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GDH

粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

Unaudited financial highlights for the six months ended 30 June

	2016 HK$'000	2015 HK$'000	Changes %
Revenue	**212,671**	341,901	-37.8
Loss attributable to shareholders of the Company	**(21,836)**	(13,126)	-66.4
Loss per share — Basic	**HK(4.06)cents**	HK(2.44)cents	-66.4

CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2016 together with comparative figures. The interim financial information has not been audited, but has been reviewed by the Company's audit committee (the "Audit Committee") and auditors, Messrs. Ernst & Young.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	**2016** ***HK$'000*** **(Unaudited)**	2015 *HK$'000* (Unaudited)
REVENUE			
Processing and sale of leather	*3*	**212,671**	341,901
Cost of sales		**(211,876)**	(334,266)
Gross profit		**795**	7,635
Other income and gains	*3*	**832**	2,956
Selling and distribution expenses		**(1,202)**	(1,468)
Administrative expenses		**(16,692)**	(17,737)
Impairment on items of property, plant and equipment		**(2,817)**	-
Finance costs	*4*	**(2,752)**	(4,875)
LOSS BEFORE TAX	*4*	**(21,836)**	(13,489)
Income tax credit	*5*	**-**	363
LOSS FOR THE PERIOD		**(21,836)**	(13,126)
LOSS PER SHARE	*6*		
- Basic		**HK(4.06) cents**	HK(2.44) cents
- Diluted		**HK(4.06) cents**	HK(2.44) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	**(21,836)**	(13,126)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income not to be reclassified to the statement of profit or loss in subsequent periods:		
Surplus on revaluation of buildings	**504**	1,003
Income tax effect	**(126)**	(251)
	378	752
Other comprehensive income/(loss) to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(8,248)**	158
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(7,870)**	910
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(29,706)**	(12,216)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2016

	Notes	**30 June 2016** *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**97,329**	103,313
Prepaid land lease payments		**12,486**	12,889
Total non-current assets		**109,815**	116,202
CURRENT ASSETS			
Inventories		**238,860**	310,803
Receivables, prepayments and deposits	*8*	**159,770**	129,422
Tax recoverable		**51**	25
Pledged bank balances		**7,097**	8,410
Cash and bank balances		**15,665**	42,156
Total current assets		**421,443**	490,816
CURRENT LIABILITIES			
Trade payables	*9*	**57,816**	86,579
Other payables and accruals		**41,339**	30,376
Interest-bearing bank borrowings		**24,901**	53,822
Due to a PRC joint venture partner		**1,131**	1,131
Provision		**3,732**	3,806
Total current liabilities		**128,919**	175,714
NET CURRENT ASSETS		**292,524**	315,102
TOTAL ASSETS LESS CURRENT LIABILITIES		**402,339**	431,304
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		**139,333**	138,740
Deferred tax liabilities		**2,097**	1,949
Total non-current liabilities		**141,430**	140,689
Net assets		**260,909**	290,615
EQUITY			
Share capital		**75,032**	75,032
Other reserves		**185,877**	215,583
Total equity		**260,909**	290,615

Notes:

(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 2015.

The financial information relating to the year ended 31 December 2015 included in these unaudited interim financial information for the six months ended 30 June 2016 as comparative information does not constitute the statutory annual consolidated financial statements of the Company for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622) is as follows:

The Company has delivered the consolidated financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Chapter 622).

The Company's auditors have reported on those consolidated financial statements. The auditors' report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Chapter 622).

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27(2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

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

(2) OPERATING SEGMENT INFORMATION

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

Information about a major customer

During the period, revenue of approximately HK$35,223,000 (six months ended 30 June 2015: HK$73,288,000) was derived from sales to a single customer, which contributed approximately 17% (six months ended 30 June 2015: 21%) of the total revenue.

