GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

2016 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	For the year ended 31 December		
	2016	2015	Change
Sales volume of cowhides (in thousand square feet)	**23,122**	27,278	-15.2%
Revenue (in thousand HK$)	**456,722**	652,729	-30.0%
Loss for the year (in thousand HK$)	**(39,994)**	(38,349)	-4.3%
Basic loss per share (in HK cent)	**(7.43)**	(7.13)	-4.2%
Key Indicators (As at 31 December)	**2016**	2015	Change
Current Ratio	**2.43 times**	2.79 times	-12.9%
Quick Ratio	**1.05 times**	1.02 times	+2.9%
Debt to asset ratio	**59.4%**	52.1%	+14.0%
Total assets (in thousand HK$)	**555,623**	607,018	-8.5%
Net asset value per share (HK$)	**0.42**	0.54	-22.2%

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 2016 together with comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2016** *HK$'000*	2015 *HK$'000*
REVENUE	*4*	**456,722**	652,729
Cost of sales		**(456,114)**	(644,356)
Gross profit		**608**	8,373
Other income and gains	*4*	**2,709**	7,139
Selling and distribution expenses		**(2,256)**	(3,536)
Administrative expenses		**(30,534)**	(37,329)
Impairment on items of property, plant and equipment		**(5,262)**	(3,004)
Finance costs	*5*	**(5,238)**	(10,533)
LOSS BEFORE TAX	*5*	**(39,973)**	(38,890)
Income tax credit/(expense)	*6*	**(21)**	541
LOSS FOR THE YEAR		**(39,994)**	(38,349)
LOSS PER SHARE	*7*		
- Basic		**HK(7.43) cents**	HK(7.13) cents
- Diluted		**HK(7.43) cents**	HK(7.13) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016	2015
	HK$'000	*HK$'000*
LOSS FOR THE YEAR	**(39,994)**	(38,349)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) not to be reclassified to the statement of profit or loss in subsequent periods:		
Surplus on revaluation of buildings	**913**	1,265
Income tax effect	**(228)**	(316)
	685	949
Other comprehensive loss to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(25,914)**	(27,569)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(25,229)**	(26,620)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(65,223)**	(64,969)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2016** **HK$'000**	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**87,308**	103,313
Prepaid land lease payments		**11,789**	12,889
Total non-current assets		**99,097**	116,202
CURRENT ASSETS			
Inventories		**258,591**	310,803
Receivables, prepayments and deposits	*9*	**138,030**	129,422
Tax recoverable		**4**	25
Pledged bank balances		**11,610**	8,410
Cash and bank balances		**48,291**	42,156
Total current assets		**456,526**	490,816
CURRENT LIABILITIES			
Trade payables	*10*	**61,275**	86,579
Other payables and accruals	*10*	**36,149**	30,376
Interest-bearing bank borrowings		**85,966**	53,822
Due to a PRC joint venture partner		**1,131**	1,131
Provision		**3,565**	3,806
Total current liabilities		**188,086**	175,714
NET CURRENT ASSETS		**268,440**	315,102
TOTAL ASSETS LESS CURRENT LIABILITIES		**367,537**	431,304
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**139,925**	138,740
Deferred tax liabilities		**2,220**	1,949
Total non-current liabilities		**142,145**	140,689
Net assets		**225,392**	290,615
EQUITY			
Share capital		**75,032**	75,032
Other reserves		**150,360**	215,583
Total equity		**225,392**	290,615

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 2016 and 31 December 2015 included in this preliminary announcement of annual results for the year ended 31 December 2016 does not constitute the Company's statutory annual consolidated financial statements for those years, but in respect of the year ended 31 December 2015, 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 2015 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 2016 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 2016. 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 POLICY AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of each the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:
   - (i) the materiality requirements in HKAS 1;
   - (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
   - (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
   - (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

   Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(c) *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

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*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

(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$56,450,000 (2015: HK$127,800,000) was derived from sales to a single customer, which constituted 12.4% (2015: 19.6%) of the total revenue, during the year ended 31 December 2016.

