



粵海制革有限公司

GUANGDONG TANNERY LIMITED

Stock Code 股份代號：1058

INTERIM REPORT

2010

中期報告

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# Corporate Information

## Board of Directors

Chen Hong (*Chairman*)  
Sun Jun (*Managing Director*)  
Xiong Guangyang<sup>#</sup>  
Ho Lam Lai Ping, Theresa<sup>#</sup>  
Qiao Jiankang<sup>#</sup>  
Fung Lak\*  
Choi Kam Fai, Thomas\*  
Chan Cheong Tat\*

<sup>#</sup> *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

Chen Hong (*Chairman*)  
Fung Lak  
Choi Kam Fai, Thomas  
Chan Cheong Tat

## Company Secretary

Lo Sze Sze

## Auditors

Ernst & Young

## Registered Office

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

Telephone: (852) 2308 1013

Facsimile: (852) 2789 0451

Website: <http://www.gdtann.com.hk>

## Share Registrar

Tricor Tengis Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Hong Kong

## Share Information

Place of Listing : Main Board of The Stock  
Exchange of Hong Kong Limited

Stock Code : 1058

Board Lot : 2,000 shares

Financial Year End: 31 December

# Business and Financial Review

## Results

The unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2010 of Guangdong Tannery Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) was HK\$17,278,000, representing an increase of HK\$21,110,000 as compared to the loss of HK\$3,832,000 for the same period of last year, achieving a turnaround in its results.

The unaudited net asset value of the Group as at 30 June 2010 was HK\$302,666,000, representing an increase of HK\$38,932,000 and HK\$21,642,000 as compared to the net asset value as at 30 June 2009 and 31 December 2009 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 2010 (2009: Nil).

## Business Review

Following the gradual recovery of the economy in the world and in China, the demand for leather products has been generally favourable since the second half of 2009. However, enterprises faced new challenges under the dual pressure of oversupply in the manufacturing industry and expected inflation in the post-financial crisis era. In consolidating the existing scale of operation, the Group continued to strengthen its management of various fundamentals within the Group. Operating strategies were timely adjusted in response to changes in the leather market. Purchase costs were controlled tightly. This had controlled the operational risks, enabling the Group to have stronger ability to resist risks and to maintain its solid and sound operational capabilities.

During the period, the cowhides production volume was 14,588,000 sq. ft., representing an increase of 4,665,000 sq. ft. or 47.0% as compared to 9,923,000 sq. ft. for the same period of last year. The grey hides production volume was 6,986 tons, representing an increase of 2,480 tons or 55.0% as compared to 4,506 tons for the same period of last year.

During the period, the consolidated turnover of the Group was HK\$265,571,000, representing an increase of HK\$82,774,000 or 45.3% from HK\$182,797,000 for the same period of last year. The turnover of cowhides amounted to HK\$237,409,000 (2009: HK\$170,052,000), representing an increase of 39.6% and the turnover of grey hides and other products amounted to HK\$28,162,000 (2009: HK\$12,745,000), representing an increase of 121.0%. The increase in turnover was primarily due to the increase in both selling price and sales volume of imported cowhides. Summer began late this year, which resulted in the sharp fall for the sales volume of sandals and thus the rapid decrease in the demand for hides. Besides, the prices for hides continued to increase, but the selling price in general failed to catch up. Faced with such unfavourable market environment, the Group proactively expanded the strategic supply-and-sale relationship with footwear manufacturers, and entered into long-term sales orders with them. This not only achieved in lifting the product prices earlier than planned, it also increased our market share in the end user sales market with sound sales network established for the Group. More importantly, stability in production was secured, and the goal of lifting selling price in a ladder-shaped pattern was ultimately achieved.

# Business and Financial Review (Continued)

## Business Review (Continued)

In tackling with the industry risk of high raw materials cost and low product added value of leather industries, the Group closely observed the changes in an international economy and industry economic trends. Close attention was paid to monitor the price moving trends of hides and bulk chemical materials. Purchases were made on the just-in-time basis prudently and strictly in accordance with that required by the production capacity. Purchase risks were thus effectively controlled. In addition, the Group began to attempt the purchasing of hides in European countries so as to further improve the supplies channel. This enabled the Group to acquire experiences of purchasing of hides in the world in future. During the period, total purchases increased by 90.8% to HK\$268,046,000 from the same period last year.

As at 30 June 2010, the consolidated inventories of the Group amounted to HK\$169,438,000 (as at 31 December 2009: HK\$106,373,000), representing an increase of HK\$63,065,000 or 59.3% as compared to the same as at 31 December 2009. This was primarily attributable to the increase in purchase price of hides. During the period, the Group still aimed at minimising the inventory level through active utilisation of obsolete inventory. Sales of obsolete products were rectified specifically. Obsolete inventory was successfully utilised and the weighing of finished products to total inventory also fell from 26.7% by the end of 2009 to 15.8% as at 30 June 2010. At the same time, the inventory composition was further optimised.

In terms of strategic development, the Group has recently refined its growth strategies according to the land planning and development proposals issued by the People's Government of Xuzhou City in respect of the environmental protection policies. During the period, the Board approved to relocate the Jinsanqiao project to the specialised zone of Suining County for centralised development and construction. At present, the preliminary preparation work had begun.

## Financial Review

As at 30 June 2010, the Group's cash and cash equivalents amounted to HK\$66,035,000 (as at 31 December 2009: HK\$157,014,000), representing a decrease of HK\$90,979,000 or 57.9% as compared to the same as at 31 December 2009, which were denominated in Hong Kong dollars (13.2%), Renminbi (62.0%) and US dollars (24.8%) respectively. During the period, net cash outflow from operating activities was HK\$65,646,000, which was mainly due to the increase in cash payment for the purchase of raw materials as a result of the increase in raw materials prices. The cash outflow from investing activities was HK\$26,156,000, which mainly represented the increase in pledged bank deposits.

As at 30 June 2010, the Group's interest-bearing borrowings amounted to HK\$155,037,000 (as at 31 December 2009: HK\$140,706,000), of which interest-bearing borrowings in Hong Kong dollars amounted to HK\$65,112,000 and interest-bearing borrowings in US dollars amounted to HK\$89,925,000. The Group's borrowings mainly consist of: (1) balances of short-term loans provided by the bank of HK\$12,546,000, which were secured by bank deposits of RMB11,030,000; (2) balances of long-term unsecured intra-group borrowings of HK\$77,379,000; and (3) balances of convertible notes held by the Group's immediate holding company of HK\$65,112,000. Other than the convertible notes, which was charged at 1% per annum, the above interest-bearing borrowings were charged at floating interest rate.

# Business and Financial Review (Continued)

## Financial Review (Continued)

As at 30 June 2010, the Group's gearing ratio of the interest-bearing borrowings to adjusted capital (including shareholders' equity and convertible notes) plus interest-bearing borrowings was 19.7% (as at 31 December 2009: 18.4%). During the period, the annual interest rate of the borrowings was approximately 1.3% to 2.7%. Of the Group's total borrowings, all are repayable within one year except for the loans from the immediate holding company and from a fellow subsidiary amounting to HK\$22,779,000 and HK\$54,600,000 respectively. The Group's interest expenses for the period amounted to HK\$2,753,000, representing a decrease of 27.1% from the same period of last year.

As at 30 June 2010, the total banking facilities of the Group was HK\$189,140,000 (as at 31 December 2009: HK\$158,998,000), of which banking facilities of HK\$12,546,000 were utilised and banking facilities of HK\$176,594,000 were unutilised. Taking into account of the existing cash resources and available credit facilities as well as the cash flow generated by the Group's operating business, the Group had adequate financial resources to meet its day-to-day operational requirements.

## Capital Expenditure

As at 30 June 2010, the net value of non-current assets including prepaid land lease payments, property, machinery and equipment amounted to HK\$98,450,000, representing a decrease of HK\$1,926,000 over the net value as at 31 December 2009 of HK\$100,376,000. The capital expenditure for the period amounted to HK\$2,968,000 (2009: HK\$17,516,000), which mainly represented the payment for the construction works of Relocation & Technical Renovation Project of Xuzhou Nanhai Leather Factory Co., Ltd. and the acquisition of machinery and equipment for that project to cope with the production and development requirements of the Group.

## Pledge of Assets

As at 30 June 2010, certain of the Group's bank balances with a total of HK\$26,385,000 (31 December 2009: bank balances, plant and machinery with a total net book value of HK\$16,208,000) were pledged 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, US dollars or Renminbi. During the period, the exchange rates of Hong Kong dollars and US dollars were relatively stable without causing any material risk of exchange rate; as to the appreciation of Renminbi, since the sales of the Group are settled in Renminbi, whereas the purchases are made in Renminbi and US dollars, the Group does not have material exposure to foreign exchange risk.

