粵海制革有限公司
# GUANGDONG TANNERY LIMITED
(股份代號 Stock Code: 01058)

# 2019 Interim Report 中期報告

# CONTENTS

# Corporate Information

*as at 26 August 2019*

## BOARD OF DIRECTORS

### Executive Director

Sun Jun *(Chairman and Managing Director)*

### Non-Executive Directors

Xiao Zhaoyi
Kuang Hu
Ding Yatao

### Independent Non-Executive Directors

Fung Lak
Choi Kam Fai, Thomas
Chan Cheong Tat

## 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

Chan Miu Ting

## AUDITORS

Ernst & Young

## REGISTERED OFFICE

29th Floor, Guangdong Investment Tower
148 Connaught Road Central
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Website: www.gdtann.com.hk

## SHARE REGISTRAR

Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong
Customer Service Hotline: (852) 2980 1333

## SHARE INFORMATION

Place of Listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 01058
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 2019 of Guangdong Tannery Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") was HK$22,113,000, representing a decrease of loss of HK$25,902,000, or 53.9% as compared to the loss of HK$48,015,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2019 was HK$35,976,000, representing a decrease of HK$66,343,000 and HK$23,117,000 as compared to the net asset value as at 30 June 2018 and 31 December 2018, 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 2019 (six months ended 30 June 2018: Nil).

## BUSINESS REVIEW

The national economic deceleration in recent years results in an overcapacity in the footwear leather market, and coupled with the boarder range of alternatives in footwear materials, producing a continuous decrease in the demand of real leather cowhides market. Footwear manufacturing enterprises need to be innovative and pursue for change proactively, and to enhance the standard on production technology, in order to address the increasingly stringent requirement on environmental protection imposed by the State to footwear manufacturing industry. In addition, the enhanced nationwide environmental inspections and supervisions are the direct causes on the closing down of a large number of medium and small sized footwear manufacturers, leading to a general contraction in the demand of the industry. During the period, the Group adhered to the direction of "stable operations to ensure asset safety" as its primary operating strategy in the first half of the year. Though sales recorded a decrease due to the downward movement of the industry, the decrease in the unit cost of cowhides is larger than that of in the unit price of cowhides, which resulted in a decrease in gross loss, thus leading to an improvement in the operating results of the Group as compared to that of in the same period last year. During the period, in order to address the adverse downward movement of the industry, the Group steadfastly pursued its operating strategy on destocking. On the one hand, the Group performed product research and development with reference to its inventories, strengthened its customer site-visit continuously, enhanced product promotion, and proactively developed its external subcontracting business so as to endeavor to stabilize the sales of production and reduce its fixed costs. On the other hand, the Group strengthened the monitoring and control on environmental protection, and promoted the application of clean production technology, in order to properly response to environmental risks. The above measures reduced the operational risks brought by the downward movement of the industry to a certain extent.

During the period, the total production volume of cowhides was 5,730,000 sq. ft., representing a decrease of 1,776,000 sq. ft. or 23.7% as compared to 7,506,000 sq. ft. for the same period of last year. The production volume of grey hides was 444 tons, representing a decrease of 935 tons or 67.8% as compared to 1,379 tons for the same period of last year. During the period, the total sales volume of cowhides was 6,295,000 sq. ft., representing a decrease of 259,000 sq. ft. or 4.0% as compared to 6,554,000 sq. ft. for the same period of last year. The sales volume of grey hides was 843 tons, representing a decrease of 536 tons or 38.9% as compared to 1,379 tons for the same period of last year.

## BUSINESS REVIEW (CONTINUED)

During the period, the consolidated turnover of the Group was HK$102,081,000, representing a decrease of HK$20,179,000 or 16.5% from HK$122,260,000 for the same period of last year, of which the sales value of cowhides amounted to HK$97,886,000 (six months ended 30 June 2018: HK$117,580,000), representing a decrease of 16.7%, and that of grey hides and other products amounted to HK$4,195,000 (six months ended 30 June 2018: HK$4,680,000), representing a decrease of 10.4%. During the period, the prolonged downward trend of cowhides prices led to a decrease in price of end-products, coupled with the substitution effect of the up-and-coming new materials, the overall demand for footwear leather shrank; resulting into a drop of both the price and sales volume for the Group's footwear leather products, and therefore the sales revenue was decreased.