(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:

	2016	2015
	HK$'000	*HK$'000*
Revenue		
Processing and sale of leather	**456,722**	652,729
Other income		
Interest income	**58**	120
Sale of scrap materials	**1,461**	1,438
Government grants*	**1,089**	5,205
Gain on disposal of items of property, plant and equipment	**3**	-
Others	**98**	136
	2,709	6,899
Gains		
Write-back of provision for other receivables and prepayments	**-**	61
Write-back of provision for trade and bills receivables	**-**	179
	-	240
	2,709	7,139

* During the year ended 31 December 2016, the Group received HK$1,089,000 (2015: HK$5,205,000) from the PRC local government to support the Group's PRC operations.

(5) LOSS BEFORE TAX

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

	2016 *HK$'000*	2015 *HK$'000*
Cost of inventories sold	**459,030**	635,532
Auditors' remuneration	**1,350**	1,300
Depreciation	**11,138**	10,739
Interest on:		
Bank loans and discounting bills receivable to banks	**1,761**	7,017
Loans from the immediate holding company	**3,477**	3,516
	5,238	10,533
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**29,584**	37,682
Pension scheme contribution (defined contribution schemes)*	**3,724**	3,958
Forfeiture of equity-settled share options	**-**	(227)
	33,308	41,413
Foreign exchange differences, net	**3,660**	7,507
Provision/(reversal of provision) for inventories**	**(2,916)**	8,824
Minimum lease payments under operating leases in respect of land and buildings	**911**	929
Amortisation of prepaid land lease payments	**295**	314
Reversal of provision for trade and bills receivables, net	**-**	(179)
Reversal of provision for other receivables	**-**	(56)
Reversal of provision for prepayment	**-**	(5)

* At 31 December 2016 and 2015, 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.

(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 (2015: 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.

	2016	2015
	HK$'000	*HK$'000*
Current - Mainland China		
Charge for the year	**4**	-
Underprovision / (Overprovision) in prior years	**17**	(541)
Total tax charge/(credit) for the year	**21**	(541)

(7) LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the years and the weighted average number of ordinary shares of 538,019,000 (2015: 538,019,000) in issue during the year.

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

	2016	2015
	HK$'000	*HK$'000*
Loss		
Loss for the year, used in the basic loss per share calculation	**(39,994)**	(38,349)

	Number of shares	
	2016	2015
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 (2015: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2016, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$130,143,000 (2015: HK$126,952,000) 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 aged analysis of the trade and bills receivables as at the end of the reporting period, based on the settlement due date, is as follows:

	2016	2015
	HK$'000	*HK$'000*
Current	**129,976**	125,724
Less than 3 months	**167**	1,228
	130,143	126,952

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**-**	183
Impairment losses reversed	**-**	(179)
Exchange realignment	**-**	(4)
At 31 December	**-**	-

At 1 January 2015, included in the above provision for impairment of trade and bills receivables was a provision for individually impaired trade and bills receivables of HK$183,000 with a carrying amount before provision of HK$183,000. The individually impaired trade and bills receivables relate to debtors that were in default or delinquency payments and only a portion of receivables is expected to be recovered.

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

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**130,143**	126,952

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.

As at 31 December 2016, a provision of HK$288,000 (2015: HK$307,000) was recognised for other receivables with carrying amount of HK$288,000 (2015: HK$307,000).

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

	2016	2015
	HK$'000	HK$'000
At 1 January	**307**	382
Impairment losses reversed	**-**	(56)
Exchange realignment	**(19)**	(19)
At 31 December	**288**	307

Included in the above provision for impairment of other receivables is a provision for individually impaired receivables of HK$288,000 (2015: HK$307,000) with a gross carrying amount of HK$288,000 (2015: HK$307,000). The individually impaired other receivables relate to the receivables that were not expected to be recovered.

The carrying amount of other receivables approximate their carrying values.