# Business and Financial Review (Continued)

## Remuneration Policy for Employees

As at 30 June 2010, a total of 926 employees (30 June 2009: 827) 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 evaluation 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 cashflow and profits 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 insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to the senior management to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

## Prospects

Notwithstanding the relative satisfactory results achieved by the Group during the first half of the year, the trend of leather market for the second half of 2010 may not be favourable. The price of raw materials continues to surge. In addition, the equipment in the existing factory will be relocated to the new factory at the leather specialised zone of Suining County shortly in future. It is expected this will bring temporary effect to production. Thus, the profit margin will further be squeezed. The Group will continue to implement sound operation philosophy and corporate development strategies in a prudent manner in future, consolidate sales in the existing market share, enhance the product development work and adopt a prudent purchase strategy so as to tightly control costs and expenses. Besides, it will improve our ability to resist risks in the market and devote more efforts to strengthen team building and training in fundamentals management. This will ensure a healthy and sustainable growth in the Group for the pursuit of better operating results.

# Report on Review of Interim Financial Information



To the board of directors of  
**Guangdong Tannery Limited**  
*(Incorporated in Hong Kong with limited liability)*

## Introduction

We have reviewed the interim financial information of the Group set out on pages 8 to 25 which comprises the condensed consolidated balance sheet as at 30 June 2010 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement 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 are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of review

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

## Conclusion

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

## Ernst & Young

*Certified Public Accountants*  
18/F, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong

27 August 2010

# Unaudited Interim Financial Statements

## Condensed Consolidated Income Statement

Six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
<b>REVENUE</b>			
Processing and sale of leather	3	265,571	182,797
Cost of sales		(229,850)	(177,848)
<b>Gross profit</b>		<b>35,721</b>	<b>4,949</b>
Other income and gains	3	7,464	7,553
Selling and distribution costs		(1,239)	(1,016)
Administrative expenses		(14,197)	(9,097)
Finance costs	4	(2,753)	(3,774)
<b>PROFIT/(LOSS) BEFORE TAX</b>	4	<b>24,996</b>	<b>(1,385)</b>
Income tax expense	5	(7,718)	(2,447)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>17,278</b>	<b>(3,832)</b>
<b>EARNINGS/(LOSS) PER SHARE</b>	6		
– Basic		HK3.21 cents	(HK0.71 cents)
– Diluted		HK3.21 cents	(HK0.71 cents)

# Unaudited Interim Financial Statements (Continued)

## Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2010

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>	<b>17,278</b>	<b>(3,832)</b>
Exchange differences on translating foreign operations	4,078	196
Surplus/(deficit) on revaluation of buildings	298	(12)
Deferred tax	(75)	3
	223	(9)
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>4,301</b>	<b>187</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>	<b>21,579</b>	<b>(3,645)</b>

# Unaudited Interim Financial Statements (Continued)

## Condensed Consolidated Balance Sheet

30 June 2010

	Notes	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		90,497	90,423
Investment property		–	1,990
Prepaid land lease payments		7,953	7,963
Total non-current assets		98,450	100,376
<b>CURRENT ASSETS</b>			
Inventories		169,438	106,373
Receivables, prepayments and deposits	8	191,506	165,435
Pledged deposits		26,385	1,353
Restricted bank balance		8,024	6,246
Cash and cash equivalents		66,035	157,014
Total current assets		461,388	436,421
<b>CURRENT LIABILITIES</b>			
Trade payables	9	43,583	54,596
Other payables and accruals		51,448	49,021
Interest-bearing bank and other borrowings	10	12,546	–
Due to a PRC joint venture partner	17(b)(ii)	1,131	1,131
Provision		3,656	3,622
Convertible notes	13	65,112	63,327
Tax payable		1,782	6,235
Total current liabilities		179,258	177,932
<b>NET CURRENT ASSETS</b>		<b>282,130</b>	<b>258,489</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>380,580</b>	<b>358,865</b>
<b>NON-CURRENT LIABILITIES</b>			
Loan from the immediate holding company	11	22,779	22,779
Loan from a fellow subsidiary	12	54,600	54,600
Deferred tax liabilities		535	462
Total non-current liabilities		77,914	77,841
Net assets		302,666	281,024
<b>EQUITY</b>			
Issued capital	14	53,762	53,762
Reserves	15	248,904	227,262
Total equity		302,666	281,024

