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 2010

The board of directors (the "Board") of Guangdong Tannery Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2010 together with comparative figures. The interim financial statements have not been audited, but have been reviewed by the Company's audit committee ("Audit Committee") and the auditors, Messrs. Ernst & Young.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010

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

CONDENSED CONSOLIDATED BALANCE SHEET
30 JUNE 2010

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

Notes:

(1) ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

.

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

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

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

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

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

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

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]

HKFRS 9	*Financial Instruments* [4]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation - Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

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

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 January 2013

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

(2) OPERATING SEGMENT INFORMATION

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

Information about a major customer

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

(3) REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Processing and sale of leather	**265,571**	182,797

Other income and gains		
Gross rental income	**183**	344
Interest income	**529**	663
Foreign exchange gains	**-**	103
Sale of scrap materials	**910**	495
Government subsidies	**3,347**	2,723
Gain on disposal of an investment property	**1,570**	-
Others	**925**	3,225
	7,464	7,553

(4) PROFIT/(LOSS) BEFORE TAX

This is arrived at after charging/(crediting):

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

(5) INCOME TAX

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group:		
Current - Mainland China	**7,720**	2,449
Deferred	**(2)**	(2)
Total tax charge for the period	**7,718**	2,447

(6) EARNINGS/(LOSS) PER SHARE

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

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

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

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings/(loss)		
Profit/(loss) for the periods, used in the basic earnings/(loss) per share calculations	**17,278**	(3,832)

	Number of shares	
	30 June	30 June
	2010	2009
	(Unaudited)	(Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) per share calculations	**537,619,000**	537,504,000

(7) DIVIDEND

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

(8) RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 30 June 2010, included in the Group's receivables, prepayments and deposits are trade and bills receivables with a net balance of HK$186,167,000 (31 December 2009: HK$162,157,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended for two to three months. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

(9) TRADE PAYABLES

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

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

(10) CONVERTIBLE NOTES

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

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

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

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

BUSINESS AND FINANCIAL REVIEW

Results

The unaudited consolidated profit attributable to shareholders for the six months ended 30 June 2010 of the Group was HK$17,278,000, representing an increase of HK$21,110,000 as compared to the loss of HK$3,832,000 for the same period of last year, achieving a turnaround in its results.

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

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

Business Review

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

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

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

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

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

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

Financial Review

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

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

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

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

Capital Expenditure

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

Pledge of Assets

As at 30 June 2010, certain of the Group’s bank balances with a total of HK$26,385,000 (31 December 2009: bank balances, plant and machinery with a total net book value of HK$16,208,000) were pledged to secure general banking facilities granted to the Group.

Risk of Exchange Rate

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, US dollars or Renminbi. During the period, the exchange rates of Hong Kong dollars and US dollars were relatively stable without causing any material risk of exchange rate; as to the appreciation of Renminbi, since the sales of the Group are settled in Renminbi, whereas the purchases are made in Renminbi and US dollars, the Group does not have material exposure to foreign exchange risk.

Remuneration Policy for Employees

As at 30 June 2010, a total of 926 employees (30 June 2009: 827) were employed by the Group. The remuneration policy is based on the Group’s operating results and the employees’ performance. The Group has adopted a performance-based evaluation scheme for its employees focusing on “accountability and performance”. The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group’s operating net cashflow and profits after tax calculated by various profit rankings and by applying a measure that links bonuses with the operating results of the Group and further taking into account of the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to the senior management to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Prospects

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code on Corporate Governance Practices

The Company has applied the principles and complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2010 except for the following:-

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

Model Code for Securities Transactions by Directors

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Review of Interim Results

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

Purchase, Sale and Redemption of the Company's Listed Securities

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

By order of the Board
Chen Hong
Chairman

Hong Kong, 27 August 2010

As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. Chen Hong and Mr. Sun Jun; three Non-Executive Directors, namely Mr. Xiong Guangyang, 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.