

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Guangdong Tannery Limited, you should at once hand this circular and the accompany form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Kingsway Group

Kingsway Capital Limited

A letter from the Independent Board Committee of Guangdong Tannery Limited and a letter from Kingsway Capital Limited, the Independent Financial Adviser containing its recommendation and advice are set out on pages 12 to 13 and 14 to 24 of this circular, respectively.

A notice convening an extraordinary general meeting of Guangdong Tannery Limited to be held at The Boardroom, Basement II, The Wharney Guang Dong Hotel Hong Kong, No. 57-73 Lockhart Road, Wanchai, Hong Kong on Wednesday, 8 August 2007 at 10:00 a.m. is set out on pages 30 to 31 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed with this circular. If you are not able to attend the extraordinary general meeting or any adjourned meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and deposit the same with Tengis Limited, the share registrar and share transfer office of Guangdong Tannery Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting or meetings should you so desire.

23 July 2007

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	12
Letter from the Independent Financial Adviser	14
Appendix — General information	25
Notice of EGM	30

DEFINITIONS

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

“Announcement”	the announcement dated 11 July 2007 made by GDT in relation to the proposed issue of the Convertible Note
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Business Day”	any day other than a Saturday or Sunday on which banks in Hong Kong are generally open for business
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Convertible Note”	the 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
“EGM”	the extraordinary general meeting of GDT to be held at The Boardroom, Basement II, The Wharney Guang Dong Hotel Hong Kong, No. 57-73 Lockhart Road, Wanchai, Hong Kong on Wednesday, 8 August 2007 at 10:00 a.m. for the purpose of considering, and if thought fit, approving the execution of the Subscription Agreement and the transactions contemplated thereunder and the grant of the Special Mandate
“GDH”	GDH Limited, a company incorporated in Hong Kong with limited liability and a substantial shareholder of GDT, being the Note Subscriber of the Convertible Note with an aggregate principal amount of HK\$61,500,000
“GDI”	Guangdong Investment 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, and a subsidiary of GDH

DEFINITIONS

“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 all the independent non-executive directors being Mr. Fung Lak, Mr. Choi Kam Fai Thomas and Mr. Chan Cheong Tat to advise the Independent Shareholders in relation to the Subscription Agreement and transactions contemplated thereunder
“Independent Financial Adviser”	Kingsway Capital Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	GDT Shareholders 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 conditions of the Convertible Note
“Kingway”	Kingway Brewery Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange, and a subsidiary of GDH
“Latest Practicable Date”	19 July 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Last Trading Day”	10 July 2007, being the last trading day of the GDT Shares immediately before trading in the GDT Shares was suspended before the issue of the Announcement

DEFINITIONS

“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
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Option Scheme”	the share option scheme adopted by GDT on 31 May 2002
“Special Mandate”	a special mandate to allot and issue shares to be sought from the GDT Shareholders at the EGM 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 thereto in the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“US\$”	the lawful currency of the United States of America
“%”	per cent

LETTER FROM THE BOARD



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

Executive Directors:

Mr. Zhang Chunting (*Chairman*)
Mr. Deng Rongjun (*Managing Director*)

Non-executive Directors:

Mr. Zhang Yaping
Mr. Xiong Guangyang
Mrs. Ho Lam Lai Ping Theresa

Independent non-executive Directors:

Mr. Fung Lak
Mr. Choi Kam Fai Thomas
Mr. Chan Cheong Tat

Registered office:

29th Floor
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

23 July 2007

To the GDT Shareholders

Dear Sir and Madam,

CONNECTED TRANSACTION

PROPOSED ISSUE OF HK\$61,500,000 CONVERTIBLE NOTE

INTRODUCTION

GDT made the Announcement in relation to its proposed issue of Convertible Note in an aggregate principal amount of HK\$61,500,000 to GDH on 11 July 2007.

As at the Latest Practicable Date, GDH held 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 EGM where GDH and its associates will abstain from voting.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, details of the Subscription Agreement, notice of the EGM, a letter from the Independent Board Committee to the Independent Shareholders and a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

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;

LETTER FROM THE BOARD

- 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;
- 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; and
- a premium of approximately 38.69% over the closing price of HK\$1.37 per GDT Share as quoted on the Stock Exchange on the Latest Practicable Date.

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

Interest rate:	1% per annum, payable on a semi-annual basis.
Maturity:	Three years from the date of issue of the Convertible Note (the "Maturity").
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.
Redemption:	Unless converted previously, GDT will redeem the Convertible Note on Maturity at the redemption price of 106.23% of the principal amount of the Convertible Note outstanding.
	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 become 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 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.
Transferability:	The Convertible Note is not transferable.

LETTER FROM THE BOARD

- 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 Maturity, 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 as at the Latest Practicable Date 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

LETTER FROM THE BOARD

- (b) the Independent Shareholders shall have approved, by way of a poll, at the EGM the Subscription Agreement and the transactions contemplated thereunder (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 Note 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 Note 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. As at the Latest Practicable Date, none of the conditions have been fulfilled.