(3) REVENUE, OTHER INCOME AND GAINS

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

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

	For the six months ended	
	30 June	30 June
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Processing and sale of leather	**212,671**	341,901
Other income and gains		
Interest income	**26**	60
Sale of scrap materials	**694**	1,027
Government subsidies	**-**	1,544
Others	**112**	325
	832	2,956

(4) LOSS BEFORE TAX

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

	For the six months ended	
	30 June	30 June
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**212,773**	335,298
Depreciation	**5,667**	5,535
Foreign exchange differences, net	**2,643**	3,159
Interest on:		
Bank loans	**1,044**	2,857
Loans from the immediate holding company	**1,708**	2,018
	2,752	4,875
Reversal of provision for inventories*	**(897)**	(1,032)

*Included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss.

(5) INCOME TAX

No provision for Hong Kong and PRC profits tax have been made as the Group did not generate any assessable profits arising in Hong Kong and Mainland China during the period (six months ended 30 June 2015: Nil).

	For the six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group - Mainland China		
Overprovision in prior years	-	(363)
Total tax credit for the period	**-**	(363)

(6) LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the period of HK$ 21,836,000 (six months ended 30 June 2015: HK$ 13,126,000) and the weighted average number of ordinary shares of 538,019,000 (30 June 2015: 538,019,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the period ended 30 June 2016 in the calculation of diluted loss per share as there are no dilutive events during the period ended 30 June 2016.

No adjustment has been made to the basic loss per share amounts presented for the period ended 30 June 2015 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

(7) DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2016, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$156,933,000 (31 December 2015: HK$126,952,000) 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 90 days of issuance, except for certain well-established customers, where the terms are extended to six 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. At 30 June 2016, approximately 12%, 11% and 12% (31 December 2015: 21% and 14%) of the Group’s trade receivables were due from three (31 December 2015: two) customers, and there was a certain concentration of credit risk. The Group does not hold any collateral or other credit enhancement over its trade receivable balances. Trade receivables are non-interest-bearing. The carrying amounts of trade receivables approximate their fair values.

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

	30 June 2016 *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
Current	**156,933**	125,724
Overdue for less than 3 months	**-**	1,228
	156,933	126,952

(9) TRADE PAYABLES

An aging analysis of the Group's trade payables as at the end of reporting period, based on the date of receipt of goods, is as follows:

	30 June 2016 *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
Within 3 months	**45,311**	48,779
3 to 6 months	**9,433**	34,319
Over 6 months	**3,072**	3,481
	57,816	86,579

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

BUSINESS AND FINANCIAL REVIEW

Results

The unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2016 of Group was HK$21,836,000, representing an increase of loss of HK$8,710,000, or 66.4% as compared to the loss of HK$13,126,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2016 was HK$260,909,000, representing a decrease of HK$78,820,000 and HK$29,706,000 as compared to the net asset value as at 30 June 2015 and 31 December 2015, respectively.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

Business Review

In the first half of the year, due to the destocking by domestic sales footwear manufacturers and the liquidity shortage of small and mid-sized footwear manufacturers, the demand in the footwear leather market continued to shrink under the circumstances of overcapacity and fierce competition in the industry, coupled with increasingly strict enforcement of environmental protection, resulting that the production and operation of leather processing manufacturers were under high pressure. The Group adhered to stable operating strategy with "reasonable production curtailment, destocking and risk control" as its principal operating concept in the first half of the year. During the period, production cost decreased as compared to the same period of last year, whereas the operating results fell sharply under the circumstances of dual drop of sales volume and selling price as well as the decrease in gross profit margin. During the period, the Group positively responded to adverse situations. On the one hand, it actively analyzed market dynamics to reasonably determine purchase quantity of cowhides, managed and controlled production size to achieve reduction of inventory. Meanwhile it adjusted production techniques and strengthened management and control of product quality. On the other hand, it closely followed the market trend, benchmarked customers, and actively carried out research and development of products for targeted customers, to enhance product portfolio, improve products' added value, and reduce operating risks under the weak economic conditions to certain extent.

