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Corporate Information

Board of Directors

Chen Hong (*Chairman*)
Sun Jun (*Managing Director*)
Liu Bing[#]
Ho Lam Lai Ping, Theresa[#]
Qiao Jiankang[#]
Fung Lak*
Choi Kam Fai, Thomas*
Chan Cheong Tat*

[#] *Non-Executive Director*

* *Independent Non-Executive Director*

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Share Registrar

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Share Information

Place of Listing : Main Board of The Stock Exchange
of Hong Kong Limited
Stock Code : 1058
Board Lot : 2,000 shares
Financial Year End : 31 December

Business and Financial Review

Results

The unaudited consolidated loss attributable to shareholders for the six months ended 30 June 2015 of Guangdong Tannery Limited (the “Company”) and its subsidiaries (collectively referred to as 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 of directors of the Company (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 analysed 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.

Business and Financial Review (Continued)

Business Review (Continued)

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.

Business and Financial Review (Continued)

Financial Review (Continued)

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.

Business and Financial Review (Continued)

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.

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 Guangdong Tannery Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 8 to 26, which comprises the condensed consolidated statement of financial position as at 30 June 2015 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

26 August 2015

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2015

| | Notes | For the six months ended 30 June | |
|-------------------------------------|-------|----------------------------------|---------------------------------|
| | | 2015 HK\$'000 (Unaudited) | 2014 HK\$'000 (Unaudited) |
| REVENUE | 3 | 341,901 | 320,072 |
| Cost of sales | | (334,266) | (300,814) |
| 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 | (4,875) | (2,716) |
| PROFIT/(LOSS) BEFORE TAX | 4 | (13,489) | 3,614 |
| Income tax credit/(expense) | 5 | 363 | (1,535) |
| PROFIT/(LOSS) FOR THE PERIOD | | (13,126) | 2,079 |
| EARNINGS/(LOSS) PER SHARE | 6 | | |
| — Basic | | HK(2.44) cents | HK0.39 cent |
| — Diluted | | HK(2.44) cents | HK0.39 cent |

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2015

| | For the six months ended 30 June | |
|---|-------------------------------------|---------------------------------|
| | 2015 HK\$'000 (Unaudited) | 2014 HK\$'000 (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) | 41 |
| | 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 | 158 | (4,702) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX | 910 | (4,826) |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD | (12,216) | (2,747) |

Condensed Consolidated Statement of Financial Position

30 June 2015

| | Notes | 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 | 10 | 97,239 | 135,838 |
| Due to a PRC joint venture partner | | 1,131 | 1,131 |
| Loans from the immediate holding company | 10, 11 | 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 | 10, 11 | 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 | 12 | 75,032 | 75,032 |
| Other reserves | 13 | 264,697 | 277,521 |
| Total equity | | 339,729 | 352,553 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015