Completion of the Note Subscription

Completion of the Note Subscription is to be taken 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. Accordingly, payment for the Convertible Note will be made by GDH upon completion of the Note Subscription.

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 its terms are fair and reasonable.

LETTER FROM THE BOARD

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 Latest Practicable Date; 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 Latest Practicable Date	%	(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
	375,100,000	69.86	407,468,421	71.58
Sub-total				
Public	161,804,000	30.14	161,804,000	28.42
	161,804,000	30.14	161,804,000	28.42
Total	536,904,000	100.00	569,272,421	100.00

FUND RAISING ACTIVITIES OF GDT IN THE PAST 12 MONTHS IMMEDIATELY BEFORE THE LATEST PRACTICABLE DATE

GDT has not conducted any fund raising activities in the past 12 months immediately before the Latest Practicable Date.

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 Latest Practicable Date and approximately 5.69% of the issued share capital of GDT as

LETTER FROM THE BOARD

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 the EGM 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 Latest Practicable Date, GDH held 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 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 EGM where GDH and its associates will abstain from voting.

EGM

A notice convening the EGM which will be held at The Boardroom, Basement II, The Wharney Guang Dong Hotel Hong Kong, No. 57-73 Lockhart Road, Wanchai, Hong Kong on Wednesday, 8 August 2007 at 10:00 a.m. for the purpose of considering and, if thought fit, among other things, passing the ordinary resolution to be proposed to approve the Subscription Agreement and the transactions contemplated thereunder and the grant of Special Mandate, by way of a poll, is set out in pages 30 to 31 of this circular.

A form of proxy for use at the EGM is also enclosed with this circular. If you are not able to attend the EGM or any adjourned meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and deposit the same to Tengis Limited, the share registrar and share transfer office of GDT, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting or meetings should you so desire.

PROCEDURE TO DEMAND A POLL

As the Note Subscription constitutes a connected transaction of GDT, the resolution for approving the Subscription Agreement and the transactions contemplated thereunder will be taken by way of a poll at the EGM whereby only the Independent Shareholders will be permitted to vote.

LETTER FROM THE BOARD

Pursuant to the articles of association of GDT, at any general meeting a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on withdrawal of any other demand for a poll) a poll is duly demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three shareholders present in person (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and entitled to vote; or
- (c) by any shareholder or shareholders present in person (or in the case of a shareholder being a corporation, by its duly authorised representative) or by proxy and representing in aggregate not less than one-tenth of the total voting rights of all the shareholders having the right to attend and vote at the meeting; or
- (d) by any shareholder or shareholders present in person (or in the case of a shareholder being a corporation by its duly authorised representative) or by proxy and holding shares in GDT conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 12 to 13 of this circular which contains its recommendation to the Independent Shareholders. Your attention is also drawn to the letter of advice from the Independent Financial Adviser as set out on pages 14 to 24 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

Taking into consideration the advice from the Independent Financial Adviser, the Independent Board Committee considers that the entering into of the Subscription Agreement is in the interests of GDT and GDT Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve 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.

Yours faithfully,
By Order of the Board
Guangdong Tannery Limited
Zhang Chunting
Chairman



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

23 July 2007

To the Independent Shareholders

Dear Sir and Madam,

CONNECTED TRANSACTION

PROPOSED ISSUE OF HK\$61,500,000 CONVERTIBLE NOTE

We refer to the circular of GDT dated 23 July 2007 (the “Circular”) to the GDT Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed as the Independent Board Committee to consider the terms of the Subscription Agreement and to advise you as to whether, in our opinion, such terms as a whole are fair and reasonable so far as the Independent Shareholders are concerned and whether the entering into of the Subscription Agreement is in the interests of GDT and GDT Shareholders as a whole.

Kingsway Capital Limited has been appointed as the Independent Financial Adviser to advise us and you regarding the Subscription Agreement and the transactions contemplated thereunder. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 14 to 24 of the Circular. Your attention is also drawn to the Letter from the Board and the additional information set out in the appendix to the Circular.

Having considered the terms of the Subscription Agreement together with the advice of the Independent Financial Adviser, we consider that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned and that the entering into of the Subscription Agreement is in the interests of GDT and GDT Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve 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.

Yours faithfully,

Independent Board Committee

Fung Lak

*Independent non-executive
Director*

Choi Kam Fai Thomas

*Independent non-executive
Director*

Chan Cheong Tat

*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, prepared for incorporation in this circular.



