GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2017 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	For the year ended 31 December		
	2017	2016	Change
Sales volume of cowhides (in thousand square feet)	**16,684**	23,122	-27.8%
Revenue (in thousand HK$)	**322,146**	456,722	-29.5%
Loss for the year (in thousand HK$)	**(99,623)**	(39,994)	-149.1%
Basic loss per share (in HK cent)	**(18.52)**	(7.43)	-149.3%
Key Indicators (As at 31 December)	**2017**	2016	Change
Current Ratio	**2.75 times**	2.43 times	+13.2%
Quick Ratio	**0.99 times**	1.05 times	-5.7%
Debt to asset ratio	**64.1%**	59.4%	+7.9%
Total assets (in thousand HK$)	**420,915**	555,623	-24.2%
Net asset value per share (HK$)	**0.28**	0.42	-33.3%

FINANCIAL RESULTS

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017 together with comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2017** *HK$'000*	2016 *HK$'000*
REVENUE	*4*	**322,146**	456,722
Cost of sales		**(369,583)**	(456,114)
Gross profit/ (loss)		**(47,437)**	608
Other income and gains	*4*	**5,894**	2,709
Selling and distribution expenses		**(2,131)**	(2,256)
Administrative expenses		**(28,015)**	(30,534)
Impairment on items of property, plant and equipment		**(21,794)**	(5,262)
Other operating income, net		**1,409**	-
Finance costs	*5*	**(6,808)**	(5,238)
LOSS BEFORE TAX	*5*	**(98,882)**	(39,973)
Income tax expense	*6*	**(741)**	(21)
LOSS FOR THE YEAR		**(99,623)**	(39,994)
LOSS PER SHARE	*7*		
- Basic		**HK(18.52) cents**	HK(7.43) cents
- Diluted		**HK(18.52) cents**	HK(7.43) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2017** *HK$'000*	2016 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**65,887**	87,308
Prepaid land lease payments		**12,313**	11,789
Total non-current assets		**78,200**	99,097
CURRENT ASSETS			
Inventories		**218,900**	258,591
Receivables, prepayments and deposits	*9*	**93,641**	138,030
Tax recoverable		**-**	4
Pledged bank balances		**1,066**	11,610
Cash and bank balances		**29,108**	48,291
Total current assets		**342,715**	456,526
CURRENT LIABILITIES			
Trade payables	*10*	**49,551**	61,275
Other payables and accruals	*10*	**28,902**	36,149
Tax payable		**33**	-
Loan from a fellow subsidiary		**41,177**	-
Interest-bearing bank borrowings		**-**	85,966
Due to a PRC joint venture partner		**1,131**	1,131
Provision		**3,816**	3,565
Total current liabilities		**124,610**	188,086
NET CURRENT ASSETS		**218,105**	268,440
TOTAL ASSETS LESS CURRENT LIABILITIES		**296,305**	367,537
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**141,138**	139,925
Deferred tax liabilities		**3,895**	2,220
Total non-current liabilities		**145,033**	142,145
Net assets		**151,272**	225,392
EQUITY			
Share capital		**75,032**	75,032
Other reserves		**76,240**	150,360
Total equity		**151,272**	225,392

Notes:

(1) BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for buildings classified as property, plant and equipment which have been measured at fair value. 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.

The financial information relating to the years ended 31 December 2017 and 31 December 2016 included in this preliminary announcement of annual results for the year ended 31 December 2017 does not constitute the Company's statutory annual consolidated financial statements for those years, but in respect of the year ended 31 December 2016, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course.

Auditors' reports have been prepared on the financial statements of the Group for both years. The auditors' reports were unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

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

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

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

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

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

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

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
Amendments to HKAS 28	*Long-term interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

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

(3) 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 the People’s Republic of China (the "PRC" or "Mainland China") during the year.

Information about a major customer

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

(4) REVENUE, OTHER INCOME AND GAINS

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

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

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

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

(5) LOSS BEFORE TAX

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

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

* At 31 December 2017 and 2016, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years.

