中期報告
INTERIM REPORT 2017

粵海制革有限公司
GUANGDONG TANNERY LIMITED
（股份代號 Stock Code: 1058）

Contents

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

29th Floor, Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Telephone : (852) 2308 1013
Facsimile : (852) 2789 0451
Website : http://www.gdtann.com.hk

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 2017 of Guangdong Tannery Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") was HK$32,464,000, representing an increase of loss of HK$10,628,000, or 48.7% as compared to the loss of HK$21,836,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2017 was HK$204,533,000, representing a decrease of HK$56,376,000 and HK$20,859,000 as compared to the net asset value as at 30 June 2016 and 31 December 2016, 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 2017 (six months ended 30 June 2016: Nil).

Business Review

In the first half of the year, the overall shrinking of the tannery industry, overcapacity, sharp drop in downstream demand, downward trend of shoe production, coupled with impact of new materials, ultra-fiber and cloth, resulted in a significant decrease in use of footwear leather during the period. In recent years, the central and local governments have continuously enforced stricter environmental protection policies, laws and regulations of the tannery industry, and greatly enhanced the bottom line of environmental protection and operation in compliance with the laws, which gave rise to a substantial increase in the cost of environmental protection, and posed heavy pressure on the production and operation of leather processing enterprises. During the period, the Group adhered to the sound business strategy, and set up the "stable operation to ensure asset safety" as the main operation strategy for the first half of the year. Under the circumstances of rising production costs, falling selling prices and declining gross profit margins, the Group's operating losses were further expanded. During the period, in order to improve the efficiency of management and further reduce the production cost, the Group reasonably adjusted the production plan after taking into accounts of the sales budget in the second half of the year and the sales in the first half of the year, and controlled the production cost through the measures of output reduction. In addition, the Group actively responded to the unfavourable environment of the market. On the one hand, the Group adjusted the product portfolio and strictly implemented the product quality control to ensure the stability of product quality, while it strengthened the market access for its products and explored the external processing business model to improve the utilization of production platform and reduce the fixed cost. On the other hand, the Group increased the environmental protection management and control, and promoted the application of clean production technology. It strengthened the implementation of classification and disposal of solid wastes, and reduced the total sludge to ensure that the discharge of sewage meets the treatment standards. The above measures reduced the operational risk under the weak economic environment to a certain extent.

During the period, the total production volume of cowhides was 8,477,000 sq. ft., representing a decrease of 1,623,000 sq. ft. or 16.1% as compared to 10,100,000 sq. ft. for the same period of last year. The production volume of grey hides was 4,641 tons, representing an increase of 1,798 tons or 63.2% as compared to 2,843 tons for the same period of last year. During the period, the total sales volume of cowhides was 7,863,000 sq. ft., representing a decrease of 2,968,000 sq. ft. or 27.4% as compared to 10,831,000 sq. ft. for the same period of last year. The sales volume of grey hides was 4,655 tons, representing an increase of 2,152 tons or 86.0% as compared to 2,503 tons for the same period of last year.

Business Review (Continued)

During the period, the consolidated turnover of the Group was HK$155,140,000, representing a decrease of HK$57,531,000 or 27.1% from HK$212,671,000 for the same period of last year, of which the sales value of cowhides amounted to HK$139,569,000 (six months ended 30 June 2016: HK$203,381,000), representing a decrease of 31.4%; and the sales value of grey hides and other products amounted to HK$15,571,000 (six months ended 30 June 2016: HK$9,290,000), representing an increase of 67.6%. During the period, as the demand in the footwear leather market continued to shrink, the intensified market competition led to the higher product requirements of customers, reduced demand for orders, declined sales volume and unit selling price as well as the gross profit turning negative, while the grey hides market was in the doldrums, demand dropped sharply, and the sales price continuously fluctuated at a low level, which increased the gross loss of grey hides. These combined to turn the gross profit of the Group into loss as a whole.

In terms of sales, the leather market mainly streamed to the production of thin shoes and sandals for the first half of the year, with sales volume of low-grade leather accounting for a high proportion and a variety of low-grade leather from different sources flooding to impact the leather market. Coupled with the emergence of on-line sales, the price war has become an accelerator of fierce competition, forced the brand footwear manufacturers to join the price war, resulting in an increase in demand for low-priced finished leather and the downward composite selling price. To confront the above difficulties, the Group strengthened the access of its products during the period, grasped the market changes and fashion trend of products, and adjusted production pursuant to the style demand to improve product quality and demand. In addition, the Group differentiated sales according to the market positioning and product grade, to improve the utilization of finished products through the adjustment of production technique, increase efforts on product research and development, and strive to keep up with the market rhythm for enhancement of the added value of products.

