



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)



INTERIM REPORT 中期報告 2016

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Corporate Information

Board of Directors

Sun Jun (*Chairman and Managing Director*)
Xiao Zhaoyi#
Kuang Hu#
Ran Bo#
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

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

Company Secretary

Lo Sze Sze

Auditors

Ernst & Young

Registered Office

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148 Connaught Road Central
Hong Kong

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Share Registrar

Tricor Tengis Limited
Level 22, Hopewell Centre
183 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 2016 of Guangdong Tannery Limited (the “Company”) and its subsidiaries (collectively referred to as the “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 of directors of the Company (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.

Business and Financial Review (Continued)

Business Review (Continued)

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 cowhides 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.

Business and Financial Review (Continued)

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 loans, 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.

Business and Financial Review (Continued)

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.

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 Guangdong Tannery Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 8 to 24, which comprises the condensed consolidated statement of financial position as at 30 June 2016 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing 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 of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Ernst & Young
Certified Public Accountants
Hong Kong

26 August 2016

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2016

	Notes	For the six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
REVENUE	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

	For the six months ended 30 June	
	30 June 2016 HK\$'000 (Unaudited)	30 June 2015 HK\$'000 (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	10	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	10, 11	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	12	75,032	75,032
Other reserves	13	185,877	215,583
Total equity		260,909	290,615

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Share capital HK\$'000	Equity component of convertible notes HK\$'000	General reserve fund HK\$'000	Reserve funds HK\$'000	Share option reserve HK\$'000	Capital 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 2015 (Audited)	75,032	5,545	167,746	20,054	608	–	108,750	5,582	3,266	(34,030)	352,553
Loss for the period	–	–	–	–	–	–	–	–	–	(13,126)	(13,126)
Other comprehensive income for the period:											
Surplus on revaluation of buildings, net of tax	–	–	–	–	–	–	–	752	–	–	752
Exchange differences on translation of foreign operations	–	–	–	–	–	–	158	–	–	–	158
Total comprehensive loss for the period	–	–	–	–	–	–	158	752	–	(13,126)	(12,216)
Equity-settled share option arrangements	–	–	–	–	(608)	–	–	–	–	–	(608)
Transfer from accumulated losses in accordance with the undertaking (note 13(b))	–	–	–	–	–	–	–	–	14	(14)	–
At 30 June 2015 (Unaudited)	75,032	5,545	167,746	20,054	–	–	108,908	6,334	3,280	(47,170)	339,729
At 1 January 2016 (Audited)	75,032	5,545*	167,746*	20,054*	–*	3,639*	81,181*	6,531*	1,190*	(70,303)*	290,615
Loss for the period	–	–	–	–	–	–	–	–	–	(21,836)	(21,836)
Other comprehensive income/(loss) for the period:											
Surplus on revaluation of buildings, net of tax	–	–	–	–	–	–	–	378	–	–	378
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(8,248)	–	–	–	(8,248)
Total comprehensive loss for the period	–	–	–	–	–	–	(8,248)	378	–	(21,836)	(29,706)
Transfer to accumulated losses in accordance with the undertaking (note 13(b))	–	–	–	–	–	–	–	–	(659)	659	–
At 30 June 2016 (Unaudited)	75,032	5,545*	167,746*	20,054*	–*	3,639*	72,933*	6,909*	531*	(91,480)*	260,909

* These reserve accounts comprise the consolidated reserves of HK\$185,877,000 (31 December 2015: HK\$215,583,000) in the condensed consolidated statement of financial position as at 30 June 2016.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from/(used in) operations	(22,430)	7,615
Interest received	26	60
Interest paid	(960)	(3,948)
PRC tax refunded/(paid)	(27)	854
Net cash flows from/(used in) operating activities	(23,391)	4,581
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(3,885)	(10,350)
Proceeds from disposal of items of property, plant and equipment	28	–
Decrease in pledged bank balances	1,165	13,016
Net cash flows from/(used in) investing activities	(2,692)	2,666
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		
	(26,083)	7,247
Cash and cash equivalents at beginning of period	42,156	20,421
Effect of foreign exchange rate changes, net	(408)	21
CASH AND CASH EQUIVALENTS AT END OF PERIOD	15,665	27,689
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	15,665	27,689

Notes to Interim Condensed Consolidated Financial Information

30 June 2016

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 this 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).

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.

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

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (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

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

4. Loss Before Tax

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

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

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

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

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

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.