In terms of sales, as consumers preferred sports products in recent years which led to a shift in raw materials from traditional materials to new materials that are healthy and comfortable, resulted in a severe contraction to the demand of real leather. During the period, the tannery industry experienced an unprecedented reshuffle, large scale tannery enterprises had to reduce the price of its products and realized its stock for survival, while a large number of medium and small sized footwear manufacturers which were affected by the continuous enhancement in the environmental inspections and supervisions, closed down. As a result of the above, the number of orders received by footwear tannery manufacturers was sharply decreased. During the period, in order to address the abovementioned difficulties, the Group carried out market exploration proactively, strengthened its ability on market research and survey as well as enhanced the research and development, promotion and sales of leather inventory in an effort to realize the inventory.

In terms of purchasing, during the period, the Group closely monitored the price movements of cowhides in both domestic and international markets, and continuously stepped up its research on the latest market circumstances, with destocking remained its top priority. The Group adopted a targeted raw materials replenishment approach that involved procurement in small quantities but with multiple batches, so as to preventing the risk on procurement and to safeguard the needs on production. In addition, the Group was concerned about the surges in the prices of chemicals, and had identified alternative products and suppliers with competitive prices, in order to ensure that cost could be under control. During the period, the total purchases amounted to HK$46,759,000, representing a decrease of 43.1% as compared to the same period last year.

As of 30 June 2019, the Group's consolidated inventory amounted to HK$82,516,000 (31 December 2018: HK$134,131,000), representing a decrease of HK$51,615,000 or 38.5% over that of 31 December 2018. During the period, the Group endeavored to reduce its inventory level. Taking into account of the sales order, the Group carried out various measures to tackle its existing stock, which included, conducting theme-based research, splitting, group processing, rectification and selling, with an aim to transforming those slow-moving inventories into cash flows so as to ensure funding for the Group's normal operations. The Group had reassessed the value of inventories based on its aging and net realizable value, and a net provision for inventories of HK$4,078,000 was made for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$9,323,000).

## BUSINESS REVIEW (CONTINUED)

As at 30 June 2019, the Group's property, plant and equipment amounted to HK$45,182,000 (31 December 2018: HK$47,057,000), representing a decrease of HK$1,875,000 or 4.0% over that of 31 December 2018. Due to the posting of a loss in the operating results of the Group during the period, the recoverable amount of the 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$550,000 in respect of the plant and equipment was made for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$9,091,000).

## FINANCIAL REVIEW

As at 30 June 2019, the Group's cash and cash equivalents amounted to HK$25,585,000 (31 December 2018: HK$27,513,000), representing a decrease of HK$1,928,000 or 7.0% as compared to the same as at 31 December 2018, which was denominated in Hong Kong dollars (20.5%), Renminbi (77.2%) and United States dollars (2.3%). During the period, net cash outflow from operating activities was HK$910,000, which was mainly attributable to the operating losses, the increase in trade receivables and bills receivable offsets the reduction in the purchasing of raw materials, resulting in an increase in net cash outflow. Net cash outflow from investing activities was HK$599,000, which was mainly attributable to the payment of expenditures for the acquisition of machinery and equipment. Net cash outflow from a financing activity was HK$440,000, which was attributable to the payment of rental expenses.

As at 30 June 2019, the Group's interest-bearing borrowings amounted to HK$142,379,000 in total (31 December 2018: HK$142,379,000), 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$77,379,000. The Group's borrowings consisted of long-term unsecured borrowings from the immediate holding company with a balance of HK$142,379,000, on which interests were charged at floating rates.

