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GUANGDONG TANNERY LIMITED

粵海制革有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01058)

2021 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	For the year ended 31 December		
	2021	2020	Change
Sales volume of cowhides (in thousand square feet)	12,262	14,949	-18.0%
Revenue (in thousand HK\$)	196,231	191,404	+2.5%
Loss for the year (in thousand HK\$)	(19,943)	(2,751)	-624.9%
Basic loss per share (in HK cent)	(3.71)	(0.51)	-627.5%
Key Indicators (As at 31 December)	2021	2020	Change
Current Ratio	3.40 times	3.13 times	+8.6%
Quick Ratio	1.57 times	2.17 times	-27.3%
Debt to asset ratio	23.5%	88.9%	-73.6%
Total assets (in thousand HK\$)	228,284	251,528	-9.2%
Net asset value per share (HK\$)	0.32	0.05	+540.0%

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 2021 together with comparative figures.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
REVENUE	4	196,231	191,404
Cost of sales		<u>(178,030)</u>	<u>(177,675)</u>
Gross profit		18,201	13,729
Other income and gains	4	1,814	6,180
Selling and distribution expenses		(1,683)	(1,510)
Administrative expenses		(32,510)	(20,033)
Impairment on items of plant and equipment		(4,499)	(3,183)
Other operating income, net		985	6,837
Finance costs	5	<u>(1,994)</u>	<u>(4,644)</u>
LOSS BEFORE TAX	5	(19,686)	(2,624)
Income tax expense	6	<u>(257)</u>	<u>(127)</u>
LOSS FOR THE YEAR		<u>(19,943)</u>	<u>(2,751)</u>
LOSS PER SHARE	7		
- Basic		<u>HK(3.71) cents</u>	<u>HK(0.51) cent</u>
- Diluted		<u>HK(3.71) cents</u>	<u>HK(0.51) cent</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
LOSS FOR THE YEAR	(19,943)	(2,751)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Surplus on revaluation of buildings	1,330	440
Income tax effect	<u>(333)</u>	<u>(110)</u>
	997	330
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>6,205</u>	<u>10,677</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>7,202</u>	<u>11,007</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u>(12,741)</u>	<u>8,256</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		45,434	42,871
Right-of-use assets		<u>12,622</u>	<u>12,581</u>
Total non-current assets		<u>58,056</u>	<u>55,452</u>
CURRENT ASSETS			
Inventories		91,534	60,260
Receivables, prepayments and deposits	9	59,629	72,277
Pledged bank balances		123	2,600
Cash and bank balances		<u>18,942</u>	<u>60,939</u>
Total current assets		<u>170,228</u>	<u>196,076</u>
CURRENT LIABILITIES			
Trade payables	10	25,068	43,754
Other payables, accruals and provision	11	23,757	17,269
Tax payable		72	29
Interest-bearing bank borrowings		-	386
Due to a PRC joint venture partner		<u>1,131</u>	<u>1,131</u>
Total current liabilities		<u>50,028</u>	<u>62,569</u>
NET CURRENT ASSETS		<u>120,200</u>	<u>133,507</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>178,256</u>	<u>188,959</u>
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		-	137,200
Other payables	11	-	20,428
Deferred tax liabilities		<u>3,720</u>	<u>3,387</u>
Total non-current liabilities		<u>3,720</u>	<u>161,015</u>
Net assets		<u>174,536</u>	<u>27,944</u>
EQUITY			
Share capital		75,032	75,032
Other reserves		<u>99,504</u>	<u>(47,088)</u>
Total equity		<u>174,536</u>	<u>27,944</u>

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 2021 and 31 December 2020 included in this preliminary announcement of annual results for the year ended 31 December 2021 does not constitute the Company's statutory annual consolidated financial statements for those years, but in respect of the year ended 31 December 2020, 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 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 and will deliver the financial statements for the year ended 31 December 2021 in due course.

