



GUANGDONG TANNERY LIMITED

粤海制革有限公司

(股份代號 Stock Code: 01058)



2020

ANNUAL REPORT
年報

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Corporate Information

As at 26 March 2021

BOARD OF DIRECTORS

Executive Directors

Kuang Hu (*Chairman*)

Sun Jun (*Managing Director*)

Non-Executive Directors

Ding Yatao

Qiao Jiankang

Independent Non-Executive Directors

Yeung Man Lee

Leung Luen Cheong

Yang Ge

AUDIT COMMITTEE

Yang Ge (*Chairman*)

Yeung Man Lee

Leung Luen Cheong

REMUNERATION COMMITTEE

Leung Luen Cheong (*Chairman*)

Yeung Man Lee

Yang Ge

NOMINATION COMMITTEE

Kuang Hu (*Chairman*)

Yeung Man Lee

Leung Luen Cheong

Yang Ge

COMPANY SECRETARY

Chan Miu Ting

AUDITOR

Ernst & Young

Certified Public Accountants

Registered Public Interest Entity Auditor

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

	2020	2019	Change
Sales volume of cowhides (in thousand square feet)	14,949	11,439	+30.7%
Revenue (in thousand HK\$)	191,404	178,020	+7.5%
Loss for the year (in thousand HK\$)	(2,751)	(38,994)	+92.9%
Basic loss per share (in HK cent)	(0.51)	(7.25)	+93.0%

Key Indicators (As at 31 December)

	2020	2019	Change
Current Ratio ¹	3.13 times	3.01 times	+4.0%
Quick Ratio ²	2.17 times	1.72 times	+26.2%
Debt to asset ratio ³	88.9%	93.4%	-4.8%
Total assets (in thousand HK\$)	251,528	238,733	+5.4%
Net asset value per share (HK\$)	0.05	0.03	+66.7%

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 year 2020 was HK\$2,751,000 (2019: HK\$38,994,000), representing a significant decrease in loss of 92.9%. Basic loss per share was HK0.51 cent (2019: HK7.25 cents).

DIVIDEND

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

REVIEW

Under the normality brought by the COVID-19 pandemic (the "Pandemic"), the operation of consumer products industry has been severely affected during the year of 2020. There is no sign of alleviation on the Pandemic in the overseas, posting a severe impact to the world economy and the export industry of China, leading to a significant increase in external risks and challenges. The phenomenon of excess capacity continues to prevail in the leather industry. Together with the increase demand from consumers for new and differentiated products and substitute materials in the consumer market, they have led to shrinking demand for genuine leather for footwear, posing enormous pressure on the operation of tannery enterprises. In view of the sharp changes in the external environment of the footwear leather market, the Group adhered to the overall strategy of "stable operations to ensure asset safety", with our full efforts in the sale of aging inventory and optimizing inventory structure as core targets of our works. During the year, the Group paid close attention to the development of the Pandemic and the changes in the market, adjusted its operation strategies in a timely manner, made reasonable arrangements on production and sales with regard to the actual market situation, and accelerated the reduction of inventory by developing new processing techniques. In addition, by referencing the demand from its sales order, the Group also took the favourable opportunity to procure raw cowhides with a low cost, and strengthened its cost control measures to minimize the operational risk from the downward movement of the industry. During the year, amid the Pandemic, the Group maintained stable operation and sales. Despite a loss was recorded by the Group for the year, its operational results have been improved significantly from last year.

With the preparation of a comprehensive budget at the beginning of the year, the Group set up various production and operation targets and strategies. In terms of sales, during the year, the Group strengthened its effort on product upgrade and research and development of new products in response to the market demand, and our new products were well recognized by customers. Meanwhile, the Group also conducted frequent customer visit so as to arrange production in accordance to the needs of the customer and reduce inventory by optimizing the inventory structure and introducing research and development of processing technique. In terms of procurement, during the year, the Group continued its efforts on cost reduction and effectiveness enhancement, strengthened our management on suppliers, and looked for appropriate procurement nodes in accordance to the sales order, thus implementing better cost management on production, supply and marketing. In addition, on the premise of the quality of processing, the Group enhanced the competitiveness of our products by reducing the production cost. With regard to the increasing environmental protection requirements, during the year, the Group closely communicated with environmental protection departments, and pursuant to their requirements, strengthened its works on the classification and disposal of solid waste, as well as analysis, inspection and testing of water quality indicators, established a mechanism on sludge clearing and removal with a prolonged efficiency, enhanced the prevention and control measures of environmental protection risk, thus ensuring a safe and stable production environment.

Chairman's Statement (Continued)

PROSPECTS

It is expected that the footwear leather market will continue to face the problems of overcapacity, weak demand, narrowed profitability in 2021. With the normality brought by the Pandemic, participants in the industry with unfavourable performance will be eliminated in a faster pace, and there will be an acceleration in resource integration. The polarization in the leather industry will further aggravate and pose new challenges to the industry. "Implementation of product strategy, optimization of production efficiency and upgrade of innovation" will be the operational strategy of the Group for the future. In the meantime, the Group will make effort on maintaining stable operation and enhancing the operational efficiency, as well as accomplishing the prevention and control measures against the Pandemic. The Group will, on one hand, make use of various product lines established under its product strategy to strengthen the development and design of its products, and implement quality control throughout the whole production process in order to enhance the market competitiveness of its products. On the other hand, the Group will continue to pay attention on the pricing of raw cowhides, carry out procurement according to the demand, expand the processing business actively, and optimize the production efficiency to enhance economies of scale of its production and achieve lower cost and higher efficiency. Meanwhile, the Group will launch innovative business in a diversify manner, and increase the comprehensive additional value of its products in order to safeguard its profit margin. Furthermore, the Group will continue to further enhance its comprehensive risk management and strengthen the establishment of mechanisms over its key risks, including environmental protection, safety, internal control etc., so as to ensure safe operation and strive to turn its loss into profit.

Kuang Hu
Chairman

Hong Kong, 26 March 2021

Management Discussion and Analysis

RESULTS

The Group's consolidated loss attributable to shareholders for the year ended 31 December 2020 was HK\$2,751,000, representing a significant decrease in loss of HK\$36,243,000 or 92.9% from HK\$38,994,000 for the corresponding period last year.

The net asset value of the Group as at 31 December 2020 was HK\$27,944,000, representing an increase of HK\$12,201,000 and HK\$21,798,000 as compared to the net asset value as at 31 December 2019 and 30 June 2020, respectively.

The board of directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2020 (2019: Nil).

BUSINESS REVIEW

The upstream and downstream industry chains had been affected in a different extent by the Pandemic during 2020, and the operations of leather enterprises had been severely affected. Although there were signs of alleviation on the Pandemic in China during the second half of the year, footwear leather industry continued suffering from problems such as excess capacity and weak demand, with its operating environment further squeezed, led to narrowing down of profit margin of leather industry. During the year, the Group adopted "stabilizing production, reducing inventory, decreasing risk, pursuing innovation and ensuring stability" as its goals. On one hand, by adopting the marketing strategy of "production and sales of all products" as the principle, marketing and customer visit continued to be strengthened whereas, on the other hand, by adopting the measures including further adjusted and improved product structure, the Group promoted micro-research and development, increased the added value of products and improved the profitability of product. With these measures, the operational risk brought by the downward trend of the industry was minimized to a certain extent and stability of production and sales was safeguarded. During the year, with the selling and reduction of aging inventory through diversified channels, the Group managed to convert inventory into cash flow. In the meantime, the sales of aging inventory led to the turnaround of gross profit from gross loss. With the combined effects of reduction in administrative expenses and the increase in other operating income, the operating loss of the Group was significantly reduced as compared to the corresponding period last year.

In terms of environmental protection, the State continued to strengthen environmental protection management measures in the industry, and as a result, the environmental protection requirements had become stricter. The requirement on the use of clean production technique and recyclable resources had been continuously enhancing. During the year, under the active planning from the county government, there was a continuous improvement to the local ancillary facilities. In order to improve the internal working environment, production and living environment of workers, the Group had increased its investment in environment improvement works during the year including the installation of monitoring system for waste gas collection and conducting gas collection, disposal and emission works. In the meantime, the Group strengthened the analysis, inspection and testing of water quality indicators, established a mechanism on timely clearing and removal of sludge with prolonged efficiency, thus ensuring a safe and stable production environment.

Management Discussion and Analysis (Continued)

BUSINESS REVIEW (CONTINUED)

During the year, the total production volume of cowhides was 13,058,000 sq.ft., representing an increase of 3,207,000 sq.ft. or 32.6% as compared to 9,851,000 sq.ft. last year. The production volume of grey hides was 6,399 tons, representing an increase of 4,508 tons or 238.4% as compared to 1,891 tons last year. During the year, the total sales volume of cowhides was 14,949,000 sq.ft., representing an increase of 3,510,000 sq.ft. or 30.7% as compared to 11,439,000 sq.ft. last year. The sales volume of grey hides was 6,399 tons, representing an increase of 4,109 tons or 179.4% as compared to 2,290 tons last year.