(10) TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

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

	2016	2015
	HK$'000	*HK$'000*
Within 3 months	**43,179**	48,779
3 to 6 months	**15,243**	34,319
Over 6 months	**2,853**	3,481
	61,275	86,579

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 are accrued interests of HK$4,806,000 (2015: HK$2,515,000) due to the immediate holding company which have no fixed term of repayment, and was arisen 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 Group for 2016 was HK$39,994,000 (2015: Consolidated loss attributable to shareholders of HK$38,349,000), representing an increase in loss of 4.3%. Basic loss per share was HK7.43 cents (2015: Basic loss per share of HK7.13 cents).

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

REVIEW

In 2016, China still faced a relatively high downward economic pressure. The industrial restructuring has led to overcapacity, weakening consumer expectations and decelerating consumption growth. Moreover, the central and local governments put in place more stringent environmental regulations. Environmental protection has become key for survival in the tannery industry. Meanwhile, as consumers have diverse footwear preferences, demand for footwear products made with non-cowhide materials has been increasing significantly. As a result, proportion of leather footwear in the consumption structure dropped. Under the pressures from destocking by footwear manufacturers and their liquidity shortage, the demand in the footwear leather market continued to diminish in general, thus making the business environment more difficult. Due to the above factors, the Group recorded a decline in operating results for the year. During the year, the Group adhered to its prudent operating strategy. By capitalising on the market demand, the Group pressed ahead with product development and made great effort to reduce inventory. The Group also took measures to strengthen its internal control system, enhance its risk management and maintain an environmentally sustainable operation, with aims to ensure a safety production.

In response to the shrinking footwear leather market, at the beginning of the year, the Group implemented budget management to set its production and business targets. During the year, the Group took active steps in resolving environmental issues and capturing market opportunities to maintain its production scale and secure a steady volume of production and sales. In terms of sales, the Group endeavoured to widen the market horizons and gain deep insight in customer demands, in order to strike a balance between production and sales. In addition, the Group adjusted its product mix through research and development to facilitate market access for its products and meet customer demand. In terms of purchasing, the Group conducted forecasts on market trends and based on the rigid demand of production, adjusted its purchasing strategies when appropriate. The Group also strived to lower its inventory level, better control the cost of raw materials and reinforce site management, in an effort to progressively promote quality control and to work seriously for a stronger competitiveness of products.

PROSPECTS

In 2017, the leather market is expected to experience another icy period, given the low consumer demand amid China's economic slowdown, as well as the lack of innovation, weak brand influence, continually rising costs, low demand from domestic and overseas markets and other unfavourable conditions in the tannery industry, coupled with the enforcement of stricter environmental policy by the government. In response to the negative impacts from the sluggish market, the Group will aim at "maintaining stability and striving for survival" on the basis of steady and safety operation. The Group will explore paths for its future development. To achieve this, the Group will cater for the product demand from strategic customers to stabilize its sales market; reinforce site management to ensure stable quality of products; and expand channels for purchasing raw materials and auxiliary materials to actively reduce inventory level. Furthermore, the Group will continue to promote clean production and safeguard its assets, while developing stronger technical skills and innovation capability for brand value enhancement. The Group will work hard to achieve all stated business targets and thereby to reduce loss.

Sun Jun
Chairman

Hong Kong, 27 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated loss attributable to shareholders for the year ended 31 December 2016 was HK$39,994,000, representing an increase of loss of HK$1,645,000, or 4.3% as compared to the consolidated loss attributable to shareholders of HK$38,349,000 for last year.

The net asset value of the Group as at 31 December 2016 was HK$225,392,000, representing a decrease of HK$65,223,000 and HK$35,517,000 as compared to the net asset value as at 31 December 2015 and 30 June 2016, respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

