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粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2015 together with comparative figures. The interim financial information has not been audited, but has been reviewed by the Company's audit committee (the "Audit Committee") and the auditors, Messrs. Ernst & Young.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS SIX MONTHS ENDED 30 JUNE 2015

	<i>Notes</i>	2015 <i>HK\$'000</i> (Unaudited)	2014 <i>HK\$'000</i> (Unaudited)
REVENUE			
Processing and sale of leather	3	341,901	320,072
Cost of sales		<u>(334,266)</u>	<u>(300,814)</u>
Gross profit		7,635	19,258
Other income and gains	3	2,956	2,643
Selling and distribution expenses		(1,468)	(1,474)
Administrative expenses		(17,737)	(14,097)
Finance costs	4	<u>(4,875)</u>	<u>(2,716)</u>
PROFIT/(LOSS) BEFORE TAX	4	(13,489)	3,614
Income tax credit/(expense)	5	<u>363</u>	<u>(1,535)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>(13,126)</u>	<u>2,079</u>
EARNINGS/(LOSS) PER SHARE	6		
- Basic		<u>HK(2.44) cents</u>	<u>HK0.39 cent</u>
- Diluted		<u>HK(2.44) cents</u>	<u>HK0.39 cent</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED 30 JUNE 2015**

	2015 <i>HK\$'000</i> (Unaudited)	2014 <i>HK\$'000</i> (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	(13,126)	2,079
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) not to be reclassified to the statement of profit or loss in subsequent periods:		
Surplus/(deficit) on revaluation of buildings	1,003	(165)
Income tax effect	(251)	<u>41</u>
	752	(124)
Other comprehensive income/(loss) to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>158</u>	(4,702)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>910</u>	(4,826)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(12,216)</u>	<u>(2,747)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2015

	<i>Notes</i>	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		109,744	103,991
Prepaid land lease payments		13,854	14,008
Total non-current assets		123,598	117,999
CURRENT ASSETS			
Inventories		314,682	303,235
Receivables, prepayments and deposits	8	208,525	279,783
Pledged bank balances		24,253	37,283
Cash and bank balances		27,689	20,421
Tax recoverable		-	332
Total current assets		575,149	641,054
CURRENT LIABILITIES			
Trade payables	9	76,922	97,718
Other payables and accruals		35,300	23,801
Interest-bearing bank borrowings		97,239	135,838
Due to a PRC joint venture partner		1,131	1,131
Loans from the immediate holding company		54,600	142,379
Provision		4,044	4,042
Tax payable		161	-
Total current liabilities		269,397	404,909
NET CURRENT ASSETS		305,752	236,145
TOTAL ASSETS LESS CURRENT LIABILITIES		429,350	354,144
NON-CURRENT LIABILITIES			
Loans from the immediate holding company		87,779	-
Deferred tax liabilities		1,842	1,591
Total non-current liabilities		89,621	1,591
Net assets		339,729	352,553
EQUITY			
Share capital		75,032	75,032
Other reserves		264,697	277,521
Total equity		339,729	352,553

Notes:

(1) ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial information is prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

The accounting policies and basis of preparation adopted in the preparation of this unaudited interim condensed consolidated financial information are the same as those used in the annual financial statements for the year ended 31 December 2014.

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

Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i>
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs

The adoption of these new and revised HKFRSs has had no material financial effect on the unaudited interim condensed consolidated financial information.

(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\$73,288,000 (six months ended 30 June 2014: HK\$35,858,000) was derived from sales to a single customer, which contributed approximately 21% (six months ended 30 June 2014: 11%) 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 2015 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)
Revenue		
Processing and sale of leather	<u>341,901</u>	<u>320,072</u>
Other income and gains		
Interest income	60	72
Sale of scrap materials	1,027	1,838
Government subsidies	1,544	625
Others	<u>325</u>	<u>108</u>
	<u>2,956</u>	<u>2,643</u>

(4) PROFIT/(LOSS) BEFORE TAX

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

	Six months ended	
	30 June 2015 HK\$'000 (Unaudited)	30 June 2014 HK\$'000 (Unaudited)
Cost of inventories sold	335,298	303,036
Depreciation	5,535	5,190
Foreign exchange differences, net	3,159	582
Interest on:		
Bank loans	2,857	710
Loans from the immediate holding company	<u>2,018</u>	<u>2,006</u>
	<u>4,875</u>	<u>2,716</u>
Reversal of provision for inventories	(1,032)	(2,222)
Write-back of impairment for trade and bills receivables	<u>-</u>	<u>(632)</u>

(5) INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2014: 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.

(7) **DIVIDEND**

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

(8) **RECEIVABLES, PREPAYMENTS AND DEPOSITS**

As at 30 June 2015, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK\$202,448,000 (31 December 2014: HK\$275,240,000).

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. The Group does not hold any collateral or other credit enhancement over its trade receivables balances. Trade receivables are non-interest-bearing.