In 2020, the Group's consolidated turnover was HK\$191,404,000, representing an increase of HK\$13,384,000 or 7.5% from HK\$178,020,000 last year, of which, the sales value of cowhides was HK\$170,736,000 (2019: HK\$168,729,000), representing an increase of 1.2%; grey hides and other products were HK\$20,668,000 (2019: HK\$9,291,000), representing an increase of 122.5%. While the effect of the Pandemic persisted and there was a suspension of production and operation in the market during the first half of the year, the Group was one of the enterprises in Suining, Xuzhou that resumed the operation and production swiftly. The Group continued to implement measures to prevent and control the Pandemic so as to ensure stability of production and sales as well as safety in production, such that the impact of the Pandemic on the production and operation of the Group would be minimized. During the year, although the decrease in the price of end-products in the leather market led to the drop in the unit selling price of footwear leather products had offset the merits from the decrease in purchasing price of raw leather, the Group, by means of strengthening product research and development and matching customers' needs with marketing promotion, managed to expand its market share in terms of product swiftly during the second half of the year. Both sales volume and sales revenue had increased as compared to last year.

In terms of sales, the industry had experienced economic downturn and excess capacity, therefore the fundamental situation of excess supply in the production capacity of traditional footwear leather remained unchanged. At the same time, changes in consumption demand from the market led to a reduction in the demand for genuine footwear leather. Coupled with the impact of the Pandemic and insufficient orders during the first half of the year, the market demand for footwear leather continued to decline. In the face of the above difficulties, when the Pandemic showed signs of alleviation during the mid-year, the Group strengthened its marketing efforts to deal with its aging inventory actively. The sales volume had increased progressively, and with active progression of research and development, new products were highly recognized by the market. All kinds of product which produced during the year were sold swiftly in such an unfavourable environment, thus reversing the decline in sales for the first half of the year and having realized a significant increase in the production and sales during the second half of the year.

In terms of procurement, during the year, the Group had paid close attention to the development of the Pandemic, and actively monitored the price trend of raw cowhides in the international market. The Group also made procurement with reference to sales order, inventory and product structure. In addition, the Group conducted procurement of raw materials according to the strategy of "procurement based on sales". With an effective control on the scale of procurement in 2019 and on the premise of safe cashflow, the Group managed to procure raw cowhides during the year according to the production needs by leveraging the significant decrease in the price of raw cowhides due to the outbreak of the Pandemic, thereby creating a better advantage on product cost. During the year, the total procurement amounted to HK\$132,493,000, representing an increase of 15.2% as compared to the same period last year.

Management Discussion and Analysis (Continued)

BUSINESS REVIEW (CONTINUED)

As at 31 December 2020, the Group's consolidated inventories amounted to HK\$60,260,000 (31 December 2019: HK\$78,930,000), representing a decrease of HK\$18,670,000 or 23.7% as compared to that as at 31 December 2019. At the beginning of year 2020, the Group continued to have inventory reduction as its goal with achieving positive cashflow as a priority. The Group firmly upheld the above goal and priority under the Pandemic, and reduced its inventory from a long-term strategic perspective. During the year, the Group strengthened its product development and product lines design so as to realize a diversified, multi-stages and comprehensive sale of products. By re-engineering production techniques as well as product ratification and integration, the problem of slow-moving inventory was resolved, thereby bringing a significant improvement to its inventory structure as compared to that of the end of last year. Based on the aging of inventory and its net realizable value, the Group had conducted a reassessment on the inventory and made a net reversal of provision for inventories of HK\$31,244,000 (2019: a net provision for inventories of HK\$7,887,000) for the year 2020.

As at 31 December 2020, the Group's property, plant and equipment amounted to HK\$42,871,000 (31 December 2019: HK\$42,484,000), representing an increase of HK\$387,000 or 0.9% as compared to that as at 31 December 2019. 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\$3,183,000 (2019: HK\$860,000) was made for 2020.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2020, the Group's cash and cash equivalents amounted to HK\$60,939,000 (31 December 2019: HK\$48,832,000), representing an increase of HK\$12,107,000 or 24.8% as compared to that as at 31 December 2019, of which 4.2% were in Hong Kong dollars, 95.2% in Renminbi and 0.6% in US dollars. Net cash inflow from operating activities for the year was HK\$14,606,000, 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\$5,245,000, 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\$642,000, which was mainly attributable to the payment of rental expenses.

As at 31 December 2020, the Group's total interest-bearing borrowings were HK\$386,000 (31 December 2019: HK\$145,531,000), which were United States dollar interest-bearing borrowings. The Group's borrowings arose from short-term loans provided by a bank with a balance of HK\$386,000, which were secured by bank balances, buildings and leasehold land amounting to HK\$51,621,000 in total and charged at a floating rate. During the year, the Group obtained a waiver of interests from the immediate holding company on its long-term unsecured loans of HK\$137,200,000 for one year, commencing from 1 January 2020.

As at 31 December 2020, the Group's gearing ratio of total debt to shareholders' equity plus total debt was 83.1% (31 December 2019: 90.2%). The annual interest rate of the borrowings during the year was approximately 1.3% to 4.2%. During the year, the Group's interest expenses amounted to HK\$4,644,000, representing a decrease of 18.4% as compared with the same period of last year, which was mainly due to the decrease in the loan interest rate.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW (CONTINUED)

Liquidity and Financial Resources (Continued)

As at 31 December 2020, the Group had banking facilities and an unsecured loan facility from a fellow subsidiary (the "Facilities") of HK\$71,292,000 in total (31 December 2019: banking facilities of HK\$85,170,000) with utilised banking facilities of HK\$386,000 (31 December 2019: banking facilities of HK\$3,152,000) and unutilised Facilities of HK\$70,906,000 (31 December 2019: banking facilities of HK\$82,018,000). Taken into account the existing cash resources and available credit facilities, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2020, the net carrying amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK\$55,452,000, representing an increase of HK\$1,760,000 over the net value of HK\$53,692,000 as at 31 December 2019. The capital expenditure for the year amounted to HK\$5,769,000 (2019: HK\$1,175,000) 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 2020, the Group's bank deposits of HK\$2,600,000 (31 December 2019: HK\$895,000), buildings of HK\$37,392,000 (31 December 2019: HK\$36,801,000) and leasehold land of HK\$11,629,000 (31 December 2019: HK\$11,208,000) were pledged to a bank 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 currencies other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States 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 2020, the Group had 392 staff (31 December 2019: 378). 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 efficiency, calculated by various rankings and further taken into account the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offers social and medical insurances and pension schemes to all employees in different areas.

Biographical Details of Directors and Senior Management

(A) EXECUTIVE DIRECTORS

Mr. Kuang Hu, aged 43, was appointed a Non-Executive Director of the Company on 26 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 the chairman of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.*), 粵海制革 (徐州) 有限公司 (Guangdong Tannery (Xuzhou) Limited*) and 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.*), which are wholly-owned subsidiaries of the Company.

Mr. Sun Jun, aged 47, was appointed an Executive Director and the Managing Director of the Company on 5 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 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.*), 粵海制革 (徐州) 有限公司 (Guangdong Tannery (Xuzhou) Limited*) and 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.*).

Biographical Details of Directors and Senior Management (Continued)

(B) NON-EXECUTIVE DIRECTORS

Mr. Ding Yatao, aged 38, was appointed a Non-Executive Director of the Company on 24 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 Research Department of Information Centre of the Economic and Trade Commission, director and senior economist of 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 56, was appointed a Non-Executive Director of the Company on 7 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 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 and was a Non-Executive Director of the Company for the period from September 2009 to February 2016.

Biographical Details of Directors and Senior Management (Continued)

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Man Lee, aged 61, was appointed an Independent Non-Executive Director of the Company on 14 August 2020. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Yeung has extensive experience in the building materials industry. He is one of the drafters and a member of the editorial board of the “Epoxy Resin-coated Steel Bars” industry standard (JG3042-1997). This type of steel bar is widely used in construction industry and infrastructure such as bridges and railroads. Mr. Yeung is actively involved in community services in both China and Hong Kong. He is currently serving as a director of the China Overseas Friendship Association, a member of Friends of Hong Kong Association, the executive vice president of The Confucius Academy, Hong Kong, and vice chairperson of Elderly Volunteers Coordination Committee of the Hong Kong Red Cross.

Mr. Leung Luen Cheong, aged 53, was appointed an Independent Non-Executive Director of the Company on 14 August 2020. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Leung graduated from the University of Leicester with first class-honours in Economics and holds a Master’s degree in Economics from the University of Oxford. He is a Chartered Financial Analyst, a member of The Hong Kong Society of Financial Analysts and also holds the Diploma in Investment Analysis and Portfolio Management. Mr. Leung worked for various international financial institutions and has over 20 years working experience in fund performance, investment risk, global investment performance standards and client reporting.