Business Review

In 2016, the market demand for footwear leather continued to diminish. In the PRC, as the retail sales of footwear grew slower and the export sales dropped further, the industry experienced overcapacity and fierce competition. Market competition was exacerbated by the increased funding pressure of and the slow destocking by footwear manufacturers. The Group adhered to its prudent operating strategy with "reasonable production curtailment, destocking and risk control" as its principal operating concept. During the year, despite the year-on-year decrease in production cost, the operating results of the Group declined in line with the fall of both sales volume and selling price as well as the decrease in gross profit margin. During the year, on one hand, the Group took active steps in analysing the market trend. By capitalising on the market demand and adjusting product mix, the Group achieved market access for its products and solidified its position in the market. On the other hand, the Group closely monitored the movements of the international cowhides market. In doing so, the Group managed to make purchases in a timely manner and enhance product development and quality control, generating a higher added value to its products. Meanwhile, the Group improved its environmental control and promoted the use of clean production technology, so as to ensure a stable production. To a certain extent, the above measures have mitigated the risks arising from operating business under the weak economic environment.

On environmental protection, in recent years, the central and local governments have been imposing more stringent environmental policies, laws and regulations on the tannery industry, thus, Eco-leather will become the mainstream of the tannery industry in its future development. In April 2015, the State Council lauched the policy of "Action Plan for Prevention and Control of Water Pollution" (《水污染防治行動計劃》), which stipulates that by the end of 2016, all tannery and other production projects that cause serious water pollution and do not comply with the national policy will be phased out. Tannery manufacturers are required to realise chromium reduction and technological innovation based on closed loop technology by the end of 2017. Moreover, in August 2015, China Leather Industry Association released the "Roadmap of water saving and emission reduction technology for tannery industry" (《制革行業節水減排技術路線圖》), proposing based on the same production volume of leather in the industry, by 2020, to reduce the annual discharge volume of wastewater and emission volume of ammonia nitrogen, total nitrogen, total chrome, etc., through wider adoption of water saving and emission reduction technology under the "13th Five Year Plan". At present, the Group's existing sludge treatment and disposal facilities will meet the targeted upgrade by the end of 2017. During the year, the Group actively and steadily pushed forward clean production and conducted research and development on new production technologies, in an effort to lower the generation of ammonia nitrogen at source and ensure the compliance of sewage discharge standard. To a certain extent, the implementation of the above measures increased the Group operating costs, posing heavy pressure on the Group's business operation.

During the year, the total production volume of cowhides was 22,188,000 sq. ft., representing a decrease of 6,476,000 sq. ft. or 22.6% as compared to 28,664,000 sq. ft. last year. The production volume of grey hides was 7,125 tons, representing a decrease of 5,683 tons or 44.4% as compared to 12,808 tons for last year. During the year, the total sales volume of cowhides was 23,122,000 sq. ft., representing a decrease of 4,156,000 sq. ft. or 15.2% as compared to 27,278,000 sq. ft. last year. The sales volume of grey hides was 7,149 tons, representing a decrease of 5,621 tons or 44.0% as compared to 12,770 tons for last year.

The consolidated turnover of the Group for 2016 was HK$456,722,000, representing a decrease of HK$196,007,000 or 30.0% from HK$652,729,000 for last year, of which the sales value of cowhides amounted to HK$431,019,000 (2015: HK$589,372,000), representing a decrease of 26.9%, and that of grey hides and other products amounted to HK$25,703,000 (2015: HK$63,357,000), representing a decrease of 59.4%. During the year, the footwear leather market suffered from the diminishing demand, stricter environmental enforcement and higher customer expectation on products. The grey hides market remained weak and experienced a significantly lesser demand. As a result, both of the Group's total sales volume and selling price dropped. Together with the decrease in gross profit margin, the Group recorded a further downturn in its operating results.

In terms of sales, consumers nowadays look for different, characteristic and fashionable new leather products. To accommodate their needs, downstream enterprises have higher expectations on leather products as to the processing technique, product quality and performance. As a consequence of increasing production cost due to the requirement for more variety of colours and patterns, downstream enterprises are scaling down their purchase orders. The emergence of online sales has triggered large branded footwear manufacturers joining the price war, which heightened the market competition. Thus, there is a rising demand for low-priced finished leather and the composite selling price is going downward. To confront the above difficulties, during the year, the Group actively opened up new marketing channels, refined marketing region management and enhanced end-user services in order to strike a balance between production and sales. Moreover, the Group strengthened the communication with strategic customers. The Group also provided point-to-point research and development services through its customer-oriented research and development centre, aiming at generating a higher added value to its products and achieving sales to key customers.