In terms of purchasing, the Group implemented the raw material purchasing strategy according to the production demand. During the period, the Group paid close attention to the changes of international cowhides market and purchased when appropriate to control the risk of huge price fluctuation of the cowhides. In addition, the Group initiated negotiations with chemical material suppliers for lower prices, while it strengthened the dynamic management of the warehouse to reduce the risks of deterioration and overstocking of chemical materials. During the period, total purchases amounted to HK$221,209,000, representing an increase of 71.2% as compared to the same period of last year.

As at 30 June 2017, the Group's consolidated inventory amounted to HK$317,720,000 (31 December 2016: HK$258,591,000), representing an increase of HK$59,129,000 or 22.9% over that of 31 December 2016. During the period, the Group set up a research and development project team to carry out special research and development as well as classified rectification and marketing of inventory. Meanwhile, it adjusted production techniques, and reasonably ordered grouping to actively destock the inventory for meeting customers' needs and for turning the slow-moving inventory into cash flow, so as to satisfy the financial needs in the normal operation of the Group.

Financial Review

As at 30 June 2017, the Group's cash and cash equivalents amounted to HK$25,426,000 (31 December 2016: HK$48,291,000), representing a decrease of HK$22,865,000 or 47.3% as compared to the same as at 31 December 2016, which were denominated in Hong Kong dollars (4.9%), Renminbi (93.4%) and United States dollars (1.7%). During the period, net cash outflows from operating activities was HK$18,731,000, which mainly attributable to an increase in inventory and trust receipt loans, resulting in an increase in net cash outflow. The net cash outflows from investing activities was HK$5,107,000, which mainly represented the increase in secured deposit and the payment of expenditures for the acquisition of machinery and equipment.

As at 30 June 2017, the Group's interest-bearing borrowings amounted to HK$188,448,000 (31 December 2016: HK$173,745,000), 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$123,448,000. The Group's borrowings mainly consisted of: (1) balances of short-term loans provided by the bank of HK$100,669,000, which were secured by bank balances of RMB13,923,000; 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 2017, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 48.0% (31 December 2016: 43.5%). During the period, the annual interest rate of the borrowings was approximately 2.0% to 3.2%. 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$3,578,000, representing an increase of 30.0% from the same period of last year, which was mainly attributable to the increase in bank loans during the period.

As at 30 June 2017, the total banking facilities of the Group was HK$207,396,000 (31 December 2016: HK$157,594,000), of which banking facilities of HK$100,669,000 (31 December 2016: HK$85,966,000) were utilised and banking facilities of HK$106,727,000 (31 December 2016: HK$71,628,000) 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 2017, the net value of non-current assets including prepaid land lease payments and, property, plant and equipment amounted to HK$94,472,000, representing a decrease of HK$4,625,000 over the net value as at 31 December 2016 of HK$99,097,000. The capital expenditure for the period amounted to HK$1,191,000 (six months ended 30 June 2016: HK$3,885,000), 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 2017, certain of the Group's bank balances with a total of HK$16,042,000 (31 December 2016: HK$11,610,000) 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 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. 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 2017, a total of 529 employees (31 December 2016: 570) 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 the year, the leather market is still in the status of "excessive output and disordered competition in the industry", and it is expected that in the second half of 2017, the overall trend of the leather industry is still not optimistic. In addition, labour and production costs and increased environmental pressures will further squeeze the profit margins of leather manufacturers, which will bring a more severe 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 accelerate the integration of production capacity to promote the orderly release of production capacity with the overall operating stability as the prerequisite, so as to achieve the most economical scale of production. At the same time, the Group will strengthen the concert of production and research, improve product quality and increase inventory destocking to relieve the inventory pressure. Furthermore, the Group will continue to enhance the environmental protection control, intensify the internal control management mechanism, diversify the exploration of the new business model and actively promote the development of eco-leather, to strive to minimize various risks, overcome difficulties and reduce losses.

Report on Review of Interim Financial Information

Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel : (852) 2846 9888
Fax : (852) 2868 4432
www.ey.com

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 set out on pages 8 to 24, which comprises the condensed consolidated statement of financial position as at 30 June 2017 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 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

28 August 2017

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June **2017** ***HK$'000*** **(Unaudited)**	 2016 *HK$'000* (Unaudited)
REVENUE	*3*	**155,140**	212,671
Cost of sales		**(167,716)**	(211,876)
Gross profit/(loss)		**(12,576)**	795
Other income and gains	*3*	**714**	832
Selling and distribution expenses		**(951)**	(1,202)
Administrative expenses		**(12,742)**	(16,692)
Impairment on items of property, plant and equipment		**(3,300)**	(2,817)
Finance costs	*4*	**(3,578)**	(2,752)
LOSS BEFORE TAX	*4*	**(32,433)**	(21,836)
Income tax expense	*5*	**(31)**	—
LOSS FOR THE PERIOD		**(32,464)**	(21,836)
LOSS PER SHARE	*6*		
— Basic		**HK(6.03) cents**	HK(4.06) cents
— Diluted		**HK(6.03) cents**	HK(4.06) cents

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	**(32,464)**	(21,836)
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	**1,012**	504
Income tax effect	**(253)**	(126)
	759	378
Other comprehensive income/(loss) to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**10,846**	(8,248)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**11,605**	(7,870)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(20,859)**	(29,706)

Condensed Consolidated Statement of Financial Position

30 June 2017

	Notes	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**82,467**	87,308
Prepaid land lease payments		**12,005**	11,789
Total non-current assets		**94,472**	99,097
CURRENT ASSETS			
Inventories		**317,720**	258,591
Receivables, prepayments and deposits	*8*	**101,178**	138,030
Tax recoverable		**—**	4
Pledged bank balances		**16,042**	11,610
Cash and bank balances		**25,426**	48,291
Total current assets		**460,366**	456,526
CURRENT LIABILITIES			
Trade payables	*9*	**60,207**	61,275
Other payables and accruals		**41,612**	36,149
Interest-bearing bank borrowings	*10*	**100,669**	85,966
Due to a PRC joint venture partner		**1,131**	1,131
Provision		**3,674**	3,565
Tax payable		**26**	—
Total current liabilities		**207,319**	188,086
NET CURRENT ASSETS		**253,047**	268,440
TOTAL ASSETS LESS CURRENT LIABILITIES		**347,519**	367,537
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	*10,11*	**140,532**	139,925
Deferred tax liabilities		**2,454**	2,220
Total non-current liabilities		**142,986**	142,145
Net assets		**204,533**	225,392
EQUITY			
Share capital	*12*	**75,032**	75,032
Other reserves	*13*	**129,501**	150,360
Total equity		**204,533**	225,392

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Share capital *HK$'000*	Equity component of convertible notes *HK$'000*	General reserve fund *HK$'000*	Reserve funds *HK$'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 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
At 1 January 2017 (Audited)	**75,032**	**5,545***	**167,746***	**20,054***	**3,639***	**55,267***	**7,216***	**–***	**(109,107)***	**225,392**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(32,464)**	**(32,464)**
Other comprehensive income/(loss) for the period:										
Surplus on revaluation of buildings, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**759**	**–**	**–**	**759**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**10,846**	**–**	**–**	**–**	**10,846**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**10,846**	**759**	**–**	**(32,464)**	**(20,859)**
Transfer from accumulated losses in accordance with the undertaking *(note 13(b))*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**95**	**(95)**	**–**
At 30 June 2017 (Unaudited)	**75,032**	**5,545***	**167,746***	**20,054***	**3,639***	**66,113***	**7,975***	**95***	**(141,666)***	**204,533**

* These reserve accounts comprise the consolidated reserves of HK$129,501,000 (31 December 2016: HK$150,360,000) in the condensed consolidated statement of financial position as at 30 June 2017.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	**(17,425)**	(22,430)
Interest received	**40**	26
Interest paid	**(1,346)**	(960)
PRC tax paid	**—**	(27)
Net cash flows used in operating activities	**(18,731)**	(23,391)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(1,191)**	(3,885)
Proceeds from disposal of items of property, plant and equipment	**87**	28
Decrease/(increase) in pledged bank balances	**(4,003)**	1,165
Net cash flows used in investing activities	**(5,107)**	(2,692)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(23,838)**	(26,083)
Cash and cash equivalents at beginning of period	**48,291**	42,156
Effect of foreign exchange rate changes, net	**973**	(408)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**25,426**	15,665
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**25,426**	15,665

1. Accounting Policies

The unaudited interim condensed consolidated financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The unaudited interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

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 2016, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretation) effective as at 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The financial information relating to the year ended 31 December 2016 included in this unaudited interim condensed financial information for the six months ended 30 June 2017 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 2016 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 HKFRSs for the first time for the current period's unaudited interim condensed consolidated financial information.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS12 included in *Annual Improvements 2014-2016 Cycle*	*Disclosure of Interests in Other Entities*

