粵海制革

GUANGDONG TANNERY LIMITED

粵海制革有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01058)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

Unaudited financial highlights for the six months ended 30 June

	2020 HK$'000	2019 HK$'000	Changes %
Revenue	**55,651**	102,081	-45.5
Loss attributable to shareholders of the Company	**(9,631)**	(22,113)	+56.4
Loss per share - Basic	**HK(1.79)cents**	HK(4.11)cents	+56.4

CONDENSED CONSOLIDATED FINANCIAL INFORMATION
FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2020 together with comparative figures for the corresponding period in 2019. 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 2020

	Notes	**For the six months ended 30 June** **2020** ***HK$'000*** **(Unaudited)**	2019 *HK$'000* (Unaudited)
REVENUE			
Processing and sale of leather	*3*	**55,651**	102,081
Cost of sales		**(56,841)**	(105,733)
Gross loss		**(1,190)**	(3,652)
Other income and gains	*3*	**804**	2,034
Selling and distribution expenses		**(757)**	(950)
Administrative expenses		**(9,443)**	(13,268)
Other operating income/(expenses), net		**5,194**	(2,925)
Impairment on items of plant and equipment		**(1,528)**	(550)
Finance costs	*4*	**(2,588)**	(2,772)
LOSS BEFORE TAX	*4*	**(9,508)**	(22,083)
Income tax expense	*5*	**(123)**	(30)
LOSS FOR THE PERIOD		**(9,631)**	(22,113)
LOSS PER SHARE	*6*		
- Basic		**HK(1.79) cents**	HK(4.11) cents
- Diluted		**HK(1.79) cents**	HK(4.11) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	For the six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	**(9,631)**	(22,113)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that will not be reclassified to the profit or loss in subsequent periods:		
Deficits on revaluation of buildings	**(378)**	(857)
Income tax effect	**95**	214
	(283)	(643)
Other comprehensive loss that may be reclassified to the profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(3,628)**	(361)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(3,911)**	(1,004)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(13,542)**	(23,117)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2020

	Notes	**30 June 2020** ***HK$'000*** **(Unaudited)**	31 December 2019 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**40,701**	42,484
Right-of-use assets		**10,854**	11,208
Total non-current assets		**51,555**	53,692
CURRENT ASSETS			
Inventories		**88,247**	78,930
Receivables, prepayments and deposits	*8*	**47,717**	56,384
Pledged bank balances		**3,188**	895
Cash and bank balances		**26,690**	48,832
Total current assets		**165,842**	185,041
CURRENT LIABILITIES			
Trade payables	*9*	**23,702**	33,621
Other payables and accruals		**15,667**	20,010
Interest-bearing bank borrowings		**7,896**	3,152
Due to a PRC joint venture partner		**1,131**	1,131
Provision		**3,492**	3,560
Tax payable		**94**	63
Total current liabilities		**51,982**	61,537
NET CURRENT ASSETS		**113,860**	123,504
TOTAL ASSETS LESS CURRENT LIABILITIES		**165,415**	177,196
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**135,461**	142,379
Other payables		**20,626**	15,797
Deferred tax liabilities		**3,182**	3,277
Total non-current liabilities		**159,269**	161,453
Net assets		**6,146**	15,743
EQUITY			
Share capital		**75,032**	75,032
Other reserves		**(68,886)**	(59,289)
Total equity		**6,146**	15,743

Notes:

(1) ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2020 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 2019.

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 2019, except for the adoption of the revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretation) effective as at 1 January 2020. 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 2019 that is included in this unaudited interim condensed financial information for the six months ended 30 June 2020 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 2019 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 2019. 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 revised HKFRSs for the first time for the current period's unaudited interim condensed consolidated financial information:

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

The nature and impact of the new and revised HKFRSs are described below:

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

(b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

(c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information.

The above amendments did not have any impact on the Group's interim condensed consolidated financial information.

(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 major customers

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

	For the six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**12,649**	23,538
Customer B	**7,425**	Note
Customer C	**6,143**	21,714

Note: The corresponding revenue did not contribute over 10% of the consolidated revenue of the Group.