5/F, Hutchison House,
10 Harcourt Road,
Central,
Hong Kong

23 July 2007

To: *The Independent Board Committee and
the Independent Shareholders*

CONNECTED TRANSACTION

PROPOSED ISSUE OF HK\$61,500,000 CONVERTIBLE NOTE

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement, particulars of which are set out in the “Letter from the Board” (the “Letter from the Board”) contained in the circular issued by GDT to the GDT Shareholders dated 23 July 2007 (the “Circular”), of which this letter forms part. Our role as the independent financial adviser is to give our opinion as to whether the terms of the Subscription Agreement are fair and reasonable and in the interests of GDT and the GDT Shareholders as a whole. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the terms of the Subscription Agreement are fair and reasonable and in the interests of GDT and the GDT Shareholders as a whole.

As GDH is a substantial shareholder of GDT, it is a connected person of GDT for the purpose of the Listing Rules. As such, GDH and its respective associates will abstain from voting on the resolution approving the Subscription Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In putting forth our view and recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the information and representations provided to us by the Directors, which the Directors consider to be complete and relevant.

We have also relied on the information and representations contained in the Circular and have assumed that all statements of belief, opinion and intention made by the Directors in the Circular were true, accurate and complete at the time they were made and continue to be true and accurate on the date of the Circular. We have assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular.

We have not, however, carried out any independent verification of the information provided by the management of GDT and the Directors, nor have we conducted any independent investigation into the business and affairs of the Group, GDH and its subsidiaries.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription Agreement, we have considered the principal factors and reasons set out below:

Background to, reasons for and benefit of the Subscription Agreement

The PRC is one of the largest leather goods producers in the world. According to the China Leather Industry Association, the PRC's export of main commodities in leather industry in 2006 amounted to approximately US\$23.32 billion, representing a growth of approximately 2.4% when compared with that in 2005. The export of leather shoes among the leather commodities category recorded a growth of approximately 8.8%. According to the statistics released by the China Customs in July 2007, the export of footwear amounted to approximately US\$11.96 billion in the first half of 2007, representing a growth of approximately 17.2% when compared with that in the corresponding period in 2006. In addition, as announced by the National Bureau of Statistics of China, the monthly growth rate and the cumulative growth rate of value-added in the industry of manufacturing of leather, fur, feather and its products in the PRC was approximately 18% and 15.8% respectively in May 2007.

The Group is principally engaged in the processing and sale of semi-finished and finished leather. As set out in its 2006 annual results announcement and advised by the Directors, the PRC leather industry is facing surging prices of raw materials, stringent environmental protection policies in the PRC and anti-dumping investigations initiated by the European Union in July 2005 on the leather-made footwear exported from the PRC. In addition, the Group is facing bottleneck constraint in its upstream production processes. Despite these unfavourable factors, the Group strives for survival and development through the implementation of large-scale operation and outsourcing of upstream production processes. As such, in the midst of the aforesaid difficulties,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Group recorded a year-on-year revenue growth of approximately 62.4% in 2006. Further, as set out in the Letter from the Board, it is the Group's strategy to identify investment targets should appropriate opportunities arise.

As stated in the 2006 annual report of GDT, the Group had cash and cash equivalents of approximately HK\$41.54 million and pledged bank balances of approximately HK\$12.89 million as at 31 December 2006. The Group recorded a net decrease in cash and cash equivalents of approximately HK\$17.34 million for the year ended 31 December 2006, which was mainly due to net cash outflow from operating and investing activities of approximately HK\$27.58 million and HK\$8.01 million respectively, and was partly offset by net cash inflow from financing activities of approximately HK\$18.25 million, comprising mainly new bank loan. As advised by the Directors, the increase in cash outflow from operating activities was mainly due to the Group's forward-looking purchase strategy on a mass scale of raw materials to maintain the Group's production and minimize the effect of rise in prices of raw materials. As set out in the Letter from the Board, GDT has not conducted any fund raising activities in the past 12 months immediately before the Latest Practicable Date. In view of the cash position of the Group, the Directors consider that the Note Subscription represents an opportunity for the Group to raise capital to enhance its general working capital base and to further strengthen the existing business of the Group.

Taking into account (i) the environment of leather industry in the PRC and (ii) the cash position of the Group, we concur with the Directors' view that the entering into of the Subscription Agreement is in the interests of GDT and the GDT Shareholders as a whole.

Alternative financing methods

The management of GDT advised that they have considered alternative debt or equity financing methods such as bank borrowings, rights issue and share placement. However, taking into account that (i) certain assets of the Group have been pledged to obtain the current banking facilities in the PRC; (ii) the interest rate of the secured bank borrowings obtained by the Group for the year ended 31 December 2006 ranged from 5.54% to 6.51% per annum and thus is substantially higher than 1% interest rate per annum of the Convertible Note; (iii) it normally takes longer time to complete a rights issue than the issue of convertible note; and (iv) the immediate dilution effect resulting from a share placement, the Directors consider it more flexible and cost efficient to enlarge the capital base and strengthen the financial position of the Group for future growth and development through the issue of the Convertible Note.