10. Interest-Bearing Bank and Other Borrowings

	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
	Effective interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
Current						
Trust receipt loans, secured	2.00-2.04	2016	24,901	2.90-3.02	2016	53,822
Non-current						
Loans from the immediate holding company (note 11)	2.33-2.63	2018	139,333	2.33-2.40	2018	138,740
			164,234			192,562

Note:

The Group's trust receipt loan facilities which are denominated in United States dollars and amounted to HK\$234,000,000 (31 December 2015: HK\$238,720,000) are secured by the pledge of certain of the Group's bank balances and supported by corporate guarantees executed by the Company. HK\$24,901,000 had been utilised at 30 June 2016 (31 December 2015: HK\$53,822,000).

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

The carrying amounts of the Group's interest-bearing bank borrowings approximate their fair values.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

11. Loans from the Immediate Holding Company

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

<i>Notes</i>	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
(a)	22,779	22,779
(b)	65,000	65,000
(c)	51,554	50,961
	139,333	138,740

Notes:

- (a) The balance represents an unsecured loan of US\$2,920,000 (31 December 2015: US\$2,920,000), which bears interest at 3-month LIBOR + 2% (3-month LIBOR + 2.5% for the period from 1 January 2015 to 31 July 2015 and 3-month LIBOR + 2% for the period from 1 August 2015 to 31 December 2015) and is repayable on 31 July 2018 (31 December 2015: repayable on 31 July 2018).
- (b) The balance represents an unsecured loan of HK\$65,000,000 (31 December 2015: HK\$65,000,000), which bears interest at 3-month HIBOR + 2% (3-month HIBOR + 2.5% for the period from 1 January 2015 to 9 August 2015 and 3-month HIBOR + 2% for the period from 10 August 2015 to 31 December 2015) and is repayable on 9 August 2018 (31 December 2015: repayable on 9 August 2018).
- (c) The balance represents an unsecured loan of US\$7,000,000 (31 December 2015: US\$7,000,000), which bears no interest (3-month LIBOR + 2.5% for the period from 1 January 2015 to 30 September 2015 and no interest for the period from 1 October 2015 to 31 December 2015) and is repayable on 30 December 2018 (31 December 2015: repayable on 30 December 2018).

The carrying values of the loans approximate their fair values.

12. Share Capital

Share

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Issued and fully paid: 538,019,000 (31 December 2015: 538,019,000) ordinary shares	75,032	75,032

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

12. Share Capital (Continued)

Share Option Scheme

On 24 November 2008, the Company adopted a 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 of directors of the Company may approve from time to time. Eligible persons of the 2008 Scheme include the employees, officers or directors of the members 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 2016 and 31 December 2015, there were no share options outstanding under the 2008 Scheme.

13. Reserves

The amounts of the Group’s reserves and the movements therein for the current and prior periods are presented in the unaudited 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 the 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.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

13. Reserves (Continued)

- (b) On 1 February 2011, a special resolution was passed by the shareholders of the Company for approving the reduction in share premium of the Company (the “Share Premium Reduction”). 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 (the “Order”) confirming the Share Premium Reduction. An office copy of the Order was registered with the Registrar of the Hong Kong 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.

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 the written down values in the Company’s accounts as at 30 June 2010, all such recoveries beyond the written down values 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 ss291, 297 and 299 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong) 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 ss290 and 298 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong), 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;

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

13. 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 assets as at 30 June 2010 less such amount (if any) as 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 provisions (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 2016, an addition of provision for impairment of HK\$659,000 was made for the Assets. This resulted in a transfer of HK\$659,000 from Special Capital Reserve to the accumulated losses.

During the six months ended 30 June 2015, recovery of the Assets by way of release of provision was HK\$14,000. This resulted in a transfer of HK\$14,000 from accumulated losses to the Special Capital Reserve.

The Limit as at 30 June 2016 was HK\$150,273,970 (31 December 2015: HK\$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 30 June 2016 was HK\$531,000 (31 December 2015: HK\$1,190,000).

14. Financial Instruments

The carrying amounts of each of the categories of financial instruments as at the end of the respective reporting period are as follows:

Financial assets

	30 June 2016	31 December 2015
	Loans and receivables	Loans and receivables
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade and bills receivables	156,933	126,952
Financial assets included in deposits and other receivables	1,867	1,674
Pledged bank balances	7,097	8,410
Cash and bank balances	15,665	42,156

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

14. Financial Instruments (Continued)

Financial liabilities

	30 June 2016 Financial liabilities at amortised cost HK\$'000 (Unaudited)	31 December 2015 Financial liabilities at amortised cost HK\$'000 (Audited)
Trade payables	57,816	86,579
Financial liabilities included in other payables and accruals	25,571	23,994
Interest-bearing bank borrowings	24,901	53,822
Due to a PRC joint venture partner	1,131	1,131
Loans from the immediate holding company	139,333	138,740

The carrying amounts of the Group's financial assets and financial liabilities approximate their fair values.