** This item is included in the "Cost of sales" on the face of the consolidated statement of profit or loss.

\# These items are included in the "Other operating income, net" on the face of the consolidated statement of profit or loss.

(6) INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2016: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

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

(7) LOSS PER SHARE

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

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

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

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

(8) DIVIDEND

The Board does not recommend the payment of a final dividend (2016: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2017, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$90,536,000 (2016: HK$130,143,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, where the terms are extended to 150 days. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. The carrying amounts of trade receivables approximate their fair values.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the settlement due date, is as follows:

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

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

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

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

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

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

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

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

As at 31 December 2017, a provision of HK$385,000 (2016: HK$288,000) was recognised for other receivables with a gross carrying amount of HK$385,000 (2016: HK$288,000).

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

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

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

The carrying amount of other receivables approximate their carrying values.

(10) TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

An ageing analysis of the trade payables as at the end of the reporting period, based on the date of receipt of goods is as follows:

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

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 90 days. Other payables of the Group are non-interest-bearing and have an average term of three months. The carrying amounts of trade and other payables approximate their fair values.

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

CHAIRMAN'S STATEMENT

RESULTS

I would like to present to the shareholders that the consolidated loss attributable to shareholders of the Group for 2017 was HK$99,623,000 (2016: HK$39,994,000), representing an increase in loss of 149.1 %. Basic loss per share was HK18.52cents (2016: HK7.43 cents).

DIVIDEND

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

REVIEW

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

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

PROSPECTS

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

Sun Jun
Chairman

Hong Kong, 23 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Results

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

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

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

Business Review

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

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

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

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

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

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

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

Financial Review

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

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

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

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

Capital Expenditure

As at 31 December 2017, the carrying net value of non-current assets including prepaid land lease payments and property, plant and equipment amounted to HK$78,200,000, representing a decrease of HK$20,897,000 over the net value as at 31 December 2016 of HK$99,097,000. The capital expenditure for the year amounted to HK$4,661,000 (2016: HK$5,116,000), which mainly represented the payments for acquisition of machinery and equipment to meet the production requirements of the Group.

Pledge of Assets

As at 31 December 2017, certain of the Group's bank balances with a total of HK$1,066,000 (31 December 2016: HK$11,610,000) were pledged to banks to secure general banking facilities granted to the Group.

Foreign Exchange Exposure

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, United States dollars, European dollars or Renminbi. The Group is exposed to foreign currency risk primarily from import purchases from overseas suppliers that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States dollars against Renminbi. The Group did not hedge its exposure to risks arising from fluctuations in exchange rates during the year. Should the Group consider that its exposure to foreign currency risk justifies hedging, the Group may use forward or hedging contracts to reduce the risks.

Remuneration Policy for Employees

As at 31 December 2017, a total of 461 employees (31 December 2016: 570) were employed by the Group. The Group's remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees focusing on "accountability and performance". The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group's operating net cash flow and profit after tax, calculated by various profit rankings and by applying a measure that links bonuses with the operating results of the Group and further taking into account of the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurances and pension schemes to all employees in different areas.

CORPORATE GOVERNANCE CODE

The Group recognizes the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses 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 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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

Mr. Sun Jun serves as both the Chairman and the Managing Director of the Company with effect from 26 February 2016. The Board believes that vesting the roles of both Chairman and Managing Director in the same person provides the Group with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions. It also considers that the current structure of vesting the roles of Chairman and Managing Director in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board will review the current structure from time to time to ensure appropriate and timely action to meet changing circumstances.

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company.

PURCHASE, SALE AND 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 during the year.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed and no transfer of shares will be effected during the period from Monday, 4 June 2018 to Friday, 8 June 2018, both days inclusive, for determining the shareholders' eligibility to attend and vote at the annual general meeting of the Company to be held on Friday, 8 June 2018.

In order to qualify for attending and vote at the forthcoming annual general meeting of the Company to be held on Friday, 8 June 2018, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 1 June 2018.

By order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 23 March 2018

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