As at 30 June 2019, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 79.8% (31 December 2018: 70.7%). During the period, the annual interest rates of the borrowings ranged from approximately 3.0% to 5.1%. The Group's interest expenses during the period amounted to HK$2,772,000, representing a decrease of 19.9% from the same period last year, which was mainly attributable to the repayment of interest of the short-term loan from a fellow subsidiary during the same period last year.

As at 30 June 2019, the total banking facilities of the Group were HK$34,104,000 (31 December 2018: Nil), of which HK$34,104,000 were unutilized. Taking into account the existing cash resources and the banking facilities available, the Group has adequate financial resources to meet its day-to-day operational requirements.

## CAPITAL EXPENDITURE

As at 30 June 2019, the net value of non-current assets including property, plant and equipment, right-of-use assets amounted to HK$57,034,000, representing a decrease of HK$1,482,000 over the net value as at 31 December 2018 of HK$58,516,000. The capital expenditure for the period amounted to HK$599,000 (six months ended 30 June 2018: HK$971,000), which mainly represented the payments for acquisition of machinery and equipment to meet the production requirements of the Group.

## PLEDGE OF ASSETS

As at 30 June 2019, none of the Group's assets were pledged to secure banking facilities or loans granted to the Group (31 December 2018: Nil).

## FOREIGN EXCHANGE EXPOSURE

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 2019, a total of 384 employees (31 December 2018: 393) were employed by the Group. The Group's 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 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 the downward trend in the sectoral economy will continue in the second half of 2019, the overcapacity and the weak demand in the footwear leather market will further compress the profitability, posing greater difficulty to the leather manufacturing enterprises. In order to address the adverse effect on a weak market, the Group has established "safeguarding production and stability" as its general direction of its work for the second half of the year. The Group will strengthen product research and development, making effort on innovation in product type, leading production with products and to increase its inventory turnover rate by providing goods with quality, and thus enhance its efficiency and attractiveness to the market. The Group will also replenish the production volume through the subcontracting business in order to maintain stability in production and share its fixed costs. The Group will establish self-appropriated quality standard control system so as to enhance the quality and service standards. In the meantime, the Group will continue to strengthen the establishment of its risk control system, and making efforts on minimizing every risk, so as to implement a comprehensive coverage of risk control and compile with the environmental requirements, and strive for a further reduction in loss.

# 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 set out on pages 8 to 30, which comprises the condensed consolidated statement of financial position of Guangdong Tannery Limited (the "Company") and its subsidiaries as at 30 June 2019 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and 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 "HKICPA"). 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 HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

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

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

26 August 2019

# Condensed Consolidated Statement of Profit or Loss

*For the six months ended 30 June 2019*

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2019** | 2018 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| **REVENUE** | *4* | **102,081** | 122,260 |
| Cost of sales | | **(105,733)** | (142,573) |
| **Gross loss** | | **(3,652)** | (20,313) |
| Other income and gains | *4* | **2,034** | 1,174 |
| Selling and distribution expenses | | **(950)** | (1,210) |
| Administrative expenses | | **(13,268)** | (15,060) |
| Other operating expenses | | **(2,925)** | — |
| Impairment on items of plant and equipment | | **(550)** | (9,091) |
| Finance costs | *5* | **(2,772)** | (3,461) |
| **LOSS BEFORE TAX** | *5* | **(22,083)** | (47,961) |
| Income tax expense | *6* | **(30)** | (54) |
| **LOSS FOR THE PERIOD** | | **(22,113)** | (48,015) |
| **LOSS PER SHARE** | *7* | | |
| — Basic | | **HK(4.11) cents** | HK(8.92) cents |
| — Diluted | | **HK(4.11) cents** | HK(8.92) cents |