Mr. Yang Ge, aged 37, was appointed an Independent Non-Executive Director of the Company on 14 August 2020. He is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Yang obtained the Bachelor’s degree in Management from Lanzhou Jiaotong University. He is a Certified Public Accountant in the PRC and has over 15 years working experience in accounting firms. He is the Executive Director and Chief Accountant of the Guangdong branch of Zhonghua Certified Public Accountants LLP. Mr. Yang is currently the independent director of Grandblue Environment Co., Ltd. (stock code: 600323.SH), Guangdong Yizumi Precision Machinery Co., Ltd. (stock code: 300415.SZ) and PowerTECH Co., Ltd.

Biographical Details of Directors and Senior Management (Continued)

(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 46, 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 translation of the Chinese name of the company/college/program is for reference only, and such translation may not be accurate and such company/college/program may not have an official English translation/version of these Chinese name.*

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 2020.

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 50 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 2020 and the financial position of the Group at that date are set out in the financial statements on pages 43 to 120 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 2020.

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 in the Management Discussion and Analysis on pages 6 to 9 of this Annual Report.

The financial risk management objective and policies of the Group are shown in note 33 to the financial statements on pages 111 to 118 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.

Directors' Report (Continued)

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 9 and in the Corporate Governance Report on page 36 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 36 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 the impacts of COVID-19 pandemic, changes in internal and external environments, such as changes in macroeconomic conditions, market demand and supply, competition and relationships with business partners. Under the impact of the pandemic, both the up-stream and down-stream sectors of the tannery business were affected in various extents. 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 has increased our input in environmental improvement construction works and 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.

Directors' Report (Continued)

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. By matching the demand of the sales order and factoring in the current inventory status, purchases were made in a timely manner. 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.

Directors' Report (Continued)

FINANCIAL SUMMARY

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements. The summary does not form part of the audited financial statements.

Results

	2020 HK\$'000	Year ended 31 December			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Revenue	191,404	178,020	238,317	322,146	456,722
Profit/(Loss) from operating activities	2,020	(33,234)	(75,062)	(92,074)	(34,735)
Finance costs	(4,644)	(5,694)	(5,973)	(6,808)	(5,238)
Loss before tax	(2,624)	(38,928)	(81,035)	(98,882)	(39,973)
Income tax expenses	(127)	(66)	(206)	(741)	(21)
Loss for the year	(2,751)	(38,994)	(81,241)	(99,623)	(39,994)

Assets and liabilities

	2020 HK\$'000	As at 31 December			
		2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Assets					
Non-current assets	55,452	53,692	58,516	78,200	99,097
Current assets	196,076	185,041	226,220	342,715	456,526
Total assets	251,528	238,733	284,736	420,915	555,623
Liabilities					
Current liabilities	62,569	61,537	79,424	124,610	188,086
Non-current liabilities	161,015	161,453	146,219	145,033	142,145
Total liabilities	223,584	222,990	225,643	269,643	330,231
Net Assets	27,944	15,743	59,093	151,272	225,392

Directors' Report (Continued)

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 2020 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

During the year, the Company had not entered into any equity-linked agreements.

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 2020, 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 (2019: 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

Independent Non-Executive Directors

Yeung Man Lee (*appointed on 14 August 2020*)

Leung Luen Cheong (*appointed on 14 August 2020*)

Yang Ge (*appointed on 14 August 2020*)

Fung Lak (*resigned on 19 June 2020*)

Choi Kam Fai, Thomas (*retired on 19 June 2020*)

Chan Cheong Tat (*resigned on 19 June 2020*)

In accordance with Articles 82 to 84 of the Articles of Association of the Company, Mr. Ding Yatao will retire by rotation at the forthcoming annual general meeting of the Company to be held on Friday, 18 June 2021 (the "2021 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. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge, who were appointed as Independent Non-Executive Directors of the Company with effect from 14 August 2020, shall hold office until the 2021 AGM and shall be eligible for re-election.

Mr. Ding Yatao, Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge, 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 2024, and (ii) 30 June 2024, subject to earlier determination in accordance with the Articles of Association of the Company and/or any applicable laws and regulations.

Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat retired/resigned as Independent Non-Executive Directors of the Company with effect from on 19 June 2020 as they had reached their retirement age. Each of Mr. Fung, Mr. Choi and Mr. Chan has confirmed that he has no disagreement with the board of Directors and there was no other matter relating to his retirement/resignation that needed to be brought to the attention of the shareholders of the Company.

Directors' Report (Continued)

DIRECTORS OF SUBSIDIARIES

The names of directors who have served on the board of directors of the subsidiaries of the Company during the year ended 31 December 2020 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. Wang Xia Chen, Mr. Zhou Hao and Mr. Zhuang Xiaobin.

DIRECTORS' SERVICE CONTRACT

No Director proposed for re-election at the 2021 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 2020. 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 2020, 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' Report (Continued)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2020, 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 <i>(Note)</i>
Sun Jun	Personal	40,000	Long position	0.007%

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 2020.

Save as disclosed above, as at 31 December 2020, 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.

Directors' Report (Continued)

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2020, 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 2020.
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 2020, 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 28 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

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 28 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 2020, the amount of purchases attributable to the Group's largest supplier represented approximately 19% 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 47% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented approximately 25% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented approximately 64% 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 of 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.

Directors' Report (Continued)

AUDITOR

A resolution will be proposed at the 2021 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, 26 March 2021

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 2020, save and except for the following deviation:

Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat resigned/retired as Independent Non-Executive Directors and members of the Nomination Committee, Audit Committee and Remuneration Committee of the Company with effect from the conclusion of the annual general meeting of the Company held on 19 June 2020; whereas Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge (the “New INEDs”) were appointed Independent Non-Executive Directors and members of the Nomination Committee, Audit Committee and Remuneration Committee of the Company with effect from 14 August 2020.

Accordingly, during the period from 19 June 2020 to 13 August 2020, the Company was not in compliance with the following requirements of the Listing Rules:

- (1) Rules 3.10(1) and 3.10A of the Listing Rules with regard to the number and proportion of Independent Non-Executive Directors on the Board;
- (2) Rule 3.21 of the Listing Rules with regard to the membership and composition of the Audit Committee;
- (3) Rule 3.25 of the Listing Rules with regard to the membership and composition of the Remuneration Committee; and
- (4) Code provision A.5.1 of the Corporate Governance Code with regard to the membership and composition of the Nomination Committee.

Furthermore, as the Remuneration Committee has no member not until 14 August 2020, the remuneration of the above New INEDs was determined by the Board of Directors in the absence of any recommendations from the Remuneration Committee.

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. Upon specific enquiry by the Company, all Directors confirmed that they had complied with the required standard as set out in the Model Code during the year.

Corporate Governance Report (Continued)

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. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge.

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.

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

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 2020, four Board meetings were held and attendance of each Director at the Board meetings is set out in the section headed “BOARD AND COMMITTEE MEETINGS” of this report. In addition, the Chairman had held a meeting with the Independent Non-Executive Directors without the presence of other Directors as required under Code Provision A.2.7 of the Listing Rules.

Regular Board meetings in each year are scheduled well in advance to facilitate maximum attendance of Directors. At least fourteen days’ notice of a Board meeting is normally given to all Directors who are provided with an opportunity to include matters for discussion in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings to comply with all applicable rules and regulations. The agenda and the accompanying Board papers are normally sent to Directors at least three days before the intended date of a Board meeting. Draft minutes of each Board meeting are circulated to Directors for their comment before being tabled at the next Board meeting for approval. All minutes are kept by the Company Secretary and are open for inspection at reasonable time on reasonable notice by any Director.

According to the current Board practice, if a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by the Board at a duly convened Board Meeting rather than by a written resolution. The articles of association of the Company also stipulate that save for the exceptions as provided therein, a Director shall abstain from voting and not be counted in the quorum at meetings for approving any transaction, contract or arrangement in which such Director or any of his/her associates (as defined in the Listing Rules) has a material interest. Every Director is entitled to have access to the Board papers and related materials as well as to the advice and services of the Company Secretary.

Corporate Governance Report (Continued)

CHAIRMAN AND MANAGING DIRECTOR

The Chairman of the Board is Mr. Kuang Hu and the Managing Director is Mr. Sun Jun. The roles of the Chairman and the Managing Director of the Company 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.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Save and except for the deviations as set out under the section headed "CORPORATE GOVERNANCE PRACTICES" of this report, 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. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge, in accordance with Rule 3.13 of the Listing Rules.

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.

Corporate Governance Report (Continued)

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT (CONTINUED)

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 promote 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 for the Directors on 23 October 2020 with topic titled as "Hong Kong Compliance Framework, Challenges and Case Sharing for Listed Company and its Directors". Reading materials have also been provided to the Directors to develop and refresh their professional skill.

According to the records kept by the Company, the Directors attended the following trainings during the year ended 31 December 2020.

