粵海制革有限公司
GUANGDONG TANNERY LIMITED

(股份代號 Stock Code: 1058)

2018
INTERIM REPORT
中期報告

Contents

Corporate Information

Board of Directors

Sun Jun *(Chairman and Managing Director)*
Xiao Zhaoyi#
Kuang Hu#
Ding Yatao#
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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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

Management Discussion and Analysis

Results

The unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2018 of Guangdong Tannery Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") was HK$48,015,000, representing an increase of loss of HK$15,551,000, or 47.9% as compared to the loss of HK$32,464,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2018 was HK$102,319,000, representing a decrease of HK$102,214,000 and HK$48,953,000 as compared to the net asset value as at 30 June 2017 and 31 December 2017, 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 2018 (six months ended 30 June 2017: Nil).

Business Review

Given the drastic changes in the external market environment, increasing varieties of footwear materials and the strengthening substitution effect of new materials in recent years, de-capacity has further intensified within the tannery industry. In addition, nationwide environmental inspections and supervisions have been commenced due to the nation's more stringent environmental requirements for footwear manufacturing industry, resulting into the closing down or production suspension of a large number of medium-sized and small-sized footwear manufacturers. All of these have led to the shrinking demand of the whole downstream leather market, thereby exerting hefty pressure on the production and operations of the leather processing enterprises. During the period, the Group adhered to its prudent operating strategy with "stable operations to ensure asset safety" as its principal operating strategy in the first half year. Under the circumstances of the fall of both sales volume and selling prices and surging production costs, the Group recorded further operating loss. During the period, the Group proactively rolled out various measures in response to the unfavorable downstream environment of the industry. On one hand, the Group adjusted product portfolio and expanded markets to reinforce de-stocking, while stepping up efforts in expanding the external subcontracting business to strive for reduction of fixed cost. On the other hand, the Group continued to push forward the application of clean production technology to ensure that the discharge of sewage meets the treatment standards and appropriate measures are in place against the environmental risks. 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 7,506,000 sq. ft., representing a decrease of 971,000 sq. ft. or 11.5% as compared to 8,477,000 sq. ft. for the same period of last year. The production volume of grey hides was 1,379 tons, representing a decrease of 3,262 tons or 70.3% as compared to 4,641 tons for the same period of last year. During the period, the total sales volume of cowhides was 6,554,000 sq. ft., representing a decrease of 1,309,000 sq. ft. or 16.7% as compared to 7,863,000 sq. ft. for the same period of last year. The sales volume of grey hides was 1,379 tons, representing a decrease of 3,276 tons or 70.4% as compared to 4,655 tons for the same period of last year.

Business Review (Continued)

During the period, the consolidated turnover of the Group was HK$122,260,000, representing a decrease of HK$32,880,000 or 21.2% from HK$155,140,000 for the same period of last year, of which the sales value of cowhides amounted to HK$117,580,000 (six months ended 30 June 2017: HK$139,569,000), representing a decrease of 15.8%; and the sales value of grey hides and other products amounted to HK$4,680,000 (six months ended 30 June 2017: HK$15,571,000), representing a decrease of 69.9%. During the period, against the backdrop of prolonged downward trend of cowhides prices, weak purchasing power of footwear manufacturers, coupled with the substitution effect of the up-and-coming new materials which led to intense market competition, the overall demand for footwear leather shrank, resulting into a drop of both the sales volume and price, and therefore the sales revenue of the Group's footwear leather products was decreased.

In terms of sales, in light of the consumers' diversified demands for footwear and their preference for polyurethane-based materials or other emerging materials, leather market has seen slumping demand. In addition, facing with the shrinking demand and tightening environmental control and treatment, some of the branded footwear manufacturers in the PRC have been experiencing difficult operations, financial strain and loss-making for consecutive years, whereas the medium-sized and small sized footwear manufacturers have also announced production suspension or closing down. All the above directly leaded to a plunge in the number of orders received by footwear tannery manufacturers. To confront such difficulties, during the period, the Group put strenuous effort in expanding and exploring markets, ramping up the sales in middle-ended and low-ended markets and optimizing customer portfolio. In parallel with these, the Group endeavored to scale up marketing efforts and initiated more site-visiting to various markets to understand market changes and product trends, strengthen product research and development and press on destocking.

In terms of purchasing, during the period, taking destocking and generating operating cash flows as top priorities, the Group implemented a procurement strategy featured with small quantities, frequent procurements and targeted replenishment to ensure that its production needs were satisfied. Meanwhile, during the period, the Group performed in-depth analysis on changes in slaughtering volume, supply and the market of products, closely monitored the trends of leather price in both international and domestic markets, and intensified the study and research on market conditions to prevent procurement risk. During the period, the total purchases amounted to HK$82,240,000 representing a decrease of 62.8% as compared to the same period last year.

As at 30 June 2018, the Group's consolidated inventory amounted to HK$171,513,000 (31 December 2017: HK$218,900,000), representing a decrease of HK$47,387,000 or 21.7% over that of 31 December 2017. During the period, the Group enhanced the synergy between production, supply and distribution, spared no effort in reducing existing inventory level and conducted theme-based research, classification and rectification as well as product portfolio diversification based on existing inventory, in an effort to satisfy customers' needs on one hand, and to generate cash flows from the slow-moving inventory on the other hand, so as to ensure funding for the Group's normal operations. In consideration of the higher inventory cost and the increasing production cost of leather and the absence of a corresponding increase in the selling price of cowhides, the Group revaluated the ageing of inventory and its net realizable value and a provision for inventories of HK$9,323,000 (six months ended 30 June 2017: HK$4,440,000) was made for the six months ended 30 June 2018.

Business Review (Continued)

As at 30 June 2018, the Group's property, plant and equipment amounted to HK$55,428,000 (31 December 2017: HK$65,887,000), representing a decrease of HK$10,459,000 or 15.9% over that of 31 December 2017. Due to the decline in the operating results of the Group during the period, the recoverable amount of the property, plant and equipment was calculated by using a value in use calculation based on the discounted cash flow method and an impairment loss of HK$9,091,000 (six months ended 30 June 2017: HK$3,300,000) was made for the six months ended 30 June 2018.

Financial Review

As at 30 June 2018, the Group's cash and cash equivalents amounted to HK$9,145,000 (31 December 2017: HK$29,108,000), representing a decrease of HK$19,963,000 or 68.6% as compared to the same as at 31 December 2017, which were denominated in Hong Kong dollars (14.0%), Renminbi (81.0%) and United States dollars (5.0%). During the period, net cash inflows from operating activities was HK$23,196,000, which was mainly attributable to a decrease in inventory, resulting in an increase in net cash inflow. The net cash outflow from investing activities was HK$1,416,000, which mainly represented the payment of expenditures for the acquisition of machinery and equipment. Net cash outflow from a financial activity amounted to HK$42,106,000, which mainly represented the repayment of short-term loans from a fellow subsidiary.

As at 30 June 2018, the Group's interest-bearing borrowings amounted to HK$93,099,000 (31 December 2017: HK$128,956,000), 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$28,099,000. The Group's borrowings mainly consisted of: (1) balances of short-term loans provided by the bank of HK$5,320,000, which were secured by bank balances of RMB1,255,000 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 2018, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 47.6% (31 December 2017: 46.0%). During the period, the annual interest rate of the borrowings was approximately 3.2% to 5.7%. Among 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$3,461,000, representing a decrease of 3.3% from the same period of last year, which was mainly attributable to the decrease in bank loans during the period.

As at 30 June 2018, the total banking facilities of the Group was HK$105,430,000 (31 December 2017: HK$119,630,000), of which banking facilities of HK$5,320,000 (31 December 2017: Nil) were utilised and banking facilities of HK$100,110,000 (31 December 2017: HK$119,630,000) 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 2018, the net value of non-current assets including prepaid land lease payments and, property, plant and equipment amounted to HK$67,486,000, representing a decrease of HK$10,714,000 over the net value as at 31 December 2017 of HK$78,200,000. The capital expenditure for the period amounted to HK$971,000 (six months ended 30 June 2017: HK$1,191,000), 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 2018, certain of the Group's bank balances with a total of HK$1,488,000 (31 December 2017: HK$1,066,000) were pledged to banks to secure general banking facilities granted to the Group.

Risk of Exchange Rate

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, United States dollars, European dollars or Renminbi. The Group is exposed to foreign currency risk primarily from import purchases from overseas suppliers that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is mainly the United States dollars against Renminbi and European dollars against Renminbi. The Group did not hedge its exposure to risks arising from fluctuations in exchange rates during the period. Should the Group consider that its exposure to foreign currency risk justifies hedging, the Group may use forward or hedging contracts to reduce the risks.

Remuneration Policy for Employees

As at 30 June 2018, a total of 421 employees (31 December 2017: 461) 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

It is expected that in the second half of 2018, the overall trend of the leather industry is still not optimistic. Economic downturn within the industry and sluggish demand will further squeeze the profit margins of leather manufacturers, which will bring a more severe ordeal to them. The Group will continue to implement its principal strategy of "stable operations to ensure asset safety" to mitigate the negative impact caused by the weak market. An array of measures will be rolling out in succession with the main theme of reducing inventory and maintaining stable operations. The Group will promote the research and development of new products and refined management with the specific focus on the product portfolios of the inventory, targeted markets and customers' demands, aiming to further press ahead with destocking and generation of cash flows from inventory. Meanwhile, risk control system will be enhanced to cover all exposures and strive to reduce various risks, thereby ensuring stable production, compliance with environmental protection requirements and loss reduction.

Report on Review of Interim Financial Information

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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 (the "Group") set out on pages 9 to 28 which comprises the condensed consolidated statement of financial position of the Group as at 30 June 2018 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 aspects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

27 August 2018

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
REVENUE	4	**122,260**	155,140
Cost of sales		**(142,573)**	(167,716)
Gross loss		**(20,313)**	(12,576)
Other income and gains	4	**1,174**	714
Selling and distribution expenses		**(1,210)**	(951)
Administrative expenses		**(15,060)**	(12,742)
Impairment on items of property, plant and equipment		**(9,091)**	(3,300)
Finance costs	5	**(3,461)**	(3,578)
LOSS BEFORE TAX	5	**(47,961)**	(32,433)
Income tax expense	6	**(54)**	(31)
LOSS FOR THE PERIOD		**(48,015)**	(32,464)
LOSS PER SHARE	7		
— Basic		**HK(8.92) cents**	HK(6.03) cents
— Diluted		**HK(8.92) cents**	HK(6.03) cents

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	**(48,015)**	(32,464)
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	**231**	1,012
Income tax effect	**(58)**	(253)
	173	759
Other comprehensive income/(loss) to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(1,111)**	10,846
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(938)**	11,605
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(48,953)**	(20,859)

Condensed Consolidated Statement of Financial Position

30 June 2018

	Notes	30 June 2018 HK$'000 (Unaudited)	31 December 2017 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**55,428**	65,887
Prepaid land lease payments		**12,058**	12,313
Total non-current assets		**67,486**	78,200
CURRENT ASSETS			
Inventories		**171,513**	218,900
Receivables, prepayments and deposits	9	**97,440**	93,641
Pledged bank balances		**1,488**	1,066
Cash and bank balances		**9,145**	29,108
Total current assets		**279,586**	342,715
CURRENT LIABILITIES			
Trade payables	10	**56,394**	49,551
Other payables and accruals		**29,348**	28,902
Contract liabilities		**3,034**	—
Interest-bearing bank borrowings	11	**5,320**	—
Due to a PRC joint venture partner		**1,131**	1,131
Loan from a fellow subsidiary	11,12	**—**	41,177
Provision		**3,784**	3,816
Tax payable		**31**	33
Total current liabilities		**99,042**	124,610
NET CURRENT ASSETS		**180,544**	218,105
TOTAL ASSETS LESS CURRENT LIABILITIES		**248,030**	296,305
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	11,12	**141,758**	141,138
Deferred tax liabilities		**3,953**	3,895
Total non-current liabilities		**145,711**	145,033
Net assets		**102,319**	151,272
EQUITY			
Share capital	13	**75,032**	75,032
Other reserves	14	**27,287**	76,240
Total equity		**102,319**	151,272

