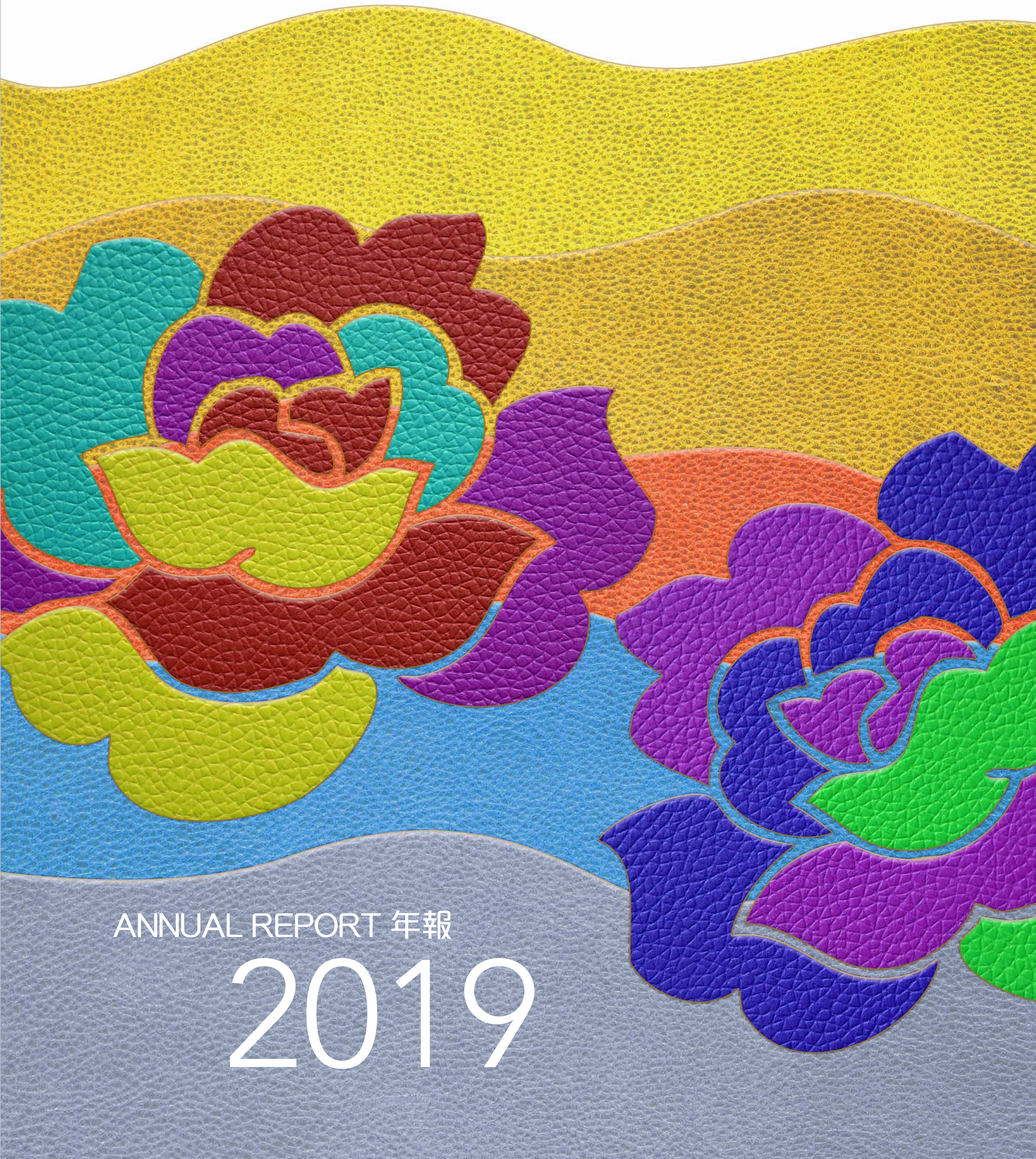
粵海制革

GUANGDONG TANNERY LIMITED
粵海制革有限公司

(股份代號 Stock Code: 01058)



ANNUAL REPORT 年報
2019

Contents

Corporate Information

As at 27 March 2020

BOARD OF DIRECTORS

Executive Directors
Kuang Hu *(Chairman)*
Sun Jun *(Managing Director)*

Non-Executive Directors
Ding Yatao
Qiao Jiankang

Independent Non-Executive Directors
Fung Lak
Choi Kam Fai, Thomas
Chan Cheong Tat

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

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

COMPANY SECRETARY

Chan Miu Ting

AUDITOR

Ernst & Young

REGISTERED OFFICE

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

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

SHARE REGISTRAR

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Customer Service Hotline: (852) 2980 1333

SHARE INFORMATION

Place of Listing	:	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	:	01058
Board Lot	:	2,000 shares
Financial Year End	:	31 December

Highlights

	For the year ended 31 December		
	2019	2018	Change
Sales volume of cowhides (in thousand square feet)	**11,439**	14,155	−19.2%
Revenue (in thousand HK$)	**178,020**	238,317	−25.3%
Loss for the year (in thousand HK$)	**(38,994)**	(81,241)	+52.0%
Basic loss per share (in HK cent)	**(7.25)**	(15.10)	+52.0%

Key Indicators (As at 31 December)	**2019**	2018	Change
Current Ratio[1]	**3.01 times**	2.85 times	+5.6%
Quick Ratio[2]	**1.72 times**	1.16 times	+48.3%
Debt to asset ratio[3]	**93.4%**	79.2%	+17.9%
Total assets (in thousand HK$)	**238,733**	284,736	−16.2%
Net asset value per share (HK$)	**0.03**	0.11	−72.7%

Notes:

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

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

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 2019 was HK$38,994,000 (2018: HK$81,241,000), representing a decrease in loss of 52.0%. Basic loss per share was HK7.25 cents (2018: HK15.10 cents).

DIVIDEND

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

REVIEW

In 2019, the overall industry economic downturn and the continuous enhancement of the national environmental protection governance measures resulted in the closure or suspension of production of small and medium footwear manufacturers, which reduced the demand for footwear leather and further exacerbated the effect of excess capacity in the leather industry. In addition, the changes in consumers' perception and the continuous improvement in the performance of new and substitute materials under technological advancement have led to a gradual decline in the demand for genuine leather. Meanwhile, as a result of the escalating trade frictions between China and the United States and the emergence of alternative production capacities abroad, the entire leather manufacturing industry in China declined significantly. The demand and prices for leather declined significantly and the industry demand was in continuous contraction causing a significant impact on the production and operation of leather processing enterprises in China. In face of a shrinking footwear leather market, while the operating results of the Group for the year improved significantly compared to last year, the Group still recorded a loss. During the year, the Group adhered to the overall strategy of "maintaining stable operations and cash flow as well as asset safety" while implementing measures to strictly control procurement activities and realize inventories to stable levels in order to reduce operating risks under a weak economic environment. The inventory balance decreased gradually and, through inventory realization, pressure on working capital requirements was alleviated to a certain extent. At the same time, the Group actively carried out product research and development, expanded market reach, and strengthened environmental protection efforts.

Facing shrinking market demand, the Group prepared a comprehensive budget at the beginning of the year to determine various production and operation targets. In terms of sales, during the year, the Group continued to strengthen its market research, understand market changes and product trends, and focus on developing high value-added products for existing inventories. At the same time, the Group also stepped up market visits, adjusted marketing strategies in a timely manner, and carried out sales through a combination of self-operation and external processing. In terms of procurement, during the year, the Group strictly controlled the scale of its procurement, actively analyzed the changes in the fur market and the price trend of raw cowhides, and conducted targeted inventory replenishment in small batches and multiple batches to prevent the risk of accumulating a new high-priced inventory. In addition, with the increasing environmental protection requirements in the industry, the Group strengthened product quality inspection and production site management during the year to ensure compliance with environmental protection targets and standards and minimize the negative impact of changes in the operating environment.

Chairman's Statement (Continued)

PROSPECTS

It is expected that in 2020, de-capacity will continue to intensify in our industry. The novel coronavirus outbreak in China in the recent months resulted in extended work stoppages following the Chinese New Year holiday and delayed the resumption of operations of many enterprises in China and, as a result, various economic activities have been affected to a significant extent, causing a further decrease in the overall market demand and a more challenging environment for the survival of the leather industry.

The Group will focus on reducing losses and carry out various initiatives under the overall operation strategy of "stabilizing production, stabilizing operation, reducing inventory". The Group will continue to focus on destocking, convert slow-moving inventory into cash flow, strengthen product research and development, increase the added value of its product offerings, explore innovative business opportunities and position the Group to work towards realizing profits if and when the markets stabilize and the demand for the Group's product offerings return. The Company will also optimize and integrate its own production processes, actively explore the market, and improve product quality and production efficiency.

With the occurrence of novel coronavirus outbreaks in different parts of the world, the global economic conditions and outlook have become highly uncertain and volatile, which in turn may materially and adversely affect the lending policies of banks and the demand for non-essential consumer products and hence the business and financial conditions of the Group's customers, which may have a knock-on adverse effect on the sourcing, production and sales activities as well as the de-stocking efforts of the Group, which are beyond the control of the Group. The Group will pay close attention to the development and spread of the novel coronavirus outbreaks, timely adjust its operating strategies, strengthen supervision over production safety, ensure the safety of our employees, continue to strengthen comprehensive risk management, ensure that our production complies with environmental protection requirements, strive to reduce various risks, maintain stable production and strive to reduce losses.

Kuang Hu
Chairman

Hong Kong, 27 March 2020

Management Discussion and Analysis

RESULTS

The Group's consolidated loss attributable to shareholders for the year ended 31 December 2019 was HK$38,994,000, representing a decrease in loss of HK$42,247,000 or a decrease in loss of 52.0% from HK$81,241,000 for the corresponding period last year.

The net asset value of the Group as at 31 December 2019 was HK$15,743,000, representing a decrease of HK$43,350,000 and HK$20,233,000 as compared to the net asset value as at 31 December 2018 and 30 June 2019, respectively.

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

BUSINESS REVIEW

In 2019, the external market environment has changed rapidly, and changing consumer sentiment has further driven the development of footwear by new technologies such as fabric and fly weaving. In addition, the continuous advancement of science and technology has led to the improvement of the performance of ultra-fine fiber and leathers, the continuous shrinking of the demand for leather footwear, and the continuous intensification of de-capacity in the leather industry. In addition, due to large inventory level in the leather industry, the price of raw leather has dropped significantly in recent years, resulting in a sharp increase in inventory costs and increasing pressure on gross profit, which further squeezed the room for profit. During the year, the Group strictly adhered to its prudent operating strategy and adopted "stable operation to ensure asset safety" as its main operating idea. Although sales volume decreased due to the industry downturn, the decrease in unit cost of cattle leather was greater than the decrease in its unit selling price, which resulted in the decrease of gross loss. As a result, the operating results of the Group improved as compared with the corresponding period of last year. On the one hand, the Group strictly controls its procurement, conducts research and development on the existing inventory structure and leather sources, and strives to reduce inventory by consolidating orders from market demand; On the other hand, the Group will continue to strengthen marketing and customer visits, and operate through a combination of self-operation and external processing to ensure stable production and sales. The above measures, to a certain extent, mitigate the operational risks brought by the industry downturn.