# Condensed Consolidated Statement of Comprehensive Income

*For the six months ended 30 June 2019*

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **LOSS FOR THE PERIOD** | **(22,113)** | (48,015) |
| **OTHER COMPREHENSIVE INCOME/(LOSS)** | | |
| Other comprehensive income/(loss) that will not be reclassified to the profit or loss in subsequent periods: | | |
| Surplus/(deficits) on revaluation of buildings | **(857)** | 231 |
| Income tax effect | **214** | (58) |
| | **(643)** | 173 |
| Other comprehensive loss that may be reclassified to the profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operations | **(361)** | (1,111) |
| **OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX** | **(1,004)** | (938) |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | **(23,117)** | (48,953) |

# Condensed Consolidated Statement of Financial Position

*30 June 2019*

| | Notes | 30 June 2019 HK$'000 (Unaudited) | 31 December 2018 HK$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **45,182** | 47,057 |
| Prepaid land lease payments | | **—** | 11,459 |
| Right-of-use assets | | **11,852** | — |
| Total non-current assets | | **57,034** | 58,516 |
| **CURRENT ASSETS** | | | |
| Inventories | | **82,516** | 134,131 |
| Receivables, prepayments and deposits | *9* | **85,633** | 64,576 |
| Cash and bank balances | | **25,585** | 27,513 |
| Total current assets | | **193,734** | 226,220 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *10* | **30,109** | 38,009 |
| Other payables and accruals | | **20,254** | 36,531 |
| Due to a PRC joint venture partner | | **1,131** | 1,131 |
| Provision | | **3,626** | 3,640 |
| Tax payable | | **93** | 113 |
| Total current liabilities | | **55,213** | 79,424 |
| **NET CURRENT ASSETS** | | **138,521** | 146,796 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **195,555** | 205,312 |
| **NON-CURRENT LIABILITIES** | | | |
| Loans from the immediate holding company | *11* | **142,379** | 142,379 |
| Other payables | | **13,574** | — |
| Deferred tax liabilities | | **3,626** | 3,840 |
| Total non-current liabilities | | **159,579** | 146,219 |
| Net assets | | **35,976** | 59,093 |
| **EQUITY** | | | |
| Share capital | *12* | **75,032** | 75,032 |
| Other reserves | *13* | **(39,056)** | (15,939) |
| Total equity | | **35,976** | 59,093 |

# Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 June 2019*

| | 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 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 |
| At 1 January 2019 (Audited) | **75,032** | **5,545*** | **167,746*** | **20,054*** | **3,639*** | **66,857*** | **10,191*** | **70*** | **(290,041)*** | **59,093** |
| Loss for the period | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(22,113)** | **(22,113)** |
| Other comprehensive loss for the period: | | | | | | | | | | |
| Deficits on revaluation of buildings, net of tax | **—** | **—** | **—** | **—** | **—** | **—** | **(643)** | **—** | **—** | **(643)** |
| Exchange differences on translation of foreign operations | **—** | **—** | **—** | **—** | **—** | **(361)** | **—** | **—** | **—** | **(361)** |
| Total comprehensive loss for the period | **—** | **—** | **—** | **—** | **—** | **(361)** | **(643)** | **—** | **(22,113)** | **(23,117)** |
| Transfer from accumulated losses in accordance with the undertaking *(note 13(b))* | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **63** | **(63)** | **—** |
| **At 30 June 2019 (Unaudited)** | **75,032** | **5,545*** | **167,746*** | **20,054*** | **3,639*** | **66,496*** | **9,548*** | **133*** | **(312,217)*** | **35,976** |

* These reserve accounts comprise the consolidated other reserves deficits of HK$39,056,000 (31 December 2018: HK$15,939,000) in the condensed consolidated statement of financial position as at 30 June 2019.

# Condensed Consolidated Statement of Cash Flows

*For the six months ended 30 June 2019*

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss before tax | **(22,083)** | (47,961) |
| Adjustments for: | | |
| Finance costs | **2,772** | 3,461 |
| Finance income | **(22)** | (24) |
| Depreciation | **1,505** | 2,493 |
| Provision for inventories | **4,078** | 9,323 |
| Impairment of trade receivables | **2,110** | 134 |
| Impairment on items of plant and equipment | **550** | 9,091 |
| Impairment of right-of-use assets | **815** | — |
| Amortisation of prepaid land lease payment | **—** | 154 |
| | **(10,275)** | (23,329) |
| Decrease in inventories | **47,862** | 37,625 |
| Increase in receivables, payments and deposits | **(24,070)** | (4,895) |
| Increase/(decrease) in trade payables | **(7,881)** | 7,490 |
| Increase/(decrease) in other payables and accruals | **(6,351)** | 2,167 |
| Increase in interest-bearing bank borrowings | **—** | 5,487 |
| Cash generated from/(used in) operations | **(715)** | 24,545 |
| Interest received | **22** | 24 |
| Interest paid | **(166)** | (1,319) |
| PRC tax paid | **(51)** | (54) |
| Net cash flows from/(used in) operating activities | **(910)** | 23,196 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of items of property, plant and equipment | **(599)** | (971) |
| Increase in pledged bank balances | **—** | (445) |
| Net cash flows used in investing activities | **(599)** | (1,416) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Decrease in a loan from a fellow subsidiary | **—** | (42,106) |
| Principal portion of lease payments | **(440)** | — |
| Net cash flows used in financing activities | **(440)** | (42,106) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(1,949)** | (20,326) |
| Cash and cash equivalents at beginning of period | **27,513** | 29,108 |
| Effect of foreign exchange rate changes, net | **21** | 363 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **25,585** | 9,145 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **25,585** | 9,145 |

## 1. ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial information for the six months ended 30 June 2019 has been 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 condensed consolidated financial information does not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

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 consolidated financial statements for the year ended 31 December 2018, 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 2019. 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 2018 that is included in this unaudited interim condensed financial information for the six months ended 30 June 2019 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 those 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 2018 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 for the year ended 31 December 2018. 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 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements 2015–2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Other than as explained below regarding the impact of HKFRS 16, the adoption of the new and revised HKFRSs has had no material impact on the unaudited interim financial information of the Group. The nature and impact for adopting HKFRS 16 is as follows:

### Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

### New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

### Adoption of HKFRS 16 (continued)

### As a lessee — Leases previously classified as operating leases

***Nature of the effect of adoption of HKFRS 16***

The Group has lease contracts for various items of properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

***Impacts on transition***

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and were included in other payables and accruals.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

### Adoption of HKFRS 16 (continued)

### As a lessee — Leases previously classified as operating leases (continued)

***Impacts on transition (continued)***

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

| | Increase/ (decrease) *HK$'000* (Unaudited) |
|---|---|
| **Assets** | |
| Increase in right-of-use assets | 13,255 |
| Decrease in prepaid land lease payments | (11,459) |
| Decrease in receivables, prepayments and deposits | (288) |
| Increase in total assets | 1,508 |
| **Liabilities** | |
| Increase in other payables and accruals | 1,508 |

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

| | *HK$'000* (Unaudited) |
|---|---|
| **Operating lease commitments as at 31 December 2018** | 7,736 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 4.84% |
| Discounted operating lease commitments as at 1 January 2019 | 1,579 |
| Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 | (71) |
| **Lease liabilities as at 1 January 2019** | 1,508 |

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

### Adoption of HKFRS 16 (continued)

### Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

***Right-of-use assets***

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

***Lease liabilities***

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

### Adoption of HKFRS 16 (continued)

### Summary of new accounting policies (continued)

***Lease liabilities (continued)***

The carrying amounts of the Group's right-of-use assets are as follows:

| | 30 June 2019 *HK$'000* (Unaudited) | 1 January 2019 *HK$'000* (Unaudited) |
|---|---|---|
| Prepaid land lease payments | 11,557 | 11,747 |
| Land and buildings | 295 | 1,508 |
| Total right-of-use assets | 11,852 | 13,255 |

## 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$23,538,000 (six months ended 30 June 2018: HK$7,686,000) was derived from sales to a single customer, which contributed approximately 23% (six months ended 30 June 2018: 6%) of the total revenue.

## 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| *Revenue from contracts with customers* | | |
| Sale of processed leather | **102,081** | 122,260 |

Revenue is recognised when goods are transferred at a point in time to customers.

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Other income and gains** | | |
| Finance income | **22** | 24 |
| Sale of scrap materials | **527** | 332 |
| Government grants | **609** | 355 |
| Income from subcontracted leather processing | **853** | 459 |
| Others | **23** | 4 |
| | **2,034** | 1,174 |

## 5. LOSS BEFORE TAX

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold* | **101,655** | 133,250 |
| Depreciation for items of property, plant and equipment | **949** | 2,493 |
| Depreciation for right-of-use assets | **556** | — |
| Impairment of trade receivables# | **2,110** | 134 |
| Impairment of right-of-use assets# | **815** | — |
| Foreign exchange differences, net | **—** | 284 |
| Interest on: | | |
| Bank loans and discounting bills receivable to banks | **166** | 656 |
| Loans from the immediate holding company | **2,568** | 2,142 |
| Loan from a fellow subsidiary | **—** | 663 |
| Lease liabilities | **38** | — |
| | **2,772** | 3,461 |
| Provision for inventories* | **4,078** | 9,323 |

* This item is included in "Cost of sales" on the face of the condensed consolidated statement of profit or loss.

# These items for the period ended 30 June 2019 is included in "Other operating expenses" 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 2018: 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 | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Group — Mainland China | | |
| Provision for the period | **114** | 54 |
| Overprovision in prior years | **(84)** | — |
| Total tax charge for the period | **30** | 54 |

## 7. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the period of HK$22,113,000 (six months ended 30 June 2018: HK$48,015,000) and the weighted average number of ordinary shares of 538,019,000 (30 June 2018: 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 2019 and 2018 in the calculation of diluted loss per share as there were no dilutive events during the periods ended 30 June 2019 and 2018.

## 8. DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## 9. RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | **30 June 2019** | 31 December 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **45,347** | 32,037 |
| Bills receivable | **37,811** | 26,031 |
| Prepayments, deposits and other receivables | **2,475** | 6,508 |
| | **85,633** | 64,576 |

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.

An ageing 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 2019** | 31 December 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Current | **79,628** | 53,964 |
| Less than 3 months | **3,708** | 2,932 |
| More than 3 months | **3,985** | 3,267 |
| | **87,321** | 60,163 |
| Impairment | **(4,163)** | (2,095) |
| | **83,158** | 58,068 |

## 10. TRADE PAYABLES

An ageing 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 2019** | 31 December 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Within 3 months | **23,034** | 28,127 |
| 3 to 6 months | **4,297** | 5,670 |
| Over 6 months | **2,778** | 4,212 |
| | **30,109** | 38,009 |

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

## 11. LOANS FROM THE IMMEDIATE HOLDING COMPANY

| | **30 June 2019 (Unaudited)** | | | 31 December 2018 (Audited) | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate** | **Maturity** | **Amount** | Effective interest rate | Maturity | Amount |
| | ***(%)*** | | ***HK$'000*** | *(%)* | | *HK$'000* |
| **Non-current** | | | | | | |
| Loans from the immediate holding company | **2.95–3.76** | **2021** | **142,379** | 3.44–3.97 | 2021 | 142,379 |

## 11. LOANS FROM THE IMMEDIATE HOLDING COMPANY (CONTINUED)

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

| *Notes* | **30 June 2019** ***HK$'000*** **(Unaudited)** | 31 December 2018 *HK$'000* (Audited) |
|---|---|---|
| *(i)* | **22,779** | 22,779 |
| *(ii)* | **65,000** | 65,000 |
| *(iii)* | **54,600** | 54,600 |
| | **142,379** | 142,379 |

*Notes:*

(i) The balance represents an unsecured loan from GDH of US$2,920,000 (31 December 2018: US$2,920,000), which bears interest at 3-month LIBOR + 1.17% (3-month LIBOR + 1.17% to 3-month LIBOR + 2% for the year ended 31 December 2018) and is repayable on 31 July 2021 (31 December 2018: repayable on 31 July 2021).

(ii) The balance represents an unsecured loan from GDH of HK$65,000,000 (31 December 2018: HK$65,000,000), which bears interest at 3-month HIBOR + 1.17% (3-month HIBOR + 1.17% to 3-month HIBOR + 2% for the year ended 31 December 2018) and is repayable on 9 August 2021 (31 December 2018: repayable on 9 August 2021).

(iii) The balance represents an unsecured loan from GDH of US$7,000,000 (31 December 2018: US$7,000,000), which bears interest at 3-month LIBOR + 1.17% (no interest on or before 30 December 2018 and bears interest at 3-month LIBOR + 1.17% starting from 31 December 2018) and is repayable on 30 December 2021 (31 December 2018: repayable on 30 December 2021).

## 12. SHARE CAPITAL

### Shares

| | **30 June 2019** ***HK$'000*** **(Unaudited)** | 31 December 2018 *HK$'000* (Audited) |
|---|---|---|
| Issued and fully paid: | | |
| 538,019,000 (31 December 2018: 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 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.

## 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 that 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 2019, a reversal of provision for impairment of HK$63,000 was made for the Assets. This resulted in a transfer of HK$63,000 from accumulated losses to the Special Capital Reserve.

The Limit as at 30 June 2019 was HK$150,273,970 (31 December 2018: HK$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 30 June 2019 was HK$133,000 (31 December 2018: HK$70,000).

(c) Pursuant to the relevant PRC laws and regulations, a portion of the profits of the Group's subsidiaries which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

(d) Capital reserve represents the capital contribution from the immediate holding company.

## 14. FAIR VALUE AND THE FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

All financial assets of the Group, other than bills receivable, as at 30 June 2019 and 31 December 2018 are financial assets at amortised cost. Bills receivable as at 30 June 2019 and 31 December 2018 are financial assets at fair value through other comprehensive income.

All financial liabilities of the Group as at 30 June 2019 and 31 December 2018 are financial liabilities at amortised cost.

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, trade payables, financial assets included in receivables, prepayments and deposits, financial liabilities included in other payables and accruals, and an amount due to a PRC joint venture partner approximate their carrying amounts largely due to the short term maturities of these instruments.

The fair values of bills receivable, loans from the immediate holding company and non-current portion of other payables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for borrowings as at 30 June 2019 and 31 December 2018 was assessed to be insignificant.

The fair values of the financial assets and liabilities are included at the amounts of which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

## 14. FAIR VALUE AND THE FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

***Assets measured at fair value:***

**As at 30 June 2019**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Bills receivable | **—** | **37,811** | **—** | **37,811** |

As at 31 December 2018

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bills receivable | — | 26,031 | — | 26,031 |

During the period ended 30 June 2019, there were no transfers of fair value measurement between Level 1 and Level 2 and no transfer into or out of Level 3 of financial assets (31 December 2018: Nil).

## 15. COMMITMENTS

| | 30 June 2019 HK$'000 (Unaudited) | 31 December 2018 HK$'000 (Audited) |
|---|---|---|
| Contracted, but not provided for: | | |
| Land and buildings | 20 | 20 |
| Leasehold improvements | 383 | 294 |
| Plant and machinery | 492 | 513 |
| | 895 | 827 |

## 16. RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

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

| | Notes | For the six months ended 30 June 2019 HK$'000 (Unaudited) | 2018 HK$'000 (Unaudited) |
|---|---|---|---|
| Office rental paid to a fellow subsidiary | *(i)* | 267 | 267 |
| Interest expense charged by the immediate holding company | *(ii)* | 2,568 | 2,142 |
| Interest expense charged by a fellow subsidiary | *(iii)* | — | 663 |
| Computer system maintenance service fees paid to a fellow subsidiary | *(iv)* | 90 | 78 |

*Notes:*

(i) The office rental was charged by a fellow subsidiary at HK$44,500 per month during the period ended 30 June 2019 (2018: HK$44,500 per month) in accordance with the terms of the rental agreement between the Group and a fellow subsidiary. As at 30 June 2019, the Group had a rental deposit of HK$150,819 (31 December 2018: HK$150,819) with the fellow subsidiary.

(ii) The interest expense charged by 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.

## 16. RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Transactions with related parties (continued)

*Notes: (continued)*

(iii) The interest expense charged by a fellow subsidiary arose from the loan advanced from a fellow subsidiary which was unsecured, bore interests at 4.35% and was repayable in 2018.

(iv) The fellow subsidiary charged maintenance service fees at HK$15,000 per month during the period ended 30 June 2019 (HK$13,000 per month during the period ended 30 June 2018) for the computer system used by the Group.

### (b) 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 and accruals is accrued interest of HK$13,106,000 (31 December 2018: HK$10,537,000) due to the immediate holding company which are not repayable before 28 February 2021, and was arisen from loans from the immediate holding company.

### (c) 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$44,500. The total operating lease commitments due within one year and in the second to fifth years as at 31 December 2018 were approximately HK$534,000 and HK$45,000, respectively.

### (d) Compensation of key management personnel of the Group

| | For the six months ended 30 June | |
|---|---|---|
| | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Short term employee benefits | **296** | 296 |
| Post-employment benefits | **89** | 89 |
| Total compensation paid to key management personnel | **385** | 385 |

## 17. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This unaudited interim condensed consolidated financial information was approved and authorised for issue by the Board on 26 August 2019.

# Directors' Interests and Short Positions in Securities

As at 30 June 2019, 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 Stock Exchange of Hong Kong Limited (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 2019.

Save as disclosed above, as at 30 June 2019, 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 2019, so far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange 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) ("Guangdong Holdings") *(Note 2)* | Interest in controlled corporation | 383,820,000 | Long position | 71.34% |
| GDH Limited ("GDH") | 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 2019.

2. The attributable interest which Guangdong Holdings has in the Company is held through its 100% direct interest in GDH.

Save as disclosed above, as at 30 June 2019, so far as is known to any Director or chief executive of the Company, there were no other persons (other than a Director or chief executive of the Company) 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 and the Hong Kong Stock Exchange 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 2019, save and except for the following deviation:

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 Managing Director of the Company serves the same role as the "chief executive"). Mr. Sun Jun has served as both Chairman and Managing Director of the Company since 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. Having made specific enquiry to all the Directors of the Company, all Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code throughout the six months ended 30 June 2019.

## CHANGES IN DIRECTOR'S INFORMATION

The changes in information of the Directors of the Company are set out below:

(1) Mr. Xiao Zhaoyi ceased to be the chief legal officer of Guangdong Holdings and GDH on 25 June 2019.

(2) Effective on 15 August 2019, Mr. Kuang Hu acts as the Deputy Chief Financial Officer of Guangdong Holdings and GDH, and ceased to be the general manager of the Operation Department of Guangdong Holdings and GDH.

Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## REVIEW OF INTERIM RESULTS

The unaudited interim financial information of the Group and the interim report of the Company for the six months ended 30 June 2019 have been reviewed by the Audit Committee of the Company and Messrs. Ernst & Young, the auditors of the Company.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities on the Hong Kong Stock Exchange during the six months ended 30 June 2019.

By Order of the Board
**Sun Jun**
*Chairman and Managing Director*

Hong Kong, 26 August 2019

粵海制革有限公司
GUANGDONG TANNERY LIMITED