Taking into account of the aforesaid, we concur with the Directors' view that the issue of the Convertible Note is more flexible and cost efficient than other debt and equity financing methods to enlarge the capital base and strengthen the financial position of the Group for future growth and development.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Principal terms of the Subscription Agreement

On 11 July 2007, GDT entered into the Subscription Agreement with GDH in respect of the proposed issue of the Convertible Note in an aggregate principal amount of HK\$61,500,000 to GDH, particulars of which are detailed in the Letter from the Board and are briefly summarized below.

Issuer : GDT

Subscriber : GDH, being a substantial shareholder of GDT

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

Initial Conversion Price: : As set out in the Letter from the Board, the Initial Conversion Price was determined on an arm's length negotiation between GDH and GDT with reference to the recent price performance of the GDT Share. The Initial Conversion Price is subject to 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;
- a premium of approximately 38.69% over the closing price of HK\$1.37 per GDT Share as quoted on the Stock Exchange on the Latest Practicable Date; 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- Interest rate : 1% per annum payable on a semi-annual basis
- Maturity : Three years from the date of issue of the Convertible Note (“Maturity”)
- Yield-to-maturity : 3% per annum which represents the annual rate of return anticipated on the Convertible Note if it is held to Maturity
- Redemption : Unless previously converted, GDT will redeem the Convertible Note on Maturity at the redemption price of 106.23% of the principal amount of the Convertible Note outstanding.

In the event of the occurrence of any events of default as set out in the Letter from the Board, the Note Subscriber may require GDT to redeem at all 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.

- 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 Maturity, the whole or any part (in an amount or integral multiple of HK\$3.8 million) 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

Comparison

In order to assess the fairness and reasonableness of the terms of the Convertible Note, we have made reference to the convertible notes/bonds issued by listed companies on the main board of the Stock Exchange during the period from 1 April 2007 to the Last Trading Day (the “Review Period”). To the best of our knowledge, we have identified the following listed companies which have entered into agreements in relation to the issue of convertible notes/bonds during the Review Period (the “Comparables”):

Date of announcement	Stock code	Issuer	Principal amount	Interest rate (per annum) %	Maturity years	Conversion Price HK\$	Premium over/ (discount) to			Redemption upon maturity %
							last trading day %	5-day average %	10-day average %	
10-Apr-07	120	Cosmopolitan International Holdings Limited	HK\$205 million	0	3	0.21	(12.39)	n.a.	(9.29)	115.97
11-Apr-07	397	Hong Kong Health Check and Laboratory Holdings Company Limited	HK\$750 million	2	4	0.25	10.62	6.47	20.60	100.00
17-Apr-07	386	China Petroleum & Chemical Corporation	HK\$11,700 million	0	7	10.76	n.a.	n.a.	n.a.	121.07
4-May-07	917	New World China Land Limited	RMB2,500 - 2,800 million	0	5	8.04	36.10	42.70	46.40	103.81
8-May-07	621	Wing Hing International (Holdings) Limited	HK\$15 million	1	2	1.50	6.38	(0.79)	n.a.	105.00
9-May-07	859	Henry Group Holdings Limited	HK\$129.11 million	1.68	5	0.98	(2.97)	0.00	10.11	100.00
10-May-07	3900	Greentown China Holdings Limited	RMB2,310 million	5	5	22.14	41.00	40.00	n.a.	105.64
11-May-07	1172	Midas International Holdings Limited	HK\$49.5 million	1.5	4	0.45	12.50	16.30	17.20	100.00
11-May-07	493	Gome Electrical Appliances Holding Limited	RMB4,600 million	0	7	19.95	40.00	54.00	59.00	105.38
15-May-07	17	New World Development Company Limited	HK\$6,000 million	0	7	26.78	35.00	n.a.	n.a.	128.37
16-May-07	227	First Shanghai Investments Limited	HK\$31.86 million	1	2	1.32	(0.75)	15.60	18.39	n.a.
16-May-07	851	MAE Holdings Limited	HK\$51.6 million	Not less than 5%	5	0.12	(90.00)	n.a.	(86.00)	100.00
17-May-07	2005	Lijun International Pharmaceutical (Holding) Co., Ltd.	RMB160 million	0	3	4.15	2.98	11.50	13.26	121.15
21-May-07	1070	TCL Multimedia Technology Holdings Limited	US\$140 million	4.5	5	0.40	(27.27)	(30.31)	(32.32)	137.50
21-May-07	182	Hong Kong Pharmaceutical Holdings Limited	HK\$100 million	1	5	0.10	(85.30)	n.a.	(80.90)	100.00
28-May-07	850	Wing Shing International Holdings Limited	HK\$200 million	0.5	5	0.79	12.47	n.a.	n.a.	128.33
26-Jun-07	2362	Signal Media and Communications Holdings Limited	HK\$1,464 million	0	5	0.18	(33.30)	(31.00)	n.a.	100.00
28-Jun-07	526	Magician Industries (Holdings) Limited	HK\$26 million	0	1.5	0.15	(50.00)	(51.60)	n.a.	110.00
28-Jun-07	1141	Xin Corporation Limited	HK\$100 million	0	2	0.28	(12.50)	n.a.	(12.50)	100.00
3-Jul-07	64	Get Nice Holdings Limited	HK\$100 million	5	3	0.92	5.00	n.a.	6.20	100.00

