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粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

**DISCLOSEABLE AND
CONNECTED TRANSACTION**

The board of Directors wishes to announce that on 1 November, 2006, Team Up, the Company's wholly-owned subsidiary, has entered into the Sale and Purchase Agreement with GDAM No. 1 in respect of the sale of the Sale Share and the Sale Loan by Team Up to GDAM No. 1 for a total consideration of HK\$8.5 million. The Sale Share represents 100% of the issued share capital of Sun Perfect.

Based on the carrying value of the Sun Perfect Group in the accounts of the Group as at 30 June, 2006, the Group is expected to realise a gain of approximately HK\$12.3 million arising from the disposal on Completion. The net sale proceeds to be derived by Team Up from the Transaction will be used for the general working capital purposes of the Group.

GDAM No. 1 is a wholly-owned subsidiary of GDH, which is a substantial shareholder of the Company holding 71.56% of the issued share capital of the Company. Accordingly, GDAM No. 1 is a connected person of the Company under the Listing Rules. As the relevant percentage ratios in respect of the Transaction are more than 2.5% but less than 25%, the Transaction constitutes a discloseable and connected transaction of the Company. As the total consideration is less than HK\$10 million, the Transaction is only subject to reporting and announcement requirements and is exempted from independent

shareholders' approval under the Listing Rules. A circular providing further details on the Transaction will be dispatched to the shareholders of the Company as required under the Listing Rules.

The Directors have noted the recent increase in the price and volume of the shares of the Company and wish to state that they are not aware of any reasons for such increase. The Directors also confirm that there are no negotiations or agreements relating to intended acquisitions or realization which are discloseable under Rule 13.23 of the Listing Rules, neither are the Directors aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price sensitive nature, save for the Sale and Purchase Agreement and the information stated in this announcement.

THE SALE AND PURCHASE AGREEMENT

Date

1 November, 2006

Parties

- (1) Team Up as the vendor
- (2) GDAM No. 1 as the purchaser

Transaction

Team Up, the Company's wholly-owned subsidiary, agrees to sell and GDAM No. 1 agrees to purchase, at Completion, the Sale Share and the Sale Loan. The Sale and Purchase Agreement is unconditional. The Sale Share represents 100% of the issued share capital of Sun Perfect whose only asset is its 100% interest in Tongyuan Tannery. The Sale Loan represents the amount owed by Sun Perfect to Team Up and the amount as at the date of the Sale and Purchase Agreement was approximately HK\$124 million. At Completion, Sun Perfect will cease to be an indirect wholly-owned subsidiary of the Company and become an indirect wholly-owned subsidiary of GDH.

Under the Sale and Purchase Agreement, the total consideration payable by GDAM No. 1 in respect of the Sale Share and the Sale Loan is HK\$8.5 million. The total consideration is determined by having regard to, among other things, the unaudited negative net asset value of the Sun Perfect Group of HK\$4,566,000 as at 31 August, 2006, which has been determined on its carrying value in the Group's accounts. The total consideration is also determined by reference to the valuation of the Fixed Assets of the Sun Perfect Group as at 31 August, 2006. The appraised value of the Fixed Assets is approximately HK\$53,240,000, which is approximately HK\$10,978,000 over the book value of the Fixed Assets in the Group's accounts. The valuation was carried out by RHL Appraisal Ltd., an independent valuer appointed by the Company.

The total consideration also had regard to the full provisions made in the individual accounts of the relevant companies within the Group (including all original lenders of the Sale Loan) in respect of the Sale Loan. The full provisions were made in 2003 and they represent the amount expected to be unrecoverable in respect of the Sale Loan in view of the negative net asset position of Tongyuan Tannery. The total consideration as aforesaid represents a premium of 32.6% over the adjusted net asset value of the Sun Perfect Group as at 31 August, 2006, calculated by reference to the excess of the consideration of HK\$8,500,000 over the unaudited negative asset value of HK\$4,566,000 adjusted by the excess in the valuation of the Fixed Assets of HK\$10,978,000.

As a term of the Sale and Purchase Agreement, GDAM No. 1 has undertaken that it will not, and will procure that its group members (excluding the Group) will not, operate any business after Completion which competes or is likely to compete, directly or indirectly, with the Group's tannery business (any clearance and sale by Tongyuan Tannery after Completion of its existing stock however will not constitute such competing business).

The total consideration in respect of the Sale Share and the Sale Loan has been arrived at after arm's length negotiations between the parties. GDAM No. 1 will pay the consideration in cash at Completion as required under the Sale and Purchase Agreement.

REASONS FOR AND BENEFITS OF THE TRANSACTION

Tongyuan Tannery became the wholly-owned subsidiary of the Group since its incorporation in January 2003. Sun Perfect is the immediate holding company of Tongyuan Tannery and its only asset is Tongyuan Tannery. Tongyuan Tannery had been principally engaged in the processing and sale of cowhides and leather. It had been incurring losses in its operations and has become largely dormant in recent years. The net losses of Tongyuan Tannery before and after taxation for the years ended 31 December, 2004 and 31 December, 2005 were HK\$9,311,000 and HK\$12,746,000 respectively.

The Group is expected to realise a gain of approximately HK\$12.3 million arising from the disposal on Completion. The gain is calculated by reference to the difference between the consideration and the carrying value of the Sun Perfect Group in the accounts of the Group as at 30 June, 2006 together with the estimated expenses in respect of the Sale and Purchase Agreement. The net proceeds to be derived by Team Up from the Transaction will be used for the general working capital purposes of the Group.

DISCLOSEABLE AND CONNECTED TRANSACTION

GDAM No. 1 is a wholly-owned subsidiary of GDH, which is a substantial shareholder of the Company holding 71.56% of the issued share capital of the Company. Accordingly, it is a connected person of the Company under the Listing Rules. As the relevant percentage ratios in respect of the Transaction are more than 2.5% but less than 25%, the Transaction constitutes

a discloseable and connected transaction of the Company under Rules 14.08 and 14A.32 of the Listing Rules respectively. As the total consideration is less than HK\$10 million, the Transaction is only subject to reporting and announcement requirements and is exempted from independent shareholders' approval under the Listing Rules. A circular providing further details on the Transaction will be dispatched to the shareholders of the Company as required under the Listing Rules.

The Directors (including the independent non-executive Directors) are of the opinion that the Transaction has been entered into on normal commercial terms and on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

PRICE AND VOLUME MOVEMENTS

The Directors have noted the recent increase in the price and volume of the shares of the Company and wish to state that they are not aware of any reasons for such increase. The Directors also confirm that there are no negotiations or agreements relating to intended acquisitions or realization which are discloseable under Rule 13.23 of the Listing Rules, neither are the Directors aware of any matter discloseable under the general obligation imposed by Rule 13.09 of the Listing Rules, which is or may be of a price sensitive nature, save for the Sale and Purchase Agreement and the information stated in this announcement. The Directors individually and jointly accept responsibility for the accuracy of this statement.

GENERAL INFORMATION

The Group is principally engaged in the processing and sale of semi-finished and finished leather.

GDAM No. 1 and GDH are investment holding companies. GDH is the holding company of the Company, Guangdong Investment Limited, Kingway Brewery Holdings Limited and Guangnan (Holdings) Limited, the shares of all of which are listed on the Stock Exchange. GDH (together with its subsidiaries) is principally engaged in businesses including water distribution, electric power generation, toll roads and bridges, department stores, hotel operations, production, distribution and sale of beer, manufacturing and sale of tinsplates and related products, production and sale of malt, real estate development and investment. GDAM No. 1 will, upon Completion, become the holding company of the Sun Perfect Group.

DEFINITIONS

“Company”	Guangdong Tannery Limited, a company incorporated in Hong Kong, the shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the sale and purchase of the Sale Share and the Sale Loan to occur 7 days after the date of signing of the Sale and Purchase Agreement

“Directors”	directors of the Company
“Fixed Assets”	land and buildings, plant and machineries, and prepaid land cost
“GDAM No. 1”	Guangdong Assets Management (BVI) No. 1 Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of GDH
“GDH”	GDH Limited, a company incorporated in Hong Kong and the controlling shareholder of the Company
“Group”	Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Sale and Purchase Agreement”	an agreement dated 1 November, 2006 entered into between Team Up, GDAM No. 1 and Sun Perfect in respect of the sale of the Sale Share and the Sale Loan by Team Up to GDAM No. 1
“Sale Loan”	loan owed by Sun Perfect to Team Up, the amount as at the date of the Sale and Purchase Agreement was approximately HK\$124 million. The loan was originally advanced by companies within the Group to Tongyuan Tannery. As a result of debt assignments within the Group, the loan had become owed by Sun Perfect to Team Up (with a corresponding amount owed by Tongyuan Tannery to Sun Perfect)
“Sale Share”	1 ordinary share of Sun Perfect with the nominal value of HK\$1, being the entire issued share capital of Sun Perfect
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sun Perfect”	Sun Perfect Limited (揚盛有限公司), a company incorporated in Hong Kong on 15 June 2006 and a wholly-owned subsidiary of Team Up
“Sun Perfect Group”	Sun Perfect and Tongyuan Tannery
“Team Up”	Team Up Profits Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company

“Tongyuan Tannery”	佛山市南海區通遠皮革有限公司 (Foshan City Nanhai Tong Yuan Tanning Co. Ltd.), a company incorporated in the People’s Republic of China and a wholly-owned subsidiary of Sun Perfect
“Transaction”	the sale and purchase of the Sale Share and the Sale Loan for a total consideration of HK\$8.5 million on terms and conditions as set out in the Sale and Purchase Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By order of the board of Directors of
Guangdong Tannery Limited
Zhang Chunting
Chairman

Hong Kong, 1 November, 2006

As at the date of this announcement, the board of Directors comprises of two executive Directors, namely Mr. Zhang Chunting, Mr. Deng Rongjun, two non-executive Directors, namely Mr. Xiong Guangyang, Mrs. Ho Lam Lai Ping Theresa, and three independent non-executive Directors, namely, Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat.

“Please also refer to the published version of this announcement in China Daily.”