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$24,377,000 (six months ended 30 June 2016: HK$35,223,000) was derived from sales to a single customer, which contributed approximately 16% (six months ended 30 June 2016: 17%) 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Processing and sale of leather	**155,140**	212,671
Other income and gains		
Interest income	**40**	26
Sale of scrap materials	**595**	694
Others	**79**	112
	714	832

4. Loss Before Tax

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

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**163,276**	212,773
Depreciation	**5,547**	5,667
Provision for impairment of trade receivables	**501**	—
Foreign exchange differences, net	**(1,584)**	2,643
Loss on disposal of property, plant and equipment	**368**	44
Interest on:		
Bank loans	**1,646**	1,044
Loans from the immediate holding company	**1,932**	1,708
	3,578	2,752
Provision/(reversal of provision) for inventories*	**4,440**	(897)

* 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 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 2016: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group — Mainland China		
Provision for the period	**47**	—
Overprovision in prior years	**(16)**	—
Total tax expense for the period	**31**	—

6. Loss Per Share

The calculation of basic loss per share amounts is based on the loss for the period of HK$32,464,000 (six months ended 30 June 2016: HK$21,836,000) and the weighted average number of ordinary shares of 538,019,000 (30 June 2016: 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 2017 and 30 June 2016 in the calculation of diluted loss per share as there are no dilutive events during the periods ended 30 June 2017 and 30 June 2016.

7. Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

8. Receivables, Prepayments and Deposits

As at 30 June 2017, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$90,286,000 (31 December 2016: HK$130,143,000) 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 60 days of issuance, except for certain well-established customers, where the terms are extended to 150 days. 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. The Group does not hold any collateral or other credit enhancements 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 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
Current	**88,209**	129,976
Less than 3 months	**1,658**	167
More than 3 months	**930**	—
	90,797	130,143
Impairment	**(511)**	—
	90,286	130,143

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 2017 *HK$'000* **(Unaudited)**	31 December 2016 *HK$'000* (Audited)
Within 3 months	**32,011**	43,179
3 to 6 months	**25,201**	15,243
Over 6 months	**2,995**	2,853
	60,207	61,275

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 2017 (Unaudited)			31 December 2016 (Audited)		
	Effective interest rate (%)	**Maturity**	**Amount** *HK$'000*	Effective interest rate (%)	Maturity	Amount *HK$'000*
Current						
Trust receipt loans, secured	**2.16-2.70**	**2017**	**100,669**	2.00-2.40	2017	85,966
Non-current						
Loans from the immediate holding company *(note 11)*	**2.94-3.15**	**2018**	**140,532**	2.59-2.85	2018	139,925
			241,201			225,891

The Group's trust receipt loan facilities which are denominated in Renminbi and amounted to HK$207,396,000 (31 December 2016: HK$157,594,000) are secured by the pledge of certain of the Group's bank balances and supported by corporate guarantees executed by the Company. HK$100,669,000 (31 December 2016: HK$85,966,000) had been utilised at 30 June 2017.

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.

11. Loans from the Immediate Holding Company

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

Notes	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
(a)	**22,779**	22,779
(b)	**65,000**	65,000
(c)	**52,753**	52,146
	140,532	139,925

Notes:

(a) The balance represents an unsecured loan of US$2,920,000 (31 December 2016: US$2,920,000), which bears interest at 3-month LIBOR +2% (3-month LIBOR + 2% for the year ended 31 December 2016) and is repayable on 31 July 2018 (31 December 2016: repayable on 31 July 2018).

(b) The balance represents an unsecured loan of HK$65,000,000 (31 December 2016: HK$65,000,000), which bears interest at 3-month HIBOR + 2% (3-month HIBOR + 2% for the year ended 31 December 2016) and is repayable on 9 August 2018 (31 December 2016: repayable on 9 August 2018).

(c) The balance represents an unsecured loan of US$7,000,000 (31 December 2016: US$7,000,000), which bears no interest (no interest for the year ended 31 December 2016) and is repayable on 30 December 2018 (31 December 2016: repayable on 30 December 2018).

The carrying values of the loans approximate their fair values.

12. Share Capital

Shares	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
Issued and fully paid: 538,019,000 (31 December 2016: 538,019,000) ordinary shares	**75,032**	75,032

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 order 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.

(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.

13. Reserves (Continued)

(b) (Continued)

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;

(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 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 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.