| | Share capital HK\$'000 | Share premium account HK\$'000 | Equity component of convertible notes HK\$'000 | General reserve fund HK\$'000 | Reserve funds HK\$'000 | Share option reserve HK\$'000 | Capital redemption reserve HK\$'000 | Exchange translation reserve HK\$'000 | Property revaluation reserve HK\$'000 | Special capital reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|---------------------------|-----------------------------------|---|----------------------------------|---------------------------|----------------------------------|--|--|--|-------------------------------------|--------------------------------|-------------------|
| At 1 January 2014 (Audited) | 53,802 | 20,785 | 5,545 | 167,746 | 19,233 | 1,154 | 445 | 110,423 | 5,620 | 3,396 | (35,337) | 352,812 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 2,079 | 2,079 |
| Other comprehensive loss for the period: | | | | | | | | | | | | |
| Deficit on revaluation of buildings, net of tax | - | - | - | - | - | - | - | - | (124) | - | - | (124) |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | - | (4,702) | - | - | - | (4,702) |
| Total comprehensive loss for the period | - | - | - | - | - | - | - | (4,702) | (124) | - | 2,079 | (2,747) |
| Transfer to no-par value regime (note 13(c)) | 21,230 | (20,785) | - | - | - | - | (445) | - | - | - | - | - |
| Equity-settled share option arrangements | - | - | - | - | - | (637) | - | - | - | - | - | (637) |
| Transfer to accumulated losses in accordance with the undertaking (note 13(b)) | - | - | - | - | - | - | - | - | - | (338) | 338 | - |
| At 30 June 2014 (Unaudited) | 75,032 | -* | 5,545* | 167,746* | 19,233* | 517* | -* | 105,721* | 5,496* | 3,058* | (32,920)* | 349,428 |
| At 1 January 2015 (Audited) | 75,032 | - | 5,545 | 167,746 | 20,054 | 608 | - | 108,750 | 5,582 | 3,266 | (34,030) | 352,553 |
| Loss for the period | - | - | - | - | - | - | - | - | - | - | (13,126) | (13,126) |
| Other comprehensive income for the period: | | | | | | | | | | | | |
| Surplus on revaluation of buildings, net of tax | - | - | - | - | - | - | - | - | 752 | - | - | 752 |
| Exchange differences on translation of foreign operations | - | - | - | - | - | - | - | 158 | - | - | - | 158 |
| Total comprehensive loss for the period | - | - | - | - | - | - | - | 158 | 752 | - | (13,126) | (12,216) |
| Equity-settled share option arrangements | - | - | - | - | - | (608) | - | - | - | - | - | (608) |
| Transfer from accumulated losses in accordance with the undertaking (note 13(b)) | - | - | - | - | - | - | - | - | - | 14 | (14) | - |
| At 30 June 2015 (Unaudited) | 75,032 | -* | 5,545* | 167,746* | 20,054* | -* | -* | 108,908* | 6,334* | 3,280* | (47,170)* | 339,729 |

* These reserve accounts comprise the consolidated reserves of HK\$264,697,000 (30 June 2014: HK\$274,396,000) in the condensed consolidated statement of financial position as at 30 June 2015.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015

| | For the six months ended 30 June | |
|---|-------------------------------------|---------------------------------|
| | 2015 HK\$'000 (Unaudited) | 2014 HK\$'000 (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash from operations | 7,615 | 20,723 |
| Interest received | 60 | 72 |
| Interest paid | (3,948) | (2,716) |
| PRC tax refunded/(paid) | 854 | (2,217) |
| Net cash flows from operating activities | 4,581 | 15,862 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of items of property, plant and equipment | (10,350) | (6,219) |
| Decrease/(increase) in pledged bank balances | 13,016 | (12,365) |
| Net cash flows from/(used in) investing activities | 2,666 | (18,584) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents at beginning of period | 20,421 | 56,569 |
| Effect of foreign exchange rate changes, net | 21 | (487) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 27,689 | 53,360 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 27,689 | 53,360 |

Notes to Interim Condensed Consolidated Financial Information

30 June 2015

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.

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 interim condensed consolidated financial information.

Amendments to HKAS 19
Annual Improvements
2010–2012 Cycle
Annual Improvements
2011–2013 Cycle

Defined Benefit Plans: Employee Contributions
Amendments to a number of HKFRSs

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.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

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:

| | For the six months ended 30 June | |
|--------------------------------|-------------------------------------|---------------------------------|
| | 2015 HK\$'000 (Unaudited) | 2014 HK\$'000 (Unaudited) |
| Revenue | | |
| Processing and sale of leather | 341,901 | 320,072 |
| Other income and gains | | |
| Interest income | 60 | 72 |
| Sale of scrap materials | 1,027 | 1,838 |
| Government subsidies | 1,544 | 625 |
| Others | 325 | 108 |
| | 2,956 | 2,643 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

4. Profit/(Loss) Before Tax

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

| | For the six months ended 30 June | |
|--|----------------------------------|---------------------------------|
| | 2015 HK\$'000 (Unaudited) | 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 | 2,018 | 2,006 |
| | 4,875 | 2,716 |
| Reversal of provision for inventories | (1,032) | (2,222) |
| Write-back of impairment for trade and bills receivables | – | (632) |

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.

| | For the six months ended 30 June | |
|--|----------------------------------|---------------------------------|
| | 2015 HK\$'000 (Unaudited) | 2014 HK\$'000 (Unaudited) |
| Current — Mainland China | | |
| Charge for the period | – | 1,535 |
| Overprovision in prior years | (363) | – |
| Total tax charge/(credit) for the period | (363) | 1,535 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

6. Earnings/(Loss) Per Share

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

The calculation of diluted loss per share amounts for the period ended 30 June 2015 is based on the loss for the period. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during that period, as used in the basic loss 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.