In terms of environmental protection, in recent years, the State has stepped up its efforts to strengthen environmental protection management in the industry, and as a result, the environmental protection requirements have become more numerous and stricter. With the continuous improvement of wastewater discharge standards, stringent air emission standards, increasingly difficult industrial waste treatment, and the improvement of a series of requirements such as soil prevention and treatment and low-carbon clean production, the footwear leather industry is facing more severe challenges. During the year, the Group continued to strengthen the management and control of environmental protection, promote the application of clean production technology, strengthen the classification and disposal of solid waste, reduce the total amount of sludge, and ensure the stable operation of the sewage treatment system by adjusting and optimizing the treatment process, so as to ensure that the sewage meets the discharge standards and maintain stable operation.

Management Discussion and Analysis (Continued)

BUSINESS REVIEW (CONTINUED)

During the year, the total production volume of cowhides was 9,851,000 sq. ft., representing a decrease of 3,200,000 sq. ft. or 24.5% as compared to 13,051,000 sq. ft. of last year. The production volume of grey hides was 1,891 tons, representing a decrease of 1,921 tons or 50.4% as compared to 3,812 tons of last year. During the year, the total sales volume of cowhides was 11,439,000 sq. ft., representing a decrease of 2,716,000 sq. ft. or 19.2% as compared to 14,155,000 sq. ft. for last year. The sales volume of grey hides was 2,290 tons, representing a decrease of 1,720 tons or 42.9% as compared to 4,010 tons of last year.

In 2019, the Group's consolidated turnover was HK$178,020,000, representing a decrease of HK$60,297,000 or 25.3% from HK$238,317,000 of last year, of which, the sales value of cowhides was HK$168,729,000 (2018: HK$223,663,000), representing a decrease of 24.6%; grey hides and other products were HK$9,291,000 (2018: HK$14,654,000), representing a decrease of 36.6%. During the year, the sales revenue of footwear leather products decreased as the sales volume and unit selling price of footwear leather products decreased as a result of the increased threat of substitutes and the decrease in the purchase price of raw cowhides, which led to the decrease in the price of end products.

In terms of sales, in recent years, the industry has experienced economic downturn, the demand for genuine leather has shrunk, and the pressure on the capital of footwear manufacturers has increased, resulting in slow destocking. In addition, strengthened environmental governance has resulted in the closure or suspension of small and medium-sized footwear manufacturers, which led to the continuous shrinking market demand for footwear leather. In the face of the above difficulties, during the year, the Group actively adjusted and improved its product structure, promoted micro-research and development, increased the added value of products and improved the profitability of products. At the same time, the Group re-organized customers in different regions based on the new product structure, selected more quality customers to carry out marketing and visits, paid attention to major areas of customer concentration, consolidated inventory product types, and matched the production of raw cowhides with market demand to ensure the alignment of production and sales.

In terms of procurement, during the year, the Group paid close attention to the price trend of domestic and overseas raw leather market, continuously strengthened the research on market intelligence, and made targeted supplementary raw materials in small batches and in multiple batches to reduce funding pressure. In addition, the Group organized the procurement of raw materials according to the strategy of "production based on sales and procurement based on production", and actively developed new sources of raw cowhides to ensure stable production. During the year, the Group continued to put destocking and realize cash flow as its top priority, with total procurements amounting to HK$115,003,000, representing a decrease of 30.9% as compared to the same period last year.

BUSINESS REVIEW (CONTINUED)

As at 31 December 2019, the Group's consolidated inventories amounted to HK$78,930,000 (31 December 2018: HK$134,131,000), representing a decrease of HK$55,201,000 or 41.2% as compared to that as at 31 December 2018. During the year, the Group seized the opportunity of market demand, firmly implemented the business strategy of destocking, and sought for suitable customers to promote the sales of finished products through strengthening the integration and rectification of products, so as to effectively alleviate the problem of inventory accumulation. In addition, the Group carried out diversified and innovative businesses, carried out effective order production for slow-moving inventory, optimized inventory structure, and strived to convert slow-moving inventory into cash flow, so as to ensure the working capital needs for the Group's normal operation. The Group made a reassessment based on the inventory ages and its net realizable value and made a net provision for inventories of HK$7,887,000 (2018: HK$987,000) for the year 2019.

As at 31 December 2019, the Group's property, plant and equipment amounted to HK$42,484,000 (31 December 2018: HK$47,057,000), representing a decrease of HK$4,573,000 or 9.7% as compared to that as at 31 December 2018. In view of the loss-making operating results of the Group during the year, the recoverable amount of the plant and equipment was calculated by using a value in use calculation based on the discounted cash flow method and an impairment loss on plant and equipment of HK$860,000 (2018: HK$12,365,000) was made for 2019.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2019, the Group's cash and bank balances amounted to HK$48,832,000 (31 December 2018: HK$27,513,000), representing an increase of HK$21,319,000 or 77.5% as compared to that as at 31 December 2018, of which 3.8% were in Hong Kong dollars, 95.4% in Renminbi and 0.8% in US dollars. Net cash inflow from operating activities for the year was HK$25,249,000, which was mainly attributable to the increase in net cash inflow from the decrease in inventories. Net cash outflow from investing activities amounted to HK$2,087,000, which was mainly due to payment for purchase of machinery and equipment and increase in pledged bank balances. Net cash outflow from financing activities was HK$875,000, which was mainly for the principal portion of lease payments.

As at 31 December 2019, the Group's interest-bearing borrowings totalled HK$145,531,000 (31 December 2018: HK$142,379,000), of which Hong Kong dollar interest-bearing borrowings were HK$65,000,000 and United States dollar interest-bearing borrowings were HK$80,531,000. The Group's borrowings mainly arose from: (1) short-term loans provided by banks with the balance of HK$3,152,000, which were secured by bank balances, buildings and prepaid land lease payments of HK$48,904,000 in total, and (2) long-term unsecured borrowings from the immediate holding company with the balance of HK$142,379,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 31 December 2019, the Group's gearing ratio of interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 90.2% (31 December 2018: 70.7%). The annual interest rate of the borrowings during the year was approximately 3.0% to 4.3%. During the year, the Group's interest expenses amounted to HK$5,694,000 (2018: HK$5,973,000), representing a decrease of 4.7% as compared with the same period of last year, which was mainly due to the repayment of short-term loan interest from a fellow subsidiary in the same period of last year.

FINANCIAL REVIEW (CONTINUED)

Liquidity and Financial Resources (Continued)

As at 31 December 2019, the Group had total banking facilities of HK$85,170,000 (31 December 2018: Nil) with utilised banking facilities of HK$3,152,000 (31 December 2018: Nil) and unutilised banking facilities of HK$82,018,000 (31 December 2018: Nil). Taking into account the existing cash resources and available credit facilities, the Group has adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2019, the carrying amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK$53,692,000, representing a decrease of HK$4,824,000 as over the carrying amount of HK$58,516,000 as at 31 December 2018. The capital expenditure for the year amounted to HK$1,175,000 (2018: HK$1,430,000) in total, which was mainly for the payment of acquisition of machinery and equipment to meet the production needs of the Group.

Pledge of Assets

As at 31 December 2019, the Group's bank deposits of HK$895,000 (31 December 2018: Nil), buildings of HK$36,801,000 (31 December 2018: Nil) and prepaid land lease payments of HK$11,208,000 (31 December 2018: Nil) were pledged to banks to secure general banking facilities.

Foreign Exchange Exposure

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollar, United States dollar 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 dollar against Renminbi. The Group did not hedge its exposure to risks arising from fluctuations in exchange rates during the year. Should the Group consider that its 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 2019, the Group had 378 staff (31 December 2018: 393). 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 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.

Management Discussion and Analysis (Continued)

EVENT AFTER THE REPORTING PERIOD

The outbreaks of the novel coronavirus in early 2020 casted certain uncertainties on the operating environments of the Group. In early February 2020, Xuzhou City Government announced the suspension of operations in order to prevent the spread of the novel coronavirus. When the epidemic became moderate, the Group resumed its operations in the second half of February 2020. Since the rapid development of the novel coronavirus outbreaks, the Group will closely monitor the situation, continuously assess its impact on the financial conditions and operating results of the Group as well as timely adjust its operating strategies and formulate contingent measures.

Biographical Details of Directors and Senior Management

(A) EXECUTIVE DIRECTORS

Mr. Kuang Hu, aged 42, was appointed a Non-Executive Director of the Company in February 2016. He has been acting as the Chairman, an Executive Director and the chairman of the Nomination Committee of the Company since September 2019. Mr. Kuang graduated from the Department of International Economics and Trading of Beijing Normal University, the People's Republic of China (the "PRC"). He obtained a Master's degree in World Economics and a Doctoral degree in Finance from Sun Yat-sen University, the PRC. In July 2003, Mr. Kuang joined 廣東粵海控股集團有限公司 (Guangdong Holdings Limited*) ("Guangdong Holdings"), the ultimate controlling shareholder of the Company, and worked in the Strategic Development Department. From November 2012 to June 2015, he was appointed deputy general manager of the Strategic Development Department of both Guangdong Holdings and GDH Limited ("GDH"), the immediate controlling shareholder of the Company. He was appointed general manager of the Operation Department of Guangdong Holdings and GDH for the period from July 2015 to August 2019. Mr. Kuang currently acts as the deputy chief financial officer of Guangdong Holdings and GDH. He also acts as a director of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.*) ("XNLFCL") and 粵海制革 (徐州) 有限公司 (Guangdong Tannery (Xuzhou) Limited*) ("GTXL"), both of which are wholly-owned subsidiaries of the Company.

Mr. Sun Jun, aged 46, was appointed an Executive Director and the Managing Director of the Company in February 2010. He is an economist in 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 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, deputy general manager and Chairman of the Company from March 2004 to December 2005, from July 2007 to February 2010 and from February 2016 to September 2019, respectively. Mr. Sun also acts as a director of certain wholly-owned subsidiaries of the Company, including XNLFCL, GTXL and 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.*).

