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)

2020 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	For the year ended 31 December		
	2020	2019	Change
Sales volume of cowhides (in thousand square feet)	**14,949**	11,439	+30.7%
Revenue (in thousand HK$)	**191,404**	178,020	+7.5%
Loss for the year (in thousand HK$)	**(2,751)**	(38,994)	+92.9%
Basic loss per share (in HK cent)	**(0.51)**	(7.25)	+93.0%
Key Indicators (As at 31 December)	**2020**	2019	Change
Current Ratio	**3.13 times**	3.01 times	+4.0%
Quick Ratio	**2.17 times**	1.72 times	+26.2%
Debt to asset ratio	**88.9%**	93.4%	-4.8%
Total assets (in thousand HK$)	**251,528**	238,733	+5.4%
Net asset value per share (HK$)	**0.05**	0.03	+66.7%

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 2020 together with comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**2020**	2019
		HK$'000	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**42,871**	42,484
Right-of-use assets		**12,581**	11,208
Total non-current assets		**55,452**	53,692
CURRENT ASSETS			
Inventories		**60,260**	78,930
Receivables, prepayments and deposits	*9*	**72,277**	56,384
Pledged bank balances		**2,600**	895
Cash and bank balances		**60,939**	48,832
Total current assets		**196,076**	185,041
CURRENT LIABILITIES			
Trade payables	*10*	**43,754**	33,621
Other payables and accruals	*11*	**13,479**	20,010
Tax payable		**29**	63
Interest-bearing bank borrowings		**386**	3,152
Due to a PRC joint venture partner		**1,131**	1,131
Provision		**3,790**	3,560
Total current liabilities		**62,569**	61,537
NET CURRENT ASSETS		**133,507**	123,504
TOTAL ASSETS LESS CURRENT LIABILITIES		**188,959**	177,196
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**137,200**	142,379
Other payables	*11*	**20,428**	15,797
Deferred tax liabilities		**3,387**	3,277
Total non-current liabilities		**161,015**	161,453
Net assets		**27,944**	15,743
EQUITY			
Share capital		**75,032**	75,032
Other reserves		**(47,088)**	(59,289)
Total equity		**27,944**	15,743

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 and bills receivable 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 2020 and 31 December 2019 included in this preliminary announcement of annual results for the year ended 31 December 2020 does not constitute the Company's statutory annual consolidated financial statements for those years, but in respect of the year ended 31 December 2019, 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 Hong Kong Companies Ordinance is as follows:

The Company has delivered the 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 and will deliver the financial statements for the year ended 31 December 2020 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 Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

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

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

(2) CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after 1 January 2023
4 No mandatory effective date yet determined but available for adoption
5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion
6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

(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 Mainland China during the year.

Information about major customers

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

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

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

(4) REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020	2019
	HK$'000	*HK$'000*
Revenue from contracts with customers		
Sale of processed leather	**191,404**	178,020

Revenue from contracts with customers

(i) Disaggregated revenue information

Revenue is recognised when goods are transferred at a point in time to customers. The amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period was HK$119,000 (2019: HK$3,701,000).

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods
The performance obligation is satisfied upon delivery of the goods at a point in time and payment is generally due within 90 to 180 days from date of delivery, except for new customers, where payment in advance is normally required.

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

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

(5) LOSS BEFORE TAX

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

	2020	2019
	HK$'000	*HK$'000*
Cost of inventories sold	**208,919**	175,928
Depreciation of property, plant and equipment	**3,416**	1,985
Depreciation of right-of-use assets	**323**	949
Interests on:		
Bank loans and discounting bills receivable to banks	**381**	174
Lease liabilities	**60**	74
Loans from the immediate holding company	**3,655**	5,078
Due to the immediate holding company	**548**	368
	4,644	5,694
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	**25,035**	21,633
Pension scheme contribution (defined contribution schemes)*	**1,852**	2,834
	26,887	24,467
Provision/(reversal of provision) for inventories**	**(31,244)**	7,887
Lease payments not included in the measurement of lease liabilities	**4**	71
Auditors' remuneration	**1,500**	1,500
Impairment of financial assets, net		
Impairment /(reversal of impairment) of trade receivables#	**(2,173)**	2,207
Reversal of impairment of financial assets included in other receivables, prepayments and deposits, net#	**(25)**	(37)
	(2,198)	2,170
Impairment of right-of-use assets#	**107**	1,855
Reversal of payables and accruals#	**(3,899)**	-
Gain on derecognition of lease liabilities#	**(847)**	-

* At 31 December 2020 and 2019, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.

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

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

(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 (2019: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

	2020	2019
	HK$'000	*HK$'000*
Current - Mainland China		
Charge for the year	**127**	148
Overprovision in prior years	**-**	(82)
Total tax charge for the year	**127**	66

(7) LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year and the weighted average number of ordinary shares of 538,019,000 (2019: 538,019,000) in issue during the year.

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

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

	Number of shares	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	**538,019,000**	538,019,000

No adjustment has been made to the calculation of the basic loss per share amounts presented for the years ended 31 December 2020 and 2019 as there was no dilutive event during the years ended 31 December 2020 and 2019.

(8) DIVIDEND

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

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

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

Notes:

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

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

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

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

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

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

The carrying amounts of other receivables approximate their fair values.

(10) TRADE PAYABLES

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

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

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 90 days. The carrying amounts of trade payables approximate their fair values.

(11) OTHER PAYABLES AND ACCRUALS

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

Note:

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

Other payables of the Group are non-interest-bearing and have an average term of three months. The carrying amounts of other payables approximate their fair values.

CHAIRMAN'S STATEMENT

RESULTS

I would like to present to the shareholders that the consolidated loss attributable to shareholders of the Group for year 2020 was HK$2,751,000 (2019: HK$38,994,000), representing a significant decrease in loss of 92.9%. Basic loss per share was HK0.51 cents (2019: HK7.25 cents).

DIVIDEND

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

REVIEW

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

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

PROSPECTS

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

Kuang Hu
Chairman

Hong Kong, 26 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

Results

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

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

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

Business Review

The upstream and downstream industry chains had been affected in a different extent by the COVID-19 pandemic (the "Pandemic") during 2020, and the operation of leather enterprises had been severely affected. Although there were signs of alleviation on the Pandemic in China during the second half of the year, footwear leather industry continued suffering from problems such as excess capacity and weak demand, with its operating environment further squeezed, led to narrowing down of profit margin of leather industry. During the year, the Group adopted "stabilizing production, reducing inventory, decreasing risk, pursuing innovation and ensuring stability" as its goals. On one hand, by adopting the marketing strategy of "production and sales of all products" as the principle, marketing and customer visit continued to be strengthened whereas, on the other hand, by adopting the measures including further adjusted and improved product structure, the Group promoted micro-research and development, increased the added value of products and improved the profitability of product, the operational risk brought by the downward trend of the industry was minimized to a certain extent and stability of production and sales were safeguarded. During the year, with the selling and reduction of aging inventory through diversified channels, the Group managed to convert inventory into cash flow. In the meantime, the sales of aging inventory led to the turnaround of gross profit from loss to profit. With the combined effects of reduction in administrative expenses and the increase in other operating income, the operating loss of the Group was significantly reduced as compared to last year.

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

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

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

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

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

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

As at 31 December 2020, the Group's property, plant and equipment amounted to HK$42,871,000 (31 December 2019: HK$42,484,000), representing an increase of HK$387,000 or 0.9% as compared to that as at 31 December 2019. In view of the loss-making operating results of the Group during the year, the recoverable amount of the plant and equipment was calculated by using a value in use calculation based on the discounted cash flow method and an impairment loss on plant and equipment of HK$3,183,000 (2019: HK$860,000) was made for 2020.

Financial Review

Liquidity and Financial Resources

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

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

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

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

Capital Expenditure

As at 31 December 2020, the net amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK$55,452,000, representing an increase of HK$1,760,000 as over the net amount of HK$53,692,000 as at 31 December 2019. The capital expenditure for the year amounted to HK$5,769,000 (2019: HK$1,175,000) in total, which was mainly for the payment of acquisition of machinery and equipment to meet the production needs of the Group.

Pledge of Assets

As at 31 December 2020, the Group’s bank deposits of HK$2,600,000 (31 December 2019: HK$895,000), buildings of HK$37,392,000 (31 December 2019: HK$36,801,000) and leasehold land of HK$11,629,000 (31 December 2019: HK$11,208,000) were pledged to a bank to secure general banking facilities.

Foreign Exchange Exposure

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollar, United States dollar or Renminbi. The Group is exposed to foreign currency risk primarily from import purchases from overseas suppliers that are denominated in 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 year. Should the Group consider that its foreign currency risk justifies hedging, the Group may use forward or hedging contracts to reduce the risks.

Remuneration Policy for Employees

As at 31 December 2020, the Group had 392 staff (31 December 2019: 378). The Group’s remuneration policy is based on the Group’s operating results and the employees’ performance. The Group has adopted a performance-based appraisal scheme for its employees focusing on “accountability and performance”. The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group’s operating efficiency, calculated by various rankings and further taken into account the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offers social and medical insurances and pension schemes to all employees in different areas.

CORPORATE GOVERNANCE CODE

The Group recognizes the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and is fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Directors"), the Company had complied with the code provisions and, where appropriate, the applicable recommended best practices in the CG Code throughout the year ended 31 December 2020, save and except for the following deviation:

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

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

(1) Rules 3.10(1) and 3.10A of the Listing Rules with regard to the number and proportion of Independent Non-Executive Directors on the Board;

(2) Rule 3.21 of the Listing Rules with regard to the membership and composition of the Audit Committee;

(3) Rule 3.25 of the Listing Rules with regard to the membership and composition of the Remuneration Committee; and

(4) Code provision A.5.1 of the Corporate Governance Code with regard to the membership and composition of the Nomination Committee.

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

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2020 have been reviewed by the Audit Committee of the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities listed on The Stock Exchange of Hong Kong Limited during the year.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021 (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, 18 June 2021, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 11 June 2021.

By Order of the Board
Kuang Hu
Chairman

Hong Kong, 26 March 2021

As at the date of this announcement, the Board 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.