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the settlement due date, is as follows:

	2017 HK$'000	2016 HK$'000
Current	89,618	129,976
Less than 3 months	2,085	167
3 – 6 months	510	—
	92,213	130,143
Impairment	(1,677)	—
	90,536	130,143

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

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

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**—**	—
Impairment losses recognised	**1,616**	—
Exchange realignment	**61**	—
At 31 December	**1,677**	—

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of HK$1,677,000 (2016: Nil) with a carrying amount before provision of HK$1,826,000 (2016: Nil). The individually impaired trade and bills receivables relate to a debtor that was in default or delinquency payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**89,478**	130,143
Less than 3 months past due	**839**	—
3 — 6 months past due	**70**	—
	90,387	130,143

Receivables that were neither past due nor impaired relate to a large number of diversified customers for which 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 records 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 2017, a provision of HK$385,000 (2016: HK$288,000) was recognised for other receivables with a gross carrying amount of HK$385,000 (2016: HK$288,000).

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

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

	2017 ***HK$'000***	2016 *HK$'000*
At 1 January	**288**	307
Impairment losses recognised	**76**	—
Exchange realignment	**21**	(19)
At 31 December	**385**	288

Included in the above provision for impairment of other receivables is a provision for individually impaired receivables of HK$385,000 (2016: HK$288,000) with a gross carrying amount of HK$385,000 (2016: HK$288,000). The individually impaired other receivables relate to the receivables that were default in payment and were not expected to be recovered.

The carrying amounts of other receivables approximate their carrying values.

15. CASH AND BANK BALANCES, AND PLEDGED BANK BALANCES

	2017 ***HK$'000***	2016 *HK$'000*
Cash and bank balances	**30,174**	59,901
Less: Pledged bank balances*	**(1,066)**	(11,610)
Cash and bank balances	**29,108**	48,291

* These bank balances were pledged to banks for banking facilities granted to the Group (note 17).

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$29,006,000 (2016: HK$55,238,000). 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 ageing analysis of the trade payables as at the end of the reporting period, based on the date of receipt of goods, is as follows:

	2017 HK$'000	2016 HK$'000
Within 3 months	32,104	43,179
3 to 6 months	14,266	15,243
Over 6 months	3,181	2,853
	49,551	61,275

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 is accrued interest of HK$7,441,000 (2016: HK$4,806,000) due to the immediate holding company which is repayable on demand, and arose from loans from the immediate holding company.

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

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	Amount HK$'000	Effective interest rate (%)	Maturity	Amount HK$'000
Current						
Trust receipt loans, secured	–	–	–	2.00-2.40	2017	85,966
Loan from a fellow subsidiary *(note 19)*	4.35	2018	41,177	—	—	—
Non-current						
Loans from the immediate holding company *(note 19)*	2.78-3.34	2021	141,138	2.59-2.85	2018	139,925
			182,315			225,891

	2017 HK$'000	2016 HK$'000
Analysed into:		
Trust receipt loans, repayable within one year	–	85,966
Other borrowings repayable		
Within one year	41,177	—
In the second year	–	139,925
In the third to fifth years, inclusive	141,138	—
	182,315	139,925
	182,315	225,891

The Group's trust receipt loan facilities which are denominated in RMB and amounted to HK$119,630,000 (2016: HK$157,594,000) are secured by the pledge of certain of the Group's bank balances and supported by corporate guarantees executed by the Company as at 31 December 2017. None had been utilised at 31 December 2017 (2016: HK$85,966,000).

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 and other 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 AND A FELLOW SUBSIDIARY

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

Notes	**2017** **HK$'000**	2016 HK$'000
(a)	**22,779**	22,779
(b)	**65,000**	65,000
(c)	**53,359**	52,146
(d)	**41,177**	—
	182,315	139,925

Notes:

(a) The balance represents an unsecured loan from GDH of US$2,920,000 (2016: US$2,920,000), which bears interest at 3-month LIBOR + 2% for the year ended 31 December 2017 (2016: 3-month LIBOR + 2%) and is repayable on 31 July 2021 (2016: repayable on 31 July 2018).

(b) The balance represents an unsecured loan from GDH of HK$65,000,000 (2016: HK$65,000,000), which bears interest at 3-month HIBOR + 2% for the year ended 31 December 2017 (2016: 3-month HIBOR + 2%) and is repayable on 9 August 2021 (2016: repayable on 9 August 2018).

(c) The balance represents an unsecured loan from GDH of US$7,000,000 (2016: US$7,000,000), which bears no interest for the year ended 31 December 2017 (2016: no interest) and is repayable on 30 December 2021 (2016: 30 December 2018).

(d) The balance represents an unsecured loan from a fellow subsidiary of RMB34,420,000 (2016: Nil), which bears interest at 4.35% p.a. and is repayable in 2018 (2016: Nil).

The carrying values of the loans approximate their fair values.