Name of Director	Seminars and Conferences	Reading materials
Executive Directors		
Kuang Hu	✓	✓
Sun Jun	✓	✓
Non-Executive Directors		
Ding Yatao	✓	✓
Qiao Jiankang	✓	✓
Independent Non-Executive Directors		
Yeung Man Lee (<i>appointed on 14 August 2020</i>)	✓	✓
Leung Luen Cheong (<i>appointed on 14 August 2020</i>)	✓	✓
Yang Ge (<i>appointed on 14 August 2020</i>)	✓	✓
Fung Lak (<i>resigned on 19 June 2020</i>)	N/A	N/A
Choi Kam Fai, Thomas (<i>retired on 19 June 2020</i>)	N/A	N/A
Chan Cheong Tat (<i>resigned on 19 June 2020</i>)	N/A	N/A

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.

Corporate Governance Report (Continued)

BOARD DIVERSITY POLICY (CONTINUED)

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

The Nomination Committee of the Board has set the measurable objectives based on five focused areas: gender, age, length of service, professional experience and skills and knowledge for the implementation of Board diversity of the Company. The Nomination Committee reviews the 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) compiled the Environmental, Social and Governance Reporting for the year of 2020; and
- (ii) reviewed the effectiveness of the internal controls and risk management systems of the Company through the Audit Committee.

Corporate Governance Report (Continued)

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.

As at the date of this report, the Remuneration Committee comprises three Independent Non-Executive Directors, being Mr. Leung Luen Cheong, Mr. Yeung Man Lee and Mr. Yang Ge. Mr. Leung Luen Cheong was appointed Chairman of the Remuneration Committee on 14 August 2020.

During the financial year ended 31 December 2020, the Remuneration Committee had held one meeting to approve the emoluments of an Executive Director 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 2020 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.

As at the date of this report, the Nomination Committee comprises one Executive Director, being Mr. Kuang Hu and three Independent Non-Executive Directors, being Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge. Mr. Kuang Hu is the Chairman of the Nomination Committee.

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.

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.

Corporate Governance Report (Continued)

NOMINATION COMMITTEE (CONTINUED)

During the financial year ended 31 December 2020, the Nomination Committee had held one meeting 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 appointment of the New INEDs. 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.

As at the date of this report, the Audit Committee comprises all three Independent Non-Executive Directors, being Mr. Yang Ge, Mr. Yeung Man Lee and Mr. Leung Luen Cheong. Mr. Yang Ge possesses the required experience and knowledge in the accounting profession and he was appointed Chairman of the Audit Committee on 14 August 2020.

During the financial year ended 31 December 2020, the Audit Committee held four meetings to review the 2019 annual results, the 2020 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 auditor including making recommendations to the Board regarding the appointment of the external auditor, 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 auditor 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.

Corporate Governance Report (Continued)

BOARD AND COMMITTEE MEETINGS

The individual attendance records of each Director at the meetings of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee as well as the general meeting during the year ended 31 December 2020 are set out below:

Name of Director	Board Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Audit Committee Meeting	Annual General Meeting
Executive Directors					
Kuang Hu	4/4	1/1	—	—	1/1
Sun Jun	4/4	—	—	—	0/1
Non-Executive Directors					
Ding Yatao	3/4	—	—	—	0/1
Qiao Jiankang	4/4	—	—	—	0/1
Independent Non-Executive Directors					
Yeung Man Lee <i>(appointed on 14 August 2020)</i>	2/2	—	—	2/2	—
Leung Luen Cheong <i>(appointed on 14 August 2020)</i>	2/2	—	—	2/2	—
Yang Ge <i>(appointed on 14 August 2020)</i>	2/2	—	—	2/2	—
Fung Lak <i>(resigned on 19 June 2020)</i>	2/2	1/1	1/1	2/2	1/1
Choi Kam Fai, Thomas <i>(retired on 19 June 2020)</i>	2/2	1/1	1/1	2/2	1/1
Chan Cheong Tat <i>(resigned on 19 June 2020)</i>	2/2	1/1	1/1	2/2	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

Corporate Governance Report (Continued)

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements of the Company for the year ended 31 December 2020, 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 2020, 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 2020, 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.

Corporate Governance Report (Continued)

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 auditor, 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.

Corporate Governance Report (Continued)

COMPANY SECRETARY

The Company Secretary of the Company is Ms. Chan Miu Ting who 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 with 21 days after the date on which they become subject to the requirement. The meeting being called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the Directors fail to call the meeting, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting. The meeting must be called for a date not more than 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.

Corporate Governance Report (Continued)

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 respect to environmental protection and legal compliance, please refer to the Management Discussion and Analysis on pages 6 to 9 in this annual report and the 2020 Environmental, Social and Governance 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, 26 March 2021

Independent Auditor's Report



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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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 43 to 120, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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
<p><i>Impairment assessment of property, plant and equipment, and right-of-use assets</i></p> <p>As at 31 December 2020, the carrying amount of the Group's property, plant and equipment, and right-of-use assets amounted to approximately HK\$55 million.</p> <p>In view of the operating loss of the Group for the year ended 31 December 2020, management performed an impairment assessment on these assets. An impairment loss of approximately HK\$3.3 million was recognised in the consolidated statement of profit or loss for the year ended 31 December 2020.</p> <p>For the leasehold land included in right-of-use assets and buildings, management performed an impairment assessment with reference to their fair values of these assets as determined in the valuation performed by an independent external valuer.</p> <p>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 (the "CGU") to which the plant and equipment, and right-of-use assets were allocated to at the end of the reporting period. The recoverable amount of the CGU was estimated by a value-in-use approach using a discounted cash flow calculation.</p> <p>The assessments require the use of significant judgement and estimations by management to determine the key assumptions including sales growth rate, selling prices, operating expenses, discount rate and estimated construction costs applied.</p> <p>Relevant disclosures are included in notes 3, 11 and 12 to the consolidated financial statements.</p>	<p>In evaluating management's impairment assessment, our procedures included (i) evaluating the independent external valuer's competence, capabilities and objectivity; (ii) involving our internal specialists to evaluate the discount rate and 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.</p>

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<i>Provision for inventories</i>	
<p>As at 31 December 2020, the Group's inventories, net of provision, amounted to approximately HK\$60.3 million.</p> <p>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.</p> <p>Relevant disclosures are included in notes 3 and 13 to the consolidated financial statements.</p>	<p>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.</p>

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.

Independent Auditor's Report (Continued)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

Independent Auditor's Report (Continued)

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

As part of an audit in accordance with HKSAAs, 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, actions taken to eliminate threats or safeguards applied.

Independent Auditor's Report (Continued)

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

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2021

Consolidated Statement of Profit or Loss

Year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
REVENUE	5	191,404	178,020
Cost of sales		(177,675)	(183,815)
Gross profit/(loss)		13,729	(5,795)
Other income and gains	5	6,180	4,530
Selling and distribution expenses		(1,510)	(1,586)
Administrative expenses		(20,033)	(24,628)
Impairment on items of plant and equipment	11	(3,183)	(860)
Other operating income/(expenses), net		6,837	(4,895)
Finance costs	6	(4,644)	(5,694)
LOSS BEFORE TAX	6	(2,624)	(38,928)
Income tax expense	7	(127)	(66)
LOSS FOR THE YEAR		(2,751)	(38,994)
LOSS PER SHARE	10		
— Basic		HK(0.51) cent	HK(7.25) cents
— Diluted		HK(0.51) cent	HK(7.25) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
LOSS FOR THE YEAR		(2,751)	(38,994)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Surplus/(deficits) on revaluation of buildings	<i>11</i>	440	(2,258)
Income tax effect	<i>22</i>	(110)	563
		330	(1,695)
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		10,677	(3,664)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		11,007	(5,359)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		8,256	(44,353)

Consolidated Statement of Financial Position

31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	11	42,871	42,484
Right-of-use assets	12	12,581	11,208
Total non-current assets		55,452	53,692
CURRENT ASSETS			
Inventories	13	60,260	78,930
Receivables, prepayments and deposits	14	72,277	56,384
Pledged bank balances	15	2,600	895
Cash and bank balances	15	60,939	48,832
Total current assets		196,076	185,041
CURRENT LIABILITIES			
Trade payables	16	43,754	33,621
Other payables and accruals	17	13,479	20,010
Tax payable		29	63
Interest-bearing bank borrowings	18	386	3,152
Due to a PRC joint venture partner	20	1,131	1,131
Provision	21	3,790	3,560
Total current liabilities		62,569	61,537
NET CURRENT ASSETS		133,507	123,504
TOTAL ASSETS LESS CURRENT LIABILITIES		188,959	177,196

Consolidated Statement of Financial Position (Continued)

31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	19	137,200	142,379
Other payables	17	20,428	15,797
Deferred tax liabilities	22	3,387	3,277
Total non-current liabilities		161,015	161,453
Net assets		27,944	15,743
EQUITY			
Share capital	23	75,032	75,032
Other reserves	24	(47,088)	(59,289)
Total equity		27,944	15,743