Auditor' reports have been prepared on the financial statements of the Group for both years. The auditor' reports were unqualified; did not include a reference to any matters to which the auditor 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 2021. 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 following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform - Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

The adoption of the above 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	<i>Reference to the Conceptual Framework¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 17	<i>Insurance Contracts²</i>
Amendments to HKFRS 17	<i>Insurance Contracts^{2,5}</i>
Amendment to HKFRS 17	<i>Initial Application of HKFRS 17 and HKFRS 9 - Comparative Information²</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current^{2,4}</i>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies²</i>
Amendments to HKAS 8	<i>Definition of Accounting Estimates²</i>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction²</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use¹</i>
Amendments to HKAS 37	<i>Onerous Contracts - Cost of Fulfilling a Contract¹</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	<i>Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41²</i>

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

- ³ No mandatory effective date yet determined but available for adoption
- ⁴ 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
- ⁵ 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:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	34,286	20,961
Customer B	28,446	48,662
Customer C	<u>25,809</u>	<u>28,232</u>

(4) **REVENUE, OTHER INCOME AND GAINS**

An analysis of revenue is as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Revenue from contracts with customers</i>		
Sale of processed leather	<u>196,231</u>	<u>191,404</u>

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\$19,000 (2020: HK\$119,000).

(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.

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
<u>Other income and gains</u>		
Finance income	93	136
Sale of scrap materials	656	709
Government grants*	777	1,724
Gain on disposals of items of plant and equipment	-	2,047
Income from subcontracted leather processing	164	200
Net exchange gains	96	439
Others	<u>28</u>	<u>925</u>
	<u>1,814</u>	<u>6,180</u>

* During the year ended 31 December 2021, the Group received HK\$777,000 (2020: HK\$1,724,000) from the PRC local government as a support to the Group's PRC operations. There are no unfulfilled conditions or contingencies relating to these grants.

(5) **LOSS BEFORE TAX**

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

	2021	2020
	HK\$'000	HK\$'000
Cost of inventories sold	180,136	208,919
Auditor's remuneration	1,500	1,500
Depreciation of property, plant and equipment	2,163	3,416
Depreciation of right-of-use assets	324	323
Interests on:		
Bank loans and discounting bills receivable to banks	255	381
Lease liabilities	23	60
Loans from the then immediate holding company	1,276	3,655
Due to the then immediate holding company	440	548
	<u>1,994</u>	<u>4,644</u>
Employee benefit expense (excluding directors' remuneration):		
Wages and salaries	27,341	25,035
Pension scheme contributions (defined contribution schemes)*	4,817	1,852
	<u>32,158</u>	<u>26,887</u>
Reversal of provision for inventories**	(2,106)	(31,244)
Lease payments not included in the measurement of lease liabilities	4	4
Reversal of impairment of financial assets, net		
Reversal of impairment of trade receivables [#]	(573)	(2,173)
Impairment/(reversal of impairment) of financial assets included in other receivables, prepayments and deposits, net [#]	26	(25)
	<u>(547)</u>	<u>(2,198)</u>
Impairment of right-of-use assets [#]	-	107
Reversal of payables and accruals [#]	(438)	(3,899)
Gain on derecognition of lease liabilities [#]	-	(847)

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

** 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, 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 (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.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current - Mainland China		
Charge for the year	<u>257</u>	<u>127</u>
Total tax charge for the year	<u><u>257</u></u>	<u><u>127</u></u>

(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 (2020: 538,019,000) in issue during the year.

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Loss		
Loss for the year, used in the basic loss per share calculation	<u>19,943</u>	<u>2,751</u>

	Number of shares	
	2021	2020
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	<u>538,019,000</u>	<u>538,019,000</u>

No adjustment has been made to the calculation of the basic loss per share amounts presented for the years ended 31 December 2021 and 2020 as there was no dilutive event during the years ended 31 December 2021 and 2020.

(8) **DIVIDEND**

The Board does not recommend the payment of final dividend for the year ended 31 December 2021 (2020: Nil).

(9) RECEIVABLES, PREPAYMENTS AND DEPOSITS

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Trade receivables	(i)	35,140	32,527
Bills receivable	(i)	23,005	38,440
Prepayments, deposits and other receivables	(ii)	1,484	1,310
		<u>59,629</u>	<u>72,277</u>

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:

	2021 HK\$'000	2020 HK\$'000
Current	58,045	70,458
Less than 3 months past due	100	1,074
	<u>58,145</u>	<u>71,532</u>
Impairment	-	(565)
	<u>58,145</u>	<u>70,967</u>

- (ii) As at 31 December 2021, a provision of HK\$383,000 (2020: HK\$346,000) was made for other receivables with a gross carrying amount of HK\$383,000 (2020: HK\$346,000).

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within 3 months	16,628	29,356
3 to 6 months	5,440	11,444
Over 6 months	3,000	2,954
	<u>25,068</u>	<u>43,754</u>

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, ACCRUALS AND PROVISION

		2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<u>Current</u>			
Other payables and accruals	<i>(Note)</i>	14,043	12,586
Provision	<i>(Note)</i>	9,038	3,790
Contract liabilities		645	463
Lease liabilities		31	430
		<u>23,757</u>	<u>17,269</u>
<u>Non-current</u>			
Other payables	<i>(Note)</i>	-	20,417
Lease liabilities		-	11
		<u>-</u>	<u>20,428</u>
Total		<u>23,757</u>	<u>37,697</u>

Note:

As at 31 December 2020, included in other payables and accruals was accrued interest of HK\$20,417,000 due to the then immediate holding company which was interest-free, unsecured, not repayable before 31 July 2023 and arose from loans from the then immediate holding company. As at 28 September 2021, the accrued interest of HK\$20,857,000 was waived by the then 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.

As at 31 December 2021, the balance included (i) a provision in relation to an early termination of a joint venture agreement of HK\$3,901,000 (2020: HK\$3,790,000) and (ii) a provision of fine of HK\$5,137,000 (2020: Nil).

CHAIRMAN'S STATEMENT

RESULTS

I would like to present to the shareholders that the consolidated loss attributable to shareholders of the Group for year 2021 was HK\$19,943,000 (2020: HK\$2,751,000), representing an increase in loss of 624.9%. Basic loss per share was HK3.71cents (2020: HK0.51 cent).

DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2021 (2020: Nil).

REVIEW

The Group has experienced the worst peak season since establishment during the second half of 2021, and severely impacted by the shrinking demand, supply shock and weakening expectations attributed to the current economic downturn in China. In order to address the above challenges, the Group adhered to the work deployment strategies which formulated at the beginning of the year and upheld the core targets of maintaining a stable operation, the Group abided by the main development line of ensuring production, stability and cash flow in operation, analyzed the negative factors of the market with prudent and strive to overcome the adverse impact of the COVID-19 pandemic (the “Pandemic”). The Group endeavor to maintain a stable production and operation, aiming to facilitate the smooth implementation of asset restructuring.

With the preparation of a comprehensive budget at the beginning of the year, the Group set up various production and operation targets and strategies. Due to the impact of the Pandemic, orders for footwear leather have been trimming down and have caused the market demand for footwear leather continues to shrink. In response to the above difficulties, the Group actively carried out innovative projects of ecological leather and sofa leather. Firstly, on 4 February 2021, the Group successfully passed the British LWG Environmental Auditing Protocol Issue 6.7.0 and was accredited with Gold Rating. The Group has also established business relationships with internationally renowned brands, and entered a new phrase of increasing production from small batch trial production; secondly, the Group has established a production capacity system for the production and sales of all products, and the Group has commenced innovative projects for sofa leather, which adopted a two-way procedure that combined self-operation and subcontracting, thereby forming a rapid mass production and market reputation has been quickly established. Attribute to the above measures, the Group was able to stabilize the workforce, production and operation even with the shrinking orders for footwear leather in the second half of the year.