13. Reserves (Continued)

(b) (Continued)

During the six months ended 30 June 2017, recovery of the Assets by way of release of provision was HK$95,000. This resulted in a transfer of HK$95,000 from accumulated losses to the Special Capital Reserve.

During the six months ended 30 June 2016, additional 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.

The Limit as at 30 June 2017 was HK$150,273,970 (31 December 2016: HK$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 30 June 2017 was HK$95,000 (31 December 2016: Nil).

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 2017 Loans and receivables** ***HK$'000*** **(Unaudited)**	31 December 2016 Loans and receivables *HK$'000* (Audited)
Trade and bills receivables	**90,286**	130,143
Financial assets included in deposits and other receivables	**3,264**	7,221
Pledged bank balances	**16,042**	11,610
Cash and bank balances	**25,426**	48,291
	135,018	197,265

14. Financial Instruments (Continued)

Financial liabilities

	30 June 2017 Financial liabilities at amortised cost HK$'000 (Unaudited)	31 December 2016 Financial liabilities at amortised cost HK$'000 (Audited)
Trade payables	60,207	61,275
Financial liabilities included in other payables and accruals	22,797	22,025
Interest-bearing bank borrowings	100,669	85,966
Due to a PRC joint venture partner	1,131	1,131
Loans from the immediate holding company	140,532	139,925
	325,336	310,322

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

15. Commitments

	30 June 2017 HK$'000 (Unaudited)	31 December 2016 HK$'000 (Audited)
Contracted, but not provided for:		
Land and buildings	435	19
Leasehold improvements	565	506
Plant and machinery	121	143
	1,121	668

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:

		For the six months ended 30 June	
	Notes	**2017** ***HK$'000*** **(Unaudited)**	2016 *HK$'000* (Unaudited)
Office rental paid to a fellow subsidiary	*(i)*	**218**	246
Interest expense to the immediate holding company	*(ii)*	**1,932**	1,708
Computer system maintenance service fees paid to a fellow subsidiary	*(iii)*	**120**	40

Notes:

(i) The office rental was charged by a fellow subsidiary at HK$40,960 per month from 1 January 2017 to 5 February 2017 and HK$43,264 per month from 6 February 2017 to 30 June 2017 (period from 1 January 2016 to 30 June 2016: 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 2017, the Group had a rental deposit of HK$150,819 (31 December 2016: HK$150,819) 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$20,078 per month during the period ended 30 June 2017 (HK$6,723 per month during the period ended 30 June 2016) for the computer system used by the Group.

(b) Commitments with related parties

On 28 November 2016, the Group entered into a three-year office rental agreement commencing 6 February 2017 and ending 5 February 2020 with Global Head Developments Limited, a fellow subsidiary of the Group, with a monthly rent of HK$43,264. The total operating lease commitments due within one year and in the second to fifth years as at 30 June 2017 were approximately HK$519,000 (31 December 2016: HK$517,000) and HK$822,000 (31 December 2016: HK$1,082,000), respectively.

16. Related Party Transactions (Continued)

(c) Outstanding balances with related parties

(i) 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.

(ii) Included in other payables is accrued interest of HK$6,132,000 (31 December 2016: HK$4,806,000) due to the immediate holding company which is payable on demand, and was arisen from loans from the immediate holding company.

(d) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short term employee benefits	**268**	566
Post-employment benefits	**64**	68
Total compensation paid to key management personnel	**332**	634

17. Pledge of Assets

As at 30 June 2017, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2017	31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Bank balances	**16,042**	11,610

18. Approval of the Interim Financial Information

This unaudited interim condensed consolidated financial information was approved and authorised for issue by the Board on 28 August 2017.

Directors' Interests and Short Positions in Securities

As at 30 June 2017, 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 *(Note)*
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 2017.

Save as disclosed above, as at 30 June 2017, 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 2017, 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 *(Note 1)*
廣東粵海控股集團有限公司 (Guangdong Holdings Limited) *(Note 2)*	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 2017.

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 2017, 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.

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 2017 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 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 2017.

Change in Director's Information

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

The salary, allowances and benefits in kind of Mr. Sun Jun were adjusted to HK$49,350 per month with effect from 27 March 2017.

Save for the above change in the director's information during the period from 1 January 2017 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 results of the Group and the Company's interim report for the six months ended 30 June 2017 have been reviewed by the Audit Committee of the Company 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 2017.

By order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 28 August 2017

粵海制革有限公司
GUANGDONG TANNERY LIMITED