Kuang Hu
Director

Sun Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2020

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 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 and 1 January 2020	75,032	5,545*	167,746*	20,054*	4,642*	63,193*	8,496*	419*	(329,384)*	15,743
Loss for the year	—	—	—	—	—	—	—	—	(2,751)	(2,751)
Other comprehensive income for the year:										
Changes in fair value of buildings, net of tax	—	—	—	—	—	—	330	—	—	330
Exchange differences on translation of foreign operations	—	—	—	—	—	10,677	—	—	—	10,677
Total comprehensive income/(loss) for the year	—	—	—	—	—	10,677	330	—	(2,751)	8,256
Transfer to accumulated losses in accordance with the undertaking	24(ii)	—	—	—	—	—	—	(419)	419	—
Capital contribution from the immediate holding company	—	—	—	—	3,945	—	—	—	—	3,945
At 31 December 2020	75,032	5,545*	167,746*	20,054*	8,587*	73,870*	8,826*	—*	(331,716)*	27,944

* These reserve accounts comprise the consolidated other reserve deficits of HK\$47,088,000 (2019: HK\$59,289,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(2,624)	(38,928)
Adjustments for:			
Finance costs	6	4,644	5,694
Finance income	5	(136)	(72)
Depreciation of property, plant and equipment	6	3,416	1,985
Depreciation of right-of-use assets	6	323	949
Provision/(reversal of provision) for inventories	6	(31,244)	7,887
Impairment/(reversal of impairment) of trade receivables	6	(2,173)	2,207
Impairment on items of plant and equipment	11	3,183	860
Impairment of right-of-use assets	12	107	1,855
Reversal of impairment of other receivables	6	(25)	(37)
Gain on disposals of items of plant and equipment	5	(2,047)	—
Gain on derecognition of lease liabilities	6	(847)	—
Reversal of accruals and payables	6	(3,899)	—
		(31,322)	(17,600)
Decrease in inventories		53,740	45,354
Decrease/(increase) in receivables, prepayments and deposits		(9,410)	4,449
Increase/(decrease) in trade payables		7,572	(3,632)
Decrease in other payables and accruals		(2,754)	(6,316)
Increase/(decrease) in interest-bearing bank borrowings		(2,812)	3,211
Cash generated from operations		15,014	25,466
Interest received		136	72
Interest paid		(381)	(174)
PRC tax paid		(163)	(115)
Net cash flows from operating activities		14,606	25,249

Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(4,865)	(1,175)
Increase in right-of-use assets		(904)	—
Proceeds from disposals of items of plant and equipment		2,084	—
Increase in pledged bank balances		(1,560)	(912)
Net cash flows used in investing activities		(5,245)	(2,087)
CASH FLOWS FROM A FINANCING ACTIVITY			
Principal portion of lease payments and net cash flows used in a financing activity		(642)	(875)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		48,832	27,513
Effect of foreign exchange rate changes, net		3,388	(968)
CASH AND CASH EQUIVALENTS AT END OF YEAR		60,939	48,832
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	15	60,939	48,832

Notes to Financial Statements

31 December 2020

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 and leather trading
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 Tanner (Xuzhou) Limited) +	PRC/Mainland China	US\$9,000,000	100	Lease of plant and machinery

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

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.

Notes to Financial Statements (Continued)

31 December 2020

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, 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 2020. 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.

Notes to Financial Statements (Continued)

31 December 2020

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (Continued)

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.

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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)

The adoption of the above *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs has had no significant financial effects on these financial statements.

Notes to Financial Statements (Continued)

31 December 2020

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	<i>Reference to the Conceptual Framework</i> ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform-Phase 2</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{3, 6}
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{3, 5}
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ²
Amendments to HKAS 37	<i>Onerous Contracts-Cost of Fulfilling a Contract</i> ²
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ²

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ No mandatory effective date yet determined but available for adoption

⁵ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

⁶ As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Notes to Financial Statements (Continued)

31 December 2020

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and United States Dollars based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate (“LIBOR”) as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the “economically equivalent” criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Notes to Financial Statements (Continued)

31 December 2020

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

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018–2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

Except for the above, the Group is in the process of making an assessment of the impact of these 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.

Notes to Financial Statements (Continued)

31 December 2020

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.

Notes to Financial Statements (Continued)

31 December 2020

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

Notes to Financial Statements (Continued)

31 December 2020

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.

Notes to Financial Statements (Continued)

31 December 2020

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.

Notes to Financial Statements (Continued)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

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:

Leasehold land	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 lease. 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.

Notes to Financial Statements (Continued)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities (Continued)

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

(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.

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.

Notes to Financial Statements (Continued)

31 December 2020

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 include 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.

Notes to Financial Statements (Continued)

31 December 2020

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).

Notes to Financial Statements (Continued)

31 December 2020

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 |

Notes to Financial Statements (Continued)

31 December 2020

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.

Notes to Financial Statements (Continued)

31 December 2020

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.

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.

Notes to Financial Statements (Continued)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (Continued)

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.

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, and 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.

Notes to Financial Statements (Continued)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

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, for which it is intended to compensate, are expensed.

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

Revenue recognition

Revenue 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.

Notes to Financial Statements (Continued)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

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 with 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.

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.

Notes to Financial Statements (Continued)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 transfers 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).

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.

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.

Notes to Financial Statements (Continued)

31 December 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Notes to Financial Statements (Continued)

31 December 2020

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 2020 was HK\$60,260,000 (2019: HK\$78,930,000).

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.

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\$32,527,000 (2019: HK\$26,947,000).

Notes to Financial Statements (Continued)

31 December 2020

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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 2020 was HK\$42,871,000 (2019: HK\$42,484,000).

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 (the "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 values. As at 31 December 2020, the carrying amount of plant and equipment, and leased properties was nil (2019: 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 land and buildings, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for land and buildings of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar land and buildings 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 depreciated replacement cost method based on the estimated hard and soft costs of construction per square metre supported by current construction costs for similar buildings in the neighbourhood and estimated construction period.

The carrying amounts of land and buildings at 31 December 2020 were HK\$12,581,000 (2019: HK\$11,208,000) and HK\$42,871,000 (2019: HK\$42,484,000), respectively.

Notes to Financial Statements (Continued)

31 December 2020

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

Revenues from the following customers individually contributed over 10% of the consolidated revenue of the Group are as follows:

	2020 HK\$'000	2019 HK\$'000
Customer A	48,662	N/A*
Customer B	28,232	34,203
Customer C	20,961	22,856

* Sales to customer A amounted to less than 10% of the total revenue of the Group for the year ended 31 December 2019.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 HK\$'000	2019 HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of processed leather	191,404	178,020

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\$119,000 (2019: HK\$3,701,000).

Notes to Financial Statements (Continued)

31 December 2020

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (Continued)

(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

	2020 HK\$'000	2019 HK\$'000
Finance income	136	72
Sale of scrap materials	709	762
Government grants*	1,724	1,019
Gain on disposals of items of plant and equipment	2,047	—
Income from subcontracted leather processing	200	2,399
Net exchange gains	439	—
Others	925	278
	6,180	4,530

* During the year ended 31 December 2020, the Group received HK\$1,724,000 (2019: HK\$1,019,000) from the PRC local government as a support to the Group's PRC operations.

Notes to Financial Statements (Continued)

31 December 2020

6. LOSS BEFORE TAX

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

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold		208,919	175,928
Auditor's remuneration		1,500	1,500
Depreciation of property, plant and equipment	11	3,416	1,985
Depreciation of right-of-use assets	12	323	949
Interests on:			
Bank loans and discounting bills receivable to banks		381	174
Lease liabilities		60	74
Loans from the immediate holding company		3,655	5,078
Due to the immediate holding company		548	368
		4,644	5,694
Employee benefit expense (excluding directors' remuneration (<i>note 8</i>)):			
Wages and salaries		25,035	21,633
Pension scheme contributions (defined contribution schemes)*		1,852	2,834
		26,887	24,467
Provision/(reversal of provision) for inventories**		(31,244)	7,887
Lease payments not included in the measurement of lease liabilities		4	71
Impairment of financial assets, net			
Impairment/(reversal of impairment) of trade receivables#	14	(2,173)	2,207
Reversal of impairment of financial assets included in other receivables, prepayments and deposits, net#	14	(25)	(37)
		(2,198)	2,170
Impairment of right-of-use assets#	12	107	1,885
Reversal of payables and accruals#		(3,899)	—
Gain on derecognition of lease liabilities#		(847)	—

Notes to Financial Statements (Continued)

31 December 2020

6. LOSS BEFORE TAX (CONTINUED)

- * At 31 December 2020 and 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.
- ** This item is included in the "Cost of sales" on the face of the consolidated statement of profit or loss.
- # These items are included in the "Other operating income/(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 (2019: 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.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current — Mainland China		
Charge for the year	127	148
Overprovision in prior years	—	(82)
Total tax charge for the year	127	66

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:

2020

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
Profit/(loss) before tax	(9,083)	6,459	(2,624)
Tax at the statutory tax rate	(1,498)	1,615	117
Income not subject to tax	(3,345)	(13,197)	(16,542)
Expenses not deductible for tax	4,050	2,878	6,928
Tax losses not recognised	793	8,831	9,624
Tax charge at the Group's effective rate	—	127	127