(3) REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of processed leather	**55,651**	102,081

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

	For the six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income and gains		
Finance income	**83**	22
Sale of scrap materials	**230**	527
Government grants	**318**	609
Income from subcontracted leather processing	**169**	853
Others	**4**	23
	804	2,034

(4) LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**57,005**	101,655
Depreciation for items of plant and equipment	**1,011**	949
Depreciation for right-of-use assets	**175**	556
Impairment/(reversal of impairment) of trade and other receivables#	**(706)**	2,110
Impairment of right-of-use assets#	**107**	815
Gain on derecognition of lease liabilities#	**(847)**	-
Reversal of payables and accruals#	**(3,748)**	-
Interest on:		
Bank loans and discounting bills receivable to banks	**64**	166
Loans from the immediate holding company	**2,483**	2,568
Lease liabilities	**41**	38
	2,588	2,772
Provision/(reversal of provision) for inventories*	**(164)**	4,078

* 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 2020 are included in "Other operating income/(expenses), net" 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 2019: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

	For the six months ended 30 June	
	2020	2019
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group - Mainland China		
Provision for the period	**123**	114
Overprovision in prior years	**-**	(84)
Total tax charge for the period	**123**	30

(6) LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the period of HK$9,631,000 (six months ended 30 June 2019: HK$22,113,000) and the weighted average number of ordinary shares of 538,019,000 (30 June 2019: 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 2020 and 2019 in the calculation of diluted loss per share as there were no dilutive events during the periods ended 30 June 2020 and 2019.

(7) DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**30,179**	26,947
Bills receivable	**14,923**	24,963
Prepayments, deposits and other receivables	**2,615**	4,474
	47,717	56,384

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 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**40,107**	50,902
Less than 3 months	**4,326**	1,109
More than 3 months	**4,124**	4,115
	48,557	56,126
Impairment	**(3,455)**	(4,216)
	45,102	51,910

(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 2020	31 December 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**15,199**	25,781
3 to 6 months	**5,833**	5,021
Over 6 months	**2,670**	2,819
	23,702	33,621

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 of the Company for the six months ended 30 June 2020 was HK$9,631,000, representing a decrease in loss of HK$12,482,000 or 56.4% from HK$22,113,000 for the corresponding period of last year.

The unaudited net asset value of the Group as at 30 June 2020 was HK$6,146,000, representing a decrease of HK$29,830,000 and HK$9,597,000 as compared to the net asset value as at 30 June 2019 and 31 December 2019, respectively.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

Business Review

In the first half of 2020, as affected by the COVID-19 pandemic (the "**Pandemic**"), the upstream and downstream industrial chains were affected to varying degrees, causing significant impacts on the business activities of leather enterprises and exerting further pressure on their scale of operations. The lack of confidence of downstream footwear factories in the market and the sharp drop in orders from customers have put tremendous pressure on the operations of the tanneries. In addition, affected by the Pandemic, the peak season of Chinese New Year sales was basically suspended, which not only imposed heavy pressure on the sales process, but also drastically increased the inventory burden of leather enterprises. During the period, the Group continued to focus on promoting its production and operation philosophy, adhering to the direction of "stable operations to ensure asset safety" as its primary operating strategy, so as to minimize the impact of the Pandemic on production and operation. As all major domestic footwear factories were affected by the Pandemic, the production and sales of the tannery industry have been significantly reduced. The Group has paid close attention to the changes in the market, made reasonable arrangements on production and sales with regard to the actual market situation, and strengthened its control over various costs to minimize the impact and losses caused by the Pandemic. During the period, the Group's operating results were improved as compared to the same period of last year due to savings in administrative expenses, reversal of impairment of receivables, reversal of payables and accruals, and narrowing down of gross loss margin.

In terms of environmental protection, the State has strengthened the environmental protection management policies in the industry in recent years. The environmental protection requirements have also been further enhanced as a result of an increasingly standardized approach to environmental protection. During the period, the Group maintained close communication with the environmental protection department and work safety department to strengthen the prevention and control of environmental risks. The Group promoted the application of clean production technology, strengthened the classification and disposal of solid waste, reduced the total amount of sludge, completed the renovations of wastewater disposal facilities, as well as strengthened the analysis and testing of water quality indicators, so as to ensure that the sewage meets the discharge standards and safeguard a safe and stable production environment.

During the period, the total production volume of cowhides was 4,157,000 sq. ft., representing a decrease of 1,573,000 sq. ft. or 27.5% as compared to 5,730,000 sq. ft. for the same period of last year. The production volume of grey hides was 3,049 tons, representing an increase of 2,605 tons or 586.7% as compared to 444 tons for the same period of last year. During the period, the total sales volume of cowhides was 3,541,000 sq. ft., representing a decrease of 2,754,000 sq. ft. or 43.7 % as compared to 6,295,000 sq. ft. for the same period of last year. The sales volume of grey hides was 3,049 tons, representing an increase of 2,206 tons or 261.7% as compared to 843 tons for the same period of last year.