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	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 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 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 14(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
At 1 January 2018 (Audited)	**75,032**	**5,545***	**167,746***	**20,054***	**3,639***	**77,631***	**10,355***	**–***	**(208,730)***	**151,272**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(48,015)**	**(48,015)**
Other comprehensive income/(loss) for the period:										
Surplus on revaluation of buildings, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**173**	**–**	**–**	**173**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(1,111)**	**–**	**–**	**–**	**(1,111)**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**(1,111)**	**173**	**–**	**(48,015)**	**(48,953)**
At 30 June 2018 (Unaudited)	**75,032**	**5,545***	**167,746***	**20,054***	**3,639***	**76,520***	**10,528***	**–***	**(256,745)***	**102,319**

* These reserve accounts comprise the consolidated reserves of HK$27,287,000 (31 December 2017: HK$76,240,000) in the condensed consolidated statement of financial position as at 30 June 2018.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from/(used in) operations	**24,545**	(17,425)
Interest received	**24**	40
Interest paid	**(1,319)**	(1,346)
PRC tax paid	**(54)**	—
Net cash flows from/(used in) operating activities	**23,196**	(18,731)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(971)**	(1,191)
Proceeds from disposal of items of property, plant and equipment	**—**	87
Increase in pledged bank balances	**(445)**	(4,003)
Net cash flows used in investing activities	**(1,416)**	(5,107)
CASH FLOWS FROM A FINANCING ACTIVITY		
Decrease in a loan from a fellow subsidiary	**(42,106)**	—
Net cash flows used in a financing activity	**(42,106)**	—
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(20,326)**	(23,838)
Cash and cash equivalents at beginning of period	**29,108**	48,291
Effect of foreign exchange rate changes, net	**363**	973
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**9,145**	25,426
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**9,145**	25,426

Notes to Interim Condensed Consolidated Financial Information

30 June 2018

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 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 2017.

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 2017, 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 2018. 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 2017 that is included in this unaudited interim condensed financial information for the six months ended 30 June 2018 as comparative information does not constitute the statutory annual consolidated financial statements of the Company for the 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 2017 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 auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Chapter 622).

2. 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 HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

2. Changes in Accounting Policies and Disclosures (Continued)

Other than as further explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the new and revised HKFRSs has had no material impact on the unaudited interim financial information of the Group. The principal effects for adopting HKFRS 9 and HKFRS 15 are as follows:

(a) HKFRS 9 Financial Instruments

HKFRS 9 brings together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9 for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for 2018.

Classification and measurement

The Group initially measures a financial asset at its fair value and, in the case of a financial asset not at fair value through profit or loss ("FVPL") plus transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at FVPL, amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets is, as follows:

— Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, and financial assets included in receivables, deposits and other receivables, pledged bank balances, and cash and bank balances.

— Debt instruments at FVOCI, with recycling of gains or losses to profit or loss on derecognition, include bills receivables which are debt instruments which the Group intends to hold in the foreseeable future to collect contractual cash flows and to sell the instruments.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and applied to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. Bills receivables are classified as loans and receivables at amortised cost under HKAS 39. Upon adoption of HKFRS 9, the bills receivables are measured at FVOCI.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss.