Notes to Financial Statements (Continued)

31 December 2020

7. INCOME TAX (CONTINUED)

2019

	Hong Kong HK\$'000	Mainland China HK\$'000	Total 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 respect 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

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:

	2020 HK\$'000	2019 HK\$'000
Fees	381	450
Other emoluments:		
Salaries, allowances and benefits in kind	575	783
Pension scheme contributions	132	256
	707	1,039
	1,088	1,489

Notes to Financial Statements (Continued)

31 December 2020

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

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

	2020 HK\$'000	2019 HK\$'000
Mr. Fung Lak*	70	150
Mr. Choi Kam Fai, Thomas*	70	150
Mr. Chan Cheong Tat*	70	150
Mr. Yeung Man Lee [^]	57	—
Mr. Leung Luen Cheong [^]	57	—
Mr. Yang Ge [^]	57	—
	381	450

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

(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
2020				
<i>Executive directors:</i>				
Mr. Kuang Hu ⁺	—	—	—	—
Mr. Sun Jun	—	575	132	707
	—	575	132	707
<i>Non-executive directors:</i>				
Mr. Ding Yatao	—	—	—	—
Mr. Qiao Jiankang [@]	—	—	—	—
	—	—	—	—
	—	575	132	707

Notes to Financial Statements (Continued)

31 December 2020

8. DIRECTORS' REMUNERATION (CONTINUED)

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

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2020 and 2019.

* Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat resigned/retired as independent non-executive directors of the Company on 19 June 2020.

^ Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge were appointed as independent non-executive directors of the Company on 14 August 2020.

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.

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

Notes to Financial Statements (Continued)

31 December 2020

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2019: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2019: four) highest paid employees who are not directors of the Company are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and allowances	1,236	1,609
Pension scheme contributions	232	290
	1,468	1,899

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

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	4	4

Notes to Financial Statements (Continued)

31 December 2020

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 (2019: 538,019,000) in issue during the year.

The calculation of basic loss per share is based on:

	2020 HK\$'000	2019 HK\$'000
Loss		
Loss for the year, used in the basic loss per share calculation	2,751	38,994

	Number of shares	
	2020	2019
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 2020 and 2019 as there was no dilutive event during the years ended 31 December 2020 and 2019.

Notes to Financial Statements (Continued)

31 December 2020

11. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Electronic equipment HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2020								
At 31 December 2019 and 1 January 2020:								
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
At 1 January 2020, net of accumulated depreciation and impairment	42,484	—	—	—	—	—	—	42,484
Additions	—	1,086	896	110	12	—	2,761	4,865
Surplus on revaluation (<i>note (a)</i>)	440	—	—	—	—	—	—	440
Impairment (<i>note (b)</i>)	—	(488)	(615)	(217)	(11)	(285)	(1,567)	(3,183)
Depreciation provided during the year	(1,771)	(673)	(948)	(10)	(1)	(13)	—	(3,416)
Transfer	—	75	703	117	—	299	(1,194)	—
Disposals	—	—	(36)	—	—	(1)	—	(37)
Exchange realignment	1,718	—	—	—	—	—	—	1,718
At 31 December 2020, net of accumulated depreciation and impairment	42,871	—	—	—	—	—	—	42,871
At 31 December 2020:								
Cost or valuation	42,871	26,120	110,082	3,506	444	6,037	1,966	191,026
Accumulated depreciation and impairment	—	(26,120)	(110,082)	(3,506)	(444)	(6,037)	(1,966)	(148,155)
Net carrying amount	42,871	—	—	—	—	—	—	42,871
Analysis of cost or valuation:								
At cost	—	26,120	110,082	3,506	444	6,037	1,966	148,155
At 31 December 2020 valuation	42,871	—	—	—	—	—	—	42,871
	42,871	26,120	110,082	3,506	444	6,037	1,966	191,026

Notes to Financial Statements (Continued)

31 December 2020

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Electronic equipment HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 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

Notes to Financial Statements (Continued)

31 December 2020

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

- (a) The Group's buildings were revalued individually at 31 December 2020 based on the valuations performed by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at an aggregate open market value of HK\$42,871,000 (2019: HK\$42,484,000) based on their existing use, with a revaluation surplus of HK\$440,000 (2019: deficit of HK\$2,258,000) credited to other comprehensive income.

Had these buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2020 would have been approximately HK\$29,939,000 (2019: HK\$29,902,000).

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 2020 using		
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Significant unobservable inputs (Level 3) <i>HK\$'000</i>
Recurring fair value measurement for properties held for own use	—	—	42,871

	Fair value measurement as at 31 December 2019 using		
	Quoted prices in active markets (Level 1) <i>HK\$'000</i>	Significant observable inputs (Level 2) <i>HK\$'000</i>	Significant unobservable inputs (Level 3) <i>HK\$'000</i>
Recurring fair value measurement for properties held for own use	—	—	42,484

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 (2019: Nil).

Notes to Financial Statements (Continued)

31 December 2020

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 <i>HK\$'000</i>
Carrying amount at 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 and 1 January 2020	42,484
Depreciation charge for the year	(1,771)
Gain from fair value measurement recognised in other comprehensive income	440
Exchange realignment	1,718
Carrying amount at 31 December 2020	42,871

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

	Valuation techniques	Significant unobservable inputs	2020 Range	2019 Range
Properties held for own use	Market approach	Market price of land 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	RMB500 to RMB1,300 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

Notes to Financial Statements (Continued)

31 December 2020

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 2020 and 2019. As a result, the Group's operating results for the years ended 31 December 2020 and 2019 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 2020 and 31 December 2019 to which the plant and equipment, and leased properties were allocated with reference to their value in use (the "VIU") as at 31 December 2020 and 31 December 2019. Based on the VIU, impairment losses of HK\$3,183,000 (2019: HK\$860,000) and HK\$107,000 (2019: HK\$1,855,000) on plant and equipment, and leased properties were recognised in the consolidated statement of profit or loss for the year ended 31 December 2020, respectively.

According to the VIU, the recoverable amount of nil (2019: Nil) as at 31 December 2020 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 15% for 2020 (2019: 16%).

(c) At 31 December 2020, certain of the Group's buildings with a net carrying amount of approximately HK\$37,392,000 (2019: HK\$36,801,000) were pledged to secure general banking facilities granted to the Group (note 29).

Notes to Financial Statements (Continued)

31 December 2020

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.

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

(a) Right-of-use assets

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

	Leasehold land 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 and 1 January 2020	11,208	—	11,208
Addition	904	143	1,047
Depreciation charge	(287)	(36)	(323)
Impairment (note 11(b))	—	(107)	(107)
Exchange realignment	756	—	756
As at 31 December 2020	12,581	—	12,581

At 31 December 2020, the Group's leasehold land with a net carrying amount of approximately HK\$11,629,000 (2019: HK\$11,208,000) were pledged to secure general banking facilities granted to the Group (note 29).

Notes to Financial Statements (Continued)

31 December 2020

12. LEASES (CONTINUED)

The Group as a lessee (Continued)

(b) Lease liabilities

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Carrying amount at 1 January	1,702	1,509
Addition	143	—
Modification of a lease	—	1,011
Accretion of interest recognised during the year	60	74
Payments	(642)	(875)
Derecognition	(847)	—
Exchange realignment	25	(17)
Carrying amount at 31 December	441	1,702
Analysed into:		
Current portion	430	885
Non-current portion	11	817

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on lease liabilities	60	74
Depreciation charge of right-of-use assets	323	949
Expense relating to short-term leases	4	71
Gain on derecognition of lease liabilities	(847)	—
Impairment of right-of-use assets	107	1,855
Total amount recognised in profit or loss	(353)	2,949

(d) The future cash outflows relating to leases that have not yet commenced and total cash outflows for leases are disclosed in notes 26(b) and 27(c) to the financial statements, respectively.

Notes to Financial Statements (Continued)

31 December 2020

13. INVENTORIES

	2020 HK\$'000	2019 HK\$'000
Raw materials	14,424	21,337
Work in progress	32,327	36,449
Finished goods	13,509	21,144
	60,260	78,930

In view of the changes in selling prices and products demand during the year, management reassessed the net realisable value of inventories and a reversal of provision of HK\$31,244,000 (2019: provision of HK\$7,887,000) was made for the year ended 31 December 2020.

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Notes	2020 HK\$'000	2019 HK\$'000
Trade receivables	(i)	32,527	26,947
Bills receivable	(i)	38,440	24,963
Prepayments, deposits and other receivables	(ii)	1,310	4,474
		72,277	56,384

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.