In terms of purchasing, during the year, the Group closely monitored the movement of both global slaughtering volume and demand in end-user market. The Group implemented the appropriate procurement strategy which is designed to meet the requirement of safety production and rigid demand, to effectively alleviate its funding pressure. Besides, the Group kept dynamic tracking of the information and scientific analysis regarding the cowhides market. The Group also put close eyes on the price indices of bulk commodities. This enabled the Group to reasonably determine the appropriate point of time for bulk purchases of materials. During the year, total purchases amounted to HK$381,468,000, representing a decrease of 40.6% as compared to the same period last year.

As at 31 December 2016, the Group's consolidated inventory amounted to HK$258,591,000 (31 December 2015: HK$310,803,000), representing a decrease of HK$52,212,000 or 16.8% over that of 31 December 2015. During the year, the Group put great effort in research and development to cater for the demand of its targeted customers, as well as in the inventory management. Meanwhile, the Group kept abreast of the market trend, changes and demand, while speeding up the advancement of technical skills and reasonable group processing, so as to develop immediately top selling products, relieve slow-moving inventory and satisfy customer demand.

Financial Review

As at 31 December 2016, the Group's cash and cash equivalents balance amounted to HK$48,291,000 (31 December 2015: HK$42,156,000), representing an increase of HK$6,135,000 or 14.6% as compared to the same as at 31 December 2015, which was denominated in Hong Kong dollars (8.9%), Renminbi (90.4%) and United States dollars (0.7%). During the year, net cash inflow from operating activities was HK$17,903,000, which was mainly attributable to the decrease in inventories and the increase in trust receipt loans which generated more net cash inflow. Net cash outflow from investing activities was HK$8,925,000, which mainly represented the payments for acquisition of machinery and equipment, and attributable to the increase in pledged deposits.

As at 31 December 2016, the Group's interest-bearing borrowings amounted to HK$173,745,000 (31 December 2015: HK$141,601,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK$65,000,000, interest-bearing borrowings in European dollars amounted to HK$8,548,000, and interest-bearing borrowings in United States dollars amounted to HK$100,197,000. The Group's borrowings mainly consisted of: (1) short-term loans provided by banks with the balance of HK$85,966,000, which were secured by bank deposits of RMB10,385,000; and (2) long-term unsecured intra-group borrowings with the balance of HK$87,779,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 31 December 2016, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 43.5% (31 December 2015: 32.8%). During the year, the annual interest rates of the borrowings ranged from approximately 2.0% to 3.0%. 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$5,238,000, representing a decrease of 50.3% from the same period last year, which was mainly attributable to the decrease in bank loans during the year.

As at 31 December 2016, the total banking facilities of the Group was HK$157,594,000 (31 December 2015: HK$238,720,000), of which banking facilities of HK$85,966,000 (31 December 2015: HK$53,822,000) were utilised and banking facilities of HK$71,628,000 (31 December 2015: HK$184,898,000) 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 2016, the net value of non-current assets including prepaid land lease payments and property, plant and equipment amounted to HK$99,097,000, representing a decrease of HK$17,105,000 over the net value as at 31 December 2015 of HK$116,202,000. The capital expenditure for the year amounted to HK$5,116,000 (2015: HK$17,635,000), 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 2016, certain of the Group's bank balances with a total of HK$11,610,000 (31 December 2015: HK$8,410,000) 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 2016, a total of 570 employees (31 December 2015: 627) 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 recognises 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 of 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 2016 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 2016 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 listed securities during the year.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 29 May 2017 to Friday, 2 June 2017, both days inclusive, during such period no transfer of shares of the Company will be registered. In order to determine the identity of the members who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Friday, 2 June 2017, 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 not later than 4:30 p.m. on Friday, 26 May 2017.

By order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 27 March 2017

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.