During the period, the production volume of cowhides was 10,100,000 sq. ft., representing a decrease of 5,176,000 sq. ft. or 33.9% as compared to 15,276,000 sq. ft. for the same period of last year. The production volume of grey hides was 2,843 tons, representing a decrease of 2,179 tons or 43.4% as compared to 5,022 tons for the same period of last year. During the period, the total sales volume of cowhides was 10,831,000 sq. ft., representing a decrease of 3,284,000 sq. ft. or 23.3% as compared to 14,115,000 sq. ft. for the same period of last year. The sales volume of grey hides was 2,503 tons, representing a decrease of 2,519 tons or 50.2% as compared to 5,022 tons for the same period of last year.

During the period, the consolidated turnover of the Group was HK$212,671,000, representing a decrease of HK$129,230,000 or 37.8% from HK$341,901,000 for the same period of last year, of which the sales value of cowhides amounted to HK$203,381,000 (six months ended 30 June 2015: HK$310,146,000), representing a decrease of 34.4%; and the sales value of grey hides and other products amounted to HK$9,290,000 (six months ended 30 June 2015: HK$31,755,000), representing a decrease of 70.7%. During the period, the downtrend of the footwear leather market, the fierce competition of end-user market and the rising requirements of customers for products resulted in dual drop of sales volume and selling price of footwear leather and significant decrease in gross profit of cowhide as compared to last year. The grey hides market was continuously weak and the demand for grey hides was substantially reduced, thus giving rise to the gross profit of grey hides turnaround from profit to loss. These together led the Group's operating results to dramatically decrease.

In terms of sales, as consumption of footwear has become diverse, there appeared a significant demand for featured footwear products made with non-cowhide materials. Coupled with emergence of online sales, large branded footwear manufacturers joined the price war one after another. This became an accelerator of fierce competition, resulting in an increase in the demand for low-priced finished leather and a decrease in selling price. Confronted with the above difficulties, the Group actively explored the width of marketing and the depth of customer needs during the period to ensure the alignment of production and sales. In addition, the Group strengthened market analysis and refined marketing region management according to market situations, to enhance end-user services and achieve personal marketing during the period. Meanwhile, it increased efforts on destocking and intensified research and development of products to improve products' added value.

In terms of purchasing, aiming at destocking and controlling risks, the Group implemented the appropriate procurement strategy which satisfied rigid demand with safety production under the circumstances of ensuring needs of production and sales during the period, to effectively reduce the funding pressure of the Group. In addition, the Group initiated negotiations with chemical material suppliers for better prices, reduced purchasing cost of chemical materials by riding on the cyclical downturn of bulk commodity prices, and strengthened dynamic management of stocks to decrease the risks of deterioration and overstocking of chemical materials. During the period, total purchases amounted to HK$129,192,000, representing a decrease of 61.9% as compared to the same period of last year.

As at 30 June 2016, the Group's consolidated inventory amounted to HK$238,860,000 (31 December 2015: HK$310,803,000), representing a decrease of HK$71,943,000 or 23.1% over that of 31 December 2015. During the period, according to features of cowhides and taking market demand into consideration, the Group actively researched and developed products and carried out destocking. Meanwhile, it enhanced technical team building, adjusted production techniques, and reasonably ordered grouping, so as to relieve overstocking and satisfy customer needs.

Financial Review

As at 30 June 2016, the Group's cash and cash equivalents amounted to HK$15,665,000 (31 December 2015: HK$42,156,000), representing a decrease of HK$26,491,000 or 62.8% as compared to the same as at 31 December 2015, which were denominated in Hong Kong dollars (9.9%), Renminbi (88.3%) and United States dollars (1.8%). During the period, net cash outflow from operating activities was HK$23,391,000, which was mainly attributable to an increase in receivables and a decrease in trade payables and trust receipt loan, resulting in an increase in net cash outflow. The net cash outflow from investing activities was HK$2,692,000, which was mainly represented the payment of expenditures for the acquisition of machinery and equipment.