PROSPECTS

In 2022, the Group is expected to continue to implement new development concepts, strengthen management and promote innovative development, aiming to establish a position as a high-quality leather enterprise in the market, thus enhancing market competitiveness and development capabilities. “Implementation of product strategy, optimization of production efficiency and upgrade of innovation” will be the operational strategy of the Group for the future. In the meantime, the Group will make efforts on maintaining stable operation and enhancing operational efficiency, as well as accomplishing prevention and control measures against the Pandemic. On the one hand, the Group will promote the establishment of a rapid decision-making mechanism that is market-based, in order to shorten research and development, promotion and mass production cycle of new products. On the other hand, the Group will vigorously promote reform of system and mechanism, so as to optimize the layout of the production management. In order to strengthen the market influence and improve work efficiency, the Group will effectively promote an incentive assessment mechanism guided by market directions and market results as the criterion, and continuously optimize management system and mechanism. Meanwhile, on top of maintaining traditional cowhide footwear leather production, the Group will continue to promote the implementation of product systems of sofa leather and ecological leather product. The Group will also strengthen the composition of technical team and promote product development and product line design in an orderly manner, in an effort to form a comprehensive product system and realize product sales of all grades and stages without generating new inventory. Furthermore, the Group will continue to further enhance its comprehensive risk management and strengthen the establishment of mechanisms over key risks, including environmental protection, safety, funding and market, etc., so as to ensure safe operation of the Group in a complex economic environment.

Zhou Hao
Chairman

Hong Kong, 25 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Group's consolidated loss attributable to shareholders for the year ended 31 December 2021 was HK\$19,943,000, representing an increase in loss of HK\$17,192,000 or 624.9% from HK\$2,751,000 for the corresponding period last year.

The net asset value of the Group as at 31 December 2021 was HK\$174,536,000, representing an increase of HK\$146,592,000 and HK\$148,272,000 as compared to the net asset value as at 31 December 2020 and 30 June 2021, respectively.

The Board does not recommend the payment of final dividend for the year ended 31 December 2021 (2020: Nil).

Business Review

The Group has experienced the worst peak season since establishment during the second half of 2021, and were severely impacted by the shrinking demand, supply shock and weakening expectations attributed to the current economic downturn in China. In order to address the challenges above, the Group adhered to the work deployment strategies formulated at the beginning of the year and upheld the core targets of maintaining a stable operation; the Group abided by the main development principle of ensuring production, stability and cash flow in operation, analyzed the negative factors of the market with prudence, and strived to overcome the adverse impacts of the pandemic. The Group endeavored to maintain a stable production and operation, aiming to facilitate the smooth implementation of asset restructuring.

In terms of environmental protection, to improve the management of hazardous wastes, the Group increased its investment in environment improvement works during the year and rebuilt hazardous waste warehouses in accordance with the Administrative Regulations on Hazardous Waste. The Group also built additional waste gas collection and treatment facilities to process waste gas generated during production and sewage treatment, which effectively solved the problem of unorganized emission of waste gas and greatly improved the working environment. At the same time, the Group enhanced the communication and relationship with testing companies and solid waste treatment unit, and increased the quality inspection of each part, thereby improving the efficiency of day-to-day operation for environmental protection and handling the relevant environmental problems in a timely manner. The environmental protection pressure has thus been greatly lessened.

During the year, the total production volume of cowhides was 11,706,000 sq.ft., representing a decrease of 1,352,000 sq.ft. or 10.4% as compared to 13,058,000 sq.ft. last year. The production volume of grey hides was 5,706 tons, representing a decrease of 693 tons or 10.8% as compared to 6,399 tons last year. During the year, the total sales volume of cowhides was 12,262,000 sq.ft., representing a decrease of 2,687,000 sq.ft. or 18.0% as compared to 14,949,000 sq.ft. last year. The sales volume of grey hides was 5,706 tons, representing a decrease of 693 tons or 10.8% as compared to 6,399 tons last year.

In 2021, the Group's consolidated turnover was HK\$196,231,000, representing an increase of HK\$4,827,000 or 2.5% from HK\$191,404,000 last year, of which, the sales of cowhides was HK\$171,485,000 (2020: HK\$170,736,000), representing an increase of 0.4%; grey hides and other products were HK\$24,746,000 (2020: HK\$20,668,000), representing an increase of 19.7%. The Group maintained stable production and sales and adopted the marketing strategy of production and sales of all products while releasing production capacity, so as to strictly control the inventory time of new products. Through the continuous development of ecological leather and sofa leather projects, the Group's capabilities in innovation and research and development have been improved, thereby the sales revenue has increased as compared to last year.

In terms of production and operation, under the impact of the Pandemic, the orders of footwear leather were declining, the market demand of which continued to shrink. In response to the difficulties above, the Group actively carried out innovative projects of ecological leather and sofa leather. Firstly, on 4 February 2021, the Company was certified by the British LWG Environmental Auditing Protocol Issue 6.7.0 and was accredited with Gold Rating. It laid a solid foundation for the Company to carry out export sales and sofa leather projects as well as to enter the high-end supply chain market. The Group had also established business relationships with internationally renowned brands and entered a new phase of increasing production from small batch trial production. Secondly, the Group had established a production capacity system for the production and sales of all products. In terms of product development, the Group achieved a balanced production in off and peak seasons and balanced sales across different regional markets, and implemented effective sales strategies on different markets based on different product structures. Thirdly, the Group adopted a two-way procedure that combined self-operation and processing for sofa leather, thereby forming a rapid mass production; market reputation has thus been established quickly. Attribute to the above measures, the Group was able to stabilize production, workforce and operation even with the shrinking orders for footwear leather in 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". The Group actively explored various channels for raw cowhides procurement, strategically reserved special leather chemicals and strived to reduce the procurement cost of the raw materials. During the year, the total procurement amounted to HK\$173,358,000, representing an increase of 30.8% as compared to the same period last year.

As at 31 December 2021, the Group's consolidated inventory amounted to HK\$91,534,000 (31 December 2020: HK\$60,260,000), representing an increase of HK\$31,274,000 or 51.9% as compared to that as at 31 December 2020. The Group continued to take inventory reduction and achieving positive cashflow as a priority. Against the backdrop of declining market demand, the Group controlled the purchase of raw leather and reduced inventory through multiple channels. During the year, the Group actively expanded the eco-leather and sofa leather projects. By re-engineering production techniques as well as product ratification and integration, the problem of slow-moving inventory was resolved. 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\$2,106,000 for 2021 (2020: reversal of net provision for inventory of HK\$31,244,000).

As at 31 December 2021, the Group's property, plant and equipment amounted to HK\$45,434,000 (31 December 2020: HK\$42,871,000), representing an increase of HK\$2,563,000 or 6.0% as compared to that as at 31 December 2020. In view of the loss of the Group's operating results during the year, 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\$4,499,000 was made for 2021 (2020: HK\$3,183,000).

Financial Review

Liquidity and Financial Resources

As at 31 December 2021, the Group's cash and cash equivalents amounted to HK\$18,942,000 (31 December 2020: HK\$60,939,000), representing a decrease of HK\$41,997,000 or 68.9% as compared to 31 December 2020, of which 17.1% were in Hong Kong dollars, 81.4% in Renminbi and 1.5% in United States dollars. Net cash outflow from operating activities for the year was HK\$39,405,000, which was mainly attributable to the increase in net cash outflow from the increase in inventory. Net cash outflow from investing activities was HK\$3,240,000, which was mainly attributable to the increase in payment for purchase of machinery and equipment. Net cash outflow from financing activities was HK\$415,000, which was mainly attributable to the payment of rental expenses.