An aged 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 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Current	202,352	275,350
Less than 3 months	206	-
3 to 6 months	-	-
Over 6 months	<u>73</u>	<u>73</u>
	202,631	275,423
Impairment	<u>(183)</u>	<u>(183)</u>
	<u>202,448</u>	<u>275,240</u>

(9) TRADE PAYABLES

An aged 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 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Within 3 months	45,599	66,526
3 to 6 months	23,362	26,956
Over 6 months	7,961	4,236
	<u>76,922</u>	<u>97,718</u>

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 60 to 90 days.

BUSINESS AND FINANCIAL REVIEW

Results

The unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2015 of the Group was HK\$13,126,000, turnaround from profit to loss, and representing a significant decrease of HK\$15,205,000 as compared to the unaudited consolidated profit attributable to shareholders of HK\$2,079,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2015 was HK\$339,729,000, representing a decrease of HK\$9,699,000 and HK\$12,824,000 as compared to the net asset value as at 30 June 2014 and 31 December 2014, respectively.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

Business Review

During the first half of the year, the overall economic environment in China was complicated. Faced with impact from macro-economic factors such as weak demand in both the domestic and overseas markets, rising cost of raw materials and labour, as well as more stringent environmental requirements imposed by the State, whilst the traditional tannery industry is labour intensive in nature, competition in the footwear leather market became very keen. During the period, as affected by the environmental protection policies, certain split leather manufacturers were shut down or reduced their production volume during the period. The split leather market shrank with a sharp fall in demand. With considerable amount of inventories not disposed of, there was a significant decrease in the unit selling price of grey hides. Besides, the exchange loss further increased the operating loss of the Group. Facing with such complicated market environment during the period, the Group upheld its prudent and steady operating strategies and carefully analyzed various variables that may affect the

price of cowhides. This had facilitated the right moment to purchase cowhides for satisfying the production needs and secured cost advantages. On the other hand, by leveraging on the product research and development capabilities, the Group carried out market segmentation to ensure stable production and sales. Meanwhile, we strived to enhance the leather yield so as to control the production costs, which enabled the Group to mitigate the operating risks amidst a fragile economic environment.

During the period, the production volume of cowhides was 15,276,000 sq. ft., representing an increase of 3,170,000 sq. ft. or 26.2% as compared to 12,106,000 sq. ft. for the same period of last year. The production volume of grey hides was 5,022 tons, representing an increase of 1,616 tons or 47.4% as compared to 3,406 tons for the same period of last year. During the period, the total sales volume of cowhides was 14,115,000 sq. ft., representing an increase of 1,608,000 sq. ft. or 12.9% as compared to 12,507,000 sq. ft. for the same period of last year. The sales volume of grey hides was 5,022 tons, representing an increase of 1,616 tons or 47.4% as compared to 3,406 tons for the same period of last year.

During the period, the consolidated turnover of the Group was HK\$341,901,000, representing an increase of HK\$21,829,000 or 6.8% from HK\$320,072,000 for the same period of last year, of which the sales value of cowhides amounted to HK\$310,146,000 (six months ended 30 June 2014: HK\$273,005,000), representing an increase of 13.6%; and the sales value of grey hides and other products amounted to HK\$31,755,000 (six months ended 30 June 2014: HK\$47,067,000), representing a decrease of 32.5%. During the period, the Group seized the opportunity of seasonal demand by increasing the product orders and sales. Both the sales volume and price of cowhides rose with the expansion of direct sales business, which led to the increase of turnover and gross profit of cowhides as compared to the same period of last year. However, for grey hides, upon the shrinking market demand, there witnessed continuous decline in selling price. Therefore, the gross profit of grey hides decreased significantly as compared to the same period of last year resulting from the drop in the unit selling price and the rise in cost of raw materials despite the increase in sales volume. Thus the operating results of the Group adversely deteriorated.

In respect of sales, faced with the internal and external pressure in leather market as well as the unfavorable and intense competition during the period, the Group devoted a lot of effort to optimise the matching for products and ensure the continuous production of traditional products. The Group also entered into cooperation with the key strategic distributor customers to conduct detailed research and development. Training of research and development personnel were improved. More effort were placed on direct sales. Distributors were encouraged to increase their stockpile. As a result, breakthrough was achieved in direct sales orders during the period.

In terms of purchasing, the Group closely monitored the movement of slaughtering volume and demand in end-user market and adopted a defensive purchasing strategy according to the fluctuation in leather price. This allowed us to take full advantage of the downward moving trend in cowhides price and secured the material cost advantage. In addition, the Group strictly implemented its supplier evaluation system and product review system to maintain products of high quality. During the period, the Group proactively participated in the price negotiation with the chemical material suppliers and entered into annual strategic cooperation agreements, which effectively lowered the purchasing cost of the chemical materials and minimised the obsolescence and overstocking of chemical materials. During the period, total purchases amounted to HK\$338,651,000, representing an increase of 12.4% as compared to the same period of last year.