2. Changes in Accounting Policies and Disclosures (Continued)

(a) HKFRS 9 Financial Instruments (Continued)

Classification and measurement (Continued)

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39. Other than the above, the adoption of HKFRS 9 has no material impact on classification and measurement of the Group's financial assets.

Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

The ECL allowance is based on difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate ("EIR").

For trade receivables and other financial assets stated at amortised cost, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Assessment is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial assets stated at FVOCI are assessed for impairment based on 12-month ECLs: 12-month ECLs are the portion of lifetime ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the asset is less than 12 months). However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The adoption of the ECL requirements of HKFRS 9 does not have material impact on the carrying amounts of the Group's financial assets.

2. Changes in Accounting Policies and Disclosures (Continued)

(b) HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has elected to apply the modified retrospective approach for transition to the new revenue standard. Under this transition approach, comparative information for prior periods is not restated, the Group recognises the cumulative effect of initially applying the guidance as adjustments to the opening balance of retained profits (or other component of equity, as appropriate) on 1 January 2018, and the Group applies the new requirements only to contracts that are not yet completed on that date.

The adoption from 1 January 2018 resulted in changes in accounting policies for revenue recognition as detailed below.

Revenue from contracts with customers

Under HKFRS 15, revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognised revenue when it transfers control over a product or service to a customer. This may be at a single point in time or over time.

Under HKFRS 15, the Group satisfied a performance obligation and recognises revenue over time, if one of the following criteria is met:

(i) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

(ii) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

(iii) The Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date.

If none of the above conditions are met, the Group recognises revenue at a single point in time at which the performance obligation is satisfied for the sale of that good or service.

Revenue from sale of leather is recognised at the point when the control of the goods is transferred to the customers.

2. Changes in Accounting Policies and Disclosures (Continued)

(b) HKFRS 15 Revenue from Contracts with Customers (Continued)

Contract assets and contract liabilities

A receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis. The Group recognises the incremental costs of obtaining a contract with a customer within contract assets if the Group expects to recover those costs.

Generally, the Group receives advances from its customers which are short-term in nature. Advances from customers of HK$1,308,000 in total, which meet the definition of contract liabilities as at 1 January 2018 and were previously included in other payables and accruals, are reclassified as contract liabilities.

Apart from the above, there was no other material impact upon adoption of HKFRS 15.

3. 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$7,686,000 (six months ended 30 June 2017: HK$24,377,000) was derived from sales to a single customer, which contributed approximately 6% (six months ended 30 June 2017: 16%) of the total revenue.

4. 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 and is recognised at a point in time.

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Processing and sale of leather	**122,260**	155,140
Other income and gains		
Government grants	**355**	11
Interest income	**24**	40
Sale of scrap materials	**332**	595
Processing of second-layer grey leather	**459**	—
Others	**4**	68
	1,174	714

5. Loss Before Tax

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

	For the six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**133,250**	163,276
Depreciation	**2,493**	5,547
Provision for impairment of trade receivables	**134**	501
Foreign exchange differences, net	**284**	(1,584)
Loss on disposal of property, plant and equipment	**—**	368
Interest on:		
Bank loans and discounting bills receivables to banks	**656**	1,646
Loans from the immediate holding company	**2,142**	1,932
Loan from a fellow subsidiary	**663**	—
	3,461	3,578
Provision for inventories*	**9,323**	4,440

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

6. 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 2017: 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	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group — Mainland China		
Provision for the period	**54**	47
Overprovision in prior years	**—**	(16)
Total tax expense for the period	**54**	31

7. Loss Per Share

The calculation of basic loss per share amounts is based on the loss for the period of HK$48,015,000 (six months ended 30 June 2017: HK$32,464,000) and the weighted average number of ordinary shares of 538,019,000 (30 June 2017: 538,019,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2018 and 30 June 2017 in the calculation of diluted loss per share as there are no dilutive events during the periods ended 30 June 2018 and 30 June 2017.

8. Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

9. Receivables, Prepayments and Deposits

As at 30 June 2018, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$93,973,000 (31 December 2017: HK$90,536,000) 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 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
Current	**87,811**	89,618
Less than 3 months	**4,074**	2,085
More than 3 months	**3,880**	510
	95,765	92,213
Impairment	**(1,792)**	(1,677)
	93,973	90,536

10. 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 2018 ***HK$'000*** **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
Within 3 months	**41,234**	32,104
3 to 6 months	**11,715**	14,266
Over 6 months	**3,445**	3,181
	56,394	49,551

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

11. Interest-Bearing Bank and Other Borrowings

	30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Effective interest rate ***(%)***	**Maturity**	**Amount** ***HK$'000***	Effective interest rate *(%)*	Maturity	Amount *HK$'000*
Current						
Trust receipt loans, secured	**4.40-4.50**	**2018**	**5,320**	–	–	–
Loan from a fellow subsidiary	**–**	**–**	**–**	4.35	2018	41,177
			5,320			41,177
Non-current						
Loans from the immediate holding company *(note 12)*	**3.20-4.31**	**2021**	**141,758**	2.78-3.34	2021	141,138
			147,078			182,315

Note:

The Group's trust receipt loan facilities which are denominated in Renminbi and amounted to HK$105,430,000 (31 December 2017: HK$119,630,000) are secured by the pledge of certain of the Group's bank balances and supported by corporate guarantees executed by the Company. A balance of HK$5,320,000 (31 December 2017: Nil) was utilised at 30 June 2018.

Details of the pledge of assets are included in note 18 to the condensed consolidated financial information.

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

12. Loans from the Immediate Holding Company and a Fellow Subsidiary

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

Notes	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
(a)	**22,779**	22,779
(b)	**65,000**	65,000
(c)	**53,979**	53,359
(d)	**—**	41,177
	141,758	182,315

Notes:

(a) The balance represents an unsecured loan from GDH of US$2,920,000 (31 December 2017: US$2,920,000), which bears interest at 3-month LIBOR + 2% (3-month LIBOR + 2% for the year ended 31 December 2017) and is repayable on 31 July 2021 (31 December 2017: repayable on 31 July 2021).

(b) The balance represents an unsecured loan from GDH of HK$65,000,000 (31 December 2017: HK$65,000,000), which bears interest at 3-month HIBOR + 2% (3-month HIBOR + 2% for the year ended 31 December 2017) and is repayable on 9 August 2021 (31 December 2017: repayable on 9 August 2021).

(c) The balance represents an unsecured loan from GDH of US$7,000,000 (31 December 2017: US$7,000,000), which bears no interest (no interest for the year ended 31 December 2017) and is repayable on 30 December 2021 (31 December 2017: repayable on 30 December 2021).

(d) The balance as at 31 December 2017 represented an unsecured loan from a fellow subsidiary of RMB34,420,000. The unsecured loan from a fellow subsidiary bore interest at 4.35% p.a. and was repayable in 2018.

The carrying values of the loans approximate their fair values.

13. Share Capital

Shares	**30 June 2018 HK$'000 (Unaudited)**	31 December 2017 HK$'000 (Audited)
Issued and fully paid:		
538,019,000 (31 December 2017: 538,019,000) ordinary shares	**75,032**	75,032

14. 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 Companies in Hong Kong 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.

14. 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 a 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 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 2017, recovery of the Assets by the 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.

The Limit as at 30 June 2018 was HK$150,273,970 (31 December 2017: HK$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 30 June 2018 was Nil (31 December 2017: Nil).

15. Financial Instruments

All financial assets of the Group, other than bills receivables, as at 30 June 2018 are financial assets at amortised cost. Bills receivables as at 30 June 2018 are financial assets at FVOCI and categorised as Level 2 of fair value measurement (using significant observable inputs). During the period ended 30 June 2018, there were no transfers of fair value measurement between Level 1 and Level 2. As at 31 December 2017, all financial assets of the Group are financial assets at amortised cost.