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of announcement	Stock code	Issuer	Principal amount	Interest rate (per annum) %	Maturity years	Conversion Price HK\$	Premium over/ (discount) to			Redemption upon maturity %
							last trading day %	5-day average %	10-day average %	
3-Jul-07	75	Y.T. Realty Group Limited	HK\$300 million	0	3	1.90	12.43	12.83	11.76	100.00
4-Jul-07	379	PME Group Limited	HK\$618.6 million	8	3	1.10	(35.67)	0.36	n.a.	n.a.
5-Jul-07	329	Golden Dragon Group (Holdings) Limited	HK\$151 million	2.5	5	1.59	n.a.	n.a.	n.a.	162.61
6-Jul-07	202	Interchina Holdings Company Limited	HK\$650 million	3	5	0.10	(32.89)	(23.31)	(20.38)	n.a.
9-Jul-07	476	China Elegance (Holdings) Limited	HK\$70 million	0	2	0.40	(19.19)	(13.79)	(13.51)	104.00
9-Jul-07	82	Vodone Limited	HK\$410 million	1.5	2	4.10	2.24	(1.06)	(4.74)	100.00
10-Jul-07	885	Forefront Group Limited	HK\$750 million	0	3.5	0.50	(13.79)	(1.77)	n.a.	100.00
11-Jul-07	855	China Water Affairs Group Limited	HK\$180.05 million	3	10	0.15	(89.36)	(89.41)	(88.82)	100.00
11-Jul-07	279	Freeman Corporation Limited	HK\$1,500 million	0	3.75	0.15	(26.10)	(29.00)	(31.20)	100.00
			High	8	10		41.00	54.00	59.00	162.61
			Low	0	1.5		(90.00)	(89.41)	(88.82)	100.00
			Average	1.59	4.23		(11.66)	(3.61)	(9.30)	109.57
11-Jul-07	1058	GDT	HK\$61.5 million	1	3	1.90	18.01	33.80	34.75	106.23

Note: "n.a." means there is no such information disclosed in the respective announcements of the Comparables.

(i) Initial conversion price

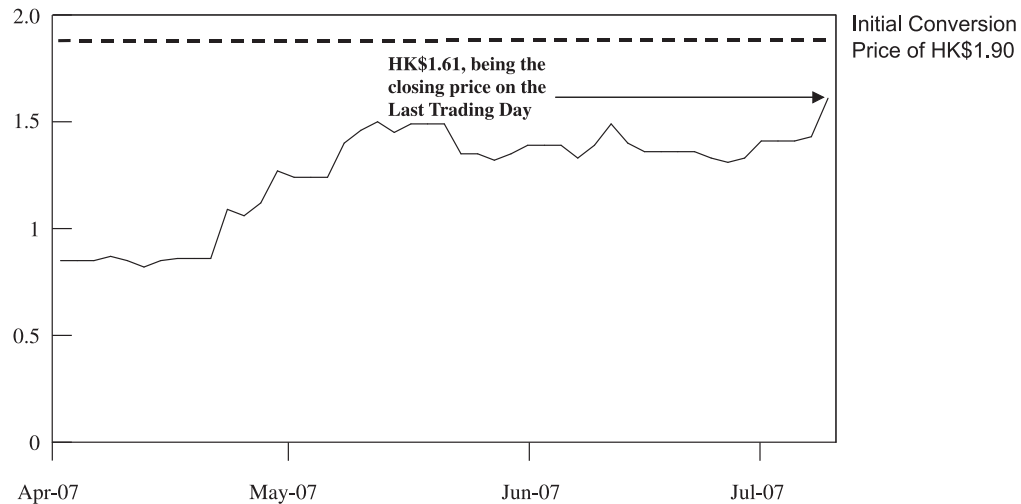
In assessing the fairness and reasonableness of the Initial Conversion Price, we have sought to compare it with those of the Comparables of which relevant information were disclosed in the respective announcements. 27 Comparables had information in their respective announcements in respect of the premium/discount of the initial conversion price over/to the closing price per share on the last trading day, of which 12 Comparables had a conversion price which represented a premium ranging from approximately 2.24% to 41.00%, whereas 15 Comparables had a conversion price which represented a discount ranging from approximately 0.75% to 90.00%. 20 Comparables had information in their respective announcements in respect of the premium/discount of the conversion price over/to the 5-day average closing price of the share up to the respective last trading day, of which 9 Comparables had a conversion price which represented a premium ranging from approximately 0.36% to 54.00%, 1 Comparable had a conversion price equivalent to the 5-day average closing price, and the remaining Comparables had a conversion price which represented a discount ranging from approximately 0.79% to 89.41%. 20 Comparables had information in their respective announcements in respect of the premium/discount of the conversion price over/to the 10-day average closing price of the share up to the respective last trading day, of which 9 Comparables had a conversion price which represented a premium ranging from approximately 6.20% to 59.00%, and the remaining Comparables had a conversion price which represented a discount ranging from approximately 4.74% to 88.82%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We note that the Initial Conversion Price represents a premium to each of the closing price of the GDT Shares as quoted on the Stock Exchange on the Last Trading Day as well as the 5-day and 10-day average closing price up to the Last Trading Day, and such premiums fall within the relevant ranges of the Comparables.