As at 30 June 2015, the Group's consolidated inventory amounted to HK\$314,682,000 (31 December 2014: HK\$303,235,000), representing an increase of HK\$11,447,000 or 3.8% over that of 31 December 2014. During the period, the Group achieved market recognition through adjusting its production techniques and developing products in response to market demand and leather inventory characteristics.

Financial Review

As at 30 June 2015, the Group's cash and cash equivalents amounted to HK\$27,689,000 (31 December 2014: HK\$20,421,000), representing an increase of HK\$7,268,000 or 35.6% as compared to the same as at 31 December 2014, which were denominated in Hong Kong dollars (9.9%), Renminbi (88.7%) and United States dollars (1.4%). During the period, net cash inflow from operating activities was HK\$4,581,000, which was mainly attributable to an increase in cash inflow as a result of a decrease in bills receivable. The net cash outflow from investing activities was HK\$2,666,000, which was mainly represented the decrease in pledged bank deposits.

As at 30 June 2015, the Group's interest-bearing borrowings amounted to HK\$239,618,000 (31 December 2014: HK\$278,217,000), 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\$174,618,000. The Group's borrowings mainly consisted of: (1) balances of short-term loans provided by the bank of HK\$97,239,000, which were secured by bank balances of RMB19,125,000; (2) balances of short-term unsecured intra-group borrowing of HK\$54,600,000; and (3) balances of long-term unsecured intra-group borrowings of HK\$87,779,000. The above interest-bearing borrowings were charged at floating interest rates.

As at 30 June 2015, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 41.4% (31 December 2014: 44.1%). During the period, the annual interest rate of the borrowings was approximately 2.8% to 3.1%. Of the Group's total borrowings, all were repayable within one year except for the loans from the immediate holding company amounting to HK\$87,779,000. The Group's interest expenses during the period amounted to HK\$4,875,000, representing an increase of 79.5% from the same period of last year, which was mainly attributable to the increase of bank loans during the period.

As at 30 June 2015, the total banking facilities of the Group was HK\$253,620,000 (31 December 2014: HK\$486,345,000), of which banking facilities of HK\$97,239,000 (31 December 2014: HK\$135,838,000) were utilised and banking facilities of HK\$156,381,000 (31 December 2014: HK\$350,507,000) were unutilised. Taking into account of the existing cash resources and available credit facilities, as well as the cash flow being generated from the operating activities of the Group, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 30 June 2015, the net value of non-current assets including prepaid land lease payments and, property, plant and equipment amounted to HK\$123,598,000, representing an increase of HK\$5,599,000 over the net value as at 31 December 2014 of HK\$117,999,000. The capital expenditure for the period amounted to HK\$10,350,000 (six months ended 30 June 2014: HK\$6,219,000), which mainly represented the payment of expenditures for the acquisition of machinery and equipment to cope with the production requirements of the Group.

Pledge of Assets

As at 30 June 2015, certain of the Group's bank balances with a total of HK\$24,253,000 (31 December 2014: HK\$37,283,000) 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, 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 2015, a total of 647 employees (31 December 2014: 673) were employed by the Group. The remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees focusing on "accountability and performance". The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group's operating net cash flow and profit after tax, calculated by various profit rankings and by applying a measure that links bonuses with the operating results of the Group and further taking into account of the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurances and pension schemes to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to senior management for their contribution to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Prospects

In the second half of 2015, the footwear leather market is expected to remain stagnant with overproduction and disorderly competition in the industry. Coupled with more stringent requirements of environmental protection policies as imposed by the State on tannery industry, the tannery enterprises are likely to face with more challenges ahead. The Group will strive to ensure the stable operation of the Company with an aim of "maintaining stability and striving for survival" in response to the negative impact from the sluggish market. The Group will proactively conduct research on the industry, market and products of tannery market in order to explore the path for development in future. In the meantime, the Group will continue to closely monitor the market trend and make adjustment on product mix. Emphasis will be put on the peak season to seek for more orders. The Group will ensure safety production, enhance research and development capability to strengthen its competitiveness, achieve the predetermined operating targets and strive to reduce the losses.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

The Company has complied with the code provisions and, where appropriate, the applicable recommended best practices set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2015.

Review of Interim Results

The Audit Committee has reviewed the unaudited interim financial information of the Group and the Company's interim report for the six months ended 30 June 2015. In addition, the Company's auditors, Messrs. Ernst & Young, have also reviewed the aforesaid unaudited interim financial information.

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 2015.

By order of the Board
Chen Hong
Chairman

Hong Kong, 26 August 2015

As at the date of this announcement, the Board of the Company comprises two Executive Directors, namely Mr. Chen Hong and Mr. Sun Jun; three Non-Executive Directors, namely Mr. Liu Bing, Mrs. Ho Lam Lai Ping, Theresa and Mr. Qiao Jiankang; and three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat.