GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01058)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

Unaudited financial highlights for the six months ended 30 June

	2019	2018	Changes
	HK$'000	HK$'000	%
Revenue	**102,081**	122,260	-16.5
Loss attributable to shareholders of the Company	**(22,113)**	(48,015)	+53.9
Loss per share - Basic	**HK(4.11)cents**	HK(8.92)cents	+53.9

CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2019 together with comparative figures for the corresponding period in 2018. These results have not been audited, but have been reviewed by the Company's audit committee (the "Audit Committee") and auditors, Messrs. Ernst & Young.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2019

		For the six months ended 30 June	
	Notes	**2019**	2018
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE			
Processing and sale of leather	*3*	**102,081**	122,260
Cost of sales		**(105,733)**	(142,573)
Gross loss		**(3,652)**	(20,313)
Other income and gains	*3*	**2,034**	1,174
Selling and distribution expenses		**(950)**	(1,210)
Administrative expenses		**(13,268)**	(15,060)
Other operating expenses		**(2,925)**	-
Impairment on items of plant and equipment		**(550)**	(9,091)
Finance costs	*4*	**(2,772)**	(3,461)
LOSS BEFORE TAX	*4*	**(22,083)**	(47,961)
Income tax expense	*5*	**(30)**	(54)
LOSS FOR THE PERIOD		**(22,113)**	(48,015)
LOSS PER SHARE	*6*		
- Basic		**HK(4.11) cents**	HK(8.92) cents
- Diluted		**HK(4.11) cents**	HK(8.92) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2019

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	**(22,113)**	(48,015)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that will not be reclassified to the profit or loss in subsequent periods:		
Surplus/(deficits) on revaluation of buildings	**(857)**	231
Income tax effect	**214**	(58)
	(643)	173
Other comprehensive loss that may be reclassified to the profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(361)**	(1,111)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(1,004)**	(938)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(23,117)**	(48,953)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2019

	Notes	**30 June 2019** *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**45,182**	47,057
Prepaid land lease payments		**-**	11,459
Right-of-use assets		**11,852**	-
Total non-current assets		**57,034**	58,516
CURRENT ASSETS			
Inventories		**82,516**	134,131
Receivables, prepayments and deposits	*8*	**85,633**	64,576
Cash and bank balances		**25,585**	27,513
Total current assets		**193,734**	226,220
CURRENT LIABILITIES			
Trade payables	*9*	**30,109**	38,009
Other payables and accruals		**20,254**	36,531
Due to a PRC joint venture partner		**1,131**	1,131
Provision		**3,626**	3,640
Tax payable		**93**	113
Total current liabilities		**55,213**	79,424
NET CURRENT ASSETS		**138,521**	146,796
TOTAL ASSETS LESS CURRENT LIABILITIES		**195,555**	205,312
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**142,379**	142,379
Other payables		**13,574**	-
Deferred tax liabilities		**3,626**	3,840
Total non-current liabilities		**159,579**	146,219
Net assets		**35,976**	59,093
EQUITY			
Share capital		**75,032**	75,032
Other reserves		**(39,056)**	(15,939)
Total equity		**35,976**	59,093

Notes:

(1) ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The unaudited interim condensed consolidated financial information does not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

The accounting policies and basis of preparation adopted in the preparation of this unaudited interim condensed consolidated financial information are the same as those used in the annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretation) effective as at 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The financial information relating to the year ended 31 December 2018 that is included in this unaudited interim condensed financial information for the six months ended 30 June 2019 as comparative information does not constitute the statutory annual consolidated financial statements of the Company for the year but is derived from those consolidated financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

The Company's auditor has reported on those consolidated financial statements for the year ended 31 December 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Chapter 622).

The Group has adopted the following new and revised HKFRSs for the first time for the current period's unaudited interim condensed consolidated financial information:

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

Other than as explained below regarding the impact of HKFRS 16, the adoption of the new and revised HKFRSs has had no material impact on the unaudited interim financial information of the Group. The nature and impact for adopting HKFRS 16 are as follows:

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

<u>New definition of a lease</u>

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

<u>As a lessee – Leases previously classified as operating leases</u>

Nature of the effect of adoption of HKFRS 16
The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition
Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and were included in other payables and accruals.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