As at 30 June 2016, the Group's interest-bearing borrowings amounted to HK$112,680,000 (31 December 2015: HK$141,601,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK$65,000,000, interest-bearing borrowings in European dollars amounted to HK$9,563,000, and interest-bearing borrowings in United States dollars amounted to HK$38,117,000. The Group's borrowings mainly consisted of: (1) balances of short-term loans provided by the bank of HK$24,901,000, which were secured by bank balances of RMB6,066,000; and (2) balances of long-term unsecured intra-group borrowings of HK$87,779,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 30 June 2016, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 30.2% (31 December 2015: 32.8%). During the period, the annual interest rate of the borrowings was approximately 2.0% to 3.0%. Of the Group's total borrowings, all were repayable within one year except for the loans from the immediate holding company amounting to HK$87,779,000. The Group's interest expenses during the period amounted to HK$2,752,000, representing a decrease of 43.5% from the same period of last year, which was mainly attributable to the decrease in bank loans during the period.

As at 30 June 2016, the total banking facilities of the Group was HK$234,000,000 (31 December 2015: HK$238,720,000), of which banking facilities of HK$24,901,000 (31 December 2015: HK$53,822,000) were utilised and banking facilities of HK$209,099,000 (31 December 2015: HK$184,898,000) 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 2016, the net value of non-current assets including prepaid land lease payments and, property, plant and equipment amounted to HK$109,815,000, representing a decrease of HK$6,387,000 over the net value as at 31 December 2015 of HK$116,202,000. The capital expenditure for the period amounted to HK$3,885,000 (six months ended 30 June 2015: HK$10,350,000), which mainly represented the payment of expenditures for the acquisition of machinery and equipment to cope with the production requirements of the Group.

Pledge of Assets

As at 30 June 2016, certain of the Group's bank balances with a total of HK$7,097,000 (31 December 2015: HK$8,410,000) were pledged to banks 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, European dollars or Renminbi. The Group is exposed to foreign currency risk primarily from import purchases from overseas suppliers that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States dollars against Renminbi and European dollars against Renminbi. The Group did not hedge its exposure to risks arising from fluctuations in exchange rates during the period. Should the Group consider that its exposure to foreign currency risk justifies hedging, the Group may use forward or hedging contracts to reduce the risks.

Remuneration Policy for Employees

As at 30 June 2016, a total of 588 employees (31 December 2015: 627) 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 insurances and pension schemes to all employees in different areas.

Prospects

In the second half of 2016, it is expected that the development of leather industry still faces various problems, mainly in dim market trend, great pressure from labor and production costs and environmental protection, high import tariffs and product similarity, which brought further ordeal to the leather manufacturers. The Group will continuously implement the stable operating strategy with an aim of "maintaining stability and striving for survival" in response to the negative impact from the sluggish market. The Group will actively search market information and explore survival path to strive for stabilization of production and operation as well as breakthrough of product, so as to improve the quality of products. Meanwhile, the Group will keep in step with fashion trend, strengthen research and development and make great efforts to reduce inventory. In addition, the Group will continuously carry out in-depth management of internal control and improve management and control of environmental protection by promoting the application of clean production technology. Meanwhile, the Group will raise its awareness for preventing risks from exchange rate and receivables, strive to lower various risks and overcome difficulties, so as to reduce losses.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

The Company had complied with the code provisions and, where appropriate, the applicable recommended best practices in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2016 except for the following:

The code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual (the Company regards that the term “chief executive” has the same meaning as the Managing Director of the Company).

Mr. Sun Jun serves as both the Chairman and the Managing Director of the Company with effect from 26 February 2016. The Board believes that vesting the roles of both Chairman and Managing Director in the same person provides the Group with strong and consistent leadership and allows for effective and efficient planning and implementation of business strategies and decisions. It also considers that the current structure of vesting the roles of Chairman and Managing Director in the same person will not impair the balance of power and authority between the Board and the management of the Company. The Board will review the current structure from time to time to ensure appropriate and timely action to meet changing circumstances.

Review of Interim Results

The unaudited interim financial information of the Group and the Company’s interim report for the six months ended 30 June 2016 have been reviewed by the Audit Committee and Messrs. Ernst & Young, the auditors of the Company.

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 2016.

By order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 26 August 2016

As at the date of this announcement, the Board of the Company comprises one Executive Director, namely Mr. Sun Jun; three Non-Executive Directors, namely Mr. Xiao Zhaoyi, Mr. Kuang Hu and Mr. Ran Bo; and three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat.