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 2021

Unaudited financial highlights for the six months ended 30 June

	2021	2020	Changes
	HK$'000	HK$'000	%
Revenue	**112,398**	55,651	+102.0
Loss attributable to shareholders of the Company	**(3,995)**	(9,631)	+58.5
Loss per share - Basic	**HK(0.74)cents**	HK(1.79)cents	+58.7

CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 together with comparative figures for the corresponding period in 2020. These results have not been audited, but have been reviewed by the Company's audit committee (the "Audit Committee") and the independent auditor, Messrs. Ernst & Young.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2021

		For the six months ended 30 June	
	Notes	**2021**	2020
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
REVENUE			
Processing and sale of leather	*3*	**112,398**	55,651
Cost of sales		**(98,979)**	(56,841)
Gross profit/(loss)		**13,419**	(1,190)
Other income and gains	*3*	**1,429**	804
Selling and distribution expenses		**(835)**	(757)
Administrative expenses		**(13,766)**	(9,443)
Other operating income, net		**824**	5,194
Impairment on items of plant and equipment		**(3,595)**	(1,528)
Finance costs	*4*	**(1,364)**	(2,588)
LOSS BEFORE TAX	*4*	**(3,888)**	(9,508)
Income tax expense	*5*	**(107)**	(123)
LOSS FOR THE PERIOD		**(3,995)**	(9,631)
LOSS PER SHARE	*6*		
- Basic		**HK(0.74) cents**	HK(1.79) cents
- Diluted		**HK(0.74) cents**	HK(1.79) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

	For the six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	**(3,995)**	(9,631)
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	**445**	(378)
Income tax effect	**(111)**	95
	334	(283)
Other comprehensive income/(loss) that may be reclassified to the profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,981**	(3,628)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**2,315**	(3,911)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(1,680)**	(13,542)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2021

	Notes	**30 June 2021** ***HK$'000*** **(Unaudited)**	31 December 2020 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**42,692**	42,871
Right-of-use assets		**12,564**	12,581
Total non-current assets		**55,256**	55,452
CURRENT ASSETS			
Inventories		**89,838**	60,260
Receivables, prepayments and deposits	*8*	**88,534**	72,277
Pledged bank balances		**970**	2,600
Cash and bank balances		**23,756**	60,939
Total current assets		**203,098**	196,076
CURRENT LIABILITIES			
Trade payables	*9*	**48,637**	43,754
Other payables and accruals		**11,569**	13,479
Interest-bearing bank borrowings		**4,529**	386
Due to a PRC joint venture partner		**1,131**	1,131
Provision		**3,833**	3,790
Tax payable		**74**	29
Total current liabilities		**69,773**	62,569
NET CURRENT ASSETS		**133,325**	133,507
TOTAL ASSETS LESS CURRENT LIABILITIES		**188,581**	188,959
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**138,019**	137,200
Other payables		**20,800**	20,428
Deferred tax liabilities		**3,498**	3,387
Total non-current liabilities		**162,317**	161,015
Net assets		**26,264**	27,944
EQUITY			
Share capital		**75,032**	75,032
Other reserves		**(48,768)**	(47,088)
Total equity		**26,264**	27,944

Notes:

(1) ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2021 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 2020.

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 2020, 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. Except for amendment to HKFRS 16, 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 2020 that is included in this unaudited interim condensed financial information for the six months ended 30 June 2021 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 2020 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 2020. 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 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform - Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

    The Group had certain interest-bearing other borrowings denominated in Hong Kong dollars and United State Dollars based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate as at 30 June 2021. Since the interest rates of these borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the "economically equivalent" criterion is met.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the 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 by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of accumulated losses at the beginning of the current accounting period. Earlier application is permitted.

    The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic.

