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 2014

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 2014 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 2014

	Notes	**2014** *HK$'000* **(Unaudited)**	2013 *HK$'000* (Unaudited)
REVENUE			
Processing and sale of leather	*3*	**320,072**	321,787
Cost of sales		**(300,814)**	(300,691)
Gross profit		**19,258**	21,096
Other income and gains	*3*	**2,643**	3,639
Selling and distribution expenses		**(1,474)**	(1,086)
Administrative expenses		**(14,097)**	(12,593)
Finance costs	*4*	**(2,716)**	(3,112)
PROFIT BEFORE TAX	*4*	**3,614**	7,944
Income tax expense	*5*	**(1,535)**	(4,564)
PROFIT FOR THE PERIOD		**2,079**	3,380
EARNINGS PER SHARE	*6*		
- Basic		**HK0.39 cent**	HK0.63 cent
- Diluted		**HK0.39 cent**	HK0.63 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
SIX MONTHS ENDED 30 JUNE 2014

	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**2,079**	3,380
OTHER COMPREHENSIVE INCOME		
Other comprehensive income not to be reclassified to the statement of profit or loss in subsequent periods:		
Deficit on revaluation of buildings	**(165)**	(367)
Income tax effect	**41**	92
	(124)	(275)
Other comprehensive income/(loss) to be reclassified to the statement of profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,702)**	8,559
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(4,826)**	8,284
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(2,747)**	11,664

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 JUNE 2014

	Notes	**30 June 2014** ***HK$'000*** **(Unaudited)**	31 December 2013 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**106,953**	107,057
Prepaid land lease payments		**14,081**	14,377
Total non-current assets		**121,034**	121,434
CURRENT ASSETS			
Inventories		**264,876**	276,049
Receivables, prepayments and deposits	*8*	**231,343**	178,654
Pledged bank balances		**16,898**	4,618
Cash and bank balances		**53,360**	56,569
Total current assets		**566,477**	515,890
CURRENT LIABILITIES			
Trade payables	*9*	**52,212**	49,686
Other payables and accruals		**27,138**	26,811
Interest-bearing bank borrowings		**108,860**	57,372
Due to a PRC joint venture partner		**1,131**	1,131
Loans from the immediate holding company		**54,600**	142,379
Provision		**4,018**	4,056
Tax payable		**1,073**	1,773
Total current liabilities		**249,032**	283,208
NET CURRENT ASSETS		**317,445**	232,682
TOTAL ASSETS LESS CURRENT LIABILITIES		**438,479**	354,116
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,272**	1,304
Loans from the immediate holding company		**87,779**	-
Total non-current liabilities		**89,051**	1,304
Net assets		**349,428**	352,812
EQUITY			
Issued capital		**75,032**	53,802
Reserves		**274,396**	299,010
Total equity		**349,428**	352,812

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 2013.

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.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKSA 36 Amendments	Amendments to HKAS 36 *Impairments of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

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$35,858,000 (six months ended 30 June 2013: HK$63,520,000) was derived from sales to a single customer, which contributed approximately 11% (six months ended 30 June 2013: 20%) 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 2014 HK$'000 (Unaudited)	Six months ended 30 June 2013 HK$'000 (Unaudited)
Revenue		
Processing and sale of leather	**320,072**	321,787
Other income and gains		
Interest income	**72**	70
Foreign exchange gains, net	**-**	2,660
Sale of scrap materials	**1,838**	539
Government subsidies	**625**	-
Gain on disposal of items of property, plant and equipment	**-**	314
Others	**108**	56
	2,643	3,639

(4) PROFIT BEFORE TAX

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

	Six months ended 30 June 2014 HK$'000 (Unaudited)	Six months ended 30 June 2013 HK$'000 (Unaudited)
Cost of inventories sold	**303,036**	298,565
Depreciation	**5,190**	4,986
Interest on:		
Bank loans	**710**	1,076
Loans from the immediate holding company	**2,006**	2,036
	2,716	3,112
Provision/(reversal of provision) for inventories	**(2,222)**	2,126
Write-back of impairment for trade and bills receivables	**(632)**	(96)

(5) INCOME TAX EXPENSE

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 2013: 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.

	Six months ended 30 June 2014 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Unaudited)
Group:		
Current – Mainland China		
Charge for the period	**1,535**	4,564

(6) EARNINGS PER SHARE

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

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 June 2014 as no dilutive events existed for the exercise of share options.

The calculation of diluted earnings per share amounts for the period ended 30 June 2013 was based on the profit for the period. The weighted average number of ordinary shares used in the calculation was 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 of all dilutive potential share options into ordinary shares.