20. PROVISION

	Early termination of a joint venture agreement *HK$'000*
At 1 January 2017	**3,565**
Exchange realignment	**251**
At 31 December 2017	**3,816**

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 2016	(672)	2,621	1,949
Deferred tax credited to the property revaluation reserve	—	228	228
Exchange realignment	43	—	43
At 31 December 2016 and 1 January 2017	**(629)**	**2,849**	**2,220**
Deferred tax credited to the property revaluation reserve	**—**	**1,046**	**1,046**
Deferred tax debited to the statement of profit or loss during the year *(note 7)*	**650**	**—**	**650**
Exchange realignment	**(21)**	**—**	**(21)**
At 31 December 2017	**—**	**3,895**	**3,895**

The Group has tax losses arising in Hong Kong of HK$81,741,000 (2016: HK$76,759,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2017, the Group had tax losses arising in Mainland China of HK$96,619,000 (2016: HK$59,145,000) that would expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2017, the Group has deductible temporary differences of HK$70,255,000 (2016: HK$20,049,000). Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences 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 2017, 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 for which deferred tax liabilities have not been recognised was Nil at 31 December 2017 (2016: HK$57,680,000).

22. SHARE CAPITAL

Shares

	2017 ***HK$'000***	2016 *HK$'000*
Issued and fully paid:		
538,019,000 (2016: 538,019,000) ordinary shares	**75,032**	75,032

23. 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.

23. RESERVES (CONTINUED)

(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 Hong Kong 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.

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 a 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

23. RESERVES (CONTINUED)

(ii) (Continued)

(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 2016, additional provision for impairment of HK$1,190,000 was made for the Assets. This resulted in a transfer of HK$1,190,000 from the Special Capital Reserve to the accumulated losses.

The Limit as at 31 December 2017 was HK$150,273,970 (2016: HK$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 31 December 2017 was Nil (2016: Nil).

(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) Capital reserve represents the capital contribution from the immediate holding company.

24. 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.

24. SHARE OPTION SCHEME (CONTINUED)

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.

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.

As at 31 December 2017 and 2016, there were no share options outstanding under the 2008 Scheme.

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 (2016: two to three years).

At 31 December 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**589**	582
In the second to fifth years, inclusive	**633**	1,082
	1,222	1,664

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:

	2017	2016
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**20**	19
Leasehold improvements	**503**	506
Plant and machinery	**657**	143
	1,180	668

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from a financing activity

	Loan from a fellow subsidiary *HK$'000*
At 1 January 2017	**—**
Changes from financing cash flows	**39,707**
Foreign exchange movement	**1,470**
At 31 December 2017	**41,177**

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	**2017** *HK$'000*	2016 *HK$'000*
Office rental paid to a fellow subsidiary	*(i)*	**485**	492
Computer system maintenance service fees paid to a fellow subsidiary	*(ii)*	**198**	113
Interest expense to the immediate holding company	*(iii)*	**3,847**	3,476
Interest expense to a fellow subsidiary	*(iv)*	**405**	—

Notes:

(i) The office rental was charged by a fellow subsidiary at HK$44,500 per month for the year ended 31 December 2017 (2016: 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 2017, the Group had a rental deposit of HK$150,819 (2016: HK$150,819) with the fellow subsidiary.

(ii) The fellow subsidiary charged maintenance service fees of HK$197,553 for the year ended 31 December 2017 (2016: HK$113,289) for the computer system used by the Group based on contractual terms.

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

(iv) The interest expense to a fellow subsidiary arose from the loan advanced from a fellow subsidiary. Further details of the loan, including the terms, are disclosed in note 19 to the financial statements.

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Commitments with related parties:

On 28 November 2016, the Group entered into a three-year office rental agreement commencing 6 February 2017 and ending 5 February 2020 with Global Head Developments Limited, a fellow subsidiary of the Group with a monthly rent of HK$44,500. The total operating lease commitments due within one year and in the second to fifth years as at 31 December 2017 were approximately HK$534,000 (2016: HK$517,000) and HK$579,000 (2016: HK$1,082,000), respectively.

(c) Outstanding balances with related parties:

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

(ii) Details of the Group's accrued interest 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), 29(b) and 29(c) above also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

30. PLEDGE OF ASSETS

As at 31 December 2017, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	Note	**2017** ***HK$'000***	2016 *HK$'000*
Bank balances	*15*	**1,066**	11,610

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

	2017 Loans and receivables *HK$'000*	2016 Loans and receivables *HK$'000*
Trade and bills receivables	**90,536**	130,143
Financial assets included in deposits and other receivables	**1,742**	7,221
Pledged bank balances	**1,066**	11,610
Cash and bank balances	**29,108**	48,291
	122,452	197,265

Financial liabilities

	2017 Financial liabilities at amortised cost *HK$'000*	2016 Financial liabilities at amortised cost *HK$'000*
Trade payables	**49,551**	61,275
Financial liabilities included in other payables and accruals	**22,646**	22,025
Interest-bearing bank borrowings	**—**	85,966
Due to a PRC joint venture partner	**1,131**	1,131
Loans from the immediate holding company	**141,138**	139,925
Loan from a fellow subsidiary	**41,177**	—
	255,643	310,322

32. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB9,770,000 (equivalent to HK$11,688,000) (2016: RMB6,540,000 (equivalent to HK$7,311,000)) 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 settled. 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 RMB9,770,000 (equivalent to HK$11,688,000) (2016: RMB6,540,000 (equivalent to HK$7,311,000)) as at 31 December 2017.