# Unaudited Interim Financial Statements (Continued)

## Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2010

	Equity component										Total
	Issued capital	Share premium account	of convertible notes	General reserve fund	Reserve funds	Share option reserve	Capital redemption reserve	Exchange translation reserve	Property revaluation reserve	Accumulated losses	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009 (Audited)	53,750	413,968	5,545	167,746	9,449	35	445	59,061	1,605	(444,368)	267,236
Total comprehensive income/(loss)	-	-	-	-	-	-	-	196	(9)	(3,832)	(3,645)
Equity-settled share option arrangements	-	-	-	-	-	143	-	-	-	-	143
At 30 June 2009 (Unaudited)	53,750	413,968*	5,545*	167,746*	9,449*	178*	445*	59,257*	1,596*	(448,200)*	263,734
At 1 January 2010 (Audited)	53,762	413,995	5,545	167,746	12,120	138	445	58,010	1,602	(432,339)	281,024
Total comprehensive income	-	-	-	-	-	-	-	4,078	223	17,278	21,579
Equity-settled share option arrangements	-	-	-	-	-	63	-	-	-	-	63
At 30 June 2010 (Unaudited)	53,762	413,995*	5,545*	167,746*	12,120*	201*	445*	62,088*	1,825*	(415,061)*	302,666

\* These reserve accounts comprise the consolidated reserves of HK\$248,904,000 (2009: HK\$209,984,000) in the condensed consolidated balance sheet as at 30 June 2010.

# Unaudited Interim Financial Statements (Continued)

## Condensed Consolidated Cash Flow Statement

Six months ended 30 June 2010

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
<b>NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES</b>	(65,646)	17,138
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	(26,156)	(16,177)
<b>NET CASH FLOWS USED IN A FINANCING ACTIVITY</b>	(146)	–
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(91,948)	961
Cash and cash equivalents at beginning of period	157,014	97,653
Effect of foreign exchange rate changes, net	969	400
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>66,035</b>	99,014
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	66,035	99,014

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2010

### 1. Accounting Policies

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2009.

#### 1.1 Changes in Accounting Policies and Disclosures

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

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKFRS 8 Amendment*	<i>Amendment to HKFRS 8 Operating Segments – Disclosure of information about segment assets</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

\* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 1. Accounting Policies (Continued)

#### 1.1 Changes in Accounting Policies and Disclosures (Continued)

The adoption of these new and revised HKFRSs has had no significant financial effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

#### 1.2 Issued but Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated interim financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> <sup>2</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>4</sup>
HKAS 24 (Revised)	<i>Related Party Disclosures</i> <sup>3</sup>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> <sup>1</sup>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> <sup>3</sup>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> <sup>2</sup>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments and transition requirements for amendments to a number of HKFRSs. For *Improvements to HKFRSs 2010*, the amendments to HKFRS 3 and transition requirements for amendments arising as a result of HKAS 27 are effective for annual periods beginning on or after 1 July 2010 while the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard or interpretation.

<sup>1</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKAS 24 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 2. Operating Segment Information

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

Information about a major customer

During the period, revenue of approximately HK\$46,059,000 (2009: HK\$20,568,000) was derived from sales to a single customer, which contributed approximately 15% (2009: 10%) of the total revenue.

### 3. Revenue, Other Income and Gains

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

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

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
<b>Revenue</b>		
Processing and sale of leather	265,571	182,797
<b>Other income and gains</b>		
Gross rental income	183	344
Interest income	529	663
Foreign exchange gains	–	103
Sale of scrap materials	910	495
Government subsidies	3,347	2,723
Gain on disposal of an investment property	1,570	–
Others	925	3,225
	<b>7,464</b>	<b>7,553</b>

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 4. Profit/(Loss) Before Tax

This is arrived at after charging/(crediting):

	<b>Six months ended 30 June</b>	
	<b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2009</b> <i>HK\$'000</i> <b>(Unaudited)</b>
Cost of inventories sold	235,212	182,281
Depreciation	4,034	3,106
Interest on:		
Bank loans and discounted bills	–	224
Convertible notes	2,093	1,981
Loans from the immediate holding company	146	795
Loan from a fellow subsidiary	486	774
Others	28	–
	<b>2,753</b>	<b>3,774</b>
Write-back of provision for inventories	<b>(5,362)</b>	<b>(4,433)</b>
Impairment of trade and other receivables	<b>1,797</b>	<b>–</b>

### 5. Income Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2009: Nil). Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	<b>Six months ended 30 June</b>	
	<b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2009</b> <i>HK\$'000</i> <b>(Unaudited)</b>
Group:		
Current – Mainland China	7,720	2,449
Deferred	(2)	(2)
Total tax charge for the period	<b>7,718</b>	<b>2,447</b>

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 6. Earnings/(Loss) Per Share

The calculation of basic earnings per share is based on the profit for the period and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings/(loss) per share is based on the profit/(loss) for the period, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustments has been made to the basic earnings/(loss) per share amounts presented for the periods ended 30 June 2010 and 2009 in respect of a dilution as the impact of the convertible notes outstanding during these periods had an anti-dilutive effect on the basic earnings/(loss) per share presented.