The calculations of basic earnings per share and diluted earnings per share are based on:

	Six months ended 30 June 2014 HK$'000 (Unaudited)	30 June 2013 HK$'000 (Unaudited)
Earnings		
Profit for the period, used in the basic and diluted earnings per share calculations	**2,079**	3,380

	Number of shares Six months ended 30 June 2014 (Unaudited)	30 June 2013 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**538,019,000**	538,019,000
Effect of dilution - weighted average number of ordinary shares:		
Share options	**-**	71,460
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**538,019,000**	538,090,460

(7) DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2014, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$225,157,000 (31 December 2013: HK$174,486,000).

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. 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 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (Audited)
Current	**225,157**	174,486
Less than 3 months	**-**	745
3 to 6 months	**108**	-
Over 6 months	**73**	73
	225,338	175,304
Impairment	**(181)**	(818)
	225,157	174,486

(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 2014 *HK$'000* **(Unaudited)**	31 December 2013 *HK$'000* (Audited)
Within 3 months	**36,322**	31,418
3 to 6 months	**11,524**	14,879
Over 6 months	**4,366**	3,389
	52,212	49,686

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 profit attributable to shareholders for the six months ended 30 June 2014 of the Group was HK$2,079,000, representing a decrease of HK$1,301,000 or 38.5% as compared to the unaudited consolidated profit attributable to shareholders of HK$3,380,000 for the same period of last year.

The unaudited net asset value of the Group as at 30 June 2014 was HK$349,428,000, representing an increase of HK$8,032,000 and a decrease HK$3,384,000 as compared to the net asset value as at 30 June 2013 and 31 December 2013, respectively.

The Board resolved not to declare the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

Business Review

During the first half of the year, the footwear leather goods market was sluggish in general with competition intensifying against the situation of diminishing overseas demand and weak domestic demand. The operating results of the Group deteriorated as weighed on by the continuously surging price of cowhides and depreciation of Renminbi. Through the analysis on the reasons of unbalanced demand and supply on the leather market during the recent years and the resultant overall continual upward price tendency of the cowhides, the Group upheld a prudent operating strategy and implemented a comprehensive budget management in depth. On the one hand, the Group adopted a marketing strategy tilted towards direct selling to ensure stable production and sales. On the other hand, the Group stepped up its research and development efforts and strived to enhance the leather yield to alleviate the influence of negative factors such as a weak market and the rising costs, which enabled the Group to mitigate the operating risks amidst a fragile economic environment.

During the period, the production volume of cowhides was 12,106,000 sq. ft., representing a decrease of 2,009,000 sq. ft. or 14.2% as compared to 14,115,000 sq. ft. for the same period of last year. The production volume of grey hides was 3,406 tons, representing a decrease of 2,731 tons or 44.5% as compared to 6,137 tons for the same period of last year. During the period, the total sales volume of cowhides was 12,507,000 sq. ft., representing a decrease of 678,000 sq. ft. or 5.1% as compared to 13,185,000 sq. ft. for the same period of last year. The sales volume of grey hides was 3,406 tons, representing a decrease of 2,731 tons or 44.5% as compared to 6,137 tons for the same period of last year.

During the period, the consolidated turnover of the Group was HK$320,072,000, representing a decrease of HK$1,715,000 or 0.5% from HK$321,787,000 for the same period of last year, of which the sales value of cowhides amounted to HK$273,005,000 (six months ended 30 June 2013: HK$275,890,000), representing a decrease of 1.0%; and the sales value of grey hides and other products amounted to HK$47,067,000 (six months ended 30 June 2013: HK$45,897,000), representing an increase of 2.5%. Exports to the markets in Europe and the United States failed to show a clear rebound during the period, as reflected in a significant shrinkage in the orders from export footwear manufacturers. In respect of the domestic market, production volume went down with the reduction in overall demand that was aggravated by the overstocks backlog amongst the footwear manufacturers. At the same time, the population of livestock cattle declined to a historic low after three consecutive years of drought in the United States, leading to an unbalance between the demand for cowhides and the volume of cattle slaughtered and the substantial surge in the price of cowhides against the historic cycles as a consequence. Coupled with rising costs in raw materials and production, there persisted an irreconcilable conflict with the price of finished products which was difficult to shift upward. In face of the above unfavourable factors, the Group adopted aggressive measures to reinforce its internal control, purchasing and marketing systems, conduct research and development of new products, enhance the leather yield, fortify its core competitive edges and avert the operating risks.

In respect of sales, at the beginning of the reporting period, the Group has established the sales strategy tilted towards direct selling to sizeable branded footwear manufacturers with the objectives of ensuring stable production and sales and averting the risks of trade receivables. During the first half of the year, the Group successfully boosted the cooperation with renowned footwear manufacturers. Leveraging on the input and stimulation brought by the cooperative partner, the Group looked to further expand its product market through the enhancement of its product style under research and development. The cooperation also allowed the Group to use effective market resources to secure the orders beforehand and to ensure the continuous production under orders. Furthermore, the Group's exposure to credit risks arising from industry reshuffle was significantly lowered through its cooperation with branded footwear manufacturers possessing strong asset quality. During the period, the Group maximised the transfer of rising costs of cowhides to the selling price of the finished leather in order to minimise the cost pressure caused by the rising cost of cowhides.

In respect of purchasing, the Group closely monitored the price movement of cowhides and accordingly adopted a prudent purchasing strategy. It also stringently implemented the supplier assessment system and the product assessment system to ensure the product quality. During the period, the Group proactively reinforced the management of chemical material purchasing to effectively lower the purchasing cost of the chemical materials, minimise the overstocking of chemical materials and prevent obsolescence. During the period, total purchases amounted to HK$301,281,000, representing an increase of 10.5% as compared to the same period of last year.

As at 30 June 2014, the Group's consolidated inventory amounted to HK$264,876,000 (31 December 2013: HK$276,049,000), representing a decrease of HK$11,173,000 or 4.0% over that of 31 December 2013. During the period, the Group effectively lowered the level of aged inventory to enhance liquidity through adjusting its production techniques in response to the inventory characteristics and developing products that meet the customers need.

Financial Review

As at 30 June 2014, the Group's cash and cash equivalents amounted to HK$53,360,000 (31 December 2013: HK$56,569,000), representing a decrease of HK$3,209,000 or 5.7% as compared to the same as at 31 December 2013, which were denominated in Hong Kong dollars (14.7%), Renminbi (84.6%) and United States dollars (0.7%), respectively. During the period, net cash inflow from operating activities was HK$15,862,000, which was mainly attributable to an increase in cash inflow as a result of an increase in interest-bearing bank borrowings and a decrease in inventory. The net cash outflow from investing activities was HK$18,584,000, which mainly represented an increase in pledged bank deposits and the expenditures for the acquisition of machinery and equipment.

As at 30 June 2014, the Group's interest-bearing borrowings amounted to HK$251,239,000 (31 December 2013: HK$199,751,000), 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$186,239,000. The Group's borrowings mainly consisted of: (1) balances of short-term loans provided by the bank of HK$108,860,000, which were secured by bank balances of RMB13,413,000; (2) balances of short-term unsecured intra-group borrowings 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 2014, the Group's gearing ratio of the interest-bearing borrowings to shareholders' equity plus interest-bearing borrowings was 41.8% (31 December 2013: 36.2%). During the period, the annual interest rate of the borrowings was approximately 2.3% to 3.8%. 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$2,716,000, representing a decrease of 12.7% from the same period of last year.

As at 30 June 2014, the total banking facilities of the Group was HK$503,920,000 (31 December 2013: HK$433,877,000), of which banking facilities of HK$108,860,000 (31 December 2013: HK$57,372,000) were utilised and banking facilities of HK$395,060,000 (31 December 2013: HK$376,505,000) 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 2014, the net value of non-current assets including prepaid land lease payments and, property, plant and equipment amounted to HK$121,034,000, representing a decrease of HK$400,000 over the net value as at 31 December 2013 of HK$121,434,000. The capital expenditure for the period amounted to HK$6,219,000 (six months ended 30 June 2013: HK$3,539,000), 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 2014, certain of the Group's bank balances with a total of HK$16,898,000 (31 December 2013: HK$4,618,000) 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 2014, a total of 629 employees (31 December 2013: 654) 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 insurance and provident fund to all employees in different areas. The Company has adopted a share option scheme in November 2008, with the purpose to provide incentives to the 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 2014, the footwear leather goods market is expected to remain stagnant with a continually declining overall demand. Coupled with more stringent requirements imposed by the State on different segments of the processing chain along the tannery industry, as well as increasingly strict environmental requirements imposed by the local governments, more new challenges are imminent for the tannery enterprises. The Group will continue to uphold its corporate culture of "pursuing honesty and strictness" in the implementation of the principles of "pragmatism, steady advancement and keeping a watchful eye on business opportunities" and strive to enhance its development strengths and proactively explore further development. The main tasks of the Group from now on are: establishing various systems, building hardware support, creating a team with solid foundations, attending to the details, and ensuring safe production. In the meantime, the Group will continue to strengthen its product research and development, strengthen its internal control and budget management, strengthen its product quality management, stabilise its customers, strengthen its core competitiveness, and achieve the predetermined operating targets, with a view to establish a solid foundation for the future development of the Group.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

The Company has complied with the applicable code provisions 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 2014.

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 2014. 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 2014.

By order of the Board
Chen Hong
Chairman

Hong Kong, 26 August 2014

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.