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	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**23,197**	7,425
Customer B	**20,705**	12,649
Customer C	**14,814**	6,143

(3) REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of processed leather	**112,398**	55,651

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

	For the six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income and gains		
Finance income	**71**	83
Sale of scrap materials	**363**	230
Government grants	**688**	318
Income from subcontracted leather processing	**236**	169
Others	**71**	4
	1,429	804

(4) LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**101,322**	57,005
Depreciation for items of plant and equipment	**1,956**	1,011
Depreciation for right-of-use assets	**161**	175
Impairment of right-of-use assets#	**-**	107
Gain on derecognition of lease liabilities#	**-**	(847)
Reversal of payables and accruals#	**-**	(3,748)
Interest on:		
Bank loans and discounting bills receivable to banks	**151**	64
Lease liabilities	**10**	41
Loans from the immediate holding company	**1,111**	2,483
Due to the immediate holding company	**92**	-
	1,364	2,588
Reversal of impairment of trade and other receivables#	**(422)**	(706)
Reversal of provision for inventories*	**(2,343)**	(164)

* These items are included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss.

\# These items are included in "Other operating income, 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 2020: 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	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group - Mainland China		
Provision for the period	**107**	123

(6) LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the period of HK$3,995,000 (six months ended 30 June 2020: HK$9,631,000) and the weighted average number of ordinary shares of 538,019,000 (30 June 2020: 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 2021 and 2020 in the calculation of diluted loss per share as there were no dilutive events during the periods ended 30 June 2021 and 2020.

(7) DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**47,154**	32,527
Bills receivable	**36,860**	38,440
Prepayments, deposits and other receivables	**4,520**	1,310
	88,534	72,277

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

	30 June 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**83,046**	70,458
Less than 3 months past due	**983**	1,074
More than 3 months past due	**127**	-
	84,156	71,532
Impairment	**(142)**	(565)
	84,014	70,967

(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 2021	31 December 2020
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**28,814**	29,356
3 to 6 months	**16,940**	11,444
Over 6 months	**2,883**	2,954
	48,637	43,754

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The unaudited consolidated loss attributable to shareholders of the Company for the six months ended 30 June 2021 was HK$3,995,000, representing a decrease in loss of HK$5,636,000 or 58.5% from HK$9,631,000 for the corresponding period last year.

The unaudited net asset value of the Group as at 30 June 2021 was HK$26,264,000, representing an increase of HK$20,118,000 and a decrease of HK$1,680,000 as compared to the net asset value as at 30 June 2020 and 31 December 2020, respectively.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

Business Review

In the first half of 2021, with the promulgation of the national environmental protection policies and regulations as well as the implementation of phasing out outdated production capacity, competition in the leather industry intensified. Factors such as the continuous impact of the global pandemic, changes in the international trade environment and the increase in prices of bulk raw materials further tested the comprehensive strength and adaptability of leather manufacturers. During the period, the Group adhered to the direction of "Implementation of product strategy, optimization of production efficiency and upgrade of innovation" as its primary operation strategies. On the one hand, the Group strived to strengthen fundamental management and reduce costs by benchmarking against the industry and outstanding enterprises. On the other hand, it adopted the marketing strategy of "production and sales of all products" and actively scale-up the production capacity so as to improve the economies of scale and reduce the unit production cost. In addition, the Group actively expanded diversified and innovative business, enhanced the added value of its products, created new profit growing points and improved operating efficiency. During the period, driven by the decrease in unit cost of products and the increase in sales volume of cowhides products, the Group achieved a turnaround from gross loss to gross profit. Gross profit increased significantly, resulting in a substantial improvement in the operating results as compared to the corresponding period last year.

In terms of environmental protection, to cope with the environmental protection standards of the national and local governments, the environmental protection control became increasingly stringent. The regulations on solid waste pollution and pollutant discharge management have been fully implemented in the first half of 2021. In addition to improving techniques and increasing investment in environmental protection, the tannery industry was also required to specifically implement standard management. During the period, the Group implemented the reconstruction project of hazardous waste warehouses, set up smart terminals and video surveillance facilities, and strengthened the analysis and monitoring of various indicators of sewage stations. It also continuously monitored the biochemical system to prevent excessive emissions and ensure a safe and stable production environment.

During the period, the total production volume of cowhides was 6,749,000 sq. ft., representing an increase of 2,592,000 sq. ft. or 62.4% as compared to 4,157,000 sq. ft. for the same period last year. The production volume of grey hides was 2,936 tons, representing a decrease of 113 tons or 3.7% as compared to 3,049 tons for the same period last year. During the period, the total sales volume of cowhides was 7,316,000 sq. ft., representing an increase of 3,775,000 sq. ft. or 106.6% from 3,541,000 sq. ft. for the same period last year. The sales volume of grey hides was 2,936 tons, representing a decrease of 113 tons or 3.7% as compared to 3,049 tons for the same period last year.