The calculations of basic earnings/(loss) per share are based on:

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
<b>Earnings/(loss)</b>		
Profit/(loss) for the periods, used in the basic earnings/(loss) per share calculations	17,278	(3,832)
	Number of shares	
	30 June 2010 (Unaudited)	30 June 2009 (Unaudited)
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculations	537,619,000	537,504,000

### 7. Dividend

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 8. Receivables, Prepayments and Deposits

As at 30 June 2010, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$186,167,000 (31 December 2009: HK\$162,157,000) 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 30 days of issuance, except for certain well-established customers, where the terms are extended for two to three months. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. 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. Trade receivables are non-interest-bearing.

As at 30 June 2010, the aged analysis of the Group's trade and bills receivables, based on the payment due date, is as follows:

	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
Current	<b>185,099</b>	158,157
Less than 3 months	<b>2,264</b>	4,037
3 to 6 months	<b>333</b>	309
Over 6 months	<b>806</b>	417
	<b>188,502</b>	162,920
Impairment	<b>(2,335)</b>	(763)
	<b>186,167</b>	162,157

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 9. Trade Payables

As at 30 June 2010, the aged analysis of the Group's trade payables, based on the payment due date, is as follows:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Within 3 months	28,615	24,836
3 to 6 months	10,090	22,487
6 to 12 months	2,155	3,098
Over 12 months	2,723	4,175
	<b>43,583</b>	<b>54,596</b>

### 10. Interest-Bearing Bank and Other Borrowings

	30 June 2010 (Unaudited)			31 December 2009 (Audited)		
	Effective interest rate (%)	Maturity	Amount HK\$'000	Effective interest rate (%)	Maturity	Amount HK\$'000
<b>Current</b>						
Trust receipt loans, secured	2.16-2.66	2011	12,546	-	-	-
Convertible notes, unsecured (note 13)	6.63	2010	65,112	6.63	2010	63,327
			<b>77,658</b>			<b>63,327</b>

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 11. Loan From the Immediate Holding Company

The following table illustrates the loan from GDH Limited (“GDH”), the Company’s immediate holding company:

	Note	30 June 2010 HK\$’000 (Unaudited)	31 December 2009 HK\$’000 (Audited)
Non-current	(a)	22,779	22,779

Note:

- (a) The loan is unsecured, bears interest at 3-month LIBOR + 1 % (2009: 3-month LIBOR + 1 %) per annum and is repayable on 31 July 2011.

### 12. Loan From a Fellow Subsidiary

The loan represents an unsecured loan of US\$7,000,000 (31 December 2009: US\$7,000,000) (equivalent to approximately HK\$54,600,000 (31 December 2009: HK\$54,600,000)) advanced from Guangdong Assets Management Limited, a fellow subsidiary of the Company. The loan bears interest at 3-month LIBOR + 1.5% (31 December 2009: 3-month LIBOR + 1.5%) per annum and is repayable on 31 December 2011 (31 December 2009: not repayable within one year from 31 December 2009).

### 13. Convertible Notes

On 13 August 2007, the Company issued 61,500,000 1% convertible notes with a nominal value of HK\$61,500,000 to GDH, with a maturity date on the third anniversary of the date of issue of the convertible notes (the “Maturity Date”). GDH has the right to convert the whole or part of the principal amount of the convertible notes into shares at any time and from time to time, from the 7th day after the date of the issue of the convertible notes up to the day which is 7 days prior to the Maturity Date, on the basis of one ordinary share for every 1.9 HK\$1 note held. There was no movement in the number of convertible notes outstanding during the period. Any convertible notes not converted will be redeemed on the Maturity Date at a price of HK\$1.0623 per HK\$1 note. The notes carry interest at a rate of 1% per annum, which is payable semi-annually in arrears on 13 February and 13 August.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option. The residual amount is assigned as the equity component and is included in shareholders’ equity.

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 13. Convertible Notes (Continued)

The convertible notes issued have been split as to the liability and equity components, as follows:

	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
Nominal value of convertible notes	61,500	61,500
Equity component	(5,599)	(5,599)
Direct transaction costs attributable to the liability component	(537)	(537)
Liability component at the issuance date	55,364	55,364
Interest expense	11,286	9,193
Interest paid	(1,538)	(1,230)
Liability component at end of the period/year <i>(note 10)</i>	<b>65,112</b>	63,327

### 14. Share Capital

	<b>30 June 2010 HK\$'000 (Unaudited)</b>	31 December 2009 HK\$'000 (Audited)
Authorised:		
700,000,000 ordinary shares of HK\$0.10 each	70,000	70,000
Issued and fully paid:		
537,619,000 ordinary shares of HK\$0.10 each	53,762	53,762

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 14. Share Capital (Continued)

#### Share option scheme

On 24 November 2008, the Company terminated its then share option scheme that was adopted on 31 May 2002 and adopted a new share option scheme (the “2008 Scheme”).

The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors to contribute to the Group and to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such employees, officers and directors or to serve such other purposes as the Board may approve from time to time. Eligible persons of the 2008 Scheme include the employees, officers or directors of a member of the Group. The 2008 Scheme unless otherwise terminated or amended, will remain in force for 10 years from 24 November 2008.

As at 30 June 2010, there were 2,000,000 share options outstanding under the 2008 Scheme. The exercise in full of these share options would, under the present capital structure of the Company, result in the issue of 2,000,000 additional ordinary shares of the Company and additional share capital of HK\$200,000 and share premium of HK\$356,000 (before issue expenses).

### 15. Reserves

The amounts of the Group’s reserves and the movements therein for the current and prior periods are presented in the condensed consolidated statement of changes in equity of the interim financial statements.

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 16. Commitments

	30 June 2010 <i>HK\$'000</i> (Unaudited)	31 December 2009 <i>HK\$'000</i> (Audited)
Contracted, but not provided for:		
Land and buildings	10,899	9,207
Leasehold improvements	–	397
Plant and machinery	1,557	913
	<b>12,456</b>	10,517
Authorised, but not contracted for:		
Land and buildings	27,172	87,752
Plant and machinery	62,386	77,091
	<b>89,558</b>	164,843
	<b>102,014</b>	175,360

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 17. Related Party Transactions

#### (a) Transactions with related parties

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

	<b>Six months ended 30 June</b>	
	<b>2010</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>2009</b> <i>HK\$'000</i> <b>(Unaudited)</b>
Office rental paid to the fellow subsidiary	148	107
Computer system maintenance service fees paid to the immediate holding company	80	80
Interest expense to the immediate holding company attributable to:		
Loans	146	795
Convertible notes	2,093	1,981
	<b>2,239</b>	<b>2,776</b>
Interest expense to a fellow subsidiary	486	774

#### (b) Outstanding balances with related parties

- (i) Details of the loans from the immediate holding company and a fellow subsidiary and the convertible notes to the immediate holding company as at the end of the reporting period are included in notes 11, 12 and 13 to the unaudited condensed consolidated interim financial statements, respectively.
- (ii) The amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment.

# Unaudited Interim Financial Statements (Continued)

## Notes to Condensed Consolidated Interim Financial Statements (Continued)

30 June 2010

### 17. Related Party Transactions (Continued)

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

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Short term employee benefits	368	501
Post-employment benefits	119	167
Equity-settled share option expense	–	47
<b>Total compensation paid to key management personnel</b>	<b>487</b>	<b>715</b>

### 18. Pledge of Assets

As at 30 June 2010, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Plant and machinery	–	14,855
Bank balances and deposits	26,385	1,353
	<b>26,385</b>	<b>16,208</b>

### 19. Event After the Reporting Period

Subsequent to the end of the reporting period, on 12 August 2010, the 61,500,000 1% convertible notes with a nominal value of HK\$61,500,000 issued by the Company to GDH matured and were fully redeemed by the Company. The redemption was financed by a loan of HK\$65,000,000 from GDH drawn down on 10 August 2010. The loan is repayable on 9 August 2011 and bears interest at a rate of HIBOR + 2% per annum.

### 20. Approval of the Interim Financial Statements

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 27 August 2010.

# Directors' Interests and Short Positions in Securities

As at 30 June 2010, 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 ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules"), were as follows:

## (I) Interests and Short Positions in the Company

### (1) Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held <i>(Note)</i>
Fung Lak	Personal	1,380,000	Long position	0.26%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 537,619,000 ordinary shares of the Company in issue as at 30 June 2010.