Notes to Financial Statements (Continued)

31 December 2020

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:

	2020 HK\$'000	2019 HK\$'000
Current	70,458	50,902
Less than 3 months past due	1,074	1,109
3 to 6 months past due	—	1,726
More than 6 months past due	—	2,389
Impairment	71,532 (565)	56,126 (4,216)
	70,967	51,910

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

	2020 HK\$'000	2019 HK\$'000
At 1 January	4,216	2,095
Impairment loss/(reversal of impairment loss), net (note 6)	(2,173)	2,207
Write off	(1,542)	—
Exchange realignment	64	(86)
At 31 December	565	4,216

The decrease in the loss allowance of HK\$3,651,000 for the year ended 31 December 2020 is the result of a decrease in trade receivables which were past due for over 3 months (2019: increase in the loss allowance of HK\$2,121,000 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.

Notes to Financial Statements (Continued)

31 December 2020

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 2020

	Current	Past due		Total
		Less than 6 months	Over 6 months	
Expected credit loss rate	0%	52.6%	0%	1.71%
Gross carrying amount (HK\$'000)	32,018	1,074	—	33,092
Expected credit losses (HK\$'000)	—	565	—	565

As at 31 December 2019

	Current	Past due		Total
		Less than 6 months	Over 6 months	
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

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 2020 and 31 December 2019 was made.

Notes to Financial Statements (Continued)

31 December 2020

14. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

Notes: (Continued)

- (ii) As at 31 December 2020, a provision of HK\$346,000 (2019: HK\$350,000) was made for other receivables with a gross carrying amount of HK\$346,000 (2019: HK\$350,000).

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

	2020 HK\$'000	2019 HK\$'000
At 1 January	350	394
Reversal of impairment (note 6)	(25)	(37)
Exchange realignment	21	(7)
At 31 December	346	350

The ECLs as at 31 December 2020 are estimated by applying a loss rate approach with reference to the historical loss record of the Group as at 31 December 2020. 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 2020 was 61.9% (2019: 65.8%).

The carrying amounts of other receivables approximate their fair values.

15. CASH AND BANK BALANCES, AND PLEDGED BANK BALANCES

	2020 HK\$'000	2019 HK\$'000
Cash and bank balances	63,539	49,727
Less: Pledged bank balances*	(2,600)	(895)
Cash and bank balances	60,939	48,832

- * As at 31 December 2020, there were bank balances of HK\$2,600,000 (2019: HK\$895,000) pledged to banks for banking facilities granted to the Group (note 29).

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$60,632,000 (2019: HK\$47,472,000). 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.

Notes to Financial Statements (Continued)

31 December 2020

15. CASH AND BANK BALANCES, AND PLEDGED BANK BALANCES (CONTINUED)

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:

	2020 HK\$'000	2019 HK\$'000
Within 3 months	29,356	25,781
3 to 6 months	11,444	5,021
Over 6 months	2,954	2,819
	43,754	33,621

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.

Notes to Financial Statements (Continued)

31 December 2020

17. OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current			
Other payables and accruals	<i>(a)</i>	12,586	18,595
Contract liabilities	<i>(b)</i>	463	530
Lease liabilities	<i>12(b)</i>	430	885
		13,479	20,010
Non-current			
Other payables	<i>(a)</i>	20,417	14,980
Lease liabilities	<i>12(b)</i>	11	817
		20,428	15,797
Total		33,907	35,807

Notes:

- (a) Included in other payables is accrued interest of HK\$20,417,000 (2019: HK\$14,980,000) due to the immediate holding company as at 31 December 2020 which is interest-free, unsecured, not repayable before 31 July 2023 (2019: repayable in two years from 28 February 2019) and arose from loans from the immediate holding company.

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

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\$463,000 as at 31 December 2020 (31 December 2019: HK\$530,000; 1 January 2019: HK\$4,120,000) include short-term advances received from customers for the sale of processed leather. The decrease in contract liabilities in 2020 (2019: decrease) was mainly due to the decrease (2019: decrease) 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 2020 and 2019 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.

Notes to Financial Statements (Continued)

31 December 2020

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Trust receipt loans, secured	1.50–4.20	2021	386	3.84–4.20	2020	3,152
Non-current						
Loans from the immediate holding company (note 19)	1.34–1.96	2023	137,200	3.27–3.42	2021	142,379
			137,586			145,531

	2020 HK\$'000	2019 HK\$'000
Analysed into:		
Trust receipt loans, repayable within one year	386	3,152
Other borrowings repayable		
Within one year	—	—
In the second year	—	142,379
In the third to fifth years, inclusive	137,200	—
	137,200	142,379
	137,586	145,531

The Group's trust receipt loan facilities amounting to HK\$35,646,000 (2019: HK\$85,170,000) of which HK\$386,000 was utilised as at 31 December 2020 (2019: HK\$3,152,000).

The loan facility is secured by (i) the pledge of certain of the Group's buildings and leasehold land with an aggregate carrying amount of HK\$49,021,000 as at 31 December 2020 (2019: HK\$48,009,000) and (ii) the pledge of certain of the Group's bank balances amounting to HK\$2,600,000 (2019: HK\$895,000).

As at 31 December 2020, an unsecured loan facility of HK\$35,646,000 (2019: Nil) from a fellow subsidiary was not utilised.

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

Notes to Financial Statements (Continued)

31 December 2020

19. LOANS FROM THE IMMEDIATE HOLDING COMPANY

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

	Notes	2020 HK\$'000	2019 HK\$'000
Loan A	(i)	21,980	22,779
Loan B	(ii)	62,535	65,000
Loan C	(iii)	52,685	54,600
		137,200	142,379

Notes:

- (i) The balance represents an unsecured loan from GDH of US\$2,920,000 (2019: US\$2,920,000), which bears interest at 3-month LIBOR + 1.17% (2019: 3-month LIBOR + 1.17%) and is repayable on 31 July 2023 (2019: repayable on 31 July 2021).
- (ii) The balance represents an unsecured loan from GDH of HK\$65,000,000 (2019: HK\$65,000,000), which bears interest at 3-month HIBOR + 1.17% (2019: 3-month HIBOR + 1.17%) and is repayable on 31 July 2023 (2019: repayable on 9 August 2021).
- (iii) The balance represents an unsecured loan from GDH of US\$7,000,000 (2019: US\$7,000,000), which bears interest at 3-month LIBOR + 1.17% (2019: 3-month LIBOR + 1.17%) and is repayable on 31 July 2023 (2019: 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.

Notes to Financial Statements (Continued)

31 December 2020

21. PROVISION

	Early termination of a joint venture agreement HK\$'000
At 1 January 2020	3,560
Exchange realignment	230
At 31 December 2020	3,790

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.

Notes to Financial Statements (Continued)

31 December 2020

22. DEFERRED TAX LIABILITIES

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

	Revaluation of properties <i>HK\$'000</i>
At 1 January 2019	3,840
Deferred tax credited to property revaluation reserve	(563)
At 31 December 2019 and 1 January 2020	3,277
Deferred tax debited to property revaluation reserve	110
At 31 December 2020	3,387

The Group has tax losses arising in Hong Kong of HK\$97,744,000 (2019: HK\$92,937,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2020, the Group had tax losses arising in Mainland China of HK\$192,753,000 (2019: HK\$179,862,000) 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 2020, the Group has deductible temporary differences of HK\$33,218,000 (2019: HK\$33,247,000). 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 2020 (2019: Nil). At 31 December 2020, 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.

Notes to Financial Statements (Continued)

31 December 2020

23. SHARE CAPITAL

Shares

	2020 HK\$'000	2019 HK\$'000
Issued and fully paid: 538,019,000 (2019: 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.

Notes to Financial Statements (Continued)

31 December 2020

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

Notes to Financial Statements (Continued)

31 December 2020

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 2020, additional provision for impairment of HK\$419,000 was made for the Assets. This resulted in a transfer of HK\$419,000 from Special Capital Reserve to the accumulated losses.

During the year ended 31 December 2019, a reversal of provision for impairment of HK\$349,000 was made for the Assets. This resulted in a transfer of HK\$349,000 from the accumulated losses to the Special Capital Reserve.

The Limit as at 31 December 2020 was HK\$150,273,970 (2019: HK\$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 31 December 2020 was nil (2019: HK\$419,000).

- (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. CONTINGENT LIABILITIES

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

26. COMMITMENTS

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

	2020 HK\$'000	2019 HK\$'000
Contracted, but not provided for:		
Buildings	21	19
Leasehold improvements	502	523
Plant and machinery	578	570
	1,101	1,112

Notes to Financial Statements (Continued)

31 December 2020

26. COMMITMENTS (CONTINUED)

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

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

- (i) During the year ended 31 December 2020, the Group entered into agreements with GDH pursuant to which GDH agreed to waive interest charged on the loans to the Group for the year ended 31 December 2020 and extended the repayment date of principal and interest expenses of the loans to 31 July 2023. It resulted in an increase of other payables and accruals, and a decrease in loans from the immediate holding company of HK\$2,972,000 (2019: Nil) and HK\$6,917,000 (2019: Nil), respectively. This had no cash flow impact to the financial statements.
- (ii) During the year ended 31 December 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$143,000 (2019: Nil) and HK\$143,000 (2019: Nil), respectively, in respect of lease arrangements for office properties.