15. Commitments

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Contracted, but not provided for:		
Land and buildings	226	46
Leasehold improvements	201	469
Plant and machinery	123	3,018
	550	3,533

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

16. Related Party Transactions

(a) Transactions with related parties

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

	Notes	For the six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Office rental paid to a fellow subsidiary	(i)	246	246
Interest expense to the immediate holding company	(ii)	1,708	2,018
Computer system maintenance service fees paid to a fellow subsidiary	(iii)	40	–
Computer system maintenance service fees paid to the immediate holding company	(iv)	–	67
Electronic document maintenance service fees and data record cost paid to the immediate holding company	(v)	–	58

Notes:

- (i) The office rental was charged by a fellow subsidiary at HK\$40,960 per month during the period from 1 January 2016 to 30 June 2016 (period from 1 January 2015 to 30 June 2015: HK\$40,960 per month) in accordance with the terms of the rental agreement between the Group and a fellow subsidiary. As at 30 June 2016, the Group had a rental deposit of HK\$138,786 (31 December 2015: HK\$138,786) with the fellow subsidiary.
- (ii) The interest expense paid to the immediate holding company arose from the loans advanced from GDH. Further details of the loans, including the terms, are disclosed in note 11 to the condensed consolidated financial information.
- (iii) The fellow subsidiary charged maintenance service fees at HK\$6,723 per month during the period ended 30 June 2016 for the computer system used by the Group.
- (iv) The immediate holding company charged computer system maintenance service fees at HK\$11,100 per month for the period ended 30 June 2015 for the computer system used by the Group.
- (v) The immediate holding company charged electronic document maintenance service fees and data record cost at HK\$9,675 per month for the period ended 30 June 2015 for the services used by the Group.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2016

16. Related Party Transactions (Continued)

(b) Commitments with related parties

On 29 November 2013, the Company entered into a three-year office rental agreement commencing 6 February 2014 and ending on 5 February 2017 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 years as at 30 June 2016 were approximately HK\$294,000 and nil, respectively (31 December 2015: HK\$492,000 and HK\$48,000, respectively).

(c) Outstanding balances with related parties

Details of the loans from the immediate holding company as at the end of the reporting period are included in note 11 to the condensed consolidated financial information.

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Short term employee benefits	566	671
Post-employment benefits	68	149
Forfeiture of equity-settled share options	–	(298)
Total compensation paid to key management personnel	634	522

17. Pledge of Assets

As at 30 June 2016, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Bank balances	7,097	8,410

18. Approval of the Interim Financial Information

This unaudited interim condensed consolidated financial information was approved and authorised for issue by the Board on 26 August 2016.

Directors' Interests and Short Positions in Securities

As at 30 June 2016, 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 (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), were as follows:

Interests and Short Positions in the Company

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	0.007%
Fung Lak	Personal	1,380,000	Long position	0.256%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.011%

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 2016.

Save as disclosed above, as at 30 June 2016, 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 in the section headed "Share Options of the Company" and in note 12 to the interim condensed consolidated financial information on pages 26 and 19 of this report respectively, 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 2016, so far as is known to any Director 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 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 <i>(Note 1)</i>
廣東粵海控股集團有限公司 (Guangdong Holdings Limited) <i>(Note 2)</i>	Interest in 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 2016.
2. The attributable interest which 廣東粵海控股集團有限公司 (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 2016, so far as is known to any 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 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

During the six months ended 30 June 2016, no share options have been granted, exercised, cancelled or lapsed under the share option scheme adopted by the Company on 24 November 2008 (the "2008 Scheme"). As at 30 June 2016 and 31 December 2015, there were no share options outstanding under the 2008 Scheme. The detailed terms of the 2008 Scheme were disclosed in the annual report 2015 of the Company.

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 Listing Rules 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.

Directors’ Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. All Directors of the Company confirmed, upon specific enquiry by the Company, that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2016.

Change in Director’s Information

The change in information of the Director of the Company is set out below:

Mr. Xiao Zhaoyi was appointed as the chief legal officer of 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) and GDH Limited respectively in June 2016.

Save for the above change in the director’s information during the period from 1 January 2016 to the date of this report as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 of the Company and Messrs. Ernst & Young, the auditors of the Company.

Corporate Governance and Other Information (Continued)

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

