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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)

**CONNECTED TRANSACTION  
PROPOSED ISSUE OF HK\$61,500,000 CONVERTIBLE NOTE  
AND  
RESUMPTION OF TRADING**

Financial adviser to Guangdong Tannery Limited



On 11 July 2007, GDT entered into the Subscription Agreement with GDH in relation to the subscription of the Convertible Note in an aggregate principal amount of HK\$61,500,000.

As at the date of this announcement, GDH holds 375,100,000 GDT Shares, representing approximately 69.86% of the total existing issued share capital of GDT. As GDH is a substantial shareholder of GDT, it is a connected person of GDT for the purpose of the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder, including the creation and issue of the Convertible Note and the grant of the Special Mandate to satisfy the allotment and issue of the Conversion Shares, are subject to, among other matters, the approval of the Independent Shareholders by way of a poll at the extraordinary general meeting of GDT where GDH and its associates will abstain from voting.

Under the Subscription Agreement, GDT will issue the Conversion Shares to GDH upon the exercise of the conversion rights attached to the Convertible Note. Upon full conversion of the Convertible Note at the Initial Conversion Price, an aggregate of 32,368,421 Conversion Shares will be issued by GDT, representing approximately 6.03% of the issued share capital of GDT as at the date of this announcement and approximately 5.69% of the issued share capital of GDT as enlarged by the issue of the Conversion Shares. The Conversion Shares will rank *pari passu* with all the then existing issued GDT Shares. GDT will seek the grant of a Special Mandate from the GDT Shareholders at an extraordinary general meeting of GDT to allot and issue GDT Shares to satisfy the allotment and issue of the Conversion Shares.

A circular containing, among other things, details of the Subscription Agreement, a letter from the Independent Board Committee to the Independent Shareholders, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and the notice of the extraordinary general meeting of GDT will be despatched to the GDT Shareholders as soon as practicable.

At the request of GDT, trading in the GDT Shares was suspended with effect from 9:30 a.m. on 11 July 2007 pending the release of this announcement. An application has been made by GDT to the Stock Exchange for resumption of trading in the GDT Shares with effect from 9:30 a.m. on 12 July 2007.

## **SUBSCRIPTION OF THE CONVERTIBLE NOTE**

Pursuant to the Subscription Agreement, GDT agreed to issue and GDH agreed to subscribe for the Convertible Note at an aggregate principal amount of HK\$61,500,000. The principal terms of the Convertible Note are summarised below:

### **Parties to the Subscription Agreement**

Subscriber: GDH, being a substantial shareholder of GDT

Issuer: GDT

### **Principal terms of the Convertible Note**

Aggregate principal amount: HK\$61,500,000

Initial Conversion Price: The initial conversion price is HK\$1.90 per Conversion Share, which is subject to the usual anti-dilution adjustments, which will be certified by auditors or a relevant merchant bank approved by GDT and GDH, in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues.

The Initial Conversion Price of HK\$1.90 per Conversion Share represents:

- a premium of approximately 18.01% over the closing price of HK\$1.61 per GDT Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 33.80% over the average closing price of approximately HK\$1.42 per GDT Share as quoted on the Stock Exchange for the last 5 trading days up to and including the Last Trading Day;
- a premium of approximately 34.75% over the average closing price of approximately HK\$1.41 per GDT Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Trading Day; and
- a premium of approximately 400.00% to the audited net asset value per GDT Share of approximately HK\$0.38 as at 31 December 2006.

The Initial Conversion Price was determined after arm's length negotiation between GDH and GDT with reference to the recent performance of the GDT Share price.

Interest rate:	1% per annum, payable on a semi-annual basis
Maturity:	Three years from the date of issue of the Convertible Note
Yield-to-maturity:	3% per annum, which represents the annual rate of return anticipated on the Convertible Note if it is held until the maturity date
Redemption:	<p>Unless previously converted, GDT will redeem the Convertible Note on the maturity date at the redemption price of 106.23% of the principal amount of the Convertible Note outstanding</p> <p>In the event of the occurrence of any events of default, such as GDT fails to pay the interest and/or principal when due, or GDT and its subsidiaries becomes insolvent, or other usual events of default, etc., as specified in the conditions attached to the Convertible Note, the Note Subscriber may require GDT to redeem at all the outstanding and unconverted Convertible Note at an amount that generates a yield of 3% per annum from the date of issue of the Convertible Note to the date of default</p>
Transferability:	The Convertible Note is not transferable
Conversion period:	The Note Subscriber shall have the right to convert, on any business day commencing from the 7th day after the date of issue of the Convertible Note up to and including the date which is 7 days prior to the maturity date, the whole or any part (in an amount or integral multiple of HK\$3,800,000) of the principal amount of the Convertible Note into GDT Shares at the then prevailing conversion price
Conversion Shares:	Upon full conversion of the Convertible Note at the Initial Conversion Price, an aggregate of 32,368,421 Conversion Shares will be issued by GDT, representing approximately 6.03% of the existing issued share capital of GDT and approximately 5.69% of the issued share capital of GDT as enlarged by the issue of the Conversion Shares
Voting:	The Note Subscriber will not be entitled to receive notice of, attend or, vote, at any general meeting of GDT by reason only of it being a Note Subscriber
Listing:	No application will be made for the listing of the Convertible Note on the Stock Exchange or any other stock exchange. An application will be made by GDT for the listing of and permission to deal in the Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Note
Ranking:	The Conversion Shares to be issued as a result of the exercise of the conversion rights attaching to the Convertible Note will rank pari passu in all respects with all other GDT Shares in issue as at the date of issue of the Conversion Shares

## **Conditions of the Subscription Agreement**

Completion of the Subscription Agreement and payment under them is conditional on:

- (a) the Listing Committee of the Stock Exchange shall have granted (either unconditionally or subject only to conditions to which neither GDT nor the Note Subscriber shall reasonably object) listing of and permission to deal in the Conversion Shares; and
- (b) the Independent Shareholders shall have approved, by way of a poll, at an extraordinary general meeting the Subscription Agreement and the transactions contemplated hereunder (including, *inter alia*, the issue of the Convertible Note and the Special Mandate to satisfy the allotment and issue of the Conversion Shares upon the exercise of the Conversion Rights attaching thereto).

GDT undertakes to the Note Subscriber to use its reasonable endeavours to ensure that the conditions precedent are fulfilled as early as practicable and in any event not later than 31 December 2007 or such later date as the Subscriber and GDT may agree.

If the conditions precedent are not fulfilled on or before 31 December 2007 or such later date as may be agreed between the Subscriber and GDT, the Subscription Agreement will lapse and become null and void and the parties will be released from all obligations hereunder, save the liabilities for any antecedent breaches hereof.

## **Completion of the Note Subscription**

Completion of the Note Subscription is to take place on the day following the second business day after the conditions stated in the section headed “Conditions of the Subscription Agreement” above have been fulfilled or such later date as GDT and GDH may agree in writing.

## **Listing and ranking of Conversion Shares**

An application will be made by GDT to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares to be issued under the Subscription Agreement. The Conversion Shares, when fully paid, will rank *pari passu* in all respects with all the existing GDT Shares outstanding at the date of issue of the Conversion Shares.

## **REASONS FOR THE NOTE SUBSCRIPTION AND USE OF PROCEEDS**

GDH acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in the processing and sale of semi-finished and finished leather. In addition, it is the Group’s strategy to identify investment targets should appropriate opportunities arise.

The Directors consider that the Note Subscription represents an opportunity to raise capital for GDT to enhance the general working capital base and, to further strengthen the existing business of the Group. In all, the Directors are of the view that the entering into of the Subscription Agreement is in the interests of GDT and GDT Shareholders as a whole and that their terms are fair and reasonable.

The aggregate gross amount to be raised under the Subscription Agreement will be HK\$61,500,000. After deduction of the relevant cost for the transactions contemplated under the Subscription Agreement, the net proceeds are expected to be approximately HK\$60,770,000. The Directors intend to apply the net proceeds as general working capital for the Group in light of increase in production capacity.

## SHAREHOLDING STRUCTURE

The shareholding structure of GDT (i) as at the date of the Subscription Agreement; and (ii) upon completion of the Subscription Agreement and assuming full conversion of the Convertible Note by GDH at the Initial Conversion Price are set out as follows:

Shareholders	(i) Shareholding as at the date of the Subscription Agreement		(ii) Shareholding immediately upon completion of the Subscription Agreement and assuming full conversion of the Convertible Note at the Initial Conversion Price	
		%		%
GDH — existing Shares	375,100,000	69.86	375,100,000	65.89
— Conversion Shares	—	—	32,368,421	5.69
Sub-total	<u>375,100,000</u>	<u>69.86</u>	<u>407,468,421</u>	<u>71.58</u>
Public	<u>161,804,000</u>	<u>30.14</u>	<u>161,804,000</u>	<u>28.42</u>
Total	<u>536,904,000</u>	<u>100.00</u>	<u>569,272,421</u>	<u>100.00</u>

## FUND RAISING ACTIVITIES OF GDT IN THE PAST 12 MONTHS IMMEDIATELY BEFORE THE DATE OF THIS ANNOUNCEMENT

GDT has not conducted any fund raising activities in the past 12 months immediately before the date of this announcement.

## PROPOSED GRANT OF SPECIAL MANDATE TO ISSUE GDT SHARES

Under the Subscription Agreement, GDT will issue the Conversion Shares to GDH upon the exercise of the conversion rights attached to the Convertible Note. Upon full conversion of the Convertible Note at the Initial Conversion Price, an aggregate of 32,368,421 Conversion Shares will be issued by GDT, representing approximately 6.03% of the issued share capital of GDT as at the date of this announcement and approximately 5.69% of the issued share capital of GDT as enlarged by the issue of the Conversion Shares. The Conversion Shares will rank *pari passu* with all the then existing issued GDT Shares. GDT will seek the grant of a Special Mandate from the GDT Shareholders at an extraordinary general meeting of GDT by way of a poll to allot and issue GDT Shares to satisfy the allotment and issue of the Conversion Shares.

## IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, GDH holds 375,100,000 GDT Shares, representing approximately 69.86% of the total existing issued share capital of GDT. As GDH is a substantial shareholder of GDT, it is a connected person of GDT for the purpose of the Listing Rules. Accordingly, the Subscription Agreement and the transactions contemplated thereunder, including the creation and issue of the Convertible Note and the grant of the Special Mandate to satisfy the allotment and issue of the Conversion Shares, are subject to, among other matters, the approval of the Independent Shareholders by way of a poll at an extraordinary general meeting of GDT where GDH and its associates will abstain from voting. A circular containing, among other things, details of the Subscription Agreement, a letter from the Independent Board Committee to the Independent Shareholders of GDT and a letter of advice

from the independent financial adviser to the Independent Board Committee and the Independent Shareholders of GDT and the notice of the extraordinary general meeting of GDT will be despatched to the GDT Shareholders as soon as practicable.

## **RESUMPTION OF TRADING**

At the request of GDT, trading in the GDT Shares was suspended with effect from 9:30 a.m. on 11 July 2007 pending the release of this announcement. An application has been made by GDT to the Stock Exchange for resumption of trading in the GDT Shares with effect from 9:30 a.m. on 12 July 2007.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:-

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Convertible Note”	a convertible note with an aggregate principal amount of HK\$61,500,000 to be issued to the Note Subscriber pursuant to the Subscription Agreement. The Convertible Note will, subject to the conditions as attached to the Convertible Note, entitle the holder thereof to convert the principal amount outstanding into Conversion Shares at the Initial Conversion Price (subject to adjustments)
“Conversion Shares”	GDT Shares which may fall to be issued by GDT to GDH upon the exercise of the conversion rights attached to the Convertible Note
“Directors”	the directors of GDT
“GDH”	GDH Limited, a company incorporated in Hong Kong and a substantial shareholder of GDT, a Note Subscriber of the Convertible Note in the principal amount of HK\$61,500,000
“GDT”	Guangdong Tannery Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange
“GDT Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of GDT
“GDT Shareholders”	the holders of the GDT Share(s)
“Group”	GDT and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	the independent board committee of GDT comprising the independent non-executive directors to be formed to advise the Independent Shareholders of GDT in respect of the Subscription Agreement
“Independent Shareholders”	shareholders of GDT other than GDH and its associates



“Initial Conversion Price”	the initial conversion price of HK\$1.90 per Conversion Share (subject to adjustments) under the terms and the conditions of the Convertible Note
“Last Trading Day”	10 July 2007, being the last trading day of the GDT Shares immediately before trading in the GDT Shares was suspended pending the release of this announcement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Note Subscriber”	the subscriber under the Subscription Agreement
“Note Subscription”	subscription of the Convertible Note by GDH on the terms and conditions of the Subscription Agreement
“PRC”	the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Special Mandate”	a special mandate to allot and issue shares to be sought from the GDT shareholders at an extraordinary general meeting by way of a poll to satisfy any shares which fall to be allotted and issued upon conversion of the Convertible Note
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	a conditional subscription agreement dated 11 July 2007 entered into between GDT and GDH in relation to the Note Subscription, subject to the terms and conditions contained therein
“subsidiary”	has the meaning ascribed to it under the Companies Ordinance (Chapter 32 of The Laws of Hong Kong)
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“%”	per cent

By order of the Board of  
**Guangdong Tannery Limited**  
**Zhang Chunting**  
*Chairman*

Hong Kong, 11 July 2007

*As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. Zhang Chunting and Mr. Deng Rongjun; three Non-Executive Directors, namely Mr. Zhang Yaping, Mr. Xiong Guangyang and 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.*