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

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) HK$'000 (Unaudited)
Assets	
Increase in right-of-use assets	13,255
Decrease in prepaid land lease payments	(11,459)
Decrease in receivables, prepayments and deposits	(288)
Increase in total assets	1,508
Liabilities	
Increase in other payables and accruals	1,508

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

	HK$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	7,736
Weighted average incremental borrowing rate as at 1 January 2019	4.84%
Discounted operating lease commitments as at 1 January 2019	1,579
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(71)
Lease liabilities as at 1 January 2019	1,508

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets
Right-of-use assets are recognised at the commencement date of the lease. 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

	30 June 2019 *HK$'000* **(Unaudited)**	1 January 2019 *HK$'000* (Unaudited)
Prepaid land lease payments	**11,557**	11,747
Land and buildings	**295**	1,508
Total right-of-use assets	**11,852**	13,255

(2) OPERATING SEGMENT INFORMATION

No separate analysis of segment information is presented by the Group as over 90% of the Group's revenue, results and assets relate to the processing and sale of semi-finished and finished leather in the People's Republic of China (the "PRC" or "Mainland China").

Information about a major customer

During the period, revenue of approximately HK$23,538,000 (six months ended 30 June 2018: HK$7,686,000) was derived from sales to a single customer, which contributed approximately 23% (six months ended 30 June 2018: 6%) of the total revenue.

(3) REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of processed leather	**102,081**	122,260

Revenue is recognised when goods are transferred at a point in time to customers.

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
<u>Other income and gains</u>		
Finance income	**22**	24
Sale of scrap materials	**527**	332
Government grants	**609**	355
Income from subcontracted leather processing	**853**	459
Others	**23**	4
	2,034	1,174

(4) LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**101,655**	133,250
Depreciation for items of property, plant and equipment	**949**	2,493
Depreciation for right-of-use assets	**556**	-
Impairment of trade receivables#	**2,110**	134
Impairment of right-of-use assets#	**815**	-
Foreign exchange differences, net	**-**	284
Interest on:		
Bank loans and discounting bills receivable to banks	**166**	656
Loans from the immediate holding company	**2,568**	2,142
Loan from a fellow subsidiary	**-**	663
Lease liabilities	**38**	-
	2,772	3,461
Provision for inventories*	**4,078**	9,323

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

\# These items for the period ended 30 June 2019 is included in "Other operating expenses" on the face of the condensed consolidated statement of profit or loss.

(5) 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 period (six months ended 30 June 2018: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group - Mainland China		
Provision for the period	**114**	54
Overprovision in prior years	**(84)**	-
Total tax charge for the period	**30**	54

(6) LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the period of HK$22,113,000 (six months ended 30 June 2018: HK$48,015,000) and the weighted average number of ordinary shares of 538,019,000 (30 June 2018: 538,019,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2019 and 30 June 2018 in the calculation of diluted loss per share as there are no dilutive events during the periods ended 30 June 2019 and 30 June 2018.

(7) DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**45,347**	32,037
Bills receivable	**37,811**	26,031
Prepayments, deposits and other receivables	**2,475**	6,508
	85,633	64,576

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.

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

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**79,628**	53,964
Less than 3 months	**3,708**	2,932
More than 3 months	**3,985**	3,267
	87,321	60,163
Impairment	**(4,163)**	(2,095)
	83,158	58,068

(9) TRADE PAYABLES

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

	30 June 2019 *HK$'000* **(Unaudited)**	31 December 2018 *HK$'000* (Audited)
Within 3 months	**23,034**	28,127
3 to 6 months	**4,297**	5,670
Over 6 months	**2,778**	4,212
	30,109	38,009

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 90 days.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2019 of the Group was HK$22,113,000, representing a decrease of loss of HK$25,902,000, or 53.9% as compared to the loss of HK$48,015,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2019 was HK$35,976,000, representing a decrease of HK$66,343,000 and HK$23,117,000 as compared to the net asset value as at 30 June 2018 and 31 December 2018, respectively.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