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

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

| | For the six months ended 30 June | |
|---|--|--|
| | 2015 <i>HK\$'000</i> (Unaudited) | 2014 <i>HK\$'000</i> (Unaudited) |
| Earnings/(loss) | | |
| Profit/(loss) for the period, used in the basic and diluted earnings/(loss) per share calculations | (13,126) | 2,079 |
| | | |
| | Number of shares For the six months ended 30 June | |
| | 2015 (Unaudited) | 2014 (Unaudited) |
| Shares | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculation | 538,019,000 | 538,019,000 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Share options | 633,346 | — |
| Weighted average number of ordinary shares used in the diluted earnings/(loss) per share calculation | 538,652,346 | 538,019,000 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

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 to 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 receivable 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 | 73 | 73 |
| | 202,631 | 275,423 |
| Impairment | (183) | (183) |
| | 202,448 | 275,240 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

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 |
| | 76,922 | 97,718 |

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

10. Interest-Bearing Bank and Other Borrowings

| | 30 June 2015 (Unaudited) | | | 31 December 2014 (Audited) | | |
|---|--------------------------------------|----------|--------------------|--------------------------------------|----------|--------------------|
| | Effective interest rate (%) | Maturity | Amount HK\$'000 | Effective interest rate (%) | Maturity | Amount HK\$'000 |
| Current | | | | | | |
| Trust receipt loans, secured | 2.90–2.98 | 2015 | 97,239 | 2.93–3.10 | 2015 | 135,838 |
| Loans from the immediate holding company (note 11) | 2.77 | 2015 | 54,600 | 2.74–2.88 | 2015 | 142,379 |
| | | | 151,839 | | | 278,217 |
| Non-Current | | | | | | |
| Loans from the immediate holding company (note 11) | 2.77–2.89 | 2018 | 87,779 | – | – | – |

Note:

The Group's trust receipt loan facilities which are denominated in United States dollars and amounted to HK\$253,620,000 (31 December 2014: HK\$486,345,000) are secured by the pledge of certain of the Group's bank balances and supported by corporate guarantees executed by the Company. HK\$97,239,000 had been utilised at 30 June 2015 (31 December 2014: HK\$135,838,000).

Details of the pledge of assets are included in note 17 to the interim condensed consolidated financial information.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

11. Loans from the Immediate Holding Company

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

| <i>Notes</i> | 30 June 2015 HK\$'000 (Unaudited) | 31 December 2014 HK\$'000 (Audited) |
|--------------------|--|--|
| Current | | |
| (a) | – | 22,779 |
| (b) | – | 65,000 |
| (c) | 54,600 | 54,600 |
| | 54,600 | 142,379 |
| Non-current | | |
| (a) | 22,779 | – |
| (b) | 65,000 | – |
| | 87,779 | – |
| | 142,379 | 142,379 |

Notes:

- (a) The balance represents an unsecured loan of US\$2,920,000 (31 December 2014: US\$2,920,000), which bears interest at 3-month LIBOR + 2.5% (31 December 2014: 3-month LIBOR + 2.5%) and is repayable on 31 July 2018 (31 December 2014: repayable on 31 July 2015).
- (b) The balance represents an unsecured loan of HK\$65,000,000 (31 December 2014: HK\$65,000,000), which bears interest at 3-month HIBOR + 2.5% (31 December 2014: 3-month HIBOR + 2.5%) and is repayable on 9 August 2018 (31 December 2014: repayable on 9 August 2015).
- (c) The balance represents an unsecured loan of US\$7,000,000 (31 December 2014: US\$7,000,000), which bears interest at 3-month LIBOR + 2.5% (31 December 2014: 3-month LIBOR + 2.5%) and is repayable on 30 December 2015 (31 December 2014: repayable on 30 December 2015).