(B) NON-EXECUTIVE DIRECTORS

Mr. Ding Yatao, aged 37, was appointed a Non-Executive Director of the Company in March 2018. He graduated from Hubei Normal University, the PRC and holds a Bachelor's degree in Economics. He was also a postgraduate in International Trade and holds a Master's degree in Economics from Jinan University, the PRC. He worked as a researcher of Canton Public Opinion Research Centre from 2006 to 2008. Between 2008 and 2016, he worked for a number of departments of the People's Government of Guangdong Province in various positions including deputy director of the Research Department of Information Centre of the Economic and Trade Commission, director and senior economist of the Research Department of Information Centre of the Economic and Information Commission, senior economist of 國際經貿發展中心 (International Economic and Trade Development Centre*) and deputy director of General Office of Department of Commerce. Mr. Ding joined Guangdong Holdings and GDH in 2017. He currently acts as general manager of the Strategic Development Department of Guangdong Holdings and GDH. He also acts as a director of certain subsidiaries of Guangdong Holdings and GDH.

Mr. Qiao Jiankang, aged 55, was appointed a Non-Executive Director of the Company in December 2019. He holds a master's degree in Economical Law from China University of Political Science and Law as well as professional qualifications as a lawyer, corporate lawyer and enterprise legal adviser in the PRC. Since 2000, Mr. Qiao has acted as a director and in other positions of certain subsidiaries of GDH. He is currently the senior consultant of the Legal and Risk Management Department of Guangdong Holdings and GDH. Mr. Qiao has over 20 years' experience in enterprise legal works. He is also a director of XNLFCL and GTXL, and was a Non-Executive Director of the Company for the period from September 2009 to February 2016.

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Lak, aged 72, was appointed an Independent Non-Executive Director of the Company in November 2002. He is also the chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Company. Mr. Fung 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 the 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, aged 74, was appointed an Independent Non-Executive Director of the Company in October 2004. He is also the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee of the Company. Mr. Choi 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, aged 70, was appointed an Independent Non-Executive Director of the Company in March 2006. He is also a member of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. Chan 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 Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) of London, 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 more than 30 years and retired in early 2005. Mr. Chan is currently a director of a tax consultancy company. He also acts as an independent non-executive director of Hyfusin Group Holdings Limited (Stock Code: 08512), Medicskin Holdings Limited (Stock Code: 08307), Chong Fai Jewellery Group Holdings Company Limited (Stock Code: 08537), Accel Group Holdings Limited (Stock Code: 01283) and Ye Xing Group Holdings Limited (Stock Code: 01941), and a non-executive director of Alpha Financial Group Limited. Mr. Chan also acted as an independent non-executive director of Man Sang International Limited (Stock Code: 00938) from January 2015 to November 2016.

(D) SENIOR MANAGEMENT

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

Ms. Lee Wai Mei, aged 45, 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.

* *The English names are translation of the Chinese names, and are included herein for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.*

Directors' Report

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 2019.

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 51 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 2019 and the financial position of the Company at that date are set out in the financial statements on pages 44 and 121 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 2019.

DIVIDEND POLICY

The Company considers stable and sustainable returns to shareholders of the Company to be our goal. In deciding whether to propose a dividend and in determining the dividend amount, the board of directors of the Company takes into account the Group's earnings performance, financial position, investment requirements and future prospects. There can be no assurance that a dividend will be proposed or declared in any given year.

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 and 5 and Management Discussion and Analysis on pages 6 to 10 of this Annual Report.

The financial risk management objective and policies of the Group are shown in note 34 to the financial statements on pages 115 to 120 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.

BUSINESS REVIEW (CONTINUED)

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 10 and in Corporate Governance Report on page 37 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 37 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. The external market condition was ever-changing in recent years, and there was a further enhancement in the de-capacity across the tannery industry and environmental protection requirements in place, resulting in the shutting down or suspension of production of small and medium footwear manufacturers, coupled with the changes in consumers' spending behaviour, and the market demand for footwear leather has been trimming down continuously. 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, actively carried out product development and stepped up the strength of marketing effort in view of the changes in the market and the trend of products, in order 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 the application of 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.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

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 placed most stringent control on the procurement size, and closely monitored dynamic changes and trends of price and quality in the market of raw materials, and by factoring in the current inventory status, adopted a targeted inventory replenishment approach that only involved small quantities but multiple batches. In the meantime, the Group conducted research on the sources of leather inventory, and focused on developing product type for destocking, 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 rate and exchange rate risks. In this regard, in managing liquidity risk, the Group has set out higher risk consciousness, timely monitor and analyze interest rate 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.

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. The summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**178,020**	238,317	322,146	456,722	652,729
Loss from operating activities	**(33,234)**	(75,062)	(92,074)	(34,735)	(28,357)
Finance costs	**(5,694)**	(5,973)	(6,808)	(5,238)	(10,533)
Loss before tax	**(38,928)**	(81,035)	(98,882)	(39,973)	(38,890)
Income tax credit/(expenses)	**(66)**	(206)	(741)	(21)	541
Loss for the year	**(38,994)**	(81,241)	(99,623)	(39,994)	(38,349)

Assets and liabilities

	As at 31 December				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Non-current assets	**53,692**	58,516	78,200	99,097	116,202
Current assets	**185,041**	226,220	342,715	456,526	490,816
Total assets	**238,733**	284,736	420,915	555,623	607,018
Liabilities					
Current liabilities	**61,537**	79,424	124,610	188,086	175,714
Non-current liabilities	**161,453**	146,219	145,033	142,145	140,689
Total liabilities	**222,990**	225,643	269,643	330,231	316,403
Net Assets	**15,743**	59,093	151,272	225,392	290,615

PROPERTY, PLANT AND EQUIPMENT

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

LOANS FROM THE IMMEDIATE HOLDING COMPANY

Details of the loans from the immediate holding company of the Company as at 31 December 2019 are set out in note 19 to the financial statements.

SHARES ISSUED

Details of the Company's shares issued during the year are set out in note 23 to the financial statements.

EQUITY-LINKED AGREEMENTS

Save as disclosed in note 25 to the financial statements regarding the share option scheme of the Company, no equity-linked agreement was entered into by the Company during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") 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 2019, 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 (2018: Nil).

Directors' Report (Continued)

DIRECTORS

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

Executive Directors
Kuang Hu *(Chairman)**
Sun Jun *(Managing Director)**

Non-Executive Directors
Ding Yatao
Qiao Jiankang *(appointed on 7 December 2019)*
Xiao Zhaoyi *(resigned on 7 December 2019)*

Independent Non-Executive Directors
Fung Lak
Choi Kam Fai, Thomas
Chan Cheong Tat

* *Mr. Kuang Hu was re-designated from the position of Non-Executive Director to Executive Director and appointed as Chairman of the Board and Chairman of the Nomination Committee of the Company; and Mr. Sun Jun ceased to act as Chairman of the Board and Chairman and member of the Nomination Committee of the Company, both take effect from 3 September 2019.*

In accordance with Articles 82 to 84 of the Articles of Association of the Company, Mr. Sun Jun and Mr. Choi Kam Fai, Thomas will retire by rotation at the forthcoming annual general meeting of the Company to be held on Friday, 19 June 2020 (the "2020 AGM") and shall be eligible for re-election.

In accordance with Article 77 of the Company's Articles of Association, any newly appointed Director shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election. Mr. Qiao Jiankang, who was appointed as a Non-Executive Director of the Company on 7 December 2019, shall hold office until the 2020 AGM and shall be eligible for re-election.

Mr. Sun Jun and Mr. Qiao Jiankang, being eligible, have offered themselves for re-election and 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 2023, and (ii) 30 June 2023, subject to earlier determination in accordance with the Articles of Association of the Company and/or any applicable laws and regulations.

As Mr. Choi Kam Fai, Thomas has reached his retirement age, he will not offer himself for re-election and will retire from office after the conclusion of the 2020 AGM.

Mr. Xiao Zhaoyi resigned as a Non-Executive Director of the Company on 7 December 2019 to focus on the development of his own legal career. Mr. Xiao has confirmed that he has no disagreement with the Board and there was no other matter relating to his resignation that needed to be brought to the attention of the shareholders of the Company.

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 2019 and up to the date of this report are set out below (in alphabetical order):

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

DIRECTORS' SERVICE CONTRACT

No Director proposed for re-election at the 2020 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, 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 2019. 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 2019, 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 2019, 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 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 2019.

Save as disclosed above, as at 31 December 2019, 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 2019, so far as is known to any Director or the chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

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

Notes:

1. The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 31 December 2019.

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

Save as disclosed above, as at 31 December 2019, 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.

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.

Directors' Report (Continued)

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 25 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 2019, the amount of purchases attributable to the Group's largest supplier represented approximately 13% 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 approximately 38% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented approximately 19% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented approximately 50% 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.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group after the reporting period are set out in note 36 to the financial statements.

CHANGE IN DIRECTOR'S INFORMATION

The change in information of the Director of the Company is set out below:

1. Mr. Sun Jun ceased to act as Chairman of the Company as well as the Chairman and a member of the Nomination Committee of the Company in September 2019. As from April 2020, the remuneration package of Mr. Sun comprises salaries and pension scheme contributions amounting to approximately RMB543,000 per annum with a discretionary bonus pegged to performance.

2. Mr. Chan Cheong Tat was appointed an independent non-executive director of each of Accel Group Holdings Limited (Stock Code: 01283) and Ye Xing Group Holdings Limited (Stock Code: 01941), and a non-executive director of Alpha Financial Group Limited.

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

AUDITOR

A resolution will be proposed at the 2020 AGM for the reappointment of Messrs. Ernst & Young as the independent auditor of the Company.

By Order of the Board
Kuang Hu
Chairman

Hong Kong, 27 March 2020

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 2019 except for the following:

The code provision A.2.1 of the CG Code provides that the role of the chairman and chief executive should be separate and should not be performed by the same individual. Since 26 February 2016 and up till 2 September 2019, Mr. Sun Jun served as both Chairman and Managing Director of the Company (the Company regards that the term "chief executive" has the same meaning as the Managing Director of the Company). Effective from 3 September 2019, Mr. Kuang Hu acts as Chairman of the Company whereas Mr. Sun Jun continues to act as Managing Director of the Company.

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 two Executive Directors, being Mr. Kuang Hu and Mr. Sun Jun, two Non-Executive Directors, being Mr. Ding Yatao and Mr. Qiao Jiankang and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. With effective from 3 September 2019, Mr. Kuang Hu acts as Chairman of the Company.

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 the Board's 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.

BOARD OF DIRECTORS (CONTINUED)

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 11 to 13 of this Annual Report, which demonstrate a diversity of skills, expertise, experience and qualifications.