During the period, the consolidated turnover of the Group was HK$55,651,000, representing a decrease of HK$46,430,000 or 45.5% from HK$102,081,000 for the same period of last year, of which the sales value of cowhides amounted to HK$45,780,000 (six months ended 30 June 2019: HK$97,886,000), representing a decrease of 53.2%, and that of grey hides and other products amounted to HK$9,871,000 (six months ended 30 June 2019: HK$4,195,000), representing an increase of 135.3%. During the period, the leather market was affected by the Pandemic and was basically suspended in the month of February. Gradual resumption was assumed in mid-to-late March 2020. The Group’s major downstream customers were located in critical areas of the Pandemic and the resumption of the market was thus delayed. Insufficient orders, coupled with the downward trend in price of raw cowhides, led to a decrease in the price of end-products, resulting in a drop in both the sales volume and price for the Group’s footwear leather products; hence the sales revenue was decreased significantly.

In terms of sales, having been battered by an industry downturn, overcapacity, emergence of new material substitutes, changing consumer demand as well as the severe impact of the Pandemic in the first quarter, the tannery industry missed the mass production of spring and summer shoes entirely, resulting in a substantial reduction in sales volume. During the period, in order to address the abovementioned difficulties, the Group proactively liaised with its downstream customers to arrange production in accordance with the actual market conditions, and at the same time, took the initiative to call on its customers to strengthen sales and promote inventory reduction. In order to eliminate backlog and reduce inventory, research and development of processing technique were introduced. In addition, the Group continued to promote micro-research and development in response to market demand during the period. As the new products have gained recognition from the customers, upgrading and solidifications of products through research were being carried out, in the hope that soon enough breakthroughs in production volume and product profitability would be achieved.

In terms of purchasing, during the period, the Group paid close attention to the impact of the national policy on the tannery industry, kept track of price movements of cowhides in international markets and exchange rate trends, strengthened the research on market conditions and implemented scientific strategies for the procurement of raw cowhides. In addition, the Group proactively introduced price reduction negotiation on chemicals, identified substitutes products and suppliers with competitive prices, and controlled the procurement cost of chemicals. As affected by the Pandemic, the market price of international cowhides has reached the lowest point in history. As strict procurement control was made in the previous period, the Group made purchases on the premise of ensuring profits of products and safety of cash flow, and planned its product structure according to the production, supply and marketing arrangements. The total purchase volume in the first half of the year amounted to HK$59,212,000, representing an increase of 26.6% over the same period of last year.

As at 30 June 2020, the Group's consolidated inventories amounted to HK$88,247,000 (31 December 2019: HK$78,930,000), representing an increase of HK$9,317,000 or 11.8% as compared to that as at 31 December 2019. During the period, the Group adhered to the business strategy of destocking and strived to alleviate the problem of inventory accumulation through research and development of processing technique, optimization of inventory structure, and integration and rectification of its products, so as to convert slow-moving inventory into cash flow and ensured to meet the working capital needs for the Group's normal operation. However, as affected by the Pandemic, inventory increased due to the significant decrease in the shipment volume of footwear leather in the first half of the year, nonetheless, the inventory structure has still seen improvement as compared to the end of last year. The Group had reassessed the value of inventories based on its aging and net realizable value and made a reversal of net provision for inventories of HK$164,000 for the six months ended 30 June 2020 (net provision for inventories for the six months ended 30 June 2019: HK$4,078,000).

As at 30 June 2020, the Group's property, plant and equipment amounted to HK$40,701,000 (31 December 2019: HK$42,484,000), representing a decrease of HK$1,783,000 or 4.2% as compared to that as at 31 December 2019. In view of the loss-making 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 on plant and equipment of HK$1,528,000 was made for the six months ended 30 June 2020 (six months ended 30 June 2019: HK$550,000).

Financial Review

Liquidity and Financial Resources

As at 30 June 2020, the Group's cash and cash equivalent amounted to HK$26,690,000 (31 December 2019: HK$48,832,000), representing a decrease of HK$22,142,000 or 45.3% as compared to that as at 31 December 2019, of which 8.6% were in Hong Kong dollars, 90.0% in Renminbi and 1.4% in United States dollar. Net cash outflow from operating activities for the period was HK$17,003,000 which was mainly attributable to the increase in net cash outflow from the increase in inventories. Net cash outflow from investing activities amounted to HK$4,010,000, which was mainly due to increase in pledged deposit and payment for renovations and purchase of machinery and equipment. Net cash outflow from financing activities was HK$432,000, which was mainly attributable to the payment of rental expenses.