Business Review

The national economic deceleration in recent years results in an overcapacity in the footwear leather market, and coupled with the boarder range of alternatives in footwear materials, producing a continuous decrease in the demand of real leather cowhides market. Footwear manufacturing enterprises need to be innovative and pursue for change proactively, and to enhance the standard on production technology, in order to address the increasingly stringent requirement on environmental protection imposed by the State to footwear manufacturing industry. In addition, the enhanced nationwide environmental inspections and supervisions are the direct causes on the closing down of a large number of medium-sized and small-sized footwear manufacturers, leading to a general contraction in the demand of the industry. During the period, the Group adhered to the direction of "stable operations to ensure asset safety" as its primary operating strategy in the first half of the year. Though sales recorded a decrease due to the downward movement of the industry, the decrease in the unit cost of cowhides is larger than that of in the unit price of cowhides, which resulted in a decrease in gross loss, thus leading to an improvement in the operating results of the Group as compared to that of in the same period last year. During the period, in order to address the adverse downward movement of the industry, the Group steadfastly pursued its operating strategy on destocking. On the one hand, the Group performed product research and development with reference to its inventories, strengthened its customer site-visit continuously, enhanced product promotion, and proactively developed its external subcontracting business so as to endeavor to stabilize the sales of production and reduce its fixed costs. On the other hand, the Group strengthened the monitoring and control on environmental protection, and promoted the application of clean production technology, in order to properly response to environmental risks. The above measures reduced the operational risks brought by the downward movement of the industry to a certain extent.

During the period, the total production volume of cowhides was 5,730,000 sq. ft., representing a decrease of 1,776,000 sq. ft. or 23.7% as compared to 7,506,000 sq. ft. for the same period of last year. The production volume of grey hides was 444 tons, representing a decrease of 935 tons or 67.8% as compared to 1,379 tons for the same period of last year. During the period, the total sales volume of cowhides was 6,295,000 sq. ft., representing a decrease of 259,000 sq. ft. or 4.0% as compared to 6,554,000 sq. ft. for the same period of last year. The sales volume of grey hides was 843 tons, representing a decrease of 536 tons or 38.9% as compared to 1,379 tons for the same period of last year.

During the period, the consolidated turnover of the Group was HK$102,081,000, representing a decrease of HK$20,179,000 or 16.5% from HK$122,260,000 for the same period of last year, of which the sales value of cowhides amounted to HK$97,886,000 (six months ended 30 June 2018: HK$117,580,000), representing a decrease of 16.7%, and that of grey hides and other products amounted to HK$4,195,000 (six months ended 30 June 2018: HK$4,680,000), representing a decrease of 10.4%. During the period, the prolonged downward trend of cowhides prices led to a decrease in price of end-products, coupled with the substitution effect of the up-and-coming new materials, the overall demand for footwear leather shrank; resulting into a drop of both the price and sales volume for the Group’s footwear leather products, and therefore the sales revenue was decreased.

In terms of sales, as consumers preferred sports products in recent years which led to a shift in raw materials from traditional materials to new materials that are healthy and comfortable, resulted in a severe contraction to the demand of real leather. During the period, the tannery industry experienced an unprecedented reshuffle, large scale tannery enterprises had to reduce the price of its products and realized its stock for survival, while a large number of medium and small sized footwear manufacturers which were affected by the continuous enhancement in the environmental inspections and supervisions, closed down. As a result of the above, the number of orders received by footwear tannery manufacturers was sharply decreased. During the period, in order to address the abovementioned difficulties, the Group carried out market exploration proactively, strengthened its ability on market research and survey as well as enhanced the research and development, promotion and sales of leather inventory in an effort to realize the inventory.

In terms of purchasing, during the period, the Group closely monitored the price movements of cowhides in both domestic and international markets, and continuously stepped up its research on the latest market circumstances, with destocking remained its top priority. The Group adopted a targeted raw materials replenishment approach that involved procurement in small quantities but with multiple batches, so as to preventing the risk on procurement and to safeguard the needs on production. In addition, the Group was concerned about the surges in the prices of chemicals, and had identified alternative products and suppliers with competitive prices, in order to ensure that cost could be under control. During the period, the total purchases amounted to HK$46,759,000, representing a decrease of 43.1% as compared to the same period last year.

As of 30 June 2019, the Group's consolidated inventory amounted to HK$82,516,000 (31 December 2018: HK$134,131,000), representing a decrease of HK$51,615,000 or 38.5% over that of 31 December 2018. During the period, the Group endeavored to reduce its inventory level. Taking into account of the sales order, the Group carried out various measures to tackle its existing stock, which included, conducting theme-based research, splitting, group processing, rectification and selling, with an aim to transforming those slow-moving inventories into cash flows so as to ensure funding for the Group's normal operations. The Group had reassessed the value of inventories based on its aging and net realizable value, and a net provision for inventories of HK$4,078,000 was made for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$9,323,000).