As at 31 December 2021, the Group did not have any interest-bearing borrowings (31 December 2020: HK\$386,000, which were United States dollar interest-bearing borrowings). The Group's borrowings arose from short-term loans provided by a bank, which were secured by bank deposits, buildings and leasehold land prepayments of HK\$52,630,000 in total and charged at a floating rate. During 2020, the Group obtained a waiver of interests from the then immediate holding company on its long-term unsecured loans of HK\$137,200,000 for one year, commencing from 1 January 2020. On 28 September 2021, the then immediate holding company entered into a deed of waiver to waive the rights and entitlements of the Group to the repayment of the outstanding principal and interest accrued under its loans.

As at 31 December 2021, the Group's gearing ratio of interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was zero (31 December 2020: 1.36%). The annual interest rate of the borrowings during the period was approximately 1.3% to 2.0%. During the year, the Group's interest expenses amounted to HK\$1,994,000, representing a decrease of 57.1% as compared with the same period of last year, which was mainly due to a waiver of interests on its long-term unsecured loans in the fourth quarter.

As at 31 December 2021, the Group had banking facilities of HK\$48,924,000 in total which are all unutilized; whereas as at 31 December 2020, the Group had banking facilities and an unsecured loan facility from a fellow subsidiary of HK\$71,292,000, of which HK\$386,000 was utilized and the remaining HK\$70,906,000 was unutilized. 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 31 December 2021, the net amount of non-current assets including property, plant and equipment and right-of-use assets amounted to HK\$58,056,000, representing an increase of HK\$2,604,000 over the net value of HK\$55,452,000 as at 31 December 2020. The capital expenditure for the year amounted to HK\$5,755,000 (2020: HK\$5,769,000) in total, which was mainly attributable to the payment of acquisition of machinery and equipment to meet the production needs of the Group.

Pledge of Assets

As at 31 December 2021, the Group's bank deposits of HK\$123,000 (31 December 2020: HK\$2,600,000), buildings of HK\$39,482,000 (31 December 2020: HK\$37,392,000) and leasehold land prepayments of HK\$12,622,000 (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 year. 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 31 December 2021, the Group had 364 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.

CORPORATE GOVERNANCE CODE

The Group recognizes the importance of achieving the highest standard of corporate governance consistent with the needs and requirements of its business 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 good corporate governance of the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong.

In the opinion of the directors of the Company, the Company had complied with the code provisions and, where appropriate, the applicable recommended best practices in the CG Code throughout the year ended 31 December 2021, save as disclosed below:

Due to travel restrictions as a result of the COVID-19 Pandemic, the chairman of the Board of Director, the chairman of the Nomination Committee and the chairman of the Audit Committee were unable to attend the annual general meeting of the Company held on 18 June 2021 (the “2021 Annual General Meeting”) in person as required by Code Provision F.2.2. Nevertheless, with the consent of other Directors, Mr. Leung Luen Cheong, an Independent Non-Executive Director of the Company and chairman of the Remuneration Committee, chaired the 2021 Annual General Meeting.

REVIEW OF ANNUAL RESULTS

The annual results of the Group for the year ended 31 December 2021 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, 14 June 2022 to Friday, 17 June 2022 (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, 17 June 2022, 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 Monday, 13 June 2022.

By Order of the Board
Zhou Hao
Chairman

Hong Kong, 25 March 2022

As at the date of this announcement, the Board comprises two Executive Directors, namely, Mr. Zhou Hao and Mr. Sun Jun; two Non-Executive Directors, namely, Huang Junfeng and Mr. Kuang Hu; and three Independent Non-Executive Directors, namely, Mr. Yeung Man Lee, Mr. Leung Luen Cheong and Mr. Yang Ge.