



粵海制革有限公司

GUANGDONG TANNERY LIMITED

Stock Code 股份代號 : 1058

中 期 報 告
INTERIM REPORT



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Corporate Information

Board of Directors

Chen Hong (*Chairman*)
Sun Jun (*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*

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

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

Company Secretary

Lo Sze Sze

Auditors

Ernst & Young

Registered Office

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Hong Kong

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Share Registrar

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

Share Information

Place of Listing : Main Board of
The Stock Exchange
of Hong Kong Limited

Stock Code : 1058

Board Lot : 2,000 shares

Financial Year End : 31 December

Business and Financial Review

Results

The unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2011 of Guangdong Tannery Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) was HK\$702,000, representing a decrease of HK\$16,576,000 or 95.9% as compared to HK\$17,278,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2011 was HK\$315,165,000, representing an increase of HK\$12,499,000 and HK\$12,044,000 as compared to the net asset value as at 30 June 2010 and 31 December 2010 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 2011 (six months ended 30 June 2010: Nil).

Business Review

With the European sovereign debt crisis not showing significant improvement yet, together with the implementation of macroeconomic policies targeted at curbing inflation in the People’s Republic of China (the “PRC” or “Mainland China”), both the survival and development of enterprises in the light industry and of small to medium sizes were impacted. High commodity prices, continuously increasing raw materials prices and the consistent shrink of the sales market of leather products in Mainland China, have all struck the normal production and sales cycles of the leather industry and increased the operational risks of the enterprise. During the period, the Group closely monitored the macroeconomic trend both within and outside the PRC, attentively followed the industry development trend and stringently controlled the procurement and production cycles, implemented comprehensive budget control and focused on technical enhancement. As a result, it was able to survive the difficult sale low season in the first half of the year.

During the period, the production volume of cowhides was 13,263,000 sq. ft., representing a decrease of 1,325,000 sq. ft. or 9.1% as compared to 14,588,000 sq. ft. for the same period of last year. The production volume of grey hides was 6,855 tons, representing a decrease of 131 tons or 1.9% as compared to 6,986 tons for the same period of last year.

During the period, the consolidated turnover of the Group was HK\$285,420,000, representing an increase of HK\$19,849,000 or 7.5% from HK\$265,571,000 for the same period of last year, which was mainly attributable to the increase in the unit selling price of cowhides. Of which: the sales value of cowhides amounted to HK\$248,721,000 (six months ended 30 June 2010: HK\$237,409,000), representing an increase of 4.8%; and the sales value of grey hides and other products amounted to HK\$36,699,000 (six months ended 30 June 2010: HK\$28,162,000), representing an increase of 30.3%. The overall sales market of footwear hides during the first half of 2011 underperformed, whereas the external market was subject to significant decline in the order amount due to weak economies among European and American countries and substantial increase in the domestic raw materials prices. Sales orders continued to concentrate on manufacturers possessing brand names, large scale and sales network. Underpinning the asymmetrical changes of the end user market in which an unfavourable situation of increase in raw materials cost outrunning increase in overall sales price was formed, the Group actively analysed customer tendency, identified focal markets and focal customers, launched mass production of new products, strengthened the strategic cooperation relationship with business partners and established a steady sales network for the Group. These not only allowed the gradual escalation of product prices, but also motivated forward-looking cowhides procurement and established a secured cowhides inventory, which in turn mitigated the negative impact induced by significant increase in raw materials price during the first half of the year. More importantly, production during the low season was stabilised.

Business and Financial Review (Continued)

Business Review (Continued)

Addressing the issues of high raw materials cost and low added value of tannery products, the Group closely observed the situation in both the international and domestic economies. The dynamics of the imported cowhides and chemical material markets were closely monitored, with special attention paid to the price movement trends of both materials. In response to the fierce inflation both domestically and internationally, the Group continued to uphold a replenishment-based and balanced procurement approach primarily aimed at stabilising production requirements, and successfully minimised the impact of high hide prices on the production and operational efficiency through maintaining sufficient inventory while averting the risk of procurement at high price levels. During the period, total purchases amounted to HK\$270,578,000, approximated to that of last year.

As at 30 June 2011, the consolidated inventories of the Group amounted to HK\$158,234,000 (31 December 2010: HK\$151,878,000), representing an increase of HK\$6,356,000 or 4.2% as compared to the same as at 31 December 2010. This was primarily attributable to the increases in purchase price of hides. During the period, the Group fully strived for upgrade of its production technology, skill and equipment. Taking the development of new products as an opening, the Group upgraded its overall product system and realised a double directional breakthrough in terms of leather yield and product style. In addition, during the period of high hide prices, additional efforts were devoted in the processing of obsolete inventories with the production refined and adapted to the characteristics of the finished leather was conducted to effectively clear the long-aging inventories. Inventories over a year fell from 17.1% of the total inventories at the end of 2010 to 13.2% as at 30 June 2011, further optimising the inventory composition.

On 1 February 2011, the reduction of the credit standing to the share premium account of the Company to the extent of HK\$393,345,845, and the application of the credit arising from such reduction to eliminate the accumulated losses by the same amount (the "Share Premium Reduction") were passed by shareholders at the extraordinary general meeting. The purpose of the Share Premium Reduction is to bring the Company to a position that might permit the payment of dividends in the future if and when allowed by the Company's financial position and considered appropriate by the Board. The Share Premium Reduction was confirmed by an order (the "Order") made by the High Court of Hong Kong Special Administrative Region of the PRC (the "Court") on 22 March 2011 and took effect on 29 March 2011.

Financial Review

As at 30 June 2011, the Group's cash and cash equivalents amounted to HK\$63,919,000 (31 December 2010: HK\$107,718,000), representing a decrease of HK\$43,799,000 or 40.7% as compared to the same as at 31 December 2010, which were denominated in Hong Kong dollars (13.4%), Renminbi (82.1%) and United States dollars (4.5%) respectively. During the period, net cash outflow from operating activities was HK\$55,706,000, which was mainly attributable to the increase in cash outflow as a result of increase in trade and bills receivables. The cash inflow from investing activities was HK\$9,910,000, which mainly represented the decrease in pledged bank deposits.

As at 30 June 2011, the Group's interest-bearing borrowings amounted to HK\$169,656,000 (31 December 2010: HK\$181,390,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK\$65,000,000 and interest-bearing borrowings in United States dollars amounted to HK\$104,656,000. The Group's borrowings mainly consisted of: (1) balances of short-term loans provided by the bank of HK\$27,277,000, which were secured by bank deposits of RMB4,783,000; (2) balances of short-term unsecured intra-group borrowings of HK\$54,600,000; and (3) balances of long-term unsecured intra-group borrowings of HK\$87,779,000. The above interest-bearing borrowings were charged at floating interest rates.

Business and Financial Review (Continued)

Financial Review (Continued)

As at 30 June 2011, the Group's gearing ratio of the interest-bearing borrowings to adjusted capital (including shareholders' equity) plus interest-bearing borrowings was 35.0% (31 December 2010: 37.4%). During the period, the annual interest rate of the borrowings was approximately 1.3% to 3.3%. Of the Group's total borrowings, all were repayable within one year except for the loan from an immediate holding company amounting to HK\$87,779,000. The Group's interest expenses for the period amounted to HK\$2,405,000, representing a decrease of 12.6% from the same period of last year.

As at 30 June 2011, the total banking facilities of the Group was HK\$361,111,000 (31 December 2010: HK\$135,148,000), of which banking facilities of HK\$27,277,000 were utilised and banking facilities of HK\$333,834,000 were unutilised. Taking into account of the existing cash resources and available credit facilities as well as the cash flow generated by the Group's operating businesses, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 30 June 2011, the net value of non-current assets including prepaid land lease payments, property, plant and equipment amounted to HK\$116,574,000, representing an increase of HK\$4,922,000 over the net value as at 31 December 2010 of HK\$111,652,000. The capital expenditure for the period amounted to HK\$6,825,000 (six months ended 30 June 2010: HK\$2,968,000), which mainly represented the payment for the construction works and the acquisition of machinery and equipment for the new project to cater for the production and development requirements of the Group.

Pledge of Assets

As at 30 June 2011, certain of the Group's bank balances with a total of HK\$16,605,000 (31 December 2010: HK\$32,314,000) 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, United States dollars or Renminbi. During the period, the exchange rates of Hong Kong dollars and United States dollars were relatively stable without causing any material risk of foreign exchange; as to the appreciation of Renminbi, since the sales of the Group were settled in Renminbi, whereas the purchases were made in Renminbi and United States dollars, the Group did not have material exposure to foreign exchange risk.

Business and Financial Review (Continued)

Remuneration Policy for Employees

As at 30 June 2011, a total of 886 employees (30 June 2010: 926) 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 appraisal scheme for its employees focusing on "accountability and performance". The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group's operating net cash flow and profit after tax, calculated by various profit rankings and by applying a measure that links bonuses with the operating results of the Group and further taking into account of the individual performance of the staff concerned 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

Under the complicated and changing environment in which inflation and deflation co-exist, it is expected that the operation outlook in the tannery industry during the second half of 2011 will not be optimistic. Under the sluggish market and the continuously increasing hide prices, the Group will be subject to increased operating pressures. Facing the difficult operating environment, the Group will continue to adhere to a cautious approach in implementing steady and sound operating concepts and enterprise development strategies to uphold the principle of "comprehensive rationalisation of all production/operation relationships for the practical expansion of development foundation". As such, the Group will closely monitor the market trends, stringently implement cost control, research and develop new products, optimise product structure and reinforce brand building. Meanwhile, the Group will continue to step up the environmental protective and safe production management efforts, with the objectives of implementing "people-oriented" corporate governance and strengthening internal production management, which will in turn ensure the sustainable development of the enterprise.

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 8 to 27, which comprises the condensed consolidated balance sheet as at 30 June 2011 and the related condensed consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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. Consequently, it 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

26 August 2011

Unaudited Interim Financial Information

Condensed Consolidated Income Statement

Six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
REVENUE			
Processing and sale of leather	3	285,420	265,571
Cost of sales		(271,569)	(229,850)
Gross profit		13,851	35,721
Other income and gains, net	3	4,319	7,464
Selling and distribution costs		(994)	(1,239)
Administrative expenses		(11,113)	(14,197)
Finance costs	4	(2,405)	(2,753)
PROFIT BEFORE TAX	4	3,658	24,996
Income tax expense	5	(2,956)	(7,718)
PROFIT FOR THE PERIOD		702	17,278
EARNINGS PER SHARE	6		
— Basic		HK0.13 cent	HK3.21 cents
— Diluted		HK0.13 cent	HK3.21 cents

Unaudited Interim Financial Information (Continued)

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2011

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
PROFIT FOR THE PERIOD	702	17,278
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Exchange differences on translation of foreign operations	10,423	4,078
Surplus on revaluation of buildings	47	298
Deferred tax	(12)	(75)
	35	223
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	10,458	4,301
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	11,160	21,579

Unaudited Interim Financial Information (Continued)

Condensed Consolidated Balance Sheet

30 June 2011

	Notes	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		108,342	103,519
Prepaid land lease payments		8,232	8,133
Total non-current assets		116,574	111,652
CURRENT ASSETS			
Inventories		158,234	151,878
Receivables, prepayments and deposits	8	228,137	168,121
Tax recoverable		1,271	514
Pledged deposits		16,605	32,314
Restricted bank balances		8,418	8,226
Cash and cash equivalents		63,919	107,718
Total current assets		476,584	468,771
CURRENT LIABILITIES			
Trade payables	9	50,500	46,539
Other payables and accruals		49,901	43,777
Interest-bearing bank borrowings	10	27,277	39,011
Due to a PRC joint venture partner	16(b)(ii)	1,131	1,131
Loans from the immediate holding company	11	—	87,779
Loan from a fellow subsidiary	12	54,600	—
Provision		3,835	3,748
Tax payable		2,320	—
Total current liabilities		189,564	221,985
NET CURRENT ASSETS		287,020	246,786
TOTAL ASSETS LESS CURRENT LIABILITIES		403,594	358,438
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	11	87,779	—
Loan from a fellow subsidiary	12	—	54,600
Deferred tax liabilities		650	717
Total non-current liabilities		88,429	55,317
Net assets		315,165	303,121
EQUITY			
Issued capital	13	53,802	53,762
Reserves	14	261,363	249,359
Total equity		315,165	303,121

Unaudited Interim Financial Information (Continued)

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2011

	Issued capital HK\$'000	Share premium account HK\$'000	Equity component of convertible notes HK\$'000	General reserve fund HK\$'000	Reserve funds HK\$'000	Share option reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange translation reserve HK\$'000	Property revaluation reserve HK\$'000	Special capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2010 (Audited)	53,762	413,995	5,545	167,746	12,120	138	445	58,010	1,602	–	(432,339)	281,024
Profit for the period	–	–	–	–	–	–	–	–	–	–	17,278	17,278
Other comprehensive income for the period:												
Surplus on revaluation of buildings, net of tax	–	–	–	–	–	–	–	–	223	–	–	223
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	4,078	–	–	–	4,078
Total comprehensive income for the period	–	–	–	–	–	–	–	4,078	223	–	17,278	21,579
Equity-settled share option arrangements	–	–	–	–	–	63	–	–	–	–	–	63
At 30 June 2010 (Unaudited)	53,762	413,995*	5,545*	167,746*	12,120*	201*	445*	62,088*	1,825*	–*	(415,061)*	302,666
At 1 January 2011 (Audited)	53,762	413,995	5,545	167,746	14,144	905	445	73,036	1,694	–	(428,151)	303,121
Profit for the period	–	–	–	–	–	–	–	–	–	–	702	702
Other comprehensive income for the period:												
Surplus on revaluation of buildings, net of tax	–	–	–	–	–	–	–	–	35	–	–	35
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	10,423	–	–	–	10,423
Total comprehensive income for the period	–	–	–	–	–	–	–	10,423	35	–	702	11,160
Issue of shares	40	136	–	–	–	(65)	–	–	–	–	–	111
Equity-settled share option arrangements	–	–	–	–	–	773	–	–	–	–	–	773
Share premium reduction (note 14(b))	–	(393,346)	–	–	–	–	–	–	–	–	393,346	–
Transfer from accumulated losses in accordance with the Undertaking (note 14(b))	–	–	–	–	–	–	–	–	–	1,559	(1,559)	–
Transfer to accumulated losses upon issue of new ordinary shares (note 14(b))	–	–	–	–	–	–	–	–	–	(71)	71	–
At 30 June 2011 (Unaudited)	53,802	20,785*	5,545*	167,746*	14,144*	1,613*	445*	83,459*	1,729*	1,488*	(35,591)*	315,165

* These reserve accounts comprise the consolidated reserves of HK\$261,363,000 (30 June 2010: HK\$248,904,000) in the condensed consolidated balance sheet as at 30 June 2011.

Unaudited Interim Financial Information (Continued)

Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2011

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(55,706)	(65,646)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	9,910	(26,156)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	111	(146)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(45,685)	(91,948)
Cash and cash equivalents at beginning of period	107,718	157,014
Effect of foreign exchange rate changes, net	1,886	969
CASH AND CASH EQUIVALENTS AT END OF PERIOD	63,919	66,035
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	63,919	66,035

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information

30 June 2011

1. Accounting Policies

The unaudited interim condensed consolidated financial information is 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 this unaudited interim condensed consolidated financial information are the same as those used in the annual financial statements for the year ended 31 December 2010.

1.1 Changes in Accounting Policies and Disclosures

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s unaudited interim condensed consolidated financial information.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

The adoption of these new and revised HKFRSs has had no significant financial effect on this unaudited interim condensed consolidated financial information and there have been no significant changes to the accounting policies applied.

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

1. Accounting Policies (Continued)

1.2 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 this unaudited interim condensed consolidated financial information.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ⁴
HKFRS 11	<i>Joint Arrangements</i> ⁴
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ⁴
HKFRS 13	<i>Fair Value Measurement</i> ⁴
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ³
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Taxes: Recovery of Underlying Assets</i> ²
HKAS 19 (2011)	<i>Employee Benefits</i> ⁴
HKAS 27 (2011)	<i>Separate Financial Statements</i> ⁴
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ⁴
HKAS 31	<i>Interests in Joint Ventures</i> ⁴
HK(SIC) – Int 12	<i>Consolidation – Special Purpose Entities</i> ⁴
HK(SIC) – Int 13	<i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i> ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

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

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

2. Operating Segment Information

No separate analysis of segment information is presented by the Group as over 90% of the Group's revenue, results and assets relate to the processing and sale of semi-finished and finished leather in the PRC.

Information about a major customer

During the period, revenue of approximately HK\$47,924,000 (six months ended 30 June 2010: HK\$46,059,000) was derived from sales to a single customer, which contributed approximately 17% (six months ended 30 June 2010: 15%) of the total revenue.

3. Revenue, Other Income and Gains, Net

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	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Revenue		
Processing and sale of leather	285,420	265,571
Other income and gains, net		
Gross rental income	81	183
Interest income	726	529
Foreign exchange gains, net	1,019	—
Sale of scrap materials	1,250	910
Government subsidies	30	3,347
Gain on disposal of an investment property	—	1,570
Others	1,213	925
	4,319	7,464

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

4. Profit Before Tax

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

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Cost of inventories sold	275,314	235,212
Depreciation	3,871	4,034
Interest on:		
Bank loans and discounted bills	882	—
Convertible notes	—	2,093
Loans from the immediate holding company	891	146
Loan from a fellow subsidiary	632	486
Others	—	28
	2,405	2,753
Write-back of provision for inventories	(3,745)	(5,362)
Impairment/(write-back of impairment) for trade and other receivables	(573)	1,797

5. Income Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2010: 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.

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Group:		
Current — Mainland China	3,035	7,720
Deferred	(79)	(2)
Total tax charge for the period	2,956	7,718

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

6. Earnings Per Share

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

The calculation of diluted earnings per share amounts is based on the profit 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.

No adjustment has been made to the basic earnings per share amounts presented for the period ended 30 June 2010 in respect of a dilution as the impact of the convertible notes outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

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

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Earnings		
Profit for the period, used in the basic earnings per share calculations	702	17,278
	Number of shares	
	30 June 2011 (Unaudited)	30 June 2010 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculations	537,637,000	537,619,000
Effect of dilution – weighted average number of ordinary shares:		
Share options	1,461,000	N/A
	539,098,000	N/A

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

7. Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

8. Receivables, Prepayments and Deposits

As at 30 June 2011, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$221,998,000 (31 December 2010: HK\$161,109,000) 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.

As at 30 June 2011, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Current	219,929	160,771
Less than 3 months	1,836	902
3 to 6 months	255	115
Over 6 months	478	375
	222,498	162,163
Impairment	(500)	(1,054)
	221,998	161,109

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

9. Trade Payables

As at 30 June 2011, the aged analysis of the Group's trade payables, based on the payment due date, is as follows:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Within 3 months	31,772	23,481
3 to 6 months	13,365	18,691
Over 6 months	5,363	4,367
	50,500	46,539

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 60 to 90 days.

10. Interest-Bearing Bank Borrowings

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
	Effective interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Trust receipt loans, secured	3.00-3.30	2011	27,277	2.63-3.60	2011	39,011

Notes:

- (a) The Group's trust receipt loan facilities amounting to HK\$361,111,000 (31 December 2010: HK\$135,148,000), of which HK\$27,277,000 (31 December 2010: HK\$39,011,000) had been utilised at 30 June 2011, are secured by the pledge of certain of the Group's bank deposits, and supported by corporate guarantees executed by the Company and a subsidiary of the Company (31 December 2010: pledge of certain of the Group's bank deposits, and supported by corporate guarantees executed by the Company and a subsidiary of the Company).

Details of the pledge of assets are included in note 17 to the financial information.

- (b) The trust receipt loans are denominated in United States dollars.

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

11. Loans From the Immediate Holding Company

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

	Notes	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Current	(a)	—	22,779
	(b)	—	65,000
		—	87,779
Non-current	(a)	22,779	—
	(b)	65,000	—
		87,779	87,779

Notes:

- (a) The balance represents an unsecured loan of US\$2,920,000 (31 December 2010: US\$2,920,000), which bears interest at 3-month LIBOR + 1.0% (31 December 2010: 3-month LIBOR + 1.0%) per annum and is not repayable within one year from 30 June 2011 (31 December 2010: repayable within one year from 31 December 2010).
- (b) The balance represents an unsecured loan of HK\$65,000,000 (31 December 2010: HK\$65,000,000), which bears interest at 3-month HIBOR + 2.0% (31 December 2010: 3-month HIBOR + 2.0%) per annum and is not repayable within one year from 30 June 2011 (31 December 2010: repayable within one year from 31 December 2010).

12. Loan From a Fellow Subsidiary

The balance represents an unsecured loan of US\$7,000,000 (31 December 2010: US\$7,000,000) (equivalent to approximately HK\$54,600,000 (31 December 2010: HK\$54,600,000)) advanced from Guangdong Assets Management Limited, a fellow subsidiary of the Company. The loan bears interest at 3-month LIBOR + 2.0% (31 December 2010: 3-month LIBOR + 1.5%) per annum and is repayable within one year from 30 June 2011 (31 December 2010: not repayable within one year from 31 December 2010).

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

13. Share Capital

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Authorised: 700,000,000 ordinary shares of HK\$0.10 each	70,000	70,000
Issued and fully paid: 538,019,000 (31 December 2010: 537,619,000) ordinary shares of HK\$0.10 each	53,802	53,762

A summary of the movements of the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2011 (Audited)	537,619,000	53,762	413,995	467,757
Share premium reduction (<i>note 14(a)</i>)	—	—	(393,346)	(393,346)
Share options exercised	400,000	40	136	176
At 30 June 2011 (Unaudited)	538,019,000	53,802	20,785	74,587

Share option scheme

On 24 November 2008, the Company 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 who 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 30 June 2011, there were 19,260,000 share options outstanding under the 2008 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 19,260,000 additional ordinary shares of the Company and additional share capital of HK\$1,926,000 and share premium of HK\$6,264,000 (before issue expenses).

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

14. Reserves

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

- (a) On 1 February 2011, a special resolution was passed by the shareholders of the Company for approving the Share Premium Reduction of the Company. The purpose of the Share Premium Reduction is to reduce the credit standing to the share premium account of the Company to the extent of HK\$393,345,845 and to apply the credit arising from such reduction to eliminate the accumulated losses of the Company by the same amount.

On 22 March 2011, the Court made an order confirming the Share Premium Reduction. An office copy of the Order was registered with the Registrar of the Companies on 29 March 2011 (the "Effective Date") in accordance with Section 61 of the Hong Kong Companies Ordinance. Accordingly, the Share Premium Reduction became effective immediately following the registration of the Order of the Court and the accumulated losses of the Company of HK\$393,345,845 were eliminated against the Company's share premium account.

- (b) In connection with the application for the Share Premium Reduction (the "Application"), the Company undertakes that in the event of the Company making any future recoveries of the assets identified in the Application for which provision for impairment in value or amortisation was made in the accounts of the Company between 31 December 2000 and 30 June 2010 (the "Assets"), beyond their written down value in the Company's accounts as at 30 June 2010, all such recoveries beyond that written down value up to an amount of HK\$150,345,170 (the "Limit"), will be credited to a special capital reserve in the accounting records of the Company (the "Special Capital Reserve") and that so long as there shall remain outstanding any debt of or claim against the Company which, if the Effective Date was the date of the commencement of the winding up of the Company, would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits for the purposes of section 79B of the Hong Kong Companies Ordinance and shall (for so long as the Company shall remain a listed company) be treated as an undistributable reserve of the Company for the purposes of section 79C of the Hong Kong Companies Ordinance, or any statutory re-enactments or modifications thereof provided that:

- (1) the Company shall be at liberty to apply the Special Capital Reserve for the same purposes as a share premium account may be applied;
- (2) the Limit in respect of the Special Capital Reserve may be reduced by the amount of any increase, after the Effective Date, in the amount standing to the credit of the share premium account of the Company as the result of the paying up of shares by the receipt of new consideration or the capitalisation of distributable profits;

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

14. Reserves (Continued)

(b) (Continued)

- (3) the Limit in respect of the Special Capital Reserve may be reduced upon the disposal or other realisation, after the Effective Date, of the Assets by the amount of the impairment in value and amortisation made in relation to such asset as at 30 June 2010 less such amount (if any) as is credited to the Special Capital Reserve as a result of such disposal or realisation; and
- (4) in the event that the amount standing to the credit of the Special Capital Reserve exceeds the Limit thereof after any reduction of such Limit pursuant to provisos (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

During the six months ended 30 June 2011, recovery of the Assets by way of release of provision was HK\$1,559,000. This resulted in a transfer of HK\$1,559,000 from accumulated losses to the Special Capital Reserve of the Group.

During the period from the Effective Date to 30 June 2011, the share premium account was increased by HK\$71,200 (before issue expenses), as a result of the issue of the Company's ordinary shares. Accordingly, the Special Capital Reserve was reduced by HK\$71,200, and correspondingly, the same amount was capitalised to accumulated losses. In effecting the reduction and the capitalisation, the amount transferred from the Special Capital Reserve is kept to an amount not exceeding the balance of the Special Capital Reserve before such transfer.

As a result of the foregoing, the Limit, as adjusted, was HK\$150,273,970 and the amount standing to the credit of the Group's Special Capital Reserve was HK\$1,488,000 as at 30 June 2011.

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

15. Commitments

	30 June 2011 <i>HK\$'000</i> (Unaudited)	31 December 2010 <i>HK\$'000</i> (Audited)
Contracted, but not provided for:		
Land and buildings	9,913	11,601
Leasehold improvements	—	411
Plant and machinery	2,481	1,169
	12,394	13,181
Authorised, but not contracted for:		
Land and buildings	—	23,302
Plant and machinery	—	52,570
	—	75,872
	12,394	89,053

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

16. Related Party Transactions

(a) Transactions with related parties

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

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Office rental paid to the fellow subsidiary	172	148
Computer system maintenance service fees paid to the immediate holding company	—	80
Interest expense paid to the immediate holding company attributable to:		
Loans	891	146
Convertible notes	—	2,093
	891	2,239
Interest expense paid to a fellow subsidiary	632	486

(b) Outstanding balances with related parties

- (i) Details of the loans from the immediate holding company and a fellow subsidiary as at the balance sheet date are included in notes 11 and 12 to the unaudited interim condensed consolidated financial information, 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 Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

16. Related Party Transactions (Continued)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Short term employee benefits	463	368
Post-employment benefits	127	119
Equity-settled share option expense	267	—
Total compensation paid to key management personnel	857	487

17. Pledge of Assets

As at 30 June 2011, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Bank balances and deposits	16,605	32,314

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2011

18. Litigation

In December 2009, Xuzhou Nanhai Leather Factory Co., Ltd (“Xuzhou Tannery”), a wholly-owned subsidiary of the Company, received a writ of summons from an independent PRC construction contractor (the “PRC Contractor”) claiming an outstanding construction cost of approximately RMB5,100,000 (equivalent to HK\$6,133,000) and related interest of RMB270,000 (equivalent to HK\$325,000) in respect of three construction contracts entered by Xuzhou Tannery and the PRC contractor (the “Claim”). The PRC Contractor has also applied a court order to freeze a bank account of Xuzhou Tannery with a balance of RMB5,500,000 (equivalent to HK\$6,614,000). In January 2010, Xuzhou Tannery filed a counter claim stating that the PRC Contractor had delayed the construction work resulting in loss of business in Xuzhou Tannery, and Xuzhou Tannery demanded for the PRC Contractor to pay damages of RMB2,738,000 (equivalent to HK\$3,292,000) and economic losses of RMB3,006,000 (equivalent to HK\$3,615,000). In late March 2011, the court judged that Xuzhou Tannery need to pay RMB4,098,000 (equivalent to HK\$4,928,000) and the related interest expenses during the litigation from 10 September 2009 to 26 January 2011, limited to RMB602,000 (equivalent to HK\$724,000) and related litigation expense of RMB100,000 (equivalent to HK\$120,000) to the PRC Contractor. Xuzhou Tannery has filed an appeal to the court stating the unfairness of not to consider the counter claim by Xuzhou Tannery in April 2011. Further since the PRC Contractor did not send any invoices to Xuzhou Tannery for the construction cost and report on materials used for the construction, the directors of the Company consider that Xuzhou Tannery is not required to pay any interest expense to the PRC Contractor. As at 30 June 2011, Xuzhou Tannery has provided for the construction cost of RMB4,046,000 (equivalent to HK\$4,865,000). The directors of the Company are of the opinion that Xuzhou Tannery has valid ground to defend the case and that adequate provision had been accrued as at the period end date to cover the exposure of this litigation.

19. Approval of the Interim Financial Information

These unaudited interim condensed consolidated financial information were approved and authorised for issue by the Board on 26 August 2011.

Directors' Interests and Short Positions in Securities

As at 30 June 2011, 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>
Sun Jun	Personal	40,000	Long position	0.01%
Xiong Guangyang	Personal	230,000	Long position	0.04%
Ho Lam Lai Ping, Theresa	Personal	200,000	Long position	0.04%
Fung Lak	Personal	1,380,000	Long position	0.26%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 30 June 2011.

Directors' Interests and Short Positions in Securities (Continued)

(I) Interests and Short Positions in the Company (Continued)

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

Name of Director	Date of grant of share options (dd.mm.yyyy)	Number of share options					At 30 June 2011	Total consideration paid for share options granted 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 at date immediately before the exercise date** HK\$ (per share)
		At date of grant	At 1 January 2011	Granted during the period	Exercised during the period	Cancelled/lapsed during the period					
Chen Hong	14.07.2010	5,110,000	5,110,000	-	-	-	5,110,000	-	0.435	0.435	-
Sun Jun	24.11.2008	200,000	160,000	-	(40,000)	-	120,000	-	0.278	0.27	0.39
	14.07.2010	1,260,000	1,260,000	-	-	-	1,260,000	-	0.435	0.435	-
Xiong Guangyang	24.11.2008	1,150,000	920,000	-	(230,000)	-	690,000	-	0.278	0.27	0.39
	14.07.2010	4,320,000	4,320,000	-	-	-	4,320,000	-	0.435	0.435	-
Qiao Jikang	14.07.2010	1,780,000	1,780,000	-	-	-	1,780,000	-	0.435	0.435	-

Notes to the above share options granted pursuant to 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:

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%

- (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.

Directors' Interests and Short Positions in Securities (Continued)

(I) Interests and Short Positions in the Company (Continued)

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

Notes to the above share options granted pursuant to 2008 Scheme (Continued):

- (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:

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 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

- * 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 "at date 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 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 (Note)
Ho Lam Lai Ping, Theresa	Personal	1,760,000	Long position	0.03%

Note: The approximate percentage of interests held was calculated on the basis of 6,230,898,071 ordinary shares of GDI in issue as at 30 June 2011.

Directors' Interests and Short Positions in Securities (Continued)

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

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

Name of Director	Date of grant of share options (dd.mm.yyyy)	Number of share options					Total consideration paid for share options granted 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 at date immediately before the exercise date** HK\$ (per share)	
		At date of grant	At 1 January 2011	Granted during the period	Exercised during the period	Cancelled/lapsed during the period					
Ho Lam Lai Ping, Theresa	24.10.2008	2,400,000	1,440,000	-	-	-	1,440,000	-	1.88	1.73	-

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

- (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:

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%

- (d) 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.
- (e) The lever 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 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 (Continued)

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

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

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

* 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 "at date 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.

(III) 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 the basis of 1,711,536,850 ordinary shares of Kingway in issue as at 30 June 2011.

Save as disclosed above, as at 30 June 2011, 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 2011, 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	Approximate percentage of interests held (Note 1)
廣東粵海控股有限公司 (Guangdong Holdings Limited) (Note 2)	Interests of controlled corporation	383,820,000	Long position	71.34%
GDH Limited	Beneficial owner	383,820,000	Long position	71.34%

Notes:

- The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 30 June 2011.
- 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 2011, 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 2011, 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 13 to the unaudited interim condensed consolidated financial information and the detailed terms of the 2008 Scheme were disclosed in the annual report 2010 of the Company.

Category of participants	Date of grant of share options (dd.mm.yyyy)	Number of share options					Total consideration paid for share options granted 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 at date immediately before the exercise date** HK\$ (per share)
		At date of grant	At 1 January 2011	Granted during the period	Exercised during the period	Cancelled/lapsed during the period				
Senior Management	24.11.2008	650,000	520,000	–	(130,000)	–	–	0.278	0.27	0.39
	14.07.2010	2,980,000	2,980,000	–	–	–	2,980,000	–	0.435	–
Employee	14.07.2010	570,000	570,000	–	–	–	570,000	–	0.435	–
Other participant	14.07.2010	2,040,000	2,040,000	–	–	–	2,040,000	–	0.435	–

Note: Additional information regarding the above share options granted under the 2008 Scheme is set out in the “Notes to the above share options granted pursuant to 2008 Scheme” in the “Directors’ Interests and Short Positions in Securities” section of this report on pages 29 and 30.

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 2011.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules 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 2011.

Board of Directors

At present, the Board comprises two executive directors, being Mr. Chen Hong and Mr. Sun Jun, three non-executive directors, being Mr. Xiong Guangyang, Mrs. Ho Lam Lai Ping, Theresa and Mr. Qiao Jiankang and three independent non-executive directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat.

The Board is responsible for the leadership and control of the Company and oversees the Group’s businesses, strategic decisions and performances. The management was delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

Changes in Directors’ Information

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information of the directors of the Company since 1 January 2011 up to the date of this report are set out below:

Commencing 1 January 2011, the salary, allowances and benefits in kind of Mr. Chen Hong and Mr. Sun Jun amount to approximately HK\$603,000 per annum and RMB303,000 per annum, respectively.

Mr. Chen Hong was appointed as the chairman of Supertime Development Limited, a wholly-owned subsidiary of GDH Limited, in May 2011.

Mr. Qiao Jiankang was appointed as the deputy general manager of the legal departments of 廣東粵海控股有限公司 (Guangdong Holdings Limited) and GDH Limited respectively in April 2011. He no longer acted as the deputy general manager of the legal department of GDI in April 2011.

Corporate Governance and Other Information (Continued)

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. Chen Hong, and three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Chen Hong 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.

Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial information of the Group and the interim report of the Company for the six months ended 30 June 2011. In addition, the Company’s auditors, Messrs. Ernst & Young, have also reviewed the aforesaid unaudited interim financial information.

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 2011.

By order of the Board
Chen Hong
Chairman

Hong Kong, 26 August 2011