Transferred financial assets that are derecognised in their entirety

At 31 December 2017, 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 RMB13,728,000 (equivalent to HK$16,423,000) (2016: RMB25,796,000) (equivalent to HK$28,837,000). The Derecognised Bills had 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 not retained substantially all risks and rewards but transferred control 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 2017, 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 years ended 31 December 2017 and 2016.

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 a fellow subsidiary, 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.

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 loss before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Decrease/ (increase) in loss before tax *HK$'000*
2017		
Hong Kong dollar	**100**	**(650)**
United States dollar ("US$")	**100**	**(228)**
Hong Kong dollar	**(10)**	**65**
US$	**(10)**	**23**
2016		
Hong Kong dollar	100	(650)
US$	100	(228)
Hong Kong dollar	(10)	65
US$	(10)	23

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 71% (2016: 62%) of the Group's purchases were denominated in currencies other than the functional currencies of the operating units making the purchases, whilst all sales were 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 rate, with all other variables held constant, of the Group's 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$'000*
2017		
If RMB weakens against US$	**(3)**	**(6,227)**
If RMB strengthens against US$	**3**	**6,227**
2016		
If RMB weakens against US$	(3)	(6,619)
If RMB strengthens against US$	3	6,619

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, the immediate holding company and a fellow subsidiary 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:

2017	**On demand**	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Trade payables	**17,447**	**32,104**	**—**	**—**	**49,551**
Other payables and accruals	**22,646**	**—**	**—**	**—**	**22,646**
Due to a PRC joint venture partner	**1,131**	**—**	**—**	**—**	**1,131**
Loans from the immediate holding company	**—**	**—**	**—**	**153,148**	**153,148**
Loan from a fellow subsidiary	**—**	**—**	**42,499**	**—**	**42,499**
	41,224	**32,104**	**42,499**	**153,148**	**268,975**

2016	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	18,096	43,179	—	—	61,275
Other payables and accruals	22,025	—	—	—	22,025
Interest-bearing bank borrowings	—	75,459	11,014	—	86,473
Due to a PRC joint venture partner	1,131	—	—	—	1,131
Loans from the immediate holding company	—	—	—	146,614	146,614
	41,252	118,638	11,014	146,614	317,518

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (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 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 2017 and 2016.

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 and a fellow subsidiary. The gearing ratios as at the end of the respective reporting periods were as follows:

	2017 *HK$'000*	2016 *HK$'000*
Interest-bearing bank borrowings	**—**	85,966
Loans from the immediate holding company	**141,138**	139,925
Loan from a fellow subsidiary	**41,177**	—
Total debt	**182,315**	225,891
Equity attributable to equity holders of the Company	**151,272**	225,392
Total debt and equity	**333,587**	451,283
Gearing ratio	**55%**	50%

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:

	2017 *HK$'000*	2016 *HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	3	14
Interests in subsidiaries	233,960	272,925
Total non-current assets	233,963	272,939
CURRENT ASSETS		
Prepayments, deposits and other receivables	214	214
Cash and bank balances	852	4,476
Total current assets	1,066	4,690
CURRENT LIABILITIES		
Other payables and accruals	7,763	5,648
Total current liabilities	7,763	5,648
NET CURRENT LIABILITIES	(6,697)	(958)
TOTAL ASSETS LESS CURRENT LIABILITIES	227,266	271,981
NON-CURRENT LIABILITY		
Loans from the immediate holding company	87,779	87,779
Total non-current liability	87,779	87,779
Net assets	139,487	184,202
EQUITY		
Share capital	75,032	75,032
Other reserves *(note)*	64,455	109,170
Total equity	139,487	184,202

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:

	Equity component of convertible notes *HK$'000*	General reserve fund *HK$'000*	Special capital reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2016	5,545	167,746	1,190	(55,469)	119,012
Transfer to accumulated losses in accordance with the undertaking	–	–	(1,190)	1,190	–
Total comprehensive loss for the year	–	–	–	(9,842)	(9,842)
At 31 December 2016 and 1 January 2017	**5,545**	**167,746**	**–**	**(64,121)**	**109,170**
Total comprehensive loss for the year	**–**	**–**	**–**	**(44,715)**	**(44,715)**
At 31 December 2017	**5,545**	**167,746**	**–**	**(108,836)**	**64,455**

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2018.

粵海制革有限公司
GUANGDONG TANNERY LIMITED