As at 30 June 2020, the Group's interest-bearing borrowings amounted to HK$7,896,000 (31 December 2019: HK$145,531,000 of which Hong Kong dollar and United States dollar interest-bearing borrowings were HK$65,000,000 and HK$80,531,000, respectively), which were United States dollar interest-bearing borrowings. The Group's borrowings arose from trust receipt loans provided by banks with the balance of HK$7,896,000, which were secured by bank deposits, buildings and prepaid land lease payments of HK$49,239,000 and charged at floating interest rates. During the period, the Group obtained an exemption of interests of its long-term unsecured loans of HK$135,461,000 from the immediate holding company for the year of 2020 commencing from 1 January 2020.

As at 30 June 2020, the Group's gearing ratio of interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 56.2% (31 December 2019: 90.2%). The annual interest rate of the borrowings during the period was approximately 1.6% to 4.2%. During the period, the Group's interest expenses amounted to HK$2,588,000, representing a decrease of 6.6% as compared with the same period of last year, which was mainly due to the decrease in loan interest rates.

As at 30 June 2020, the Group had banking facilities and an unsecured loan facility from a fellow subsidiary (the"Facilities") of HK$69,193,000 in total (31 December 2019: banking facilities of HK$85,170,000) with utilised banking facilities of HK$7,896,000 (31 December 2019: HK$3,152,000) and unutilised Facilities of HK$61,297,000 (31 December 2019: banking facilities of HK$82,018,000). Taking into account the existing cash resources and available credit facilities, the Group has adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 30 June 2020, the carrying value of non-current assets including property, plant and equipment and right-of-use assets amounted to HK$51,555,000, representing a decrease of HK$2,137,000 over the carrying value of HK$53,692,000 as at 31 December 2019. The capital expenditure for the period amounted to HK$1,679,000 (six months ended 30 June 2019: HK$599,000) in total, which was mainly attributable to the payment of renovations, acquisition of machinery and equipment to meet the production needs of the Group.

Pledge of Assets

As at 30 June 2020, the Group's bank deposits of HK$3,188,000 (31 December 2019: HK$895,000), buildings of HK$35,197,000 (31 December 2019: HK$36,801,000) and prepaid land lease payments of HK$10,854,000 (31 December 2019: HK$11,208,000) were pledged to banks to secure general banking facilities.

Foreign Exchange Exposure

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

Remuneration Policy for Employees

As at 30 June 2020, the Group had 364 staff (31 December 2019: 378). The Group's remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees focusing on "accountability and performance". The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined with reference to the Group's operating net cash flow and profit after tax and calculated by various profit rankings. 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, the employees were motivated to contribute. 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 2020, although the Pandemic has slowed down and the State has also introduced relevant supportive government policies. It does not look promising for the footwear leather market in face of overcapacity, weak demand, narrowed profitability etc. In the second half of the year, the Group will continue to adopt "stabilizing production, stabilizing operation, reducing inventory" as its general direction. Meanwhile, the Group will continue to pay close attention to the development of the Pandemic and adjust its operation strategies in a timely manner to ensure production safety. The Group will continuously strengthen research and development technology, strengthen cost control, improve innovation capacity, and increase its inventory turnover rate by developing new processing techniques to enhance the market competitiveness of its products. The Group will also continuously expand the replenishment of production volume through subcontracting business in order to share its fixed costs and maintain a stable business volume. In the meantime, the Group will continue to strengthen the control mechanism for credit management, strengthen capital chain management, and exercise control over its key risks including environmental protection, safety, internal control and others, so as to ensure stable operation of the Group in a complex economic environment 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 2020, save and except for the following deviation:

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

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

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

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

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 2020 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 Hong Kong Stock Exchange during the six months ended 30 June 2020.

By Order of the Board
Kuang Hu
Chairman

Hong Kong, 28 August 2020

As at the date of this announcement, the Board of the Company comprises two Executive Directors, namely Mr. Kuang Hu and Mr. Sun Jun; two Non-Executive Directors, namely Mr. Ding Yatao and Mr. Qiao Jiankang; and three Independent Non-Executive Directors, namely Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge.