



粵海制革有限公司

GUANGDONG TANNERY LIMITED

Stock Code 股份代號 : 1058



Contents

Corporate Information	2
Business and Financial Review	3
Report on Review of Interim Financial Information	7
Unaudited Interim Financial Information	
Condensed Consolidated Income Statement	8
Condensed Consolidated Statement of Comprehensive Income	9
Condensed Consolidated Balance Sheet	10
Condensed Consolidated Statement of Changes in Equity	11
Condensed Consolidated Cash Flow Statement	12
Notes to Interim Condensed Consolidated Financial Information	13
Directors' Interests and Short Positions in Securities	26
Substantial Shareholders' Interests	31
Share Options of the Company	32
Corporate Governance and Other Information	33



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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Website : <http://www.gdtann.com.hk>

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 loss attributable to shareholders for the six months ended 30 June 2012 of Guangdong Tannery Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) was HK\$3,636,000, representing a decrease of HK\$4,338,000 as compared to the unaudited consolidated profit attributable to shareholders of HK\$702,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2012 was HK\$322,707,000, representing an increase of HK\$7,542,000 and a decrease of HK\$5,703,000 as compared to the net asset value as at 30 June 2011 and 31 December 2011, 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 2012 (six months ended 30 June 2011: Nil).

Business Review

Since the second half of 2011, the footwear leather market had been facing plunge of sales in international market and sluggish sales in domestic market. In the meantime, the footwear leather producing enterprises underwent significant diminishing in the pricing of finished products upon rise in labour costs and energy costs as well as the surge in prices of raw materials. Enterprises in the industry were submerged in the bottom and the operating results of the Group were affected in a substantial manner. During the period, the Group was already fully aware of the difficulties in the industry, and proactively prepared measures to tackle the situation. The Group insisted on carrying out a stable and sound operation. As there had been inadequate factors subsisting in the industry, the Group sought to standardise its own operation so that it became more appealing for marketing purposes. The Group also further promoted the comprehensive collaboration with well-known branded footwear manufacturers in order to tide over the low season. Moreover, the Group also devoted efforts to the establishment of the branding, which received the title of “Eco-Leather Mark” awarded by the State in April 2012 and was the first tannery enterprise in Jiangsu Province receiving such recognition. This was in fact a milestone in the corporate development history of the Group.

During the period, the production volume of cowhides was 11,677,000 sq. ft., representing a decrease of 1,586,000 sq. ft. or 12.0% as compared to 13,263,000 sq. ft. for the same period of last year. The production volume of grey hides was 6,818 tons, representing a decrease of 37 tons or 0.5% as compared to 6,855 tons for the same period of last year.

Business and Financial Review (Continued)

Business Review (Continued)

During the period, the consolidated turnover of the Group was HK\$262,188,000, representing a decrease of HK\$23,232,000 or 8.1% from HK\$285,420,000 for the same period of last year of which the sales value of cowhides amounted to HK\$222,661,000 (six months ended 30 June 2011: HK\$248,721,000), representing a decrease of 10.5%; and the sales value of grey hides and other products amounted to HK\$39,527,000 (six months ended 30 June 2011: HK\$36,699,000), representing an increase of 7.7%. During the period, the footwear leather market suffered from instability in the flow of orders as a result of a fall in demand arising from the worsening of economy in the international market together with the change in inventory cycle. It became more difficult to forecast and arrange the production plan, where it was mutually affected by the change in volume slaughtered in the international market and the change in actual sales demand within the domestic market. Competition among products also became more intense. Customers were more demanding for the quality and utilisation rate of products. Hence, the production cycle of products was extended and there was a rapid surge in the production costs and labour costs. Faced with the various uncertainties in the market, the Group used its best endeavours to compute the most optimal scale of economies, which preliminarily stabilised production from linking purchase with production, sound operation and risk management. In terms of sales, the Group strictly adhered to the credit policy. As to those customers without credit rating, the cash-on-delivery principle would be tightly implemented, which secured the assets. Furthermore, upon the repositioning activities in the market, the Group strengthened its alliances with strategic customers having strong financial background. Efforts were devoted to procure customers adding inventory. At the same time, the Group also used its endeavours to expand its share in those weak trend markets during the period. The Group managed to identify appropriate product mix for expanding its share in those weak trend markets through leveraging on horizontal integration. Hence, sales share was improved.

In terms of purchase, apart from improving the purchasing of cowhides for use in its usual course of production, the Group also reduced its inventory on chemicals from increased application of those in obsolete. Attention was paid to reduce stocks in raw cowhides and avoiding inventory continuing to accumulate exceeding the critical level. The Group also strictly adhered to the management of budget. Through dynamic analysis on the actual figures on various forecast indicators, scientific production was arranged under the direction of those quantitative information. Rational application of production resources was thus assured. During the period, total purchases amounted to HK\$269,879,000, representing a decrease of 0.3% as compared with the same period of last year.

As at 30 June 2012, the Group's consolidated inventory amounted to HK\$206,554,000 (31 December 2011: HK\$185,092,000), representing an increase of HK\$21,462,000 or 11.6% over that of 31 December 2011, mainly due to the increase in stock level. During the period, the Group replenished its inventory from purchasing based on the utilisation rate of cowhides with a primary objective to stabilise demand from production. Import of cowhides was thus under control and mitigated the risk in substantial fluctuation of prices in cowhides.

Financial Review

As at 30 June 2012, the Group's cash and cash equivalents amounted to HK\$46,550,000 (31 December 2011: HK\$81,672,000), representing a decrease of HK\$35,122,000 or 43.0% as compared to the same as at 31 December 2011, which were denominated in Hong Kong dollars (13.7%), Renminbi (85.5%) and United States dollars (0.8%), respectively. During the period, net cash outflow from operating activities was HK\$52,727,000, which was mainly attributable to the increase in cash outflow as a result of repayment of trust receipt loans. The net cash inflow from investing activities was HK\$17,920,000, which mainly represented the decrease in pledged bank deposits.

Business and Financial Review (Continued)

Financial Review (Continued)

As at 30 June 2012, the Group's interest-bearing borrowings amounted to HK\$172,121,000 (31 December 2011: HK\$232,736,000), 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\$107,121,000. The Group's borrowings mainly consisted of: (1) balances of short-term loans provided by the bank of HK\$29,742,000, which were secured by bank deposits of RMB10,538,000; and (2) balances of short-term unsecured intra-group borrowings of HK\$142,379,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 30 June 2012, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 34.8% (31 December 2011: 41.5%). During the period, the annual interest rate of the borrowings was approximately 1.5% to 6.0%. Of the Group's total borrowings, all were repayable within one year. The Group's interest expenses during the period amounted to HK\$3,039,000, representing an increase of 26.4% from the same period of last year.

As at 30 June 2012, the total banking facilities of the Group was HK\$339,833,000 (31 December 2011: HK\$251,160,000), of which banking facilities of HK\$29,742,000 (31 December 2011: HK\$90,357,000) were utilised and banking facilities of HK\$310,091,000 (31 December 2011: HK\$160,803,000) were unutilised. Taking into account of the existing cash resources and available credit facilities, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 30 June 2012, the net value of non-current assets including prepaid land lease payments, property, plant and equipment amounted to HK\$122,903,000, representing a decrease of HK\$630,000 over the net value as at 31 December 2011 of HK\$123,533,000. The capital expenditure for the period amounted to HK\$2,548,000 (six months ended 30 June 2011: HK\$6,825,000), which mainly represented the payment for the construction works and the acquisition of machinery and equipment to cope with the production requirements of the Group.

Pledge of Assets

As at 30 June 2012, certain of the Group's bank balances with a total of HK\$12,927,000 (31 December 2011: HK\$33,490,000) 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 and did not constitute any material risk of foreign exchange for the Group. As to the movement in the exchange rate 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 2012, a total of 772 employees (31 December 2011: 759) 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

The Group's operation will still remain uncertain during the second half of 2012, given the adversity of downturn in the macro-economy of the Mainland China, and fall in demand of various industries. Notwithstanding the above, on top of scale development of footwear leather, the Group will continue to pursue for sustainable development by tapping into the improvement of basic management. The Group shall insist the vision of "practical foundation, steady advancement and opportunistic development". Product research and development will be expanded, whilst strategies will be adopted to stabilise sales. The Group will control risks and persistently determine inventory from production needs. Purchasing will thus be stable and costs will be subject to tight control. The Group will continue to consolidate the establishment of a team serving end-user outlets and to enhance safety in its production, thereby achieving those preset operation goals diligently.

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 25, which comprises the condensed consolidated balance sheet as at 30 June 2012 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
22/F, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

27 August 2012

Unaudited Interim Financial Information

Condensed Consolidated Income Statement

Six months ended 30 June 2012

	Notes	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
REVENUE	3	262,188	285,420
Cost of sales		(255,342)	(271,569)
Gross profit		6,846	13,851
Other income and gains, net	3	7,906	4,319
Selling and distribution costs		(1,023)	(994)
Administrative expenses		(13,358)	(11,113)
Finance costs	4	(3,039)	(2,405)
PROFIT/(LOSS) BEFORE TAX	4	(2,668)	3,658
Income tax expense	5	(968)	(2,956)
PROFIT/(LOSS) FOR THE PERIOD		(3,636)	702
EARNINGS/(LOSS) PER SHARE	6		
— Basic		(HK0.68 cent)	HK0.13 cent
— Diluted		N/A	HK0.13 cent

Unaudited Interim Financial Information (Continued)

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2012

	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	(3,636)	702
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	(2,624)	10,423
Surplus/(deficit) on revaluation of buildings	(27)	47
Income tax effect	7	(12)
	(20)	35
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(2,644)	10,458
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	(6,280)	11,160

Unaudited Interim Financial Information (Continued)

Condensed Consolidated Balance Sheet

30 June 2012

	Notes	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		108,572	108,967
Prepaid land lease payments		14,331	14,566
Total non-current assets		122,903	123,533
CURRENT ASSETS			
Inventories		206,554	185,092
Receivables, prepayments and deposits	8	186,963	220,874
Tax recoverable		257	—
Pledged deposits		12,927	33,490
Restricted bank balances		1,840	1,850
Cash and cash equivalents		46,550	81,672
Total current assets		455,091	522,978
CURRENT LIABILITIES			
Trade payables	9	52,637	48,722
Other payables and accruals		24,442	30,149
Interest-bearing bank borrowings	10	29,742	90,357
Due to a PRC joint venture partner	15(c)(ii)	1,131	1,131
Loans from the immediate holding company	10, 11	142,379	142,379
Provision		3,912	3,934
Tax payable		—	796
Total current liabilities		254,243	317,468
NET CURRENT ASSETS		200,848	205,510
TOTAL ASSETS LESS CURRENT LIABILITIES		323,751	329,043
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,044	633
Total non-current liabilities		1,044	633
Net assets		322,707	328,410
EQUITY			
Issued capital	12	53,802	53,802
Reserves	13	268,905	274,608
Total equity		322,707	328,410

Unaudited Interim Financial Information (Continued)

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2012

	Issued capital	Share premium account	Equity component of convertible notes	General reserve fund	Reserve funds	Share option reserve	Capital redemption reserve	Exchange translation reserve	Property revaluation reserve	Special capital reserve	Accumulated losses	Total
	HK\$'000	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 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 13(b))	–	(393,346)	–	–	–	–	–	–	–	–	393,346	–
Transfer from accumulated losses in accordance with the Undertaking (note 13(b))	–	–	–	–	–	–	–	–	–	1,559	(1,559)	–
Transfer to accumulated losses upon issue of new ordinary shares (note 13(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
At 1 January 2012 (Audited)	53,802	20,785	5,545	167,746	15,987	2,287	445	95,440	1,832	2,344	(37,803)	328,410
Loss for the period	–	–	–	–	–	–	–	–	–	–	(3,636)	(3,636)
Other comprehensive loss for the period:												
Deficit on revaluation of buildings, net of tax	–	–	–	–	–	–	–	–	(20)	–	–	(20)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(2,624)	–	–	–	(2,624)
Total comprehensive loss for the period	–	–	–	–	–	–	–	(2,624)	(20)	–	(3,636)	(6,280)
Equity-settled share option arrangements	–	–	–	–	–	577	–	–	–	–	–	577
Transfer to accumulated losses in accordance with the Undertaking (note 13(b))	–	–	–	–	–	–	–	–	–	(190)	190	–
At 30 June 2012 (Unaudited)	53,802	20,785*	5,545*	167,746*	15,987*	2,864*	445*	92,816*	1,812*	2,154*	(41,249)*	322,707

* These reserve accounts comprise the consolidated reserves of HK\$268,905,000 (30 June 2011: HK\$261,363,000) in the condensed consolidated balance sheet as at 30 June 2012.

Unaudited Interim Financial Information (Continued)

Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2012

	2012 <i>HK\$'000</i> (Unaudited)	2011 <i>HK\$'000</i> (Unaudited)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(52,727)	(55,706)
NET CASH FLOWS FROM INVESTING ACTIVITIES	17,920	9,910
NET CASH FLOWS FROM FINANCING ACTIVITIES	—	111
NET DECREASE IN CASH AND CASH EQUIVALENTS	(34,807)	(45,685)
Cash and cash equivalents at beginning of period	81,672	107,718
Effect of foreign exchange rate changes, net	(315)	1,886
CASH AND CASH EQUIVALENTS AT END OF PERIOD	46,550	63,919
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	46,550	63,919

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information

30 June 2012

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 2011.

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 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>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Taxes: Recovery of Underlying Assets</i>

The adoption of the new and revised HKFRSs has had no financial effect on this unaudited interim condensed consolidated financial information.

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

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 — Government Loans</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ²
HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
HKFRS 13	<i>Fair Value Measurement</i> ²
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> ¹
HKAS 19 (2011)	<i>Employee Benefits</i> ²
HKAS 27 (2011)	<i>Separate Financial Statements</i> ²
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ²
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ³
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ²
Annual Improvement Project	Annual Improvements to HKFRSs 2009–2011 Cycle ²

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

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial positions.

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

2. Operating Segment Information

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

Information about a major customer

During the period, revenue of approximately HK\$69,192,000 (six months ended 30 June 2011: HK\$47,924,000) was derived from sales to a single customer, which contributed approximately 26% (six months ended 30 June 2011: 17%) 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, net is as follows:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Processing and sale of leather	262,188	285,420
Other income and gains, net		
Gross rental income	—	81
Interest income	286	726
Foreign exchange gains, net	129	1,019
Sale of scrap materials	623	1,250
Government subsidies	4,311	30
Surplus on valuation of buildings	1,670	—
Gain on disposal of items of property, plant and equipment	8	—
Others	879	1,213
	7,906	4,319

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

4. Profit/(Loss) Before Tax

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

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	256,196	275,314
Depreciation	3,981	3,871
Interest on:		
Bank loans	1,369	882
Loans from the immediate holding company	1,670	891
Loan from a fellow subsidiary	—	632
	3,039	2,405
Write-back of provision for inventories	(854)	(3,745)
Write-back of impairment for trade receivables	(892)	(573)

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 2011: 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	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Group:		
Current — Mainland China	550	3,035
Deferred	418	(79)
Total tax charge for the period	968	2,956

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

6. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share amounts 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 amounts is based on the profit/(loss) for the period. 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/(loss) 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 loss per share for the period ended 30 June 2012 have not been disclosed, as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share.

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

	Six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Earnings/(loss)		
Profit/(loss) for the period, used in the basic earnings/(loss) per share calculations	(3,636)	702
	Number of shares	
	30 June 2012 (Unaudited)	30 June 2011 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculations	538,019,000	537,637,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	N/A	1,461,000
	N/A	539,098,000

7. Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

8. Receivables, Prepayments and Deposits

As at 30 June 2012, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$182,884,000 (31 December 2011: HK\$216,780,000) 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 2 to 3 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 2012, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Current	182,132	216,042
Less than 3 months	491	1,096
3 to 6 months	234	409
Over 6 months	467	695
	183,324	218,242
Impairment	(440)	(1,462)
	182,884	216,780

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

9. Trade Payables

As at 30 June 2012, the aged analysis of the Group's trade payables, based on the payment due date, is as follows:

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Within 3 months	31,522	24,486
3 to 6 months	15,248	20,234
Over 6 months	5,867	4,002
	52,637	48,722

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 and Other Borrowings

	30 June 2012 (Unaudited)			31 December 2011 (Audited)		
	Effective interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Trust receipt loans, secured	3.35–3.90	2012	29,742	3.10–5.24	2012	90,357
Loans from the immediate holding company (note 11)	1.47–2.58	2012	142,379	1.30–2.58	2012	142,379
			172,121			232,736

Notes:

- (a) The Group's trust receipt loan facilities amounting to HK\$339,833,000 (31 December 2011: HK\$251,160,000), of which HK\$29,742,000 (31 December 2011: HK\$90,357,000) had been utilised at 30 June 2012, are secured by the pledge of certain of the Group's bank deposits and supported by corporate guarantees executed by the Company (31 December 2011: pledge of certain of the Group's bank deposits and supported by corporate guarantees executed by the Company).

Details of the pledge of assets are included in note 16 to the financial statements.

- (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 2012

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 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
(a)	22,779	22,779
(b)	65,000	65,000
(c)	54,600	54,600
	142,379	142,379

Notes:

- (a) The balance represents an unsecured loan of US\$2,920,000 (31 December 2011: US\$2,920,000), which bears interest at 3-month LIBOR +1% (31 December 2011: 3-month LIBOR +1%) per annum and is repayable within one year from 30 June 2012 (31 December 2011: repayable within one year from 31 December 2011).
- (b) The balance represents an unsecured loan of HK\$65,000,000 (31 December 2011: HK\$65,000,000), which bears interest at 3-month HIBOR + 2% (31 December 2011: 3-month HIBOR + 2%) per annum and is repayable within one year from 30 June 2012 (31 December 2011: repayable within one year from 31 December 2011).
- (c) The balance represents an unsecured loan of US\$7,000,000 (31 December 2011: US\$7,000,000), which bears interest at 3-month LIBOR + 2% (31 December 2011: 3-month LIBOR + 2%) per annum and is repayable within one year from 30 June 2012 (31 December 2011: repayable within one year from 31 December 2011).

12. Share Capital

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 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 2011: 538,019,000) ordinary shares of HK\$0.10 each	53,802	53,802

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

12. Share Capital (Continued)

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 2012, there were 18,660,000 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 18,660,000 additional ordinary shares of the Company and additional share capital of HK\$1,866,000 and share premium of HK\$6,157,000 (before issue expenses).

13. 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) The general reserve fund of the Group is an undistributable reserve and may not be treated as realised profits.

On 25 November 1996, a court confirming the reduction of the share premium account by HK\$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the general reserve fund against which goodwill arising on the acquisition of a subsidiary was eliminated in the consolidated financial statements. In the year ended 31 December 2002, there was a release of goodwill of HK\$133,349,000 in respect of impairment of an investment in a subsidiary relating to the goodwill arising from acquisition of that subsidiary in 1996.

Pursuant to a special resolution passed in the Group's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of Hong Kong Special Administrative Region of the PRC (the "Court") dated 2 March 1998, the share premium account was reduced by the amount of HK\$34,397,000 and, as undertaken by the Group, a general reserve fund was credited in the books of accounts of the Group in the same amount for the purpose of setting off, in the consolidated financial statements of the Group and its subsidiaries, goodwill arising on consolidation in 1997. In 2000 and 2001, there was a release of goodwill of HK\$12,478,000 and HK\$21,919,000, respectively, in respect of impairment of investments in subsidiaries relating to the goodwill arising from the acquisition of the subsidiaries in 1997.

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

13. Reserves (Continued)

- (b) Pursuant to a special resolution was passed by the shareholders of the Company on 1 February 2011 and confirmed by the court as registered with the Registrar of the Companies on 29 March 2011 (the “Effective Date”), the share premium of the Company (the “Share Premium Reduction”) was reduced by the amount of HK\$393,345,845 by applying the credit arising from such reduction to eliminate the accumulated losses of the Company by the same amount.

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;
- (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.

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

13. Reserves (Continued)

(b) (Continued)

During the six months ended 30 June 2012, provision for impairment on the Assets was HK\$190,000. This resulted in a transfer of HK\$190,000 from the Special Capital Reserve to accumulated losses of the Group.

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\$71,000 (before issue expenses), as a result of the issue of the Company's ordinary shares. Accordingly, the Special Capital Reserve was reduced by HK\$71,000, 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 (31 December 2011: HK\$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve was HK\$2,154,000 as at 30 June 2012 (31 December 2011: HK\$2,344,000).

14. Commitments

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Contracted, but not provided for:		
Land and buildings	1,504	2,357
Leasehold improvements	62	62
Plant and machinery	893	1,956
	2,459	4,375

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

15. 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	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Office rental paid to the fellow subsidiary	173	172
Interest expense to the immediate holding company	1,670	891
Interest expense to a fellow subsidiary	—	632

(b) Commitments with related parties

On 1 April 2011, the Company entered into a three-year office rental agreement ending 5 February 2014 with Global Head Developments Limited, a fellow subsidiary of the Company. The total operating lease commitments due within one year and in the second to fifth year as at 30 June 2012 were approximately HK\$346,000 and HK\$207,000, respectively.

(c) Outstanding balances with related parties

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

(d) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	606	463
Post-employment benefits	113	127
Equity-settled share option expense	203	267
Total compensation paid to key management personnel	922	857

Unaudited Interim Financial Information (Continued)

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2012

16. Pledge of Assets

As at 30 June 2012, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2012 HK\$'000 (Unaudited)	31 December 2011 HK\$'000 (Audited)
Bank balances and deposits	12,927	33,490

17. Approval of the Interim Financial Information

These unaudited interim condensed consolidated financial information were approved and authorised for issue by the Board on 27 August 2012.

Directors' Interests and Short Positions in Securities

As at 30 June 2012, 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 2012.

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						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 2012	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	At 30 June 2012				
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	60,000	—	—	—	60,000	—	0.278	0.27	—
	14.07.2010	1,260,000	1,260,000	—	—	—	1,260,000	—	0.435	0.435	—
Xiong Guangyang	24.11.2008	1,150,000	345,000	—	—	—	345,000	—	0.278	0.27	—
	14.07.2010	4,320,000	4,320,000	—	—	—	4,320,000	—	0.435	0.435	—
Qiao Jiankang	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 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:

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 the 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 6,233,205,071 ordinary shares of GDI in issue as at 30 June 2012.

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 2012	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	At 30 June 2012				
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:

- 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 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 2012.

Save as disclosed above, as at 30 June 2012, 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 2012, so far as is known to any director or chief executive of the Company, the following persons (other than a director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company 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:

1. 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 2012.
2. 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 2012, so far as is known to any director or chief executive of the Company, there were no other persons (other than a director or chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company 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 Options of the Company

As at 30 June 2012, save as disclosed in the section of “Directors’ Interests and Short Positions in Securities” of this report, certain eligible persons (other than directors of the Company) 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 12 to the unaudited interim condensed consolidated financial information and the detailed terms of the 2008 Scheme were disclosed in the annual report 2011 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 2012	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	At 30 June 2012				
Senior Management	24.11.2008	650,000	195,000	—	—	—	195,000	—	0.278	0.27	—
	14.07.2010	2,980,000	2,980,000	—	—	—	2,980,000	—	0.435	0.435	—
Employee	14.07.2010	570,000	570,000	—	—	—	570,000	—	0.435	0.435	—
Other participant	14.07.2010	2,040,000	2,040,000	—	—	—	2,040,000	—	0.435	0.435	—

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 28.

Corporate Governance and Other Information

Corporate Governance Code

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (collectively the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2012, save for new code provision A.6.7 of the CG Code as two non-executive directors were unable to attend the annual general meeting of the Company held on 30 May 2012 as they were out of town or they had other engagements.

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 2012.

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 in respect of the period between 1 January 2012 and the date of this report are set out below:

Commencing 1 January 2012, the salary, allowances and benefits in kind of Mr. Chen Hong and Mr. Sun Jun amount to approximately HK\$654,000 per annum and RMB323,000 per annum, respectively.

Mr. Xiong Guangyang ceased to act as the general manager of the strategic development department of GDH Limited in April 2012.

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.

Corporate Governance and Other Information (Continued)

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, identifying individuals suitably qualified to become Board members and making recommendations to the Board on appointment and re-appointment of directors.

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 2012. 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 2012.

By order of the Board
Chen Hong
Chairman

Hong Kong, 27 August 2012



粤海制革有限公司

GUANGDONG TANNERY LIMITED