All financial liabilities of the Group as at 30 June 2018 and 31 December 2017 are financial liabilities at amortised cost.

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

16. Commitments

	30 June 2018 *HK$'000* **(Unaudited)**	31 December 2017 *HK$'000* (Audited)
Contracted, but not provided for:		
Land and buildings	**21**	20
Leasehold improvements	**97**	503
Plant and machinery	**533**	657
	651	1,180

17. 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	
	Notes	**30 June 2018 HK$'000 (Unaudited)**	30 June 2017 HK$'000 (Unaudited)
Office rental paid to a fellow subsidiary	*(i)*	**267**	218
Interest expense to the immediate holding company	*(ii)*	**2,142**	1,932
Interest expense to a fellow subsidiary	*(iii)*	**663**	—
Computer system maintenance service fees paid to a fellow subsidiary	*(iv)*	**78**	120

Notes:

(i) The office rental was charged by a fellow subsidiary at HK$44,500 per month during the period ended 30 June 2018 (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) in accordance with the terms of the rental agreement between the Group and a fellow subsidiary. As at 30 June 2018, the Group had a rental deposit of HK$150,819 (31 December 2017: HK$150,819) with the fellow subsidiary.

(ii) The interest expense to the immediate holding company arose from the loans advanced from GDH. Further details of the loans, including the terms, are disclosed in note 12 to the condensed consolidated financial information.

(iii) The interest expense to a fellow subsidiary arose from the loan advanced from a fellow subsidiary. Further details of the loan, including the terms, are disclosed in note 12 to the condensed consolidated financial information.

(iv) The fellow subsidiary charged maintenance service fees at HK$13,000 per month during the period ended 30 June 2018 (HK$20,078 per month during the period ended 30 June 2017) for the computer system used by the Group.

(b) Commitments with related parties

On 28 November 2016, the Group entered into another three-year office rental agreement commencing 6 February 2017 and ending 5 February 2020 with Global Head Developments Limited, a fellow subsidiary, with a monthly rent of HK$44,500. The total operating lease commitments due within one year and in the second to fifth years as at 30 June 2018 were approximately HK$534,000 (31 December 2017: HK$534,000) and HK$311,500 (31 December 2017:HK$579,000), respectively.

17. Related Party Transactions (Continued)

(c) Outstanding balances with related parties

(i) Details of the loans from the immediate holding company and from a fellow subsidiary as at the end of the reporting period are included in note 12 to the condensed consolidated financial information.

(ii) Included in other payables is accrued interest of HK$8,962,000 (31 December 2017: HK$7,441,000) due to the immediate holding company which are repayable 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 2018	30 June 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short term employee benefits	**296**	268
Post-employment benefits	**89**	64
Total compensation paid to key management personnel	**385**	332

18. Pledge of Assets

As at 30 June 2018, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Bank balances	**1,488**	1,066

19. Approval of the Interim Financial Information

This unaudited interim condensed consolidated financial information was approved and authorised for issue by the Board on 27 August 2018.

Directors' Interests and Short Positions in Securities

As at 30 June 2018, 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 2018.

Save as disclosed above, as at 30 June 2018, 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 2018, 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 2018.

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 2018, 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 2018 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 2018.

Change in Director's Information

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

With effect from 23 June 2018, Mr. Chan Cheong Tat was appointed an independent non-executive director of Hyfusin Group Holdings Limited, the shares of which have been listed on GEM of the Hong Kong Stock Exchange since 19 July 2018.

Save for the above change, during the period from 1 January 2018 to the date of this report, 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 for the six months ended 30 June 2018 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 on the Hong Kong Stock Exchange during the six months ended 30 June 2018.

By order of the Board
Sun Jun
Chairman and Managing Director

Hong Kong, 27 August 2018

粵海制革有限公司
GUANGDONG TANNERY LIMITED