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 2019, five 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

As recommended by the Nomination Committee and approved by the Board, Mr. Kuang Hu acts as Chairman of the Company with effect from 3 September 2019 whereas Mr. Sun Jun continues to act as Managing Director of the Company. Their roles are clearly defined and segregated to ensure independence and proper checks and balances.

On top of his executive responsibilities, Mr. Kuang Hu as the Chairman of the Company provides leadership to the Board and ensures a proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Sun Jun as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the day-to-day management of the business of the Group.

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.

Corporate Governance Report (Continued)

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.

Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat have 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.

The Board as well as the Nomination Committee have reviewed the independence of all Independent Non-Executive Directors and have concluded that all of them are independent within the definition of the Listing Rules. Further, up to the date of this report, the Board is not aware of the occurrence of any events which would cause it to believe that the Independence of any Independent Non-Executive Director has been impaired.

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 on 27 October 2019 for the Directors on "Updates on the Listing Rules and Case Sharing on Regulatory Investigation". Reading materials have also been provided to the Directors to develop and refresh their professional skill.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT (CONTINUED)

According to the records kept by the Company, the Directors attended the following trainings during the year ended 31 December 2019.

Name of Director	Seminars and Conferences	Reading materials
Executive Directors		
Kuang Hu	✓	✓
Sun Jun	✓	✓
Non-Executive Directors		
Ding Yatao	✓	✓
Qiao Jiankang *(appointed on 7 December 2019)*	✓	✓
Xiao Zhaoyi *(resigned on 7 December 2019)*	✓	✓
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 "Board Diversity Policy") on 23 August 2013 which sets out the approach to achieve diversity on the Board.

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

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

BOARD DIVERSITY POLICY (CONTINUED)

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 Board Diversity 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 Board Diversity Policy and the structure, size and composition of the Board, the Nomination Committee considered that the requirement of the Board Diversity 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) adopted the "Terms of Reference and Rules of Procedure of the Board";

(ii) compiled the Environmental, Social and Governance Reporting for the year of 2019; and

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

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in June 2005. The terms of reference of the Remuneration Committee detailing its 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 2019, the Remuneration Committee had held two meetings and had passed one written resolution to approve the remuneration of the Directors of the Company. 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 2019 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 its authority and duties are available on the Company's website.

The Nomination Committee comprises one Executive Director, being Mr. Kuang Hu and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. As recommended by the Nomination Committee and approved by the Board, Mr. Kuang Hu acts as Chairman of the Nomination Committee in place of Mr. Sun Jun with effect from 3 September 2019.

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board, assisting the Board in the development and review of the Board's diversity policy and directors' nomination policy, 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.

NOMINATION COMMITTEE (CONTINUED)

The Board adopted a nomination policy (the "Nomination Policy") on 26 October 2018 to formally set out the criteria and process in the nomination and appointment of Directors. According to the Nomination Policy, the ultimate responsibility for selection and appointment of Directors rests with the entire Board or the shareholders in general meeting, as the case may be. The Board has delegated the relevant screening and evaluation process to the Nomination Committee, which identifies suitably qualified Director candidates and recommends them to the Board. In assessing the suitability of a proposed candidate, the Nomination Committee takes into consideration the candidate's character and integrity, qualifications, skills, knowledge, experiences relevant to the Company's business and corporate strategy, his/her commitment to enhancing shareholder value and devoting sufficient time to effectively carry out their duties, fulfilment of the independence requirements as set out in the Listing Rules (for Independent Non-Executive Directors) and diversity on the Board. After reaching its decision, the Nomination Committee nominates relevant Director candidates to the Board for approval and appointment. As said above, all Directors appointed to fill a casual vacancy or as an addition to the existing Board shall hold office until the first general meeting after his or her appointment and shall be eligible for re-election. The Board will make recommendation to shareholders in respect of the proposed re-election of Directors at general meeting.

During the financial year ended 31 December 2019, the Nomination Committee had held two meetings and had passed one written resolution to (i) to review the structure, size and composition of the Board; (ii) to assess the independence of Independent Non-Executive Directors; (iii) to make recommendations to the Board for the re-election of Directors; and (iv) to make recommendations to the Board for the change of Chairman, re-designation of Director and changes 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.

During the financial year ended 31 December 2019, the Audit Committee held four meetings to review the 2018 annual results, the 2019 interim and 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 four 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.

BOARD AND COMMITTEE MEETINGS

The individual attendance records of each Director at the meetings of the Board, Remuneration Committee, Nomination Committee, Audit Committee and general meeting during the year ended 31 December 2019 are set out below:

Name of Director	Board Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Audit Committee Meeting	Annual General Meeting
Executive Directors					
Kuang Hu	5/5	—	1/1	—	1/1
Sun Jun	4/5	—	1/1	—	1/1
Non-Executive Directors					
Ding Yatao	4/5	—	—	—	1/1
Qiao Jiankang *(appointed on 7 December 2019)*	N/A	N/A	N/A	N/A	N/A
Xiao Zhaoyi *(resigned on 7 December 2019)*	4/5	—	—	—	1/1
Independent Non-Executive Directors					
Fung Lak	5/5	2/2	2/2	4/4	1/1
Choi Kam Fai, Thomas	5/5	2/2	2/2	4/4	1/1
Chan Cheong Tat	5/5	2/2	2/2	4/4	1/1

AUDITOR'S REMUNERATION

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

Services rendered	Fee paid/payable *HK$'000*
Audit of Final Results	1,500
Review of Interim Results	367

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements of the Company for the year ended 31 December 2019, 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 2019, 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 a going concern basis.

The Company endeavors to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual, interim and quarterly results of the Company are announced in a timely manner within the limit of three months, two months and 45 days respectively after the end of the relevant periods in accordance with the Listing Rules.

As for all information and representations contained in the financial statements of the Company for the year ended 31 December 2019, the Directors have acknowledged that the Company has adopted all reasonable measures including prepare and verify it respectively by the financial personnel and the management of the Company, and finally approved by the Board; the preparation of the statements is the responsibilities of the Board.

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.

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

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.

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 and accounts 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 purposed and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

COMPANY SECRETARY

Ms. Chan Miu Ting is appointed the Company Secretary of the Company in place of Ms. Lo Sze Sze on 1 May 2019. Ms. Chan 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. Chan is Ms. Lee Wai Mei, the Chief Financial Officer of the Company. Ms. Chan 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 within 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 three months after the date on which the Directors become subject to the requirement to call a meeting.

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

Shareholders' Enquiries and Proposals

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

Shareholders may also send written enquiries to the Company, for the attention of the Chief Financial Officer or the Company Secretary of the Company by mail or by fax. The contact details of the Company are set out in the "Contact Us" section of the Company's website at www.gdtann.com.hk. In addition, the Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner and to strengthen 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 from time to time. 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 regards to environmental protection and legal compliance, please refer to the Management Discussion and Analysis on pages 6 to 10 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
Kuang Hu
Chairman

Hong Kong, 27 March 2020

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 44 to 122, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 (the "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.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of property, plant and equipment, and right-of-use assets	
As at 31 December 2019, the carrying amount of the Group's property, plant and equipment, and right-of-use assets amounted to HK$54 million. In view of the operating loss of the Group for the year ended 31 December 2019, management performed an impairment assessment on these assets. An impairment loss of approximately HK$2.7 million was recognised in the consolidated statement of profit or loss for the year ended 31 December 2019. For the prepaid land lease payment included in right-of-use assets and buildings, management performed an impairment assessment with reference to the fair value as determined in the valuation performed by an independent external valuer. For plant and equipment, and leased properties included in right-of-use assets, management performed an impairment assessment on the Group's cash-generating unit ("CGU") to which the plant and equipment, and right-of-use assets were allocated to at the end of the reporting period. The impairment assessment of the CGU was determined by a value-in-use approach using a discounted cash flow calculation. The assessments require the use of significant judgment and estimations by management to determine the key assumptions including sales growth rate, selling prices, operating expenses, discount rate and estimated construction costs applied. Relevant disclosures are included in notes 3, 11 and 12 to the consolidated financial statements.	In evaluating management's impairment assessment, our procedures included (i) evaluating independent external valuer's competence, capabilities and objectivity; (ii) evaluating valuation methodologies; (iii) evaluating the key assumptions used including sales growth rate, selling prices, operating expenses and estimated construction costs with reference to the latest operating performance and historical data or by benchmarking market comparables; (iv) performing sensitivity analyses on key inputs in the discounted cash flows for any significant impact on the recoverable amount of the CGU; and (v) assessing the adequacy of the disclosures of impairment assessment in the consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Provision for inventories	
As at 31 December 2019, the Group's inventories, net of provision, amounted to approximately HK$78.9 million, and represented approximately 42.7% of consolidated current assets of the Group. Significant management judgement and estimates are involved in determining the net realisable values of inventories 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 disclosures are included in notes 3 and 13 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 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.

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.

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

27 March 2020

Consolidated Statement of Profit or Loss

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**178,020**	238,317
Cost of sales		**(183,815)**	(273,592)
Gross loss		**(5,795)**	(35,275)
Other income and gains	5	**4,530**	3,356
Selling and distribution expenses		**(1,586)**	(2,081)
Administrative expenses		**(24,628)**	(28,155)
Impairment on items of plant and equipment	11	**(860)**	(12,365)
Other operating expenses, net		**(4,895)**	(542)
Finance costs	6	**(5,694)**	(5,973)
LOSS BEFORE TAX	6	**(38,928)**	(81,035)
Income tax expense	7	**(66)**	(206)
LOSS FOR THE YEAR		**(38,994)**	(81,241)
LOSS PER SHARE	10		
— Basic		**HK(7.25) cents**	HK(15.10) cents
— Diluted		**HK(7.25) cents**	HK(15.10) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
LOSS FOR THE YEAR		**(38,994)**	(81,241)
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Deficits on revaluation of buildings	*11*	**(2,258)**	(219)
Income tax effect	*22*	**563**	55
		(1,695)	(164)
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(3,664)**	(10,774)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**(5,359)**	(10,938)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(44,353)**	(92,179)

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**42,484**	47,057
Prepaid land lease payments	12	**—**	11,459
Right-of-use assets	12	**11,208**	—
Total non-current assets		**53,692**	58,516
CURRENT ASSETS			
Inventories	13	**78,930**	134,131
Receivables, prepayments and deposits	14	**56,384**	64,576
Pledged bank balances	15	**895**	—
Cash and bank balances	15	**48,832**	27,513
Total current assets		**185,041**	226,220
CURRENT LIABILITIES			
Trade payables	16	**33,621**	38,009
Other payables and accruals	17	**20,010**	36,531
Tax payable		**63**	113
Interest-bearing bank borrowings	18	**3,152**	—
Due to a PRC joint venture partner	20	**1,131**	1,131
Provision	21	**3,560**	3,640
Total current liabilities		**61,537**	79,424
NET CURRENT ASSETS		**123,504**	146,796
TOTAL ASSETS LESS CURRENT LIABILITIES		**177,196**	205,312

Consolidated Statement of Financial Position (Continued)

31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	*19*	**142,379**	142,379
Other payables	*17*	**15,797**	—
Deferred tax liabilities	*22*	**3,277**	3,840
Total non-current liabilities		**161,453**	146,219
Net assets		**15,743**	59,093
EQUITY			
Share capital	*23*	**75,032**	75,032
Other reserves	*24*	**(59,289)**	(15,939)
Total equity		**15,743**	59,093

Kuang Hu
Director

Sun Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Note	Share capital HK$'000	Equity component of convertible notes HK$'000	General reserve fund HK$'000 (Note 24(i))	Reserve funds HK$'000 (Note 24(iii))	Capital reserve HK$'000 (Note 24(iv))	Exchange translation reserve HK$'000	Property revaluation reserve HK$'000	Special capital reserve HK$'000 (Note 24(ii))	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018		75,032	5,545	167,746	20,054	3,639	77,631	10,355	—	(208,730)	151,272
Loss for the year		—	—	—	—	—	—	—	—	(81,241)	(81,241)
Other comprehensive loss for the year:											
Changes in fair value of buildings, net of tax		—	—	—	—	—	—	(164)	—	—	(164)
Exchange differences on translation of foreign operations		—	—	—	—	—	(10,774)	—	—	—	(10,774)
Total comprehensive loss for the year		—	—	—	—	—	(10,774)	(164)	—	(81,241)	(92,179)
Transfer from accumulated losses in accordance with the undertaking	24(ii)	—	—	—	—	—	—	—	70	(70)	—
At 31 December 2018 and 1 January 2019		75,032	5,545*	167,746*	20,054*	3,639*	66,857*	10,191*	70*	(290,041)*	59,093
Loss for the year		—	—	—	—	—	—	—	—	(38,994)	(38,994)
Other comprehensive loss for the year:											
Changes in fair value of buildings, net of tax		—	—	—	—	—	—	(1,695)	—	—	(1,695)
Exchange differences on translation of foreign operations		—	—	—	—	—	(3,664)	—	—	—	(3,664)
Total comprehensive loss for the year		—	—	—	—	—	(3,664)	(1,695)	—	(38,994)	(44,353)
Transfer from accumulated losses in accordance with the undertaking	24(ii)	—	—	—	—	—	—	—	349	(349)	—
Capital contribution from the immediate holding company		—	—	—	—	1,003	—	—	—	—	1,003
At 31 December 2019		75,032	5,545*	167,746*	20,054*	4,642*	63,193*	8,496*	419*	(329,384)*	15,743

* These reserve accounts comprise the consolidated other reserves deficits of HK$59,289,000 (2018: HK$15,939,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(38,928)**	(81,035)
Adjustments for:			
Finance costs	6	**5,694**	5,973
Finance income	5	**(72)**	(47)
Depreciation of property, plant and equipment	6	**1,985**	5,849
Depreciation of right-of-use assets	6	**949**	—
Provision for inventories	6	**7,887**	987
Impairment of trade receivables	6	**2,207**	514
Impairment on items of plant and equipment	11	**860**	12,365
Impairment of right-of-use assets	12	**1,855**	—
Impairment/(reversal of impairment) of other receivables	6	**(37)**	28
Amortisation of prepaid land lease payments	6	**—**	299
		(17,600)	(55,067)
Decrease in inventories		**45,354**	76,533
Decrease in receivables, prepayments and deposits		**4,449**	25,165
Decrease in trade payables		**(3,632)**	(9,634)
Increase/(decrease) in other payables and accruals		**(6,316)**	5,513
Increase in interest-bearing bank borrowings		**3,211**	—
Cash generated from operations		**25,466**	42,510
Interest received		**72**	47
Interest paid		**(174)**	(1,635)
PRC tax paid		**(115)**	(121)
Net cash flows from operating activities		**25,249**	40,801
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(1,175)**	(1,430)
Decrease/(increase) in pledged bank balances		**(912)**	1,055
Net cash flows used in investing activities		**(2,087)**	(375)

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2019

	Notes	2019 *HK$'000*	2018 *HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of a loan from a fellow subsidiary		**—**	(40,764)
Principal portion of lease payments		**(875)**	—
Net cash flows used in financing activities		**(875)**	(40,764)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**22,287**	(338)
Cash and cash equivalents at beginning of year		**27,513**	29,108
Effect of foreign exchange rate changes, net		**(968)**	(1,257)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**48,832**	27,513
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*15*	**48,832**	27,513

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

Name	Place of registration and business	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 and bills receivable 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 2019. 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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16, the adoption of the above new and revised standards has had no significant financial effects on these financial statements.

Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of accumulated losses at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Adoption of HKFRS 16 (Continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation and impairment (if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities as finance costs.

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in other payables and accruals. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the leased assets of HK$11,747,000 that were reclassified from the prepaid land lease payments (both non-current and current portions).

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Adoption of HKFRS 16 (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impact on transition (Continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Applying a single discount rate of lease with reasonably similar characteristics; and
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) *HK$'000*
Assets	
Increase in right-of-use assets	13,256
Decrease in prepaid land lease payments	(11,459)
Decrease in receivables, prepayments and deposits	(288)
Increase in total assets	1,509
Liabilities	
Increase in other payables and accruals	1,509

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Adoption of HKFRS 16 (Continued)

Financial impact at 1 January 2019 (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	1,736
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(71)
	1,665
Weighted average incremental borrowing rate as at 1 January 2019	4.88%
Lease liabilities as at 1 January 2019	1,509

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 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

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

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Except for the above, 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 operation and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Group measures its buildings and bills receivable 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued amount.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (Continued)

(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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	Over the lease terms
Office properties	Over the lease terms

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in other payables and accruals.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (applicable from 1 January 2019) (Continued)

The Group as a lessee (Continued)

(c) Short-term leases and lease of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of properties (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of properties that are considered to be of low value.

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Leases (applicable before 1 January 2019)

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 net of any incentives received from the lessor 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 of the Group are classified, at initial recognition, as and subsequently measured at amortised cost and fair value through other comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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 financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group's financial assets measured at amortised cost include trade receivables, other receivables and deposits, pledged bank balances and cash and bank balances.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group's financial assets measured at fair value through other comprehensive income includes bills receivable.

For debt investments at fair value through other comprehensive income, finance income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

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 recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECLs). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECLs).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

General approach (Continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset other than trade and bills receivables in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, 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, loans from the immediate holding company and bank borrowings.

Subsequent measurement

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, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

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

Income tax

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if 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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Other income

Finance income

Finance income is recognised 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.

Income from subcontracted leather processing

Income from subcontracted leather processing is recognised over time when the processing services are rendered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Other income (Continued)

Sale of scrap goods

Income from the sales of scrap goods is recognised at the point in time when control of goods is transferred to the customer, generally on delivery of the goods.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfer the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (Continued)

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 proportionally 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 consist of interest and other costs that an entity incurs in connection with the borrowing of funds. 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.

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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (Continued)

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 ageing of inventories, historical sales performances, post year-end sales, latest selling price and expectation of future saleability of the inventories. Management reassesses the estimation at the end of each reporting period. The carrying amount of inventories as at 31 December 2019 was HK$78,930,000 (2018: HK$134,131,000).

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables (Continued)

The application of forward-looking adjustment is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 14 to the financial statements. The carrying amount of trade receivables was HK$26,947,000 (2018: HK$32,037,000).

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

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 2019 was HK$42,484,000 (2018: HK$47,057,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

Impairment of plant and equipment and leased properties

The Group assesses whether there is any indication that plant and equipment, and leased properties included in right-of-use assets 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, and the leased properties belong to. The Group measures the recoverable amount of the CGU with reference to the higher of fair value less cost of disposal and its value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the plant and equipment and leased properties and apply a suitable discount rate in order to calculate their present value. As at 31 December 2019, the carrying amount of plant and equipment, and leased properties was nil (2018: Nil). Further details are set out in notes 11 and 12 to the financial statements.

Estimation of fair value of land and buildings

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) the income capitalisation method based on the capitalisation of existing rental income and reversionary market rental income, supported by the market rentals expected by investors for similar properties in the neighbourhood and by the market yield derived from analysing the sales transactions of similar properties.

The carrying amounts of land and buildings at 31 December 2019 were HK$11,208,000 (2018: HK$11,747,000) and HK$42,484,000 (2018: HK$47,057,000), respectively.

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 major customers

During the year ended 31 December 2019, revenue of approximately HK$34,203,000 (2018: Nil) and HK$22,856,000 (2018: HK$21,068,000) were derived from sales to two customers (2018: a single customer) which constituted 19% (2018: Nil) and 13% (2018: 9%) of the total revenue, respectively.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 HK$'000	2018 HK$'000
Revenue from contracts with customers		
Sale of processed leather	**178,020**	238,317

Revenue from contracts with customers

(i) Disaggregated revenue information

Revenue is recognised when goods are transferred at a point in time to customers. The amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period was HK$3,701,000 (2018: HK$896,000).

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods at a point in time and payment is generally due within 90 to 180 days from date of delivery, except for new customers, where payment in advance is normally required.

Other income and gains

	2019 HK$'000	2018 HK$'000
Finance income	**72**	47
Sale of scrap materials	**762**	1,914
Government grants*	**1,019**	865
Income from subcontracted leather processing	**2,399**	—
Others	**278**	530
	4,530	3,356

* During the year ended 31 December 2019, the Group received HK$1,019,000 (2018: HK$865,000) 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	2019 HK$'000	2018 HK$'000
Cost of inventories sold		**175,928**	272,605
Auditor's remuneration		**1,500**	1,450
Depreciation of property, plant and equipment	11	**1,985**	5,849
Depreciation of right-of-use assets	12	**949**	—
Amortisation of prepaid land lease payments	12	**—**	299
Interests on:			
Bank loans and discounting bills receivable to banks		**174**	994
Lease liabilities		**74**	—
Loans from the immediate holding company		**5,078**	4,337
Loan from a fellow subsidiary		**—**	642
Due to the immediate holding company		**368**	—
		5,694	5,973
Employee benefit expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		**21,633**	24,606
Pension scheme contributions (defined contribution schemes)*		**2,834**	3,503
		24,467	28,109
Foreign exchange differences, net		**—**	536
Provision for inventories**		**7,887**	987
Minimum lease payments under operating leases in respect of land and buildings		**—**	960
Lease payments not included in the measurement of lease liabilities		**71**	—
Impairment of financial assets, net:			
Impairment of trade receivables#	14	**2,207**	514
Impairment/(reversal of impairment) of financial assets included in other receivables, prepayments and deposits, net#	14	**(37)**	28
		2,170	542
Impairment of right-of-use assets#	12	**1,855**	—

* At 31 December 2019 and 2018, 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 expenses, 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 (2018: 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.