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

12. Share Capital

Share

| | 30 June 2015 HK\$'000 (Unaudited) | 31 December 2014 HK\$'000 (Audited) |
|---|--|--|
| Issued and fully paid: 538,019,000 (31 December 2014: 538,019,000) ordinary shares | 75,032 | 75,032 |

Share Option Scheme

On 24 November 2008, the Company adopted a share option scheme (the "2008 Scheme").

The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors who 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 of directors of the Company may approve from time to time. Eligible persons of the 2008 Scheme include the employees, officers or directors of the members 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 2015, there were 2,634,000 share options outstanding under the 2008 Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 2,634,000 additional ordinary shares of the Company and additional share capital of HK\$1,146,000 (before issue expenses).

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

13. Reserves

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

- (a) The general reserve fund of the Group is an undistributable reserve and may not be treated as realised profits.

On 25 November 1996, a court confirming the reduction of the share premium account by HK\$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the general reserve fund against which goodwill arising on the acquisition of a subsidiary was eliminated in the consolidated financial statements. In the year ended 31 December 2002, there was a release of goodwill of HK\$133,349,000 in respect of impairment of an investment in a subsidiary relating to the goodwill arising from acquisition of that subsidiary in 1996.

Pursuant to a special resolution passed in the Group's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of the Hong Kong Special Administrative Region of the PRC (the "Court") dated 2 March 1998, the share premium account was reduced by the amount of HK\$34,397,000 and, as undertaken by the Group, a general reserve fund was credited in the books of accounts of the Group in the same amount for the purpose of setting off, in the consolidated financial statements of the Group and its subsidiaries, goodwill arising on consolidation in 1997. In 2000 and 2001, there was a release of goodwill of HK\$12,478,000 and HK\$21,919,000, respectively, in respect of impairment of investments in subsidiaries relating to the goodwill arising from the acquisition of the subsidiaries in 1997.

- (b) On 1 February 2011, a special resolution was passed by the shareholders of the Company for approving the reduction in share premium of the Company (the "Share Premium Reduction"). The purpose of the Share Premium Reduction is to reduce the credit standing to the share premium account of the Company to the extent of HK\$393,345,845 and to apply the credit arising from such reduction to eliminate the accumulated losses of the Company by the same amount.

On 22 March 2011, the Court made an order (the "Order") confirming the Share Premium Reduction. An office copy of the Order was registered with the Registrar of the Companies on 29 March 2011 (the "Effective Date") in accordance with Section 61 of the Companies Ordinance. Accordingly, the Share Premium Reduction became effective immediately following the registration of the Order of the Court and the accumulated losses of the Company of HK\$393,345,845 were eliminated against the Company's share premium account.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

13. Reserves (Continued)

(b) (Continued)

In connection with the application for the Share Premium Reduction (the “Application”), the Company undertakes that in the event of the Company making any future recoveries of the assets identified in the Application for which provision for impairment in value or amortisation was made in the accounts of the Company between 31 December 2000 and 30 June 2010 (the “Assets”), beyond their written down values in the Company’s accounts as at 30 June 2010, all such recoveries beyond that written down values up to an amount of HK\$150,345,170 (the “Limit”), will be credited to a special capital reserve in the accounting records of the Company (the “Special Capital Reserve”) and that so long as there shall remain outstanding any debt of or claim against the Company which, if the Effective Date was the date of the commencement of the winding up of the Company, would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits for the purposes of ss291, 297 and 299 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong) and shall (for so long as the Company shall remain a listed company) be treated as an undistributable reserve of the Company for the purposes of ss290 and 298 of the new Companies Ordinance (Cap. 622 of the Laws of Hong Kong), or any statutory re-enactments or modifications thereof provided that:

- (1) the Company shall be at liberty to apply the Special Capital Reserve for the same purposes as a share premium account may be applied;
- (2) the Limit in respect of the Special Capital Reserve may be reduced by the amount of any increase, after the Effective Date, in the amount standing to the credit of the share premium account of the Company as the result of the paying up of shares by the receipt of new consideration or the capitalisation of distributable profits;
- (3) the Limit in respect of the Special Capital Reserve may be reduced upon the disposal or other realisation, after the Effective Date, of the Assets by the amount of the impairment in value and amortisation made in relation to such asset as at 30 June 2010 less such amount (if any) as is credited to the Special Capital Reserve as a result of such disposal or realisation; and
- (4) in the event that the amount standing to the credit of the Special Capital Reserve exceeds the Limit thereof after any reduction of such Limit pursuant to provisions (2) and/or (3) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

During the six months ended 30 June 2015, recovery of the Assets by way of release of provision was HK\$14,000. This resulted in a transfer of HK\$14,000 from accumulated losses to the Special Capital Reserve.

During the six months ended 30 June 2014, an additional provision for impairment of HK\$338,000 was made for the Assets. This resulted in a transfer of HK\$338,000 from Special Capital Reserve to the accumulated losses.

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

13. Reserves (Continued)

(b) (Continued)

The Limit as at 30 June 2015 was HK\$150,273,970 (31 December 2014: HK\$150,273,970) and the amount standing to the credit of the Group's Special Capital Reserve as at 30 June 2015 was HK\$3,280,000 (31 December 2014: HK\$3,266,000).

(c) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account has become part of the Company's share capital.

14. Financial Instruments

The carrying amounts of each of the categories of financial instruments as at 30 June 2015 are as follows:

Financial assets

| | 30 June 2015 | 31 December 2014 |
|---|----------------------------------|--------------------------|
| | Loans and receivables | Loans and receivables |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Trade and bills receivables | 202,448 | 275,240 |
| Financial assets included in deposits and other receivables | 3,641 | 2,928 |
| Pledged bank balances | 24,253 | 37,283 |
| Cash and bank balances | 27,689 | 20,421 |

Financial Liabilities

| | 30 June 2015 | 31 December 2014 |
|---|--|--|
| | Financial liabilities at amortised cost | Financial liabilities at amortised cost |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Trade payables | 76,922 | 97,718 |
| Financial liabilities included in other payables and accruals | 29,071 | 16,034 |
| 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 | 142,379 | 142,379 |

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

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

15. Commitments

| | 30 June 2015 HK\$'000 (Unaudited) | 31 December 2014 HK\$'000 (Audited) |
|-----------------------------------|--|--|
| Contracted, but not provided for: | | |
| Land and buildings | 1,521 | 1,707 |
| Leasehold improvements | 586 | 63 |
| Plant and machinery | 4,838 | 8,101 |
| | 6,945 | 9,871 |

16. Related Party Transactions

(a) Transactions with related parties

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

| | | For the six months ended 30 June | |
|---|--------------|---|---------------------------------|
| | <i>Notes</i> | 2015 HK\$'000 (Unaudited) | 2014 HK\$'000 (Unaudited) |
| Office rental paid to a fellow subsidiary | <i>(i)</i> | 246 | 231 |
| Interest expense to the immediate holding company | <i>(ii)</i> | 2,018 | 2,006 |
| Computer system maintenance service fees paid to the immediate holding company | <i>(iii)</i> | 67 | – |
| Electronic document maintenance service fees and data record cost paid to the immediate holding company | <i>(iv)</i> | 58 | – |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

16. Related Party Transactions (Continued)

(a) Transactions with related parties (Continued)

Notes:

- (i) The office rental was charged by a fellow subsidiary at HK\$40,960 per month during the period from 1 January 2015 to 30 June 2015 (period from 1 January 2014 to 5 February 2014: HK\$28,800 per month; period from 6 February 2014 to 30 June 2014: HK\$40,960 per month) in accordance with the terms of the rental agreement between the Group and a fellow subsidiary. As at 30 June 2015, the Group had a rental deposit of HK\$138,786 (31 December 2014: HK\$138,786) with a fellow subsidiary.
- (ii) The interest expense paid to the immediate holding company arose from the loans advanced from GDH. Further details of the loans, including the terms, are disclosed in note 11 to the financial statements.
- (iii) The immediate holding company charged computer system maintenance service fees at HK\$11,100 per month for the period ended 30 June 2015 (six months ended 30 June 2014: Nil) for the computer system used by the Group.
- (iv) The immediate holding company charged electronic document maintenance service fees and data record cost at HK\$9,675 per month for the period ended 30 June 2015 (six months ended 30 June 2014: Nil) for the services used by the Group.

(b) Commitments with related parties

On 29 November 2013, the Company entered into a three-year office rental agreement commencing 6 February 2014 and ending 5 February 2017 with Global Head Developments Limited, a fellow subsidiary of the Company. The total operating lease commitments due within one year and in the second to fifth years as at 30 June 2015 were approximately HK\$492,000 and HK\$294,000, respectively (31 December 2014: HK\$492,000 and HK\$540,000, respectively).

(c) Outstanding balances with related parties

Details of the loans from the immediate holding company as at the end of the reporting period are included in note 11 to the condensed consolidated financial information.

(d) Compensation of key management personnel of the Group

| | For the six months ended 30 June | |
|---|-------------------------------------|---------------------------------|
| | 2015 HK\$'000 (Unaudited) | 2014 HK\$'000 (Unaudited) |
| Short term employee benefits | 671 | 1,165 |
| Post-employment benefits | 149 | 144 |
| Forfeiture of equity-settled share options | (298) | (147) |
| Total compensation paid to key management personnel | 522 | 1,162 |

Notes to Interim Condensed Consolidated Financial Information (Continued)

30 June 2015

17. Pledge of Assets

As at 30 June 2015, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

| | 30 June 2015 HK\$'000 (Unaudited) | 31 December 2014 HK\$'000 (Audited) |
|---------------|--|--|
| Bank balances | 24,253 | 37,283 |

18. Approval of the Interim Financial Information

These unaudited interim condensed consolidated financial information were approved and authorised for issue by the Board on 26 August 2015.

Directors' Interests and Short Positions in Securities

As at 30 June 2015, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), were as follows:

(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> |
|--------------------------|-------------------------------------|--------------------------------------|------------------------|---|
| Sun Jun | Personal | 40,000 | Long position | 0.007% |
| Liu Bing | Personal | 10,000 | Long position | 0.002% |
| Ho Lam Lai Ping, Theresa | Personal | 200,000 | Long position | 0.037% |
| Fung Lak | Personal | 1,380,000 | Long position | 0.256% |
| Choi Kam Fai, Thomas | Personal | 60,000 | Long position | 0.011% |

Note: The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 30 June 2015.

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)

| Name of Director | Date of grant of share options (dd.mm.yyyy) | Number of share options | | | | | At 30 June 2015 | Total consideration paid for share options granted HK\$ | Exercise price of share options* HK\$ (per share) | Price of ordinary shares at date immediately before the exercise HK\$ (per share) | Price of ordinary shares at date immediately before the exercise HK\$ (per share) |
|------------------|--|-------------------------|-------------------|---------------------------|-----------------------------|------------------------------------|-----------------|--|---|---|---|
| | | At date of grant | At 1 January 2015 | Granted during the period | Exercised during the period | Cancelled/lapsed during the period | | | | | |
| Chen Hong | 14.07.2010 | 5,110,000 | 1,022,000 | - | - | - | 1,022,000 | - | 0.435 | 0.435 | - |
| Sun Jun | 14.07.2010 | 1,260,000 | 252,000 | - | - | - | 252,000 | - | 0.435 | 0.435 | - |
| Qiao Jiankang | 14.07.2010 | 1,780,000 | 356,000 | - | - | - | 356,000 | - | 0.435 | 0.435 | - |

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 five years and six months 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.

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 to the above share options granted pursuant to the share option scheme adopted by the Company on 24 November 2008 (the "2008 Scheme") (Continued):

- (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 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 share options were granted.

The price of the Company's ordinary shares disclosed as "at date 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 share options were exercised by each of the Directors of the Company 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 <i>(Note)</i> |
|--------------------------|-------------------------------------|--------------------------------------|------------------------|---|
| Ho Lam Lai Ping, Theresa | Personal | 502,400 | Long position | 0.008% |

Note: The approximate percentage of interests held was calculated on the basis of 6,255,048,341 ordinary shares of GDI in issue as at 30 June 2015.

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)

| Name of Director | Date of grant of share options (dd.mm.yyyy) | Number of share options | | | | | Total consideration paid for share options granted HK\$ | Exercise price of share options* HK\$ (per share) | Price of ordinary shares at date immediately before the exercise HK\$ (per share) | Price of ordinary shares at date immediately before the exercise HK\$ (per share) | |
|-----------------------------|--|-------------------------|-------------------|---------------------------|-----------------------------|------------------------------------|--|---|---|---|-----------------|
| | | At date of grant | At 1 January 2015 | Granted during the period | Exercised during the period | Cancelled/lapsed during the period | | | | | At 30 June 2015 |
| Ho Lam Lai Ping, Theresa | 22.01.2013 | 1,256,000 | 1,256,000 | - | 502,400 | - | 753,600 | - | 6.20 | 6.30 | 10.52 |

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

- The option period of all the share options is five years and six months from the date of grant.
- Any share option is only exercisable during the option period after it has become vested.
- 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% |

- 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.
- 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)

(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 (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 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 share options were granted.

The price of the ordinary shares of GDI disclosed as "at date 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 share options were exercised by each of the Directors of GDI or all other participants as an aggregate whole.

(III) Interests and Short Positions in Guangdong Land Holdings Limited ("GD Land")

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) |
| Ho Lam Lai Ping, Theresa | Personal | 398,000 | Long position | 0.023% |

Note: The approximate percentage of interests held was calculated on the basis of 1,711,536,850 ordinary shares of GD Land in issue as at 30 June 2015.

Save as disclosed above, as at 30 June 2015, to the knowledge of the Company, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time during the period was the Company or its holding companies, or any of its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Directors of the Company or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests

As at 30 June 2015, so far as is known to any Director or the chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

| Name of Shareholder | Capacity/nature of interests | Number of ordinary shares held | Long/short position | Approximate percentage of interests held <i>(Note 1)</i> |
|---|------------------------------------|--------------------------------|---------------------|---|
| 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) <i>(Note 2)</i> | Interest in controlled corporation | 383,820,000 | Long position | 71.34% |
| GDH Limited | Beneficial owner | 383,820,000 | Long position | 71.34% |

Notes:

1. The approximate percentage of interests held was calculated on the basis of 538,019,000 ordinary shares of the Company in issue as at 30 June 2015.
2. The attributable interest which 廣東粵海控股集團有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.

Save as disclosed above, as at 30 June 2015, so far as is known to any Director or the chief executive of the Company, there were no other persons (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Share Options of the Company

As at 30 June 2015, save as disclosed in the section of “Directors’ Interests and Short Positions in Securities” of this report, certain eligible persons of the Company (other than the Directors of the Company) 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 the Company. Further details are set out in note 12 to the interim condensed consolidated financial information and the detailed terms of the 2008 Scheme were disclosed in the annual report 2014 of the Company.

| Category of participants | Date of grant of share options (dd.mm.yyyy) | Number of share options | | | | | | Total consideration paid for share options granted 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 at date immediately before the exercise date** HK\$ (per share) |
|--------------------------|--|-------------------------|-------------------|---------------------------|-----------------------------|-------------------------------------|-----------------|--|---|--|--|
| | | At date of grant | At 1 January 2015 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | At 30 June 2015 | | | | |
| Senior Management | 14.07.2010 | 2,980,000 | 596,000 | - | - | - | 596,000 | - | 0.435 | 0.435 | - |
| Other participant | 14.07.2010 | 2,040,000 | 408,000 | - | - | - | 408,000 | - | 0.435 | 0.435 | - |

Note: Additional information regarding the above share options granted is set out in the “Notes to the above share options granted pursuant to the share option scheme adopted by the Company on 24 November 2008 (the “2008 Scheme”)” in the section headed “Directors’ Interests and Short Positions in Securities” of this report on pages 28 to 29.

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 Listing Rules throughout the six months ended 30 June 2015.

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. All Directors of the Company confirmed, upon specific enquiry by the Company, that they had complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2015.

Change in Directors' Information

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

Mr. Chan Cheong Tat retired as an independent non-executive director of Wasion Group Holdings Limited, a company whose shares are listed on the Hong Kong Stock Exchange, with effect from 15 May 2015.

Save for the above change in the directors' information during the period from 1 January 2015 to the date of this report as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Review of Interim Results

The Audit Committee of the Company 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 on the Hong Kong Stock Exchange during the six months ended 30 June 2015.

By order of the Board
Chen Hong
Chairman

Hong Kong, 26 August 2015