### (2) Interests in share options relating to ordinary shares (long positions)

Name of Director	Number of share options				At 30 June 2010	Date of grant of share options <i>(dd.mm.yyyy)</i>	Total consideration paid for share options <i>HK\$</i>	Exercise price of share options* <i>HK\$</i> <i>(per share)</i>	Price of ordinary shares at date immediately before date of grant** <i>HK\$</i> <i>(per share)</i>	Price of ordinary shares immediately before the exercise date** <i>HK\$</i> <i>(per share)</i>
	At 1 January 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period						
Sun Jun <sup>(a)</sup>	200,000	-	-	-	200,000	24.11.2008	-	0.278	0.27	-
Xiong Guangyang	1,150,000	-	-	-	1,150,000	24.11.2008	-	0.278	0.27	-

# Directors' Interests and Short Positions in Securities (Continued)

## (I) Interests and Short Positions in the Company (Continued)

### (2) Interests in share options relating to ordinary shares (long positions) (Continued)

Notes:

- (A) Mr. Sun Jun was appointed as a director of the Company on 5 February 2010.
- (B) Notes to the above share options granted pursuant to the share option scheme adopted by the Company on 24 November 2008 (the "2008 Scheme"):
- (a) The option period of all the share options is 5.5 years from the date of grant.
- (b) Any share option is only exercisable during the option period after it has become vested.
- (c) The normal vesting scale of the share options is as follows:

Date	Percentage vesting
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

- (d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the Board upon grant and stated in the offer of grant.
- (e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	Percentage vesting
On or before the date which is four months after the date of grant	0%
After the date which is four months after but before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80%
	The remaining 20% also vests upon passing the overall performance appraisal for those four years

# Directors' Interests and Short Positions in Securities (Continued)

## (I) Interests and Short Positions in the Company (Continued)

### (2) Interests in share options relating to ordinary shares (long positions) (Continued)

Notes (Continued):

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\* The price of the Company's ordinary shares disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the Company's ordinary shares disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors or all other participants as an aggregate whole.

## (II) Interests and Short Positions in Guangdong Investment Limited ("GDI")

### (1) 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)
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Ho Lam Lai Ping, Theresa	Personal	800,000	Long position	0.01%
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Note: The approximate percentage of interests held was calculated on the basis of 6,213,938,071 ordinary shares of GDI in issue as at 30 June 2010.

### (2) Interests in share options relating to ordinary shares (long positions)

Name of Director	Number of share options				At 30 June 2010	Date of grant of share options (dd.mm.yyyy)	Total consideration paid for share options HK\$	Exercise price of share options* HK\$ (per share)	Price of ordinary shares at date immediately before date of grant** HK\$ (per share)	Price of ordinary shares immediately before the exercise date** HK\$ (per share)
	At 1 January 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period						
Ho Lam Lai Ping, Theresa	2,400,000	-	-	-	2,400,000	24.10.2008	-	1.88	1.73	-

# Directors' Interests and Short Positions in Securities (Continued)

## (II) Interests and Short Positions in Guangdong Investment Limited ("GDI") (Continued)

### (2) Interests in share options relating to ordinary shares (long positions) (Continued)

*Notes to the above share options granted pursuant to the share option scheme adopted by GDI:*

- (a) The option period of all the share options is 5.5 years from the date of grant.
- (b) Any share option is only exercisable during the option period after it has become vested.
- (c) The normal vesting scale of the share options is as follows:

Date	Percentage vesting
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

- (d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the board of directors of GDI upon grant and stated in the offer of grant.
- (e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	Percentage vesting
On or before the date which is four months after the date of grant	0%
After the date which is four months after but before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80%
	The remaining 20% also vests upon passing the overall performance appraisal for those four years

- \* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of GDI.
- \*\* The price of the ordinary shares of GDI disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the ordinary shares of GDI disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors of GDI or all other participants as an aggregate whole.

## Directors' Interests and Short Positions in Securities (Continued)

### (III) Interests and Short Positions in Kingway Brewery Holdings Limited ("Kingway")

#### Interests in ordinary shares

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held <i>(Note)</i>
Ho Lam Lai Ping, Theresa	Personal	98,000	Long position	0.01%

*Note:* The approximate percentage of interests held was calculated on basis of 1,711,536,850 ordinary shares of Kingway in issue as at 30 June 2010.

Save as disclosed above, as at 30 June 2010, 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 share in, or debentures of, the Company or any other body corporate.