During the period, the consolidated turnover of the Group was HK$112,398,000, representing an increase of HK$56,747,000 or 102.0% from HK$55,651,000 for the corresponding period last year, of which the sales value of cowhides amounted to HK$100,497,000 (six months ended 30 June 2020: HK$45,780,000), representing an increase of 119.5%, and that of grey hides and other products amounted to HK$11,901,000 (six months ended 30 June 2020: HK$9,871,000), representing an increase of 20.6%. During the period, the Group took the initiative to call on its customers, focused on regional customers, and analyzed market trends and directions. It also entered into sales strategic agreements with customers, secured orders and seized market opportunities to clear inventory in a timely manner. During the period, both sales volume and turnover of the Group's footwear leather products increased significantly as compared with the same period last year.

In terms of sales, difficulties such as overcapacity and continuous emergence of new substitute material persisted. Coupled with changing consumer demand as well as increasing customers' desire for fashion design, variety, grades and quality, the tannery industry had to develop in a diversified, personalized, intelligent and green direction as a whole. During the period, the Group actively responded to market changes, timely adjusted sales strategies in response to the market demand, increased investment in research and development through multiple channels and highlighted product advantages. New products gained recognition from the customers, and the main products managed to take the lead in the market, which greatly enhanced the competitiveness of the Group.

In terms of purchasing, the Group always aware of the impact of the economic situation and government policies on the tannery industry, actively kept track of price fluctuation of raw cowhides and exchange rate, strengthened research of market conditions, as well as structured its product mixture according to production, supply and marketing plans. During the period, the soaring price of imported raw cowhides coupled with the sharp increase in orders, the Group actively explored various channels for raw cowhides procurement and strived to reduce the procurement cost on the premise of profitability and cash flow safety. In addition, the price of chemicals increased throughout the period. In order to control the costs to a greater extent, while keeping the current unit price unchanged, the Group actively carried out strategic procurement of inventory to control the cost of chemicals. Total purchase volume in the first half of the year amounted to HK$102,157,000, representing an increase of 72.5% over the same period of last year.

As at 30 June 2021, the Group's consolidated inventory amounted to HK$89,838,000 (31 December 2020: HK$60,260,000), representing an increase of HK$29,578,000 or 49.1% as compared to that as at 31 December 2020. The Group continued to adhere to the business strategy of destocking and actively improved the sales and destocking rate of finished products through quality control over the whole production process, continuously monitoring of inventory costs and strengthening inventory control. During the period, on the one hand, the Group reasonably organized the production of leather sources based on the grading of leather sources and sorting standards. On the other hand, in response to the market demand, it strengthened research and development in technology, formulated production plans corresponding to finished goods based on the leather inventory structure, and actively monitored the product structure of inventory. It also conducted sales and destocking of the diversified inventory, converted slow-moving inventory into cash flow and ensured that the working capital needs met with its normal operation. The Group had reassessed the value of inventory based on its aging and net realizable value and made a reversal of net provision for inventory of HK$2,343,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: HK$164,000).

As at 30 June 2021, the Group's property, plant and equipment amounted to HK$42,692,000 (31 December 2020: HK$42,871,000), representing a decrease of HK$179,000 or 0.4% as compared to that as at 31 December 2020. In view of the loss of the Group's operating results during the period, the recoverable amount of the plant and equipment was calculated by using value in use based on the discounted cash flow method and an impairment loss on plant and equipment of HK$3,595,000 was made for the six months ended 30 June 2021 (six months ended 30 June 2020: HK$1,528,000).

Financial Review

Liquidity and Financial Resources

As at 30 June 2021, the Group's cash and cash equivalents amounted to HK$23,756,000 (31 December 2020: HK$60,939,000), representing a decrease of HK$37,183,000 or 61.0% as compared to 31 December 2020, of which 10.1% were in Hong Kong dollars, 88.6% in Renminbi and 1.3% in United States dollars. Net cash outflow from operating activities for the period was HK$34,562,000, which was mainly attributable to the increase in net cash outflow from the increase in inventory. Net cash outflow from investing activities was HK$2,954,000, which was mainly attributable to the payment for renovations and purchase of machinery and equipment. Net cash outflow from financing activities was HK$218,000, which was mainly attributable to the payment of rental expenses.

