



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)

2009 中期報告

INTERIM REPORT





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Business and Financial Review

Results

The unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2009 of Guangdong Tannery Limited (the “Company”) and its subsidiaries (the “Group”) was HK\$3,832,000, representing a decrease of HK\$8,519,000 as compared to the profit of HK\$4,687,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2009 was HK\$263,734,000, representing a decrease of HK\$8,140,000 and HK\$3,502,000 as compared to the net asset value as at 30 June 2008 and 31 December 2008 respectively.

The board of directors of the Company (the “Board”) resolved not to declare the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).

Business Review

Under the premises of global economic downturn, the slowdown on growth of economy in Europe and United States resulted in shrinking of the export market for tannery products in China. For the tannery industry in China, with the sharp fall in the export sales orders, together with the exit of investments in China at an extensive extent by Russia, the export market for tannery products in China was further dampened. Despite the large and middle enterprises with relatively solid strength were still able to maintain their normal operation, their profitability fell significantly as compared with previous years. The Group conducted an in-depth research on its own, its customers and its market for the consolidation of its operational scale, therefore, various solutions were prepared to tackle the difficulties and questions that might arise. Besides, the Group continued to implement the strategies such as “decreasing the inventory and increasing the market share” that had achieved desirable results. This further improved the cash flow of the Group.

During the period, the Group had adequately considered the factors such as relatively greater shrinking in the market demand and fall in sales orders as well as the price trend of cowhides market and adjusted its scale of production to an appropriate level. The cowhides production volume for the period was 9,923,000 sq. ft., representing a decrease of 3,527,000 sq. ft. or 26.2% as compared to 13,450,000 sq. ft. for the same period of last year. During the period, more cowhides were applied as input for the production activities, resulting in an increase in the production volume of grey hides for the period. The grey hides production volume was 4,506 tons, representing an increase of 1,951 tons or 76.4% as compared to 2,555 tons for the same period of last year.

Business and Financial Review *(Cont'd)*

Business Review *(Cont'd)*

During the period, the consolidated turnover of the Group was HK\$182,797,000, representing a decrease of HK\$93,564,000 or 33.9% from HK\$276,361,000 for the same period of last year. The turnover of cowhides amounted to HK\$170,052,000 (2008: HK\$261,063,000), representing a decrease of 34.9% and the turnover of grey hides and other products amounted to HK\$12,745,000 (2008: HK\$15,298,000), representing a decrease of 16.7%. Confronted with adverse conditions such as market slowdown and reduction in consumption demand, the Group had adopted the following measures: (1) due to a drop of export market, the Group promptly adjusted its focus point on its sales market. During the period, the goal for achieving “market equilibrium” was changed to focus on serving major footwear manufacturers and regional major distributors, which set the goal in a practical manner to achieve effective sales and risk control; (2) increasing direct sales to major footwear manufacturers so as to achieve a breakthrough in terms of quality and quantity for this segment. During the period, the Group established a strategic supply-and-sale relationships with major footwear manufacturers in order to obtain the competitive advantage at respective market, which initially set up the strategic supply-and-sale relationship for specific product development, production and sales of products; and (3) to implement an integrated production and sales management system for fostering better execution of production in a “market oriented” and “cost oriented” manner. The motivation mechanisms of the sales department and production department were linked, which encouraged production and sale of products that could be close to the market.

In the area of strategic development, the Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd. (“Xuzhou Tannery”) has already commenced its trial operations in May 2009. It is expected that the project will become operational in the second half of the year. Upon the operation has commenced, it is expected that the production capacity of upstream processing operation will increase to approximately 4,000,000 sq. ft. per month. This will resolve the issues regarding the lack of synergy between the upstream processing and downstream processing operation of the Group as well as environmental protection from the fundamental basis. In addition, the early preparation work for Jinsanqiao project in Xuzhou Economic Development Zone has commenced smoothly.

Financial Review

As at 30 June 2009, the Group’s cash and cash equivalents amounted to HK\$99,014,000 (as at 31 December 2008: HK\$97,653,000), representing an increase of HK\$1,361,000 or 1.4% as compared to the same as at 31 December 2008, which were denominated in Hong Kong dollars (3.4%), Renminbi (80.1%) and US dollars (16.5%) respectively. During the period, net cash inflow from operating activities was HK\$17,138,000. The cash outflow from investment activities was HK\$16,177,000, which was mainly used to settle the construction payment for the Relocation & Technical Renovation Project of Xuzhou Tannery and the acquisition for necessary plant and machinery.



Business and Financial Review *(Cont'd)*

Financial Review *(Cont'd)*

As at 30 June 2009, the Group's interest-bearing borrowings amounted to HK\$186,235,000 (as at 31 December 2008: HK\$188,445,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK\$83,087,000 and interest-bearing borrowings in US dollars amounted to HK\$103,148,000. The Group's borrowings mainly consist of: (1) balances of unsecured short-term bank borrowings of HK\$2,918,000; (2) balances of long-term and short-term unsecured intra-group borrowings of HK\$121,718,000; and (3) balances of convertible notes held by the Group's immediate holding company of HK\$61,599,000. Other than the convertible notes, which was charged at 1% per annum, the above interest-bearing borrowings were charged at floating interest rate.

As at 30 June 2009, after deduction of the cash and bank balances, the Group's gearing ratio of the net value of interest-bearing borrowings to adjusted capital (including shareholders' equity and convertible notes) plus net value of interest-bearing borrowings was 7.3% (as at 31 December 2008: 8.6%). During the period, the annual interest rate of the borrowings was approximately 2.2% to 4.0%. Of the Group's total borrowings, all are repayable within one year except for the amount due to immediate holding company and a fellow subsidiary and convertible notes with an aggregate amount of HK\$111,368,000 and HK\$61,599,000 respectively. The Group's interest expenses for the period amounted to HK\$3,774,000, representing a decrease of 52.2% from the same period of last year.

As at 30 June 2009, the total banking facilities of the Group was HK\$146,338,000 (as at 31 December 2008: HK\$78,239,000), of which utilized banking facilities amounted to HK\$2,918,000 and unutilized banking facilities amounted to HK\$143,420,000. Taking into account of the existing cash resources and available credit facilities as well as the cash flow generated by the Group's operating business, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 30 June 2009, the net value of non-current assets including land, property, machinery and equipments and investment property amounted to HK\$86,663,000, representing an increase of HK\$14,250,000 over the net value of HK\$72,413,000 as at 31 December 2008. The capital expenditure for the period amounted to HK\$17,516,000 (2008: HK\$5,447,000), which mainly represented the payment of the construction works of Relocation & Technical Renovation Project of Xuzhou Tannery and the acquisition of machinery and equipments for that project to cope with the production and development requirements of the Group.

Business and Financial Review *(Cont'd)*

Pledge of Assets

As at 30 June 2009, certain of the Group's bank balances, plant and machinery with a total net book value of HK\$25,244,000 (as at 31 December 2008: HK\$16,707,000) were pledged to secure general banking facilities granted to the Group.

Risk of Exchange Rate

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, US dollars or Renminbi. During the period, the exchange rates of Hong Kong dollars and US dollars were relatively stable without causing any material risk of exchange rate; as to the appreciation of Renminbi, since the sales of the Group are settled in Renminbi, whereas the purchases are made in Renminbi and US dollars, the Group does not have material exposure to foreign exchange.

Remuneration Policy for Employees

As at 30 June 2009, a total of 827 employees (as at 30 June 2008: 975) were employed by the Group. The remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based evaluation scheme for its employees focusing on "accountability and performance" with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to the senior management to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Prospects

The business environment for footwear manufacturing and tannery enterprises in China for the second half of 2009 remains unfavourable. The microeconomic environment of enterprises in China is subject to the effect of uncertainties such as deflation, inflation and the implementation of various economic policies. In fact, the economy has not yet turnaround from slowdown. Moreover, the State Environmental Protection Administration tightened its requirement on sewage disposal, which increased the cost of the Group for environmental protection issues. It is expected that the Group will still face certain challenges on its operation in future. The Group will continue to implement sound management vision and strategies for the development of the enterprise in a prudent manner in future. Sales and marketing activities will be strengthened whilst costs and fees will be reduced. An integrated production and sales management system will be adopted synchronically. Efforts will be devoted to the research of new product types and tap into the tannery market in addition to footwear hides. Control will be given over all operational risks, which will further strengthen the establishment of team and system of the enterprise. These initiatives will in turn enhance the overall market share and profitability of the Group.



Report on Review of Interim Financial Information



To the board of directors of
Guangdong Tannery Limited
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial information of the Group set out on pages 7 to 26 which comprises the condensed consolidated balance sheet as at 30 June 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

8 September 2009

Unaudited Interim Financial Statements

Condensed Consolidated Income Statement

Six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
REVENUE			
Processing and sale of leather	3	182,797	276,361
Cost of sales		(177,848)	(256,852)
Gross profit		4,949	19,509
Other income and gains	3	7,553	5,747
Selling and distribution costs		(1,016)	(1,036)
Administrative expenses		(9,097)	(8,855)
Finance costs	4	(3,774)	(7,891)
PROFIT/(LOSS) BEFORE TAX	4	(1,385)	7,474
Tax	5	(2,447)	(2,787)
PROFIT/(LOSS) FOR THE PERIOD		(3,832)	4,687
EARNINGS/(LOSS) PER SHARE	6		
– Basic		(HK0.71 cents)	HK0.87 cents
– Diluted		N/A	N/A

Unaudited Interim Financial Statements *(Cont'd)*

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2009

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	(3,832)	4,687
Exchange differences on translating foreign operations	196	23,933
Surplus/(deficit) on revaluation of buildings	(12)	96
Deferred tax	3	(24)
	(9)	72
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	187	24,005
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(3,645)	28,692

Unaudited Interim Financial Statements (Cont'd)

Condensed Consolidated Balance Sheet

30 June 2009

	Notes	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		78,780	64,371
Investment property		2,020	2,120
Prepaid land lease payments		5,863	5,922
Total non-current assets		86,663	72,413
CURRENT ASSETS			
Inventories		191,541	209,521
Receivables, prepayments and deposits	8	163,410	138,009
Pledged deposits		9,437	10,771
Cash and cash equivalents		99,014	97,653
Total current assets		463,402	455,954
CURRENT LIABILITIES			
Trade payables	9	51,886	42,768
Receipt in advance, other payables and accruals		40,625	23,192
Interest-bearing bank and other borrowings	10	2,918	6,801
Due to a PRC joint venture partner	17(b)(ii)	1,131	1,131
Loan from the immediate holding company	11	10,350	–
Provision		3,619	3,617
Tax payable		1,860	998
Total current liabilities		112,389	78,507
NET CURRENT ASSETS		351,013	377,447
TOTAL ASSETS LESS CURRENT LIABILITIES		437,676	449,860
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	11	56,768	67,118
Loan from a fellow subsidiary	12	54,600	54,600
Convertible notes	13	61,599	59,926
Deferred tax liabilities		975	980
Total non-current liabilities		173,942	182,624
Net assets		263,734	267,236
EQUITY			
Issued capital	14	53,750	53,750
Reserves	15	209,984	213,486
Total equity		263,734	267,236

Unaudited Interim Financial Statements (Cont'd)

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2009

	Equity component										Total
	Issued capital	Share premium account	of convertible notes	General reserve fund	Reserve funds	Share option reserve	Capital redemption reserve	Exchange translation reserve	Property revaluation reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008 (Audited)	53,750	413,968	5,545	167,746	6,887	-	445	38,135	1,562	(444,856)	243,182
Profit for the period	-	-	-	-	-	-	-	-	-	4,687	4,687
Other comprehensive income	-	-	-	-	-	-	-	23,933	72	-	24,005
Total comprehensive income	-	-	-	-	-	-	-	23,933	72	4,687	28,692
At 30 June 2008 (Unaudited)	<u>53,750</u>	<u>413,968*</u>	<u>5,545*</u>	<u>167,746*</u>	<u>6,887*</u>	<u>-*</u>	<u>445*</u>	<u>62,068*</u>	<u>1,634*</u>	<u>(440,169)*</u>	<u>271,874</u>
At 1 January 2009 (Audited)	53,750	413,968	5,545	167,746	9,449	35	445	59,061	1,605	(444,368)	267,236
Loss for the period	-	-	-	-	-	-	-	-	-	(3,832)	(3,832)
Other comprehensive income/(loss)	-	-	-	-	-	-	-	196	(9)	-	187
Total comprehensive income/(loss)	-	-	-	-	-	-	-	196	(9)	(3,832)	(3,645)
Equity-settled share option arrangements	-	-	-	-	-	143	-	-	-	-	143
At 30 June 2009 (Unaudited)	<u>53,750</u>	<u>413,968*</u>	<u>5,545*</u>	<u>167,746*</u>	<u>9,449*</u>	<u>178*</u>	<u>445*</u>	<u>59,257*</u>	<u>1,596*</u>	<u>(448,200)*</u>	<u>263,734</u>

* These reserve accounts comprise the consolidated reserves of HK\$209,984,000 (2008: HK\$218,124,000) in the condensed consolidated balance sheet as at 30 June 2009.



Unaudited Interim Financial Statements *(Cont'd)*

Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH INFLOW FROM OPERATING ACTIVITIES	17,138	39,442
CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	(16,177)	5,053
CASH OUTFLOW FROM FINANCING ACTIVITIES	—	(25,110)
NET INCREASE IN CASH AND CASH EQUIVALENTS	961	19,385
Cash and cash equivalents at beginning of period	97,653	60,995
Effect of foreign exchange rate changes, net	400	2,726
CASH AND CASH EQUIVALENTS AT END OF PERIOD	99,014	83,106
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	99,014	83,106

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements

30 June 2009

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2008.

1.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

The Group has adopted the following new and revised HKFRSs for the first time for the current period’s unaudited condensed consolidated interim financial statements. Except for certain cases giving rise to new or amended disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these unaudited condensed consolidated interim financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2009

1. ACCOUNTING POLICIES *(Cont'd)*

1.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

(Cont'd)

Apart from the above, the HKICPA has issued Improvements to HKFRSs which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The improvements have no impact on the unaudited condensed consolidated interim financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) *HKFRS 8 Operating Segments*

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geography) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 Segment Reporting.

(b) *HKAS 1 (Revised) Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit and loss, together with all items of income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.



Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)* 30 June 2009

1. ACCOUNTING POLICIES *(Cont'd)*

1.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 (Revised)	<i>First-time Adoption of HKFRS¹</i>
HKFRS 3 (Revised)	<i>Business Combinations¹</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements¹</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items¹</i>
HK(IFRIC)-Int 17	<i>Distribution of Non-cash Assets to Owners¹</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers¹</i>

¹ Effective for annual periods beginning on or after 1 July 2009

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2. SEGMENT INFORMATION

No separate analysis of 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 the People's Republic of China (the "PRC" or "Mainland China").

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2009

3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and value-added tax.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Revenue		
Processing and sale of leather	<u>182,797</u>	<u>276,361</u>
Other income and gains		
Gross rental income	344	364
Interest income	663	546
Exchange gains	103	3,553
Sale of scrap materials	495	446
Government subsidies	2,723	–
Others	3,225	838
	<u>7,553</u>	<u>5,747</u>

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)* 30 June 2009

4. PROFIT/(LOSS) BEFORE TAX

This is arrived at after charging/(crediting):

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	182,281	260,436
Depreciation	3,106	3,000
Interest on:		
Bank loans and discounted bills	224	2,468
Convertible notes	1,981	1,874
Loans from the immediate holding company	795	2,248
Loan from a fellow subsidiary	774	1,301
	3,774	7,891
Write-back of provision for inventories	(4,433)	(3,584)

5. 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 (2008: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Xuzhou Tannery, a wholly-owned PRC subsidiary of the Company, was exempt from the PRC corporate income tax for the first two profit-making years, and is eligible for a 50%-relief from the PRC corporate income tax for the following three years under the PRC tax laws. For the period ended 30 June 2008, which is the fifth profitable year of Xuzhou Tannery, the applicable tax rate of Xuzhou Tannery, after the 50% reduction, was 12.5%. For the period ended 30 June 2009, the applicable tax rate of Xuzhou Tannery was 25%.

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2009

5. TAX (Cont'd)

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Group:		
Current – Mainland China	2,449	2,776
Deferred	(2)	11
	<hr/>	<hr/>
Total tax charge for the period	<u>2,447</u>	<u>2,787</u>

6. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the period and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) for the period, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Diluted earnings/(loss) per share for the periods ended 30 June 2009 and 2008 have not been disclosed, as the share options and the convertible notes outstanding during these periods had an anti-dilutive effect on the basic earnings/(loss) per share.

The calculations of basic earnings/(loss) per share are based on:

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) for the period, used in the basic earnings per share calculation	<u>(3,832)</u>	<u>4,687</u>

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2009

6. EARNINGS/(LOSS) PER SHARE (Cont'd)

	Number of shares	
	30 June 2009 (Unaudited)	30 June 2008 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	537,504,000	537,504,000

7. DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2009 (2008: Nil).

8. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2009, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$157,549,000 (31 December 2008: HK\$131,328,000) due from the Group's customers.

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 30 days of issuance, except for certain well-established customers, where the terms are extended for two to three months. 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. Trade receivables are non-interest-bearing.

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2009

8. RECEIVABLES, PREPAYMENTS AND DEPOSITS (Cont'd)

As at 30 June 2009, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Current	150,693	127,780
Less than 3 months	4,768	1,852
3 to 6 months	2,325	471
Over 6 months	223	1,685
	158,009	131,788
Impairment	(460)	(460)
	157,549	131,328

9. TRADE PAYABLES

As at 30 June 2009, the aged analysis of the Group's trade payables, based on the payment due date, is as follows:

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Within 3 months	25,237	19,227
3 to 6 months	15,056	16,900
6 to 12 months	6,263	2,111
Over 12 months	5,330	4,530
	51,886	42,768

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2009

10. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2009 (Unaudited)			31 December 2008 (Audited)		
	Effective interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Trust receipt loans, secured	N/A	N/A	–	LIBOR + 1.4	2009	6,801
Trust receipt loans, unsecured	3 – 4	2009	2,918	N/A	N/A	–
Non-current						
Convertible notes, unsecured (note 13)	6.63	2010	61,599	6.63	2010	59,926
			<u>64,517</u>			<u>66,727</u>

11. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The following table illustrates the loans from GDH Limited ("GDH"), the Company's immediate holding company:

	Notes	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Current	(a)	<u>10,350</u>	<u>–</u>
Non-current	(a)	–	10,350
	(b)	11,138	11,138
	(c)	45,630	45,630
		<u>56,768</u>	<u>67,118</u>

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2009

11. LOANS FROM THE IMMEDIATE HOLDING COMPANY *(Cont'd)*

Notes:

- (a) The loan is unsecured, bears interest at 3-month HIBOR + 1.5% (2008: 3-month HIBOR + 1%) per annum and is repayable within one year (2008: not repayable within one year from 31 December 2008).
- (b) The loan is unsecured, bears interest at 3-month HIBOR + 1.5% (2008: 3-month HIBOR + 1.5%) per annum and is repayable on 31 December 2013.
- (c) The balance represents an unsecured loan of US\$5,850,000, which bears interest at 3-month LIBOR + 1% (2008: 3-month LIBOR + 1%) per annum and is repayable on 31 July 2011.

12. LOAN FROM A FELLOW SUBSIDIARY

The loan represents an unsecured loan of US\$7,000,000 (31 December 2008: US\$7,000,000) (equivalent to approximately HK\$54,600,000 (31 December 2008: HK\$54,600,000)) advanced from Guangdong Assets Management Limited, a fellow subsidiary of the Company. The loan bears interest at 3-month LIBOR + 1.5% (31 December 2008: 3-month LIBOR + 1%) per annum and is repayable on 31 December 2010 (31 December 2008: not repayable within one year from 31 December 2008).

13. CONVERTIBLE NOTES

On 13 August 2007, the Company issued 61,500,000 1% convertible notes with a nominal value of HK\$61,500,000 to GDH, with maturity date on the third anniversary of the date of issue of the convertible notes (the "Maturity Date"). GDH has the right to convert the whole or part of the principal amount of the convertible notes into shares at any time and from time to time, from the 7th day after the date of the issue of the convertible notes up to the day which is 7 days prior to the Maturity Date, on the basis of one ordinary share for every 1.9 HK\$1 notes held. There was no movement in the number of these convertible notes during the period. Any convertible notes not converted will be redeemed on the Maturity Date at a price of HK\$1.0623 per HK\$1 note. The notes carry interest at a rate of 1% per annum, which is payable semi-annually in arrears on 13 February and 13 August.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2009

13. CONVERTIBLE NOTES *(Cont'd)*

The convertible notes issued have been split as to the liability and equity components, as follows:

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Nominal value of convertible notes issued	61,500	61,500
Equity component	(5,599)	(5,599)
Direct transaction costs attributable to the liability component	(537)	(537)
	<hr/>	<hr/>
Liability component at the issuance date	55,364	55,364
Interest expense	7,158	5,177
Interest paid	(923)	(615)
	<hr/>	<hr/>
Liability component at end of the period/year <i>(note 10)</i>	61,599	59,926
	<hr/> <hr/>	<hr/> <hr/>

14. SHARE CAPITAL

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Authorised:		
700,000,000 ordinary shares of HK\$0.10 each	70,000	70,000
	<hr/>	<hr/>
Issued and fully paid:		
537,504,000 ordinary shares of HK\$0.10 each	53,750	53,750
	<hr/> <hr/>	<hr/> <hr/>



Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)*

30 June 2009

14. SHARE CAPITAL *(Cont'd)*

Share option scheme

On 24 November 2008, the Company terminated its then share option scheme adopted on 31 May 2002 and adopted a new share option scheme (the "2008 Scheme").

The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors to contribute to the Group and to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such employees, officers and directors or to serve such other purposes as the Board may approve from time to time. Eligible persons of the 2008 Scheme include the employees, officers or directors of a member of the Group. The 2008 Scheme unless otherwise terminated or amended, will remain in force for 10 years from 24 November 2008.

As at 1 January 2009, there were 5,350,000 share options outstanding under the 2008 Scheme. During the six months ended 30 June 2009, 1,035,000 share options were lapsed upon resignation of certain director of the Company. As at 30 June 2009, there were 4,315,000 share options outstanding under the 2008 Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 4,315,000 additional ordinary shares of the Company and additional share capital of HK\$432,000 and share premium of HK\$768,000 (before issue expenses).

15. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity of the interim financial statements.

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd) 30 June 2009

16. COMMITMENTS

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Contracted, but not provided for:		
Land and buildings	21,079	28,731
Leasehold improvements	397	397
Plant and machinery	4,073	7,958
	25,549	37,086
Authorised, but not contracted for:		
Land and buildings	87,753	87,753
Plant and machinery	78,934	81,629
	166,687	169,382
	192,236	206,468

Unaudited Interim Financial Statements (Cont'd)

Notes to Condensed Consolidated Interim Financial Statements (Cont'd)

30 June 2009

17. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these unaudited condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Office rental paid to the fellow subsidiary	107	138
Computer system maintenance service fees paid to the immediate holding company	80	85
Interest expense to the immediate holding company attributable to:		
Loans	795	2,248
Convertible notes	1,981	1,874
	<u>2,776</u>	<u>4,122</u>
Interest expense to a fellow subsidiary	<u>774</u>	<u>1,301</u>

(b) Outstanding balances with related parties

- (i) Details of the loans from the immediate holding company and a fellow subsidiary and the convertible notes to the immediate holding company as at the balance sheet date are included in notes 11, 12 and 13 to the unaudited condensed consolidated interim financial statements, respectively.
- (ii) The amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment.

Unaudited Interim Financial Statements *(Cont'd)*

Notes to Condensed Consolidated Interim Financial Statements *(Cont'd)* 30 June 2009

17. RELATED PARTY TRANSACTIONS *(Cont'd)*

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Short term employee benefits	501	591
Post-employment benefits	167	175
Equity-settled share option expense	47	–
Total compensation paid to key management personnel	<u>715</u>	<u>766</u>

18. PLEDGE OF ASSETS

As at 30 June 2009, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Plant and machinery	15,807	5,936
Bank balances and deposit	9,437	10,771
	<u>25,244</u>	<u>16,707</u>

19. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 8 September 2009.

Directors' Interests and Short Positions in Securities

As at 30 June 2009, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules"), were as follows:

(I) Interests and Short Positions in the Company

(1) Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held <i>(Note)</i>
Fung Lak	Personal	600,000	Long position	0.11%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 537,504,000 ordinary shares of the Company in issue as at 30 June 2009.

(2) Interests in share options relating to ordinary shares (long positions)

Name of Director	Number of share options					At 30 June 2009	Date of grant of share options <i>(dd.mm.yyyy)</i>	Total consideration paid for share options <i>HK\$</i>	Exercise price of share options* <i>HK\$ (per share)</i>	Price of ordinary shares at date immediately before date of grant** <i>HK\$ (per share)</i>	Price of ordinary shares immediately before the exercise date** <i>HK\$ (per share)</i>
	At 1 January 2009	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	At 30 June 2009						
Zhang Chunting	800,000	-	-	-	800,000	24.11.2008	-	0.278	0.27	-	
Ren Yingguo	700,000	-	-	-	700,000	24.11.2008	-	0.278	0.27	-	
Xiong Guangyang	1,150,000	-	-	-	1,150,000	24.11.2008	-	0.278	0.27	-	

Directors' Interests and Short Positions in Securities (Cont'd)

(I) Interests and Short Positions in the Company (Cont'd)

(2) Interests in share options relating to ordinary shares (long positions) (Cont'd)

Notes to the above share options granted pursuant to the 2008 Scheme:

- (a) The option period of all the share options is 5.5 years from the date of grant.
- (b) Any share option is only exercisable during the option period after it has become vested.
- (c) The normal vesting scale of the share options is as follows:

<u>Date</u>	<u>Percentage vesting</u>
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

- (d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the Board upon grant and stated in the offer of grant.
- (e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

<u>Date on which event occurs</u>	<u>Percentage vesting</u>
On or before the date which is four months after the date of grant	0%
After the date which is four months after but on or before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80%

The remaining 20% also vests upon passing the overall performance appraisal for those four years

Directors' Interests and Short Positions in Securities *(Cont'd)*

(I) Interests and Short Positions in the Company *(Cont'd)*

(2) Interests in share options relating to ordinary shares (long positions) *(Cont'd)*

Notes to the above share options granted pursuant to the 2008 Scheme: (Cont'd)

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The price of the Company's ordinary shares disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the Company's ordinary shares disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors or all other participants as an aggregate whole.

(II) Interests and Short Positions in Guangnan (Holdings) Limited ("Guangnan")

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held <i>(Note)</i>
Xiong Guangyang	Personal	600,000	Long position	0.07%

Note: The approximate percentage of interests held was calculated on the basis of 905,603,285 ordinary shares of Guangnan in issue as at 30 June 2009.

(III) Interests and Short Positions in Guangdong Investment Limited ("GDI")

(1) Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held <i>(Note)</i>
Ho Lam Lai Ping, Theresa	Personal	800,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 6,186,338,071 ordinary shares of GDI in issue as at 30 June 2009.

Directors' Interests and Short Positions in Securities (Cont'd)

(III) Interests and Short Positions in Guangdong Investment Limited ("GDI") (Cont'd)

(2) Interests in share options relating to ordinary shares (long positions)

Name of Director	Number of share options				At 30 June 2009	Date of grant of share options (dd.mm.yyyy)	Total consideration paid for share options HK\$	Exercise price of share options* HK\$ (per share)	Price of ordinary shares at date immediately before date of grant** HK\$ (per share)	Price of ordinary shares immediately before the exercise date** HK\$ (per share)
	At 1 January 2009	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period						
Ho Lam Lai Ping, Theresa	2,400,000	-	-	-	2,400,000	24.10.2008	-	1.88	1.73	-

Notes to the above share options granted pursuant to the share option scheme adopted by GDI:

- The option period of all the share options is 5.5 years from the date of grant.
- Any share option is only exercisable during the option period after it has become vested.
- The normal vesting scale of the share options is as follows:

Date	Percentage vesting
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

- The vesting of the share options is further subject to the achievement of such performance targets as determined by the board of directors of GDI upon grant and stated in the offer of grant.
- The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	Percentage vesting
On or before the date which is four months after the date of grant	0%
After the date which is four months after but on or before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80%
The remaining 20% also vests upon passing the overall performance appraisal for those four years	

Directors' Interests and Short Positions in Securities *(Cont'd)*

(III) Interests and Short Positions in Guangdong Investment Limited ("GDI") *(Cont'd)*

(2) Interests in share options relating to ordinary shares (long positions) *(Cont'd)*

Notes to the above share options granted pursuant to the share option scheme adopted by GDI: (Cont'd)

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of GDI.

** The price of the ordinary shares of GDI disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the ordinary shares of GDI disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors of GDI or all other participants as an aggregate whole.

(IV) Interests and Short Positions in Kingway Brewery Holdings Limited ("Kingway")

Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held <i>(Note)</i>
Ho Lam Lai Ping, Theresa	Personal	98,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on basis of 1,711,536,850 ordinary shares of Kingway in issue as at 30 June 2009.

Save as disclosed above, as at 30 June 2009, to the knowledge of the Company, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company or its holding companies, or any of its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests

As at 30 June 2009, so far as is known to the directors or the chief executive of the Company, the following persons (other than a director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Derivative interests (Number of shares to be issued upon conversion of the HK\$61,500,000 convertible notes issued by the Company)	Approximate percentage of the Company's issued ordinary share capital (including derivative interests)
廣東粵海控股有限公司 (Guangdong Holdings Limited) (Note)	Interests of controlled corporation	375,100,000	Long position	32,368,421	75.81%
GDH Limited	Beneficial owner	375,100,000	Long position	32,368,421	75.81%

Note: The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.

Save as disclosed above, as at 30 June 2009, so far as is known to the director or the chief executive of the Company, there were no other persons (other than a director or the chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Share Option Scheme

As at 30 June 2009, save as disclosed in the section of “Directors’ Interests and Short Positions in Securities” of this report, certain eligible persons (other than directors) had the following interests in rights to subscribe for shares of the Company granted under the 2008 Scheme. Each option gives the holder the right to subscribe for one share of par value HK\$0.10 each of the Company. Further details are set out in note 14 to the unaudited condensed consolidated interim financial statements and the detailed terms of the 2008 Scheme were disclosed in the Annual Report 2008 of the Company.

Category of participants	Number of share options				At 30 June 2009	Date of grant of share options (dd.mm.yyyy)	Total consideration paid for share options HK\$	Exercise price of share options* HK\$ (per share)	Price of ordinary shares at date immediately before date of grant** HK\$ (per share)	Price of ordinary shares immediately before the exercise date** HK\$ (per share)
	At 1 January 2009	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period						
Employees	1,550,000	-	-	-	1,550,000	24.11.2008	-	0.278	0.27	-
Other participant	1,150,000	-	-	1,035,000	115,000	24.11.2008	-	0.278	0.27	-

Note: Additional information regarding the above share options granted under the 2008 Scheme is set out in the notes under “Interests in share options relating to ordinary shares (long positions)” in the “Interests and Short Positions in the Company” section of this report on pages 27 to 29.



Corporate Governance and Other Information

Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2009.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the code of conduct regarding directors’ securities transactions. All directors of the Company have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2009.

Audit Committee

The Company established an audit committee (“Audit Committee”) in September 1998 and its terms of reference are in line with the CG Code. The Audit Committee comprises three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Fung Lak is the Chairman of the Audit Committee. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company’s financial reports and the Group’s internal controls and risk management systems.

Remuneration Committee

The Company established a remuneration committee (“Remuneration Committee”) in June 2005 and its terms of reference are in line with the CG Code. The Remuneration Committee comprises three independent non-executive directors, Mr. Choi Kam Fai, Thomas, Mr. Fung Lak and Mr. Chan Cheong Tat. Mr. Choi Kam Fai, Thomas is the Chairman of the Remuneration Committee. The principal duties of the Remuneration Committee include, inter alia, making recommendations to the Board relating to the Company’s policy for directors’ and senior management’s remuneration, determining the executive directors’ and senior management’s remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

Nomination Committee

The Company established a nomination committee (“Nomination Committee”) in June 2005 and its terms of reference are in line with the CG Code. The Nomination Committee comprises one executive director, Mr. Zhang Chunting, and three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Zhang Chunting is the Chairman of the Nomination Committee. The principal duties of the Nomination Committee include, inter alia, nominating and recommending candidates to fill vacancies on the Board.



Corporate Governance and Other Information *(Cont'd)*

Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial statements and the interim report of the Group for the six months ended 30 June 2009. In addition, the Company's auditors, Messrs. Ernst & Young have also reviewed the aforesaid unaudited interim financial statements.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2009.

By order of the Board

Zhang Chunting

Chairman

Hong Kong
8 September 2009



Corporate Information

Board of Directors

Zhang Chunting (*Chairman*)
Ren Yingguo (*Managing Director*)
Xiong Guangyang[#]
Ho Lam Lai Ping, Theresa[#]
Qiao Jiankang[#]
Fung Lak*
Choi Kam Fai, Thomas*
Chan Cheong Tat*

[#] Non-Executive Director

* Independent Non-Executive Director

Company Secretary

Lo Sze Sze

Audit Committee

Fung Lak (*Chairman*)
Choi Kam Fai, Thomas
Chan Cheong Tat

Remuneration Committee

Choi Kam Fai, Thomas (*Chairman*)
Fung Lak
Chan Cheong Tat

Nomination Committee

Zhang Chunting (*Chairman*)
Fung Lak
Choi Kam Fai, Thomas
Chan Cheong Tat

Auditors

Ernst & Young

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Share Registrar

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Listing Information

Stock Code: 1058