The chart below illustrates the historical closing prices of the GDT Shares as quoted on the Stock Exchange during the Review Period.

Closing price (HK\$)



Source: Bloomberg

As demonstrated above, it is noted that the closing price of the GDT Shares during the Review Period had been rising in early June 2007 and reached the highest level of HK\$1.61 on the Last Trading Day. As advised by the Directors, they are not aware of any reason for such rise.

Taking into account that (i) the premium of the Initial Conversion Price to the closing price of the GDT Shares as quoted on the Stock Exchange on the Last Trading Day as well as the 5-day and 10-day average closing price up to the Last Trading Day; and (ii) such premiums are within the relevant ranges of the Comparables, we are of the view that the Initial Conversion Price has been arrived at on a fair and reasonable basis.

(ii) *Interest rate*

As set out in the table above, the interest rate of the Comparables ranges from nil to 8% per annum with an average of 1.59% per annum. The interest rate of 1% per annum in the case of the Convertible Note falls within such range among the Comparables and is lower than the average. On this basis, we are of the view that the interest rate of 1% per annum for the Convertible Note is substantially in line with the market practice and is therefore fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) *Maturity*

The maturities of the Comparables range from one and a half to ten years with an average of about four years. Given that 5 out of a total of 29 Comparables having the comparable maturity of three years that had taken place during the Review Period, we consider that the maturity of three years is not uncommon for an issue of convertible bonds by listed companies in the market. Accordingly, we consider that the maturity of the Convertible Note is in line with the market and fair and reasonable.

(iv) *Redemption upon maturity*

As set out in the table above, the redemption amounts of the Comparables range from 100% to 162.61% of their respective face value with an average of approximately 109.57%. The redemption amounts of the Comparables with maturity of three years which had relevant information in their respective announcements range from 100% to 121.15% of their respective face value with an average of approximately 109.28%. Unless previously converted and subject to and in accordance with the terms and conditions of the Convertible Note, GDT will repay 106.23% of the principal amount outstanding under the Convertible Note together with any accrued interest in cash thereon on the third anniversary of the date of issue of the Convertible Note.

Given that the redemption rate upon maturity in the case of the Convertible Note falls within the range among the Comparables and those Comparables with maturity of 3 years and is lower than their respective average, we are of the view that the redemption rate of 106.23% of the principal amount outstanding upon maturity of the Convertible Note is in the interests of GDT and the GDT Shareholders as a whole.

(v) *Early redemption yield*

In the event of occurrence of any events of default as set out in the Letter from the Board, the Note Subscriber may require GDT to redeem 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. Given that (i) the early redemption will only be effected upon occurrence of certain default events of GDT, and (ii) the yield of 3% per annum is equivalent to the return to be obtained by the Note Subscriber upon completion of the Note Subscription up to Maturity, we are of the view that the early redemption yield is acceptable.

In view of the above analysis of the principal terms of the Convertible Note including the Initial Conversion Price, interest rate, maturity and redemption clause, we consider that the terms of the Convertible Note have been arrived at based on terms that are substantially in line with the market, and are therefore fair and reasonable so far as GDT and the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial effects of the Subscription Agreement

As a result of the Subscription Agreement, we set out below the resulting financial effects.

(i) *Liquidity*

According to the 2006 annual report of GDT, the Group has cash and cash equivalents of approximately HK\$41.54 million and pledged bank balances of approximately HK\$12.89 million as at 31 December 2006. The cash and cash equivalents of the Group would increase by the net proceeds of approximately HK\$60.77 million, which is intended to be used as general working capital, immediately upon completion of the Subscription Agreement. In light of the above, we consider that the Subscription Agreement would strengthen the liquidity and working capital position of the Group.