As at 30 June 2021, the Group's total interest-bearing borrowings were HK$142,548,000 (31 December 2020: HK$386,000, which were United States dollar interest-bearing borrowings), of which HK$63,040,000 were Hong Kong dollar interest-bearing borrowings and HK$79,508,000 were United States dollar interest-bearing borrowings. The Group's borrowings mainly arose from: (1) short-term loans provided by a bank with a balance of HK$4,529,000, which were secured by bank deposits, buildings and leasehold land of HK$49,822,000; and (2) long-term unsecured borrowings from the immediate holding company with a balance of HK$138,019,000, which were charged at floating interest rates.

As at 30 June 2021, the Group's gearing ratio of interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 84.4% (31 December 2020: 83.1%). The annual interest rate of the borrowings during the period was approximately 1.3% to 2.0%. During the period, the Group's interest expenses amounted to HK$1,364,000, representing a decrease of 47.3% as compared with the same period of last year, which was mainly due to the decrease in loan interest rates.

As at 30 June 2021, the Group had banking facilities and an unsecured loan facility from a fellow subsidiary (the "Facilities") of HK$72,108,000 in total (31 December 2020: Facilities of HK$71,292,000) with utilized banking facilities of HK$4,529,000 (31 December 2020: banking facilities HK$386,000) and unutilized Facilities of HK$67,579,000 (31 December 2020: Facilities of HK$70,906,000). 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 2021, the net carrying amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK$55,256,000, representing a decrease of HK$196,000 over the net value of HK$55,452,000 as at 31 December 2020. The capital expenditure for the period amounted to HK$4,609,000 (six months ended 30 June 2020: HK$1,679,000) in total, which was mainly attributable to the payment of renovations as well as acquisition of machinery and equipment to meet the production needs of the Group.

Pledge of Assets

As at 30 June 2021, the Group's bank deposits of HK$970,000 (31 December 2020: HK$2,600,000), buildings of HK$37,241,000 (31 December 2020: HK$37,392,000) and leasehold land of HK$11,611,000 (31 December 2020: HK$11,629,000) 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 dollars, United States dollars 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 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, it may use forward or hedging contracts to reduce the risks.

Remuneration Policy for Employees

As at 30 June 2021, the Group had 385 staff (31 December 2020: 392). The Group's remuneration policy is based on its operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees and established an operation assessment mechanism focusing on "accountability and performance". Based on the Group's operating efficiency, the incentive scheme provides bonuses to the management, key officers and outstanding employees according to different ranking and individual performance, which effectively motivates employees to make contribution. In addition, the Group offered social and medical insurance coverage and pension schemes to all employees in different areas.

Prospects

Since the beginning of 2021, bulk commodity prices have generally increased, and the tannery industry has been facing pressure of rising raw material costs such as cowhides and chemicals. Coupled with the resurgence of the pandemic in some regions in the mainland China, the production and operation of leather processing enterprises in China are severely affected. In the second half of the year, the Group will continue to adhere to the direction of "Implementation of product strategy, optimization of production efficiency and upgrade of innovation" as its primary operation strategy, focus on strengthening asset turnover, inventory control and diversifying innovative businesses, and accelerate the realization of comprehensive turnaround as the core goal. The Group will actively strengthen its research and development in techniques and step up its efforts in developing high-end and high value-added products. In the meantime, the Group will strengthen its cost control, continue to expand its external processing business, enhance economies of scale, reduce costs and increase efficiency, and increase the selling prices of its products and the gross profit. In addition, it will continue to strengthen the identification and prediction of its key risks such as environmental protection, capital chain, safety, internal control, etc., and strengthen the normalized pandemic prevention and control to ensure its stable operation under the complex economic environment and strive to get a turnaround from loss to profit.

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 2021.

Review of Interim Results

The unaudited interim results of the Group for the six months ended 30 June 2021 have been reviewed by the Audit Committee of the Company and Messrs. Ernst & Young, the independent auditor 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 2021.

By Order of the Board
Kuang Hu
Chairman

Hong Kong, 16 August 2021

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.