(b) Changes in liabilities arising from financing activities

	Lease liabilities <i>HK\$'000</i>	Loans from the immediate holding company <i>HK\$'000</i>
At 1 January 2019	1,509	142,379
Changes from financing cash flows	(875)	—
Modification of a lease	1,011	—
Interest expense	74	—
Foreign exchange movement	(17)	—
At 31 December 2019 and 1 January 2020	1,702	142,379
Changes from financing cash flows	(642)	—
New lease	143	—
Interest expense	60	1,738
Modification of loans	—	(6,917)
Derecognition of a lease	(847)	—
Foreign exchange movement	25	—
At 31 December 2020	441	137,200

Notes to Financial Statements (Continued)

31 December 2020

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

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

	2020 HK\$'000	2019 HK\$'000
With operating activities	4	71
With financing activities	642	875
	646	946

28. 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	2020 HK\$'000	2019 HK\$'000
Office rental paid to a fellow subsidiary	(i)	228	534
Computer system maintenance service fees paid to a fellow subsidiary	(ii)	122	267
Interest expense to the immediate holding company	(iii)	4,203	5,446
Company secretarial expense to a fellow subsidiary	(iv)	96	244

Notes:

- (i) The office rental was charged by a fellow subsidiary at HK\$44,500 per month from 1 January 2020 to 5 February 2020 and HK\$46,000 per month from 6 February 2020 to 31 May 2020 (2019: 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 2020, the Group had a rental deposit of nil (2019: HK\$156,204) with the fellow subsidiary.
- (ii) The fellow subsidiary charged maintenance service fees 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 loans, including the terms, are disclosed in note 19 to the financial statements.
- (iv) The Company secretarial expense to a fellow subsidiary was based on the terms mutually agreed by both parties.

Notes to Financial Statements (Continued)

31 December 2020

28. 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.

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.

On 29 May 2020, the Group terminated the office rental agreement with Global Head Developments Limited effective from 31 May 2020.

- (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 28(a), 28(b) and 28(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.

29. 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.

Notes to Financial Statements (Continued)

31 December 2020

30. 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:

2020

Financial assets

	Financial assets at fair value through other comprehensive income <i>HK'000</i>	Financial assets at amortised cost <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade receivables	—	32,527	32,527
Bills receivable	38,440	—	38,440
Financial assets included in prepayments, other receivables and deposits	—	213	213
Pledged bank balances	—	2,600	2,600
Cash and bank balances	—	60,939	60,939
	38,440	96,279	134,719

Financial liabilities

	Financial liabilities at amortised cost <i>HK\$'000</i>
Trade payables	43,754
Financial liabilities included in other payables and accruals	33,444
Due to a PRC joint venture partner	1,131
Interest-bearing bank borrowings	386
Loans from the immediate holding company	137,200
	215,915

Notes to Financial Statements (Continued)

31 December 2020

30. 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)

2019

Financial assets

	Financial assets at fair value through other comprehensive income <i>HK'000</i>	Financial assets at amortised cost <i>HK\$'000</i>	Total <i>HK\$'000</i>
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 <i>HK\$'000</i>
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

Notes to Financial Statements (Continued)

31 December 2020

31. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2020, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB3,972,000 (equivalent to HK\$4,720,000) (2019: RMB4,701,000 (equivalent to HK\$5,248,000)) 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 RMB3,972,000 (equivalent to HK\$4,720,000) (2019: RMB4,701,000 (equivalent to HK\$5,248,000)) as at 31 December 2020.

Transferred financial assets that are derecognised in their entirety

At 31 December 2020, 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 RMB23,909,000 (equivalent to HK\$28,409,000) (2019: RMB22,418,000 (equivalent to HK\$25,026,000)). 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 2020, 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 2020 and 2019.

Notes to Financial Statements (Continued)

31 December 2020

32. 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 2020 and 2019 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 amount 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:

Notes to Financial Statements (Continued)

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32. 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 2020

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Bills receivable	—	38,440	—	38,440

As at 31 December 2019

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

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 (2019: Nil).

Notes to Financial Statements (Continued)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing secured bank borrowings, interest-bearing unsecured other borrowings from the immediate holding company, 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).

Notes to Financial Statements (Continued)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	Decrease/ (increase) in loss before tax <i>HK\$'000</i>
2020		
Hong Kong dollar	100	(650)
United States dollar ("US\$")	100	(774)
Hong Kong dollar	(10)	65
US\$	(10)	77
2019		
Hong Kong dollar	100	(650)
US\$	100	(774)
Hong Kong dollar	(10)	65
US\$	(10)	77

Notes to Financial Statements (Continued)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currencies. Approximately 57% (2019: 45%) 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
2020		
If RMB weakens against US\$	(3)	(2,253)
If RMB strengthens against US\$	3	2,253
2019		
If RMB weakens against US\$	(3)	(1,632)
If RMB strengthens against US\$	3	1,632

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.

Notes to Financial Statements (Continued)

31 December 2020

33. 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 2020

	12-month	Lifetime ECLs			Total
	ECLs	ECLs			
	Stage 1	Stage 2	Stage 3	Simplified	
	HK\$'000	HK\$'000	HK\$'000	approach	HK\$'000
				HK\$'000	
Trade receivables*	—	—	—	33,092	33,092
Bills receivable	38,440	—	—	—	38,440
Financial assets included in prepayments, other receivables and deposits					
— Normal**	213	—	—	—	213
— Doubtful**	—	346	—	—	346
Pledged bank balances					
— Not yet past due	2,600	—	—	—	2,600
Cash and bank balances					
— Not yet past due	60,939	—	—	—	60,939
	102,192	346	—	33,092	135,630

Notes to Financial Statements (Continued)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging (Continued)

As at 31 December 2019

	12-month ECLs		Lifetime ECLs		Total HK\$'000
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified approach 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

* 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.

At the end of the reporting period, the Group had certain concentrations of credit risk as 37% (2019: 12%) of the Group's trade receivables were due from a customer.

Notes to Financial Statements (Continued)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of 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 periods, based on the contractual undiscounted payments, is as follows:

2020

	On demand <i>HK\$'000</i>	Less than 3 months <i>HK\$'000</i>	3 to less than 12 months <i>HK\$'000</i>	1 to 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
Trade payables	14,398	29,356	—	—	43,754
Lease liabilities	—	72	361	30	463
Other payables and accruals (excluding lease liabilities)	12,586	—	—	20,905	33,491
Due to a PRC joint venture partner	1,131	—	—	—	1,131
Interest-bearing bank borrowings	—	386	—	—	386
Loans from the immediate holding company	—	—	—	150,365	150,365
	28,115	29,814	361	171,300	229,590

Notes to Financial Statements (Continued)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

2019

	On demand <i>HK\$'000</i>	Less than 3 months <i>HK\$'000</i>	3 to less than 12 months <i>HK\$'000</i>	1 to 5 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
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

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 2020 and 2019.

Notes to Financial Statements (Continued)

31 December 2020

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (Continued)

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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loans from the immediate holding company	137,200	142,379
Interest-bearing bank borrowings	386	3,152
Total debt	137,586	145,531
Equity attributable to equity holders of the Company	27,944	15,743
Total debt and equity	165,530	161,274
Gearing ratio	83%	90%

Notes to Financial Statements (Continued)

31 December 2020

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS		
Property, plant and equipment	—	—
Right-of-use assets	—	—
Interests in subsidiaries	158,682	145,726
Total non-current assets	158,682	145,726
CURRENT ASSETS		
Prepayments, other receivables and deposits	73	220
Cash and bank balances	2,689	2,026
Total current assets	2,762	2,246
CURRENT LIABILITIES		
Amount due to a subsidiary	33,167	31,160
Other payables and accruals	1,676	2,108
Total current liabilities	34,843	33,268
NET CURRENT LIABILITIES	(32,081)	(31,022)
TOTAL ASSETS LESS CURRENT LIABILITIES	126,601	114,704
NON-CURRENT LIABILITIES		
Loans from the immediate holding company	84,515	87,779
Other payables	15,797	12,820
Total non-current liabilities	100,312	100,599
Net assets	26,289	14,105
EQUITY		
Share capital	75,032	75,032
Other reserves (<i>note</i>)	(48,743)	(60,927)
Total equity	26,289	14,105

Kuang Hu
Director

Sun Jun
Director

Notes to Financial Statements (Continued)

31 December 2020

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

Note:

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

	Equity component of convertible notes <i>HK\$'000</i>	General reserve fund <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Special capital reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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 and 1 January 2020	5,545	167,746	835	419	(235,472)	(60,927)
Total comprehensive income for the year	—	—	—	—	9,507	9,507
Transfer to accumulated losses in accordance with the undertaking	—	—	—	(419)	419	—
Capital contribution from the immediate holding company	—	—	2,677	—	—	2,677
At 31 December 2020	5,545	167,746	3,512	—	(225,546)	(48,743)

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2021.



粤海制革

GUANGDONG TANNERY LIMITED
粤海制革有限公司