(ii) *Earnings*

As advised by the Directors, the completion of the issue of the Convertible Note would have no immediate effect on the earnings of the Group. Interest expense of the Convertible Note will be charged to the income statement of the Group on a semi-annual basis. In light of (i) the prospects of the leather industry in the PRC; (ii) the improvement in working capital position of the Group as a result of the issue of the Convertible Note; and (iii) the generally higher bank borrowing rate if GDT obtains bank borrowings instead of the issue of the Convertible Note, we are of the view that the effect of interest expenses on the Group's earnings is acceptable and we concur with the views of the Directors that the Subscription Agreement is in the interest of GDT and the GDT Shareholders as a whole.

(iii) *Net assets value*

As advised by the Directors, upon completion of the Subscription Agreement, an equity component of the Convertible Note will be included in the equity of the consolidated balance sheet of the Group as required by the applicable accounting principles. Accordingly, there will be positive impact on the net assets value of the Group.

(iv) *Gearing ratio*

According to the 2006 annual report of GDT, the gearing ratio of the Group as at 31 December 2006 was approximately 0.50 times, which is derived by dividing the total interest bearing debts of the Group of approximately HK\$100.31 million by the total equity of approximately HK\$199.72 million.

Based on the estimation of GDT, as a result of the issue of the Convertible Note, the gearing ratio of the Group will increase upon completion of the Subscription Agreement. However, taking into account that (i) the working capital position of the Group will substantially be improved and (ii) the relatively low interest rate of 1% per annum of the Convertible Note as compared with the interest rate of 5.54% to 6.51% per annum of the secured bank borrowings of the Group for the year ended 31 December 2006, we are of the view that the aforesaid increase in the gearing ratio of the Group is acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(v) *Shareholding structure*

As illustrated in the table setting out under the section headed “Shareholding Structure” in the Letter from the Board, the attributable interest of the existing public shareholders in GDT as at the Latest Practicable Date was approximately 30.14% and will be reduced to approximately 28.42% upon full conversion of the Convertible Note, representing a dilution effect of approximately 6% in their beneficial interest in GDT. GDH will remain as the controlling shareholder of GDT, holding more than 50% equity interest in the share capital of GDT.

Having considered the overall positive impact for the improvement in working capital and the reasons for and benefits of the Subscription Agreement, we are of the view that such dilution on the shareholding interests of the public in GDT is acceptable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of GDT and the GDT Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, and advise the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the resolution to approve the Subscription Agreement and the transactions contemplated thereunder to be proposed at the EGM.

Your faithfully
For and on behalf of
Kingsway Capital Limited
Chu Tat Hoi
Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to GDT. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of GDT in the shares, underlying shares and debentures of GDT or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be (a) notified to GDT and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) entered into the register kept by GDT pursuant to section 352 of the SFO; or (c) notified to GDT and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules, were as follows:

2.1 Interests and short positions in GDT

As at the Latest Practicable Date, a Director had personal interests in the following underlying GDT Shares held through share options granted under the Share Option Scheme:

Name of Director	Number of Underlying GDT Shares held	Approximate percentage of total shareholding (%)
Fung Lak	600,000	0.11

These interests in share options represent long positions in the underlying GDT Shares in respect of physically settled derivatives of GDT. Further details of the share options granted to the Directors under the Share Option Scheme are set out in subsection 2.2 below.

2.2 Share options

As at the Latest Practicable Date, details of the outstanding share options granted to the Directors under the Share Option Scheme were as follows:

Name of Director	Exercisable period	Price per GDT Share on exercise of options HK\$	Number of share options outstanding
Fung Lak	10/09/2003–09/09/2008	0.220	300,000
	12/05/2004–11/05/2009	0.246	300,000

Note: If the last day of any of the option period is not a Business Day in Hong Kong, the option period shall end at the close of business on the Business Day preceding that day.

2.3 Interests and short positions in GDI, an associated corporation of GDT

(a) *Interests in ordinary shares of GDI*

As at the Latest Practicable Date, a Director had personal interests in the following ordinary shares of GDI:

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/ short position	Approximate percentage of total shareholding
Ho Lam Lai Ping Theresa	Personal	3,300,000	Long	0.05%

Note: The number of ordinary shares of GDI in issue as at the Latest Practicable Date was 6,102,688,071.

2.4 Interests and short positions in Kingway, an associated corporation of GDT

As at the Latest Practicable Date, a Director had personal interests in the following ordinary shares of Kingway:

Name of Director	Capacity/ nature of interests	Number of ordinary shares held	Long/ short position	Approximate percentage of total shareholding
Ho Lam Lai Ping Theresa	Personal	98,000	Long	0.01%

Note: The number of ordinary shares of Kingway in issue as at the Latest Practicable Date was 1,706,672,000.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or the chief executive of GDT had or was deemed to have any interests or short positions in any shares, underlying shares or debentures of GDT or any of its associated corporations (as defined in Part XV of the SFO) which would be required to be (a) notified to GDT and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) entered into the register kept by GDT pursuant to section 352 of the SFO; or (c) notified to GDT and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as the Directors or the chief executive of GDT were aware or could ascertain after reasonable enquiry, the following persons, not being a Director or chief executive of GDT, had interests or short positions in the GDT Shares and underlying GDT Shares which would fall to be disclosed to GDT under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by GDT pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/ nature of interests	Number of ordinary shares held	Long/short position	Derivative interests (Number of shares to be issued upon conversion of the Convertible Note)	Approximate percentage of total shareholding (including derivative interest)
廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) (<i>Note</i>)	Beneficial owner/ interest of controlled corporation	375,100,000	Long	32,368,421	75.89%
GDH Limited	Beneficial owner/ interest of controlled corporation	375,100,000	Long	32,368,421	75.89%

Note: The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) has in GDT is held through its 100% direct interest in GDH.

Save as disclosed in this circular and so far as the Directors or the chief executive of GDT were aware, as at the Latest Practicable Date, there were no other persons who had interests or short positions in the GDT Shares or underlying GDT Shares which would fall to be disclosed to GDT under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by GDT pursuant to section 336 of the SFO.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2006, being the date to which the latest published audited accounts of GDT were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group. None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any member of the Group (excluding contracts expiring, or determinable by the Group within one year without payment of compensation other than statutory compensation).

5. COMPETING INTEREST

As at the Latest Practicable Date, so far as the Directors were aware, none of them or their respective associates has any interests in a business which competes or is likely to compete with the business of the Group.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date of the latest published audited accounts of GDT were made up.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Kingsway Capital Limited (“Kingsway”)	a licensed corporation under the SFO to conduct Type 6 regulated activity under the SFO

Kingsway has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its opinion or letter and reference to its name, opinion or letter in the form and context in which it appears.

As at the Latest Practicable Date, Kingsway had no shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it has any direct or indirect interest in any assets which have been, since 31 December 2006, being the date of the latest published audited accounts of GDT were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be so acquired, disposed of by or leased to, any member of the Group.

9. GENERAL

- (a) The registered office of GDT is located at 29th Floor, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.
- (b) The share registrar and share transfer office of GDT is Tengis Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (c) The secretary of GDT is Ms. Lee Wai Mei, who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.
- (d) The qualified accountant of GDT is Ms. Wai Sze Ki, who is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at GDT's principal place of business in Hong Kong at 29th Floor, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong, from the date of this circular and up to and including the date of the EGM:

- (i) the Subscription Agreement;
- (ii) the letter from the Independent Board Committee, the text of which is set out on pages 12 to 13 of this circular;
- (iii) the letter from Kingsway, the text of which is set out on pages 14 to 24 of this circular; and
- (iv) the letter of consent of Kingsway referred to under the section headed "Expert and Consent" in this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting of Guangdong Tannery Limited (the “Company”) will be held at The Boardroom, Basement II, The Wharney Guang Dong Hotel Hong Kong, No. 57–73 Lockhart Road, Wanchai, Hong Kong, on Wednesday, 8 August 2007 at 10:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modification the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the execution of a conditional subscription agreement dated 11 July 2007 (the “**Subscription Agreement**”) entered into between the Company and GDH Limited in relation to the issue of a convertible note in an aggregate principal amount of HK\$61,500,000 and at an initial conversion price of HK\$1.90 per conversion share (subject to adjustments) by GDH Limited, a copy of which has been produced to this meeting and marked “A” and signed by the chairman of this meeting for identification purpose, be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved and that the issue and allotment of shares of the Company to GDH Limited contemplated and pursuant to the terms of the convertible note upon exercise of conversion rights attaching to the convertible note be and are hereby approved; and any one director of the Company be and is hereby approved to do such acts and execute such documents as he may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with the Subscription Agreement and the convertible note and completion of the transactions contemplated thereunder; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) the directors of the Company be and are hereby generally and specifically authorized to allot and issue such number of new shares (“**Special Mandate**”) as may be required to be allotted and issued upon the exercise of the conversion right attaching to the convertible note approved to be issued under resolution numbered (a) above on and subject to the terms and conditions of the Subscription Agreement be and are hereby approved.”

By Order of the Board
Lee Wai Mei
Company Secretary

Hong Kong, 23 July 2007

Registered office:

29th Floor
Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

Notes:

- (i) A shareholder entitled to attend and vote at the above meeting may appoint more than one proxy to attend and, on a poll, vote in his place and such proxy need not be a shareholder of the Company.
- (ii) A form of proxy is enclosed. To be valid, the form of proxy together with the power of attorney (if any) or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority) must be delivered to the Company’s share registrar and transfer office, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or adjourned meeting. The appointment of a proxy will not prevent a shareholder from subsequently attending and voting at the meeting or any adjourned meeting if he so wishes. If a shareholder who has lodged a form of proxy attends the meeting, his form of proxy will be deemed to have been revoked.
- (iii) In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person, or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the Company’s register of shareholders in respect of the joint holding.