As at 30 June 2019, the Group's property, plant and equipment amounted to HK$45,182,000 (31 December 2018: HK$47,057,000), representing a decrease of HK$1,875,000 or 4.0% over that of 31 December 2018. Due to the posting of a loss in the operating results of the Group during the period, 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 of HK$550,000 in respect of the plant and equipment was made for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$9,091,000).

Financial Review

As at 30 June 2019, the Group's cash and cash equivalents amounted to HK$25,585,000 (31 December 2018: HK$27,513,000), representing a decrease of HK$1,928,000 or 7.0% as compared to the same as at 31 December 2018, which was denominated in Hong Kong dollars (20.5%), Renminbi (77.2%) and United States dollars (2.3%). During the period, net cash outflow from operating activities was HK$910,000, which was mainly attributable to the operating losses, the increase in trade receivables and bills receivable offsets the reduction in the purchasing of raw materials, resulting in an increase in net cash outflow. Net cash outflow from investing activities was HK$599,000, which was mainly attributable to the payment of expenditures for the acquisition of machinery and equipment. Net cash outflow from a financing activity was HK$440,000, which was attributable to the payment of rental expenses.

As at 30 June 2019, the Group's interest-bearing borrowings amounted to HK$142,379,000 in total (31 December 2018: HK$142,379,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK$65,000,000, and interest-bearing borrowings in United States dollars amounted to HK$77,379,000. The Group's borrowings consisted of long-term unsecured borrowings from the immediate holding company with a balance of HK$142,379,000, on which interests were charged at floating rates.

As at 30 June 2019, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 79.8% (31 December 2018: 70.7%). During the period, the annual interest rates of the borrowings ranged from approximately 3.0% to 5.1%. The Group's interest expenses during the period amounted to HK$2,772,000, representing a decrease of 19.9% from the same period last year, which was mainly attributable to the repayment of interest of the short-term loan from a fellow subsidiary during the same period last year.

As at 30 June 2019, the total banking facilities of the Group were HK$34,104,000 (31 December 2018: nil), of which HK$34,104,000 were unutilized. Taking into account the existing cash resources and the banking facilities available, the Group has adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 30 June 2019, the net value of non-current assets including property, plant and equipment, and right-of-use assets amounted to HK$57,034,000, representing a decrease of HK$1,482,000 over the net value as at 31 December 2018 of HK$58,516,000. The capital expenditure for the period amounted to HK$599,000 (six months ended 30 June 2018: HK$971,000), which mainly represented the payments for acquisition of machinery and equipment to meet the production requirements of the Group.

Pledge of Assets

As at 30 June 2019, none of the Group's bank balances (31 December 2018: nil) were pledged to banks.

Foreign Exchange Exposure

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, United States 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 period. 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 30 June 2019, a total of 384 employees (31 December 2018: 393) 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 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.

Prospects

It is expected that the downward trend in the sectoral economy will continue in the second half of 2019, the overcapacity and the weak demand in the footwear leather market will further compress the profitability, posing greater difficulty to the leather manufacturing enterprises. In order to address the adverse effect on a weak market, the Group has established "safeguarding production and stability" as its general direction of its work for the second half of the year. The Group will strengthen product research and development, making effort on innovation in product type, leading production with products and to increase its inventory turnover rate by providing goods with quality, and thus enhance its efficiency and attractiveness to the market. The Group will also replenish the production volume through the subcontracting business in order to maintain stability in production and share its fixed costs. The Group will establish self-appropriated quality standard control system so as to enhance the quality and service standards. In the meantime, the Group will continue to strengthen the establishment of its risk control system, and making efforts on minimizing every risk, so as to implement a comprehensive coverage of risk control and compile with the environmental requirements, and strive for a further reduction in loss.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

The Company had complied with the code provisions and, where appropriate, the applicable recommended best practices in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019, save and except for the following deviation:

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 Managing Director of the Company serves the same role as the "chief executive"). Mr. Sun Jun has served as both Chairman and Managing Director of the Company since 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 Interim Results

The unaudited interim financial information of the Group and the interim report of the Company for the six months ended 30 June 2019 have been reviewed by the Audit Committee of the Company and Messrs. Ernst & Young, the auditors of the Company.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 June 2019.

By Order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 26 August 2019

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