# Substantial Shareholders' Interests

As at 30 June 2010, so far as is known to the directors 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 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	Derivative interests	Approximate percentage of the Company's issued ordinary share capital (including derivative interests)
				(Number of shares to be issued upon conversion of the HK\$61,500,000 convertible notes issued by the Company)	
廣東粵海控股有限公司 (Guangdong Holdings Limited) (Note)	Interests of controlled corporation	375,100,000	Long position	32,368,421	75.79%
GDH Limited	Beneficial owner	375,100,000	Long position	32,368,421	75.79%

Note: The attributable interest which 廣東粵海控股有限公司 (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 2010, so far as is known to the 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

# Share Option Scheme

As at 30 June 2010, save as disclosed in the section of “Directors’ Interests and Short Positions in Securities” of this report, certain eligible persons (other than directors) had the following interests in rights to subscribe for shares of the Company granted under the 2008 Scheme. Each option gives the holder the right to subscribe for one share of par value HK\$0.10 each of the Company. Further details are set out in note 14 to the unaudited condensed consolidated interim financial statements and the detailed terms of the 2008 Scheme were disclosed in the Annual Report 2009 of the Company.

Category of participants	Number of share options				At 30 June 2010	Date of grant of share options (dd.mm.yyyy)	Total consideration paid for share options HK\$	Exercise price of share options* HK\$ (per share)	Price of ordinary shares at date immediately before date of grant** HK\$ (per share)	Price of ordinary shares immediately before the exercise date** HK\$ (per share)
	At 1 January 2010	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period						
Senior management	650,000	-	-	-	650,000	24.11.2008	-	0.278	0.27	-

*Note:* Additional information regarding the above share options granted under the 2008 Scheme is set out in note (B) under “Interests and Short Positions in the Company” in the “Directors’ Interests and Short Positions in Securities” section of this report on pages 27 and 28.

# Corporate Governance and Other Information

## Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2010 except for the following:

Under the CG Code, there should be a clear division of responsibilities for the roles of chairman and chief executive officer and these two roles should be performed by two persons (the Company regards that the term “chief executive officer” has the same meaning as the Managing Director of the Company). On 20 September 2009, Mr. Ren Yingguo resigned as an Executive Director and the Managing Director of the Company. The Chairman of the Company took up the duties of the Managing Director temporarily while the Company was in the process of identifying the new Managing Director. Such temporary arrangement ended once Mr. Sun Jun was appointed as the new Managing Director on 5 February 2010.

## Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. All directors of the Company have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

## Changes in Directors’ Information

Commencing 1 January 2010, Mr. Chen Hong’s salary, allowances and benefits in kind will amount to approximately HK\$573,000 per annum.

Commencing 1 January 2010, Mr. Sun Jun’s salary, allowances and benefits in kind will amount to approximately RMB243,000 per annum.

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

## Audit Committee

The Company established an audit committee (“Audit Committee”) in September 1998 and its terms of reference are in line with the CG Code. The Audit Committee comprises three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Fung Lak is the Chairman of the Audit Committee. The principal duties of the Audit Committee include, inter alia, the review of the completeness, accuracy and fairness of the Company’s financial reports and the Group’s internal controls and risk management systems.

# Corporate Governance and Other Information (Continued)

## Remuneration Committee

The Company established a remuneration committee (“Remuneration Committee”) in June 2005 and its terms of reference are in line with the CG Code. The Remuneration Committee comprises three independent non-executive directors, Mr. Choi Kam Fai, Thomas, Mr. Fung Lak and Mr. Chan Cheong Tat. Mr. Choi Kam Fai, Thomas is the Chairman of the Remuneration Committee. The principal duties of the Remuneration Committee include, inter alia, making recommendations to the Board relating to the Company’s policy for directors’ and senior management’s remuneration, determining the executive directors’ and senior management’s remuneration packages, reviewing and approving their performance-based remuneration and compensation payable for their loss of offices.

## Nomination Committee

The Company established a nomination committee (“Nomination Committee”) in June 2005 and its terms of reference are in line with the CG Code. The Nomination Committee comprises one executive director, Mr. Chen Hong, and three independent non-executive directors, Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Chen Hong is the Chairman of the Nomination Committee. The principal duties of the Nomination Committee include, inter alia, nominating and recommending candidates to fill vacancies on the Board.

## Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial statements and the interim report of the Group for the six months ended 30 June 2010. In addition, the Company’s auditors, Messrs. Ernst & Young have also reviewed the aforesaid unaudited interim financial statements.

## Purchase, Sale and Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2010.

By order of the Board  
**Chen Hong**  
*Chairman*

Hong Kong  
27 August 2010