	2019	2018
	HK$'000	*HK$'000*
Current — Mainland China		
Charge for the year	**148**	206
Overprovision in prior years	**(82)**	—
Total tax charge for the year	**66**	206

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:

2019

	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Loss before tax	**(13,572)**	**(25,356)**	**(38,928)**
Tax at the statutory tax rate	**(2,239)**	**(6,339)**	**(8,578)**
Adjustments in respects of current tax of previous periods	**—**	**(82)**	**(82)**
Income not subject to tax	**(128)**	**(5,593)**	**(5,721)**
Expenses not deductible for tax	**1,425**	**6,287**	**7,712**
Tax losses utilised from previous periods	**—**	**(63)**	**(63)**
Tax losses not recognised	**942**	**5,856**	**6,798**
Tax charge at the Group's effective rate	**—**	**66**	**66**

2018

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
Loss before tax	(11,132)	(69,903)	(81,035)
Tax at the statutory tax rate	(1,837)	(17,476)	(19,313)
Income not subject to tax	(149)	(6,465)	(6,614)
Expenses not deductible for tax	1,081	8,778	9,859
Tax losses utilised from previous periods	—	(62)	(62)
Tax losses not recognised	905	15,431	16,336
Tax charge at the Group's effective rate	—	206	206

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:

	2019 ***HK$'000***	2018 *HK$'000*
Fees	**450**	450
Other emoluments:		
Salaries, allowances and benefits in kind	**783**	641
Pension scheme contributions	**256**	178
	1,039	819
	1,489	1,269

(a) Independent non-executive directors

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

	2019 ***HK$'000***	2018 *HK$'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 (2018: Nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2019				
Executive directors:				
Mr. Kuang Hu+	—	—	—	—
Mr. Sun Jun	—	783	256	1,039
	—	783	256	1,039
Non-executive directors:				
Mr. Xiao Zhaoyi#	—	—	—	—
Mr. Ding Yatao^	—	—	—	—
Mr. Qiao Jiankang@	—	—	—	—
	—	—	—	—
	—	783	256	1,039

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2018				
Executive director:				
Mr. Sun Jun	—	641	178	819
	—	641	178	819
Non-executive directors:				
Mr. Ran Bo*	—	—	—	—
Mr. Xiao Zhaoyi#	—	—	—	—
Mr. Ding Yatao^	—	—	—	—
Mr. Kuang Hu	—	—	—	—
	—	—	—	—
	—	641	178	819

8. DIRECTORS' REMUNERATION (CONTINUED)

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

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

* Mr. Ran Bo resigned as a non-executive director of the Company on 24 March 2018.

^ Mr. Ding Yatao was appointed as a non-executive director of the Company on 24 March 2018.

\+ Mr. Kuang Hu was re-designated from a non-executive director to an executive director of the Company on 3 September 2019.

\# Mr. Xiao Zhaoyi resigned as a non-executive director of the Company on 7 December 2019.

@ Mr. Qiao Jiankang was appointed as a non-executive director of the Company on 7 December 2019.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2018: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2018: four) highest paid employees who are not directors of the Company are as follows:

	2019	2018
	HK$'000	*HK$'000*
Salaries and allowances	**1,609**	1,782
Pension scheme contributions	**290**	206
	1,899	1,988

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

	Number of employees	
	2019	2018
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 (2018: 538,019,000) in issue during the year.

The calculation of basic loss per share is based on:

	2019	2018
	HK$'000	*HK$'000*
Loss		
Loss for the year, used in the basic loss per share calculation	**38,994**	81,241

	Number of shares	
	2019	2018
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 calculation of the basic loss per share amounts presented for the years ended 31 December 2019 and 2018 as there was no dilutive event during the years ended 31 December 2019 and 2018.

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvement HK$'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 2019								
At 31 December 2018 and 1 January 2019:								
Cost or valuation	47,057	23,316	120,584	3,415	497	5,993	1,826	202,688
Accumulated depreciation and impairment	—	(23,316)	(120,584)	(3,415)	(497)	(5,993)	(1,826)	(155,631)
Net carrying amount	47,057	—	—	—	—	—	—	47,057
At 1 January 2019, net of accumulated depreciation and impairment	47,057	—	—	—	—	—	—	47,057
Additions	104	594	338	47	—	—	92	1,175
Deficit on revaluation *(note (a))*	(2,258)	—	—	—	—	—	—	(2,258)
Impairment *(note (b))*	—	(439)	(340)	(45)	—	—	(36)	(860)
Depreciation provided during the year	(1,774)	(155)	(54)	(2)	—	—	—	(1,985)
Transfer	—	—	56	—	—	—	(56)	—
Exchange realignment	(645)	—	—	—	—	—	—	(645)
At 31 December 2019, net of accumulated depreciation and impairment	42,484	—	—	—	—	—	—	42,484
At 31 December 2019:								
Cost or valuation	42,484	23,389	119,924	3,386	497	5,911	329	195,920
Accumulated depreciation and impairment	—	(23,389)	(119,924)	(3,386)	(497)	(5,911)	(329)	(153,436)
Net carrying amount	42,484	—	—	—	—	—	—	42,484
Analysis of cost or valuation:								
At cost	—	23,389	119,924	3,386	497	5,911	329	153,436
At 31 December 2019 valuation	42,484	—	—	—	—	—	—	42,484
	42,484	23,389	119,924	3,386	497	5,911	329	195,920

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings *HK$'000*	Leasehold improvement *HK$'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 2018								
At 1 January 2018:								
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
At 1 January 2018, net of accumulated depreciation and impairment	50,759	2,323	10,902	86	4	133	1,680	65,887
Additions	—	257	46	12	—	203	912	1,430
Deficit on revaluation *(note (a))*	(219)	—	—	—	—	—	—	(219)
Impairment *(note (b))*	—	(837)	(9,339)	(123)	—	(171)	(1,895)	(12,365)
Depreciation provided during the year	(1,989)	(1,629)	(2,056)	(28)	(4)	(143)	—	(5,849)
Transfer	—	—	627	53	—	—	(680)	—
Exchange realignment	(1,494)	(114)	(180)	—	—	(22)	(17)	(1,827)
At 31 December 2018, net of accumulated depreciation and impairment	47,057	—	—	—	—	—	—	47,057
At 31 December 2018:								
Cost or valuation	47,057	23,316	120,584	3,415	497	5,993	1,826	202,688
Accumulated depreciation and impairment	—	(23,316)	(120,584)	(3,415)	(497)	(5,993)	(1,826)	(155,631)
Net carrying amount	47,057	—	—	—	—	—	—	47,057
Analysis of cost or valuation:								
At cost	—	23,316	120,584	3,415	497	5,993	1,826	155,631
At 31 December 2018 valuation	47,057	—	—	—	—	—	—	47,057
	47,057	23,316	120,584	3,415	497	5,993	1,826	202,688

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) The Group's buildings were revalued individually at 31 December 2019 based on the valuations performed by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate open market value of HK$42,484,000 (2018: HK$47,057,000) based on their existing use, with a revaluation deficit of HK$2,258,000 (2018: HK$219,000) debited 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 2019 would have been approximately HK$29,902,000 (2018: HK$32,272,000).

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 2019 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	**—**	**—**	**42,484**

	Fair value measurement as at 31 December 2018 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	—	—	47,057

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 (2018: Nil).

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: (Continued)

(a) (Continued)

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 2018	50,759
Depreciation charge for the year	(1,989)
Loss from fair value measurement recognised in other comprehensive income	(219)
Exchange realignment	(1,494)
Carrying amount at 31 December 2018 and 1 January 2019	**47,057**
Additions for the year	**104**
Depreciation charge for the year	**(1,774)**
Loss from fair value measurement recognised in other comprehensive income	**(2,258)**
Exchange realignment	**(645)**
Carrying amount at 31 December 2019	**42,484**

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

	Valuation techniques	**Significant unobservable inputs**	**2019 Range**	2018 Range
Properties held for own use	Market approach	Market price per square metre	**RMB150 per square metre**	RMB150 per square metre
	Depreciated replacement cost method	Estimated hard cost of construction per square metre	**RMB500 to RMB1,300 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) (Continued)

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 taken 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) The weakening demand and keen competition in the tannery market persisted during the years ended 31 December 2019 and 2018. As a result, the Group's operating results for the years ended 31 December 2019 and 2018 have been adversely affected.

In light of the performance of the manufacture and sale of leather business, the directors of the Company reassessed the recoverable amounts of the Group's cash-generating unit (the "CGU") as at 31 December 2019 and 31 December 2018 to which the plant and equipment, and leased properties were allocated with reference to their value in use (the "VIU") as at 31 December 2019 and 31 December 2018. Based on the VIU, impairment losses of HK$860,000 (2018: HK$12,365,000) and HK$1,855,000 (2018: Nil) on plant and equipment, and leased properties were recognised in the consolidated statement of profit or loss for the year ended 31 December 2019, respectively.

According to the VIU, the recoverable amount of nil (2018: Nil) as at 31 December 2019 was 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 16% for 2019 (2018: 16.5%).

(c) At 31 December 2019, certain of the Group's buildings with a net carrying amount of approximately HK$36,801,000 (2018: Nil) were pledged to secure general banking facilities granted to the Group (note 30).

12. LEASES

The Group as a lessee

The Group has lease contracts for various items of office properties used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office properties generally have lease terms between 2 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 January 2019)

	HK$'000
Carrying amount at 1 January 2018	12,616
Recognised in profit or loss during the year *(note 6)*	(299)
Exchange realignment	(570)
Carrying amount at 31 December 2018	11,747
Current portion included in receivables, prepayments and deposits	(288)
Non-current portion	11,459

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

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments ***HK$'000***	**Office properties** ***HK$'000***	**Total** ***HK$'000***
As at 1 January 2019	**11,747**	**1,509**	**13,256**
Modification of a lease	**—**	**1,011**	**1,011**
Depreciation charge	**(287)**	**(662)**	**(949)**
Impairment *(note 11(b))*	**—**	**(1,855)**	**(1,855)**
Exchange realignment	**(252)**	**(3)**	**(255)**
As at 31 December 2019	**11,208**	**—**	**11,208**

At 31 December 2019, the Group's prepaid land lease payments with a net carrying amount of approximately HK$11,208,000 (2018: Nil) were pledged to secure general banking facilities granted to the Group (note 30).

12. LEASES (CONTINUED)

The Group as a lessee (Continued)

(c) Lease liabilities

The carrying amount of lease liabilities (included under other payables and accruals) and the movements during the year are as follows:

	2019 Lease liabilities *HK$'000*
Carrying amount at 1 January	1,509
Modification of a lease	1,011
Accretion of interest recognised during the year	74
Payments	(875)
Exchange realignment	(17)
Carrying amount at 31 December	1,702
Analysed into:	
Current portion	885
Non-current portion	817

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 *HK$'000*
Interest on lease liabilities	74
Depreciation charge of right-of-use assets	949
Expense relating to short-term leases	71
Impairment	1,855
Total amount recognised in profit or loss	2,949

(e) The future cash outflows relating to leases that have not yet commenced and total cash outflows for leases are disclosed in notes 27(c) and 28(c), respectively, to the financial statements.

13. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	**21,337**	11,678
Work in progress	**36,449**	83,686
Finished goods	**21,144**	38,767
	78,930	134,131

In light of the deteriorating sales demand and declining selling prices during the year, management reassessed the net realisable value of inventories and a provision of HK$7,887,000 was made for the year ended 31 December 2019 (2018: HK$987,000).

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Notes	2019 HK$'000	2018 HK$'000
Trade receivables	*(i)*	**26,947**	32,037
Bills receivable	*(i)*	**24,963**	26,031
Prepayments, deposits and other receivables	*(ii)*	**4,474**	6,508
		56,384	64,576

Notes:

(i) 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 and bills receivables approximate their fair values.

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (Continued)

(i) (Continued)

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:

	2019 HK$'000	2018 HK$'000
Current	50,902	53,964
Less than 3 months past due	1,109	2,932
3 to 6 months past due	1,726	1,543
More than 6 months past due	2,389	1,724
	56,126	60,163
Impairment	(4,216)	(2,095)
	51,910	58,068

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

	2019 HK$'000	2018 HK$'000
At 1 January	2,095	1,677
Impairment losses *(note 6)*	2,207	514
Exchange realignment	(86)	(96)
At 31 December	4,216	2,095

The increase in the loss allowance of HK$2,121,000 is the result of an increase in trade receivables which were past due for over 3 months (2018: increase in the loss allowance of HK$418,000 was the result of an increase in trade receivables which were past due for over 3 months).

An impairment analysis is performed at each reporting date for trade receivables using a provision matrix to measure ECLs. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The calculation of ECLs considered probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking information.

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (Continued)

(i) (Continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2019

		Past due		
	Current	Less than 6 months	Over 6 months	Total
Expected credit loss rate	**0%**	**64.4%**	**100%**	**13.5%**
Gross carrying amount (HK$'000)	**25,939**	**2,835**	**2,389**	**31,163**
Expected credit losses (HK$'000)	**—**	**1,827**	**2,389**	**4,216**

As at 31 December 2018

		Past due		
	Current	Less than 6 months	Over 6 months	Total
Expected credit loss rate	0%	8.4%	100%	6.1%
Gross carrying amount (HK$'000)	27,990	4,418	1,724	34,132
Expected credit losses (HK$'000)	—	371	1,724	2,095

An impairment analysis is performed at each reporting date for bills receivable by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The Group estimated the expected loss rate of bills receivable was minimal and no ECLs in respect of the balance as at 31 December 2019 and 31 December 2018 was made.

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (Continued)

(ii) As at 31 December 2019, a provision of HK$350,000 (2018: HK$394,000) was made for other receivables with a gross carrying amount of HK$350,000 (2018: HK$394,000).

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

	2019 *HK$'000*	2018 *HK$'000*
At 1 January	**394**	385
Impairment losses/(reversal of impairment), net *(note 6)*	**(37)**	28
Exchange realignment	**(7)**	(19)
At 31 December	**350**	394

The ECLs as at 31 December 2019 are estimated by applying a loss rate approach with reference to the historical loss record of the Group as at 31 December 2019. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied as at 31 December 2019 was 65.8% (2018: 16.9%).

The carrying amounts of other receivables approximate their fair values.

15. CASH AND BANK BALANCES, AND PLEDGED BANK BALANCES

	2019 HK$'000	2018 HK$'000
Cash and bank balances	**49,727**	27,513
Less: Pledged bank balances*	**(895)**	—
Cash and bank balances	**48,832**	27,513

* As at 31 December 2019, there were bank balances of HK$895,000 (2018: Nil) pledged to banks for banking facilities granted to the Group (note 30).

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$47,472,000 (2018: HK$25,456,000). 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

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:

	2019 HK$'000	2018 HK$'000
Within 3 months	**25,781**	28,127
3 to 6 months	**5,021**	5,670
Over 6 months	**2,819**	4,212
	33,621	38,009

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 90 days. The carrying amounts of trade payables approximate their fair values.

17. OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK$'000	2018 HK$'000
Current			
Other payables and accruals	(a)	18,595	32,411
Contract liabilities	(b)	530	4,120
Lease liabilities	12(c)	885	—
		20,010	36,531
Non-current			
Other payables	(a)	14,980	—
Lease liabilities	12(c)	817	—
		15,797	—
Total		35,807	36,531

Notes:

(a) Included in the other payables is accrued interest of HK$14,980,000 due to the immediate holding company as at 31 December 2019 which is interest-free, unsecured, repayable in 2 years from 28 February 2019 and arose from loans from the immediate holding company. As at 31 December 2018, the accrued interest payable of HK$10,537,000 to the immediate holding company was interest-free, unsecured, and repayable on demand.

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

Other payables of the Group are non-interest-bearing and have an average term of three months. The carrying amounts of other payables approximate their fair values.

(b) Contract liabilities of HK$530,000 as at 31 December 2019 (31 December 2018: HK$4,120,000; 1 January 2018: HK$1,308,000) include short-term advances received from customers for the sale of processed leather. The decrease in contract liabilities in 2019 (2018: increase) was mainly due to the decrease (2018: increase) in short-term advances received from customers in relation to the sale of leather at the end of the year.

As a practical expedient under HKFRS 15, the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 2018 are not disclosed as all the remaining performance obligations in relation to the sale of processed leather are part of contracts that have an original expected duration of one year or less.

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	Maturity	Amount HK$'000	Effective interest rate (%)	Maturity	Amount HK$'000
Current						
Trust receipt loans, secured	**3.84–4.20**	**2020**	**3,152**	—	—	—
Non-current						
Loans from the immediate holding company *(note 19)*	**3.27–3.42**	**2021**	**142,379**	3.44–3.97	2021	142,379
			145,531			142,379

	2019 HK$'000	2018 HK$'000
Analysed into:		
Trust receipt loans, repayable within one year	**3,152**	—
Other borrowings repayable		
Within one year	**—**	—
In the second year	**142,379**	—
In the third to fifth years, inclusive	**—**	142,379
	142,379	142,379
	145,531	142,379

The Group's trust receipt loan facilities amounting to HK$85,170,000 (2018: Nil) of which HK$3,152,000 was utilised as at 31 December 2019 (2018: Nil).

The loan facility of HK$51,680,000 is secured by a corporate guarantee of the Company whereas the loan facility of HK$33,490,000 is secured by (i) the pledge of certain of the Group's buildings and prepaid land lease payments with an aggregate carrying amounts of HK$48,009,000 as at 31 December 2019 (2018: Nil) and (ii) the pledge of certain of the Group's bank balances amounting to HK$895,000 (2018: Nil).

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.

19. LOANS FROM THE IMMEDIATE HOLDING COMPANY

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

	Notes	2019 HK$'000	2018 HK$'000
Loan A	(i)	**22,779**	22,779
Loan B	(ii)	**65,000**	65,000
Loan C	(iii)	**54,600**	54,600
		142,379	142,379

Notes:

(i) The balance represents an unsecured loan from GDH of US$2,920,000 (2018: US$2,920,000), which bears interest at 3-month LIBOR + 1.17% (2018: 3-month LIBOR + 1.17% to 3-month LIBOR + 2%) and is repayable on 31 July 2021 (2018: repayable on 31 July 2021).

(ii) The balance represents an unsecured loan from GDH of HK$65,000,000 (2018: HK$65,000,000), which bears interest at 3-month HIBOR + 1.17% (2018: 3-month HIBOR + 1.17% to 3-month HIBOR + 2%) and is repayable on 9 August 2021 (2018: repayable on 9 August 2021).

(iii) The balance represents an unsecured loan from GDH of US$7,000,000 (2018: US$7,000,000), which bears interest at 3-month LIBOR + 1.17% (2018: interest-free on or before 30 December 2018 and bears interest at 3-month LIBOR + 1.17% starting from 31 December 2018) and is repayable on 30 December 2021 (2018: repayable on 30 December 2021).

20. 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.

21. PROVISION

	Early termination of a joint venture agreement HK$'000
At 1 January 2019	3,640
Exchange realignment	(80)
At 31 December 2019	3,560

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.

22. DEFERRED TAX LIABILITIES

Movements in deferred tax liabilities of the Group during the year are as follows:

	Revaluation of properties *HK$'000*
At 1 January 2018	3,895
Deferred tax credited to property revaluation reserve	(55)
At 31 December 2018 and 1 January 2019	**3,840**
Deferred tax credited to property revaluation reserve	**(563)**
At 31 December 2019	**3,277**

The Group has tax losses arising in Hong Kong of HK$92,937,000 (2018: HK$87,225,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2019, the Group had tax losses arising in Mainland China of HK$179,862,000 (2018: HK$156,690,000) 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 2019, the Group has deductible temporary differences of HK$33,247,000 (2018: HK$38,306,000). 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.

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 2019 (2018: Nil). At 31 December 2019, 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.

23. SHARE CAPITAL

Shares

	2019 HK$'000	2018 HK$'000
Issued and fully paid:		
538,019,000 (2018: 538,019,000) ordinary shares	75,032	75,032

24. RESERVES

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

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

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

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

24. 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 the Company undertakes 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

24. 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 2019, a reversal of provision for impairment of HK$349,000 (2018: HK$70,000) was made for the Assets. This resulted in a transfer of HK$349,000 (2018: HK$70,000) from the accumulated losses to the Special Capital Reserve.

The Limit as at 31 December 2019 was HK$150,273,970 (2018: HK$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 31 December 2019 was HK$419,000 (2018: HK$70,000).

(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.

25. SHARE OPTION SCHEME

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

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

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

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

25. SHARE OPTION SCHEME (CONTINUED)

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

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

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

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

The 2008 Scheme expired during the year ended 31 December 2018. As at 31 December 2019 and 2018, there were no share options outstanding under the 2008 Scheme.

26. 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.

27. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2019	2018
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Buildings	**19**	20
Leasehold improvements	**523**	294
Plant and machinery	**570**	513
	1,112	827

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

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018
	HK$'000
Within one year	960
In the second to fifth years, inclusive	776
	1,736

(c) The Group has a lease contract that has not yet commenced as at 31 December 2019. The future lease payments for this non-cancellable lease contract are HK$76,800 due within one year and HK$76,800 due in the second to fifth years, inclusive.

28. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

During the year, the Group had non-cash transaction related to the modification of a lease to right-of-use assets and lease liabilities of HK$1,011,000 and HK$1,011,000, respectively, in respect of the lease arrangement of office properties (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Lease liabilities HK$'000	Loan from a fellow subsidiary HK$'000
At 1 January 2018	—	41,177
Changes from financing cash flows	—	(40,764)
Foreign exchange movement	—	(413)
At 31 December 2018 and 1 January 2019 (as previously reported)	—	—
Effect of adoption of HKFRS 16	1,509	—
At 1 January 2019 (restated)	**1,509**	**—**
Changes from financing cash flows	**(875)**	**—**
Modification of a lease	**1,011**	**—**
Interest expense	**74**	**—**
Foreign exchange movement	**(17)**	**—**
At 31 December 2019	**1,702**	**—**

(c) Total cash outflow for lease

The total cash outflow for lease included in the statement of cash flows is as follows:

	2019 ***HK$'000***
With operating activities	**71**
With financing activities	**875**
	946

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	2019 HK$'000	2018 HK$'000
Office rental paid to a fellow subsidiary	*(i)*	**534**	534
Computer system maintenance service fees paid to a fellow subsidiary	*(ii)*	**267**	246
Interest expense to the immediate holding company	*(iii)*	**5,446**	4,337
Interest expense to a fellow subsidiary	*(iv)*	**—**	642

Notes:

(i) The office rental was charged by a fellow subsidiary at HK$44,500 per month for the year ended 31 December 2019 (2018: HK$44,500 per month) in accordance with the terms of the rental agreement between the Group and the fellow subsidiary. As at 31 December 2019, the Group had a rental deposit of HK$156,204 (2018: HK$150,819) with the fellow subsidiary.

(ii) The fellow subsidiary charged maintenance service fees of HK$266,674 for the year ended 31 December 2019 (2018: HK$245,710) 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 charged by a fellow subsidiary arose from the loan advanced from a fellow subsidiary which was unsecured, bore interest at 4.35% and was fully repaid in 2018.

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Tenancy agreements 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 2018 were approximately HK$534,000 and HK$45,000, respectively.

On 17 December 2019, the Group entered into another two-year office rental agreement commencing 6 February 2020 and ending 5 February 2022 with Global Head Developments Limited with a monthly rent of HK$46,000.

(c) Outstanding balances with related parties:

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

(ii) Details of the Group's accrued interest arising from loans from the immediate holding company as at the end of the reporting period are included in note 17(a) 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 notes 29(a), 29(b) and 29(c) above constituted connected transactions or 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

Details of the Group's assets pledged for the Group's banking facilities are included in notes 11, 12, 15 and 18, respectively, to the financial statements.

31. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

	Financial assets at fair value through other comprehensive income HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Trade receivables	—	26,947	26,947
Bills receivable	24,963	—	24,963
Financial assets included in prepayments, other receivables and deposits	—	182	182
Pledged bank balances	—	895	895
Cash and bank balances	—	48,832	48,832
	24,963	76,856	101,819

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	33,621
Financial liabilities included in other payables and accruals	35,277
Due to a PRC joint venture partner	1,131
Interest-bearing bank borrowings	3,152
Loans from the immediate holding company	142,379
	215,560

31. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

2018

Financial assets

	Financial assets at fair value through other comprehensive income *HK$'000*	Financial assets at amortised cost *HK$'000*	Total *HK$'000*
Trade receivables	—	32,037	32,037
Bills receivable	26,031	—	26,031
Financial assets included in prepayments, other receivables and deposits	—	1,936	1,936
Cash and bank balances	—	27,513	27,513
	26,031	61,486	87,517

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Trade payables	38,009
Financial liabilities included in other payables and accruals	32,411
Due to a PRC joint venture partner	1,131
Loans from the immediate holding company	142,379
	213,930

32. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2019, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB4,701,000 (equivalent to HK$5,248,000) (2018: RMB5,738,000 (equivalent to HK$6,549,000)) 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 RMB4,701,000 (equivalent to HK$5,248,000) (2018: RMB5,738,000 (equivalent to HK$6,549,000)) as at 31 December 2019.

Transferred financial assets that are derecognised in their entirety

At 31 December 2019, 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 RMB22,418,000 (equivalent to HK$25,026,000) (2018: RMB23,488,000 (equivalent to HK$26,807,000)). 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 2019, 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 2019 and 2018.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, pledged bank balances, trade receivables, trade payables, financial assets included in prepayments, other receivables and deposits, financial liabilities included in other payables and accruals, interest-bearing bank borrowings, and an amount due to a PRC joint venture partner approximate their carrying amounts largely due to the short term maturities of these instruments.

The fair values of bills receivable, loans from the immediate holding company and the non-current portion of other payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for borrowings as at 31 December 2019 and 2018 were assessed to be insignificant.

The head of the finance department of the Group is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The head of the finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amounts at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Bills receivable	**—**	**24,963**	**—**	**24,963**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bills receivable	—	26,031	—	26,031

During the year, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfer into or out of Level 3 for financial assets (2018: Nil).

34. 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, pledged bank balances 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$'000
2019		
Hong Kong dollar	**100**	**(650)**
United States dollar ("US$")	**100**	**(774)**
Hong Kong dollar	**(10)**	**65**
US$	**(10)**	**77**
2018		
Hong Kong dollar	100	(650)
US$	100	(229)
Hong Kong dollar	(10)	65
US$	(10)	23

34. 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 45% (2018: 56%) 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$'000*
2019		
If RMB weakens against US$	**(3)**	**(1,632)**
If RMB strengthens against US$	**3**	**1,632**
2018		
If RMB weakens against US$	(3)	(2,656)
If RMB strengthens against US$	3	2,656

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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables*	—	—	—	31,163	31,163
Bills receivable	24,963	—	—	—	24,963
Financial assets included in prepayments, other receivables and deposits					
— Normal**	182	—	—	—	182
— Doubtful**	—	350	—	—	350
Pledged bank balances					
— Not yet past due	895	—	—	—	895
Cash and bank balances					
— Not yet past due	48,832	—	—	—	48,832
	74,872	350	—	31,163	106,385

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables*	—	—	—	34,132	34,132
Bills receivable	26,031	—	—	—	26,031
Financial assets included in prepayments, other receivables and deposits					
— Normal**	1,936	—	—	—	1,936
— Doubtful**	—	394	—	—	394
Cash and bank balances					
— Not yet past due	27,513	—	—	—	27,513
	55,480	394	—	34,132	90,006

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 14 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and deposits is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further 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.

34. 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 interest-bearing bank and other 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 financial institutions and the immediate holding company to meet its liquidity requirements in the short and long 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:

2019

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Total *HK$'000*
Trade payables	7,840	25,781	—	—	33,621
Lease liabilities	—	146	739	961	1,846
Other payables and accruals (excluding lease liabilities)	18,595	—	—	15,615	34,210
Due to a PRC joint venture partner	1,131	—	—	—	1,131
Interest-bearing bank borrowings	—	3,152	—	—	3,152
Loans from the immediate holding company	—	—	—	150,712	150,712
	27,566	29,079	739	167,288	224,672

2018

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Total *HK$'000*
Trade payables	9,882	28,127	—	—	38,009
Other payables and accruals	32,411	—	—	—	32,411
Due to a PRC joint venture partner	1,131	—	—	—	1,131
Loans from the immediate holding company	—	—	—	157,204	157,204
	43,424	28,127	—	157,204	228,755

34. 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 and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may 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 2019 and 2018.

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 loans from the immediate holding company and interest-bearing bank borrowings. The gearing ratios as at the end of the respective reporting periods were as follows:

	2019	2018
	HK$'000	*HK$'000*
Loans from the immediate holding company	**142,379**	142,379
Interest-bearing bank borrowings	**3,152**	—
Total debt	**145,531**	142,379
Equity attributable to equity holders of the Company	**15,743**	59,093
Total debt and equity	**161,274**	201,472
Gearing ratio	**90%**	71%

35. 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:

	2019 *HK$'000*	2018 *HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	—	—
Right-of-use assets	—	—
Interests in subsidiaries	145,726	173,353
Total non-current assets	145,726	173,353
CURRENT ASSETS		
Prepayments, other receivables and deposits	220	215
Cash and bank balances	2,026	1,719
Total current assets	2,246	1,934
CURRENT LIABILITIES		
Amount due to a subsidiary	31,160	31,858
Other payables and accruals	2,108	11,310
Total current liabilities	33,268	43,168
NET CURRENT LIABILITIES	(31,022)	(41,234)
TOTAL ASSETS LESS CURRENT LIABILITIES	114,704	132,119
NON-CURRENT LIABILITIES		
Loans from the immediate holding company	87,779	87,779
Other payables	12,820	—
Total non-current liabilities	100,599	87,779
Net assets	14,105	44,340
EQUITY		
Share capital	75,032	75,032
Other reserves *(note)*	(60,927)	(30,692)
Total equity	14,105	44,340

Kuang Hu
Director

Sun Jun
Director

35. 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	Capital reserve HK$'000	Special capital reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	5,545	167,746	—	—	(108,836)	64,455
Total comprehensive loss for the year	—	—	—	—	(95,147)	(95,147)
Transfer from accumulated losses in accordance with the undertaking	—	—	—	70	(70)	—
At 31 December 2018 and 1 January 2019	5,545	167,746	—	70	(204,053)	(30,692)
Total comprehensive loss for the year	—	—	—	—	(31,070)	(31,070)
Transfer from accumulated losses in accordance with the undertaking	—	—	—	349	(349)	—
Capital contribution from the immediate holding company	—	—	835	—	—	835
At 31 December 2019	**5,545**	**167,746**	**835**	**419**	**(235,472)**	**(60,927)**

36. EVENT AFTER THE REPORTING PERIOD

The outbreaks of the novel coronavirus in early 2020 casted certain uncertainties on the operating environments of the Group. In early February 2020, Xuzhou City Government announced the suspension of operations in order to prevent the spread of the novel coronavirus. When the epidemic became moderate, the Group resumed its operations in the second half of February 2020. Since the rapid development of the novel coronavirus outbreaks, the Group will closely monitor the situation, continuously assess its impact on the financial conditions and operating results of the Group as well as timely adjust its operating strategies and formulate contingent measures.

37. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretation.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

粵海制革

GUANGDONG TANNERY LIMITED
粵海制革有限公司