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廣東控股有限公司

GDH LIMITED

(incorporated in Hong Kong with limited liability)



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock Code: 1058)

**PROPOSED PRIVATISATION OF
GUANGDONG TANNERY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 166 OF THE COMPANIES ORDINANCE
(CHAPTER 32 OF THE LAWS OF HONG KONG))
AT THE CANCELLATION PRICE OF HK\$0.28 PER SCHEME SHARE**

Financial adviser to

GDH LIMITED



ICEA Capital Limited

Independent financial adviser to the Independent Board Committee

(as defined herein) of GUANGDONG TANNERY LIMITED



Tai Fook Capital Limited

A letter from the GTL Board (as defined herein) is set out on pages 7 to 13 of this document. An explanatory statement regarding the Scheme (as defined herein) is set out on pages 34 to 47 of this document. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) in relation to the Scheme is set out on page 14 of this document. A letter from Tai Fook (as defined herein), being the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Scheme is set out on pages 15 to 33 of this document.

The action to be taken by the Independent Shareholders and the Scheme Shareholders (as defined herein) is set out on page 46 of this document.

Notices convening the Court Meeting (as defined herein) to be held at 3:00 p.m. on Thursday, 22nd September, 2005 and the Extraordinary General Meeting (as defined herein) to be held at 3:30 p.m. on Thursday, 22nd September, 2005 in each case at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong are set out on pages 120 to 123 of this document. Whether or not you are able to attend the Court Meeting and/or the Extraordinary General Meeting or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed thereon, and to lodge them with Tengis Limited, the share registrar and share transfer office of GTL, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not later than the times and dates as stated under the paragraph headed "Action to be taken" set out on page 46 of this document. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

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DEFINITIONS

In this document, the following expressions have the meanings set out below unless the content requires otherwise:

“acting in concert”	has meaning ascribed to it under The Takeovers Code and “concert party” should be construed accordingly
“Adjusted NTAV”	the pro forma adjusted consolidated NTAV of the GTL Group which is based on the consolidated NTAV of the GTL Group as at 31st December, 2004 and adjusted for certain items as set out in section 6 in Appendix I to this document
“Announcement”	the announcement dated 12th July, 2005 issued jointly by GDH and GTL in relation to the Proposal
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions and approvals in connection with the Scheme
“Business Day”	a day (excluding Saturday) on which banks in Hong Kong are generally open for business for more than four hours
“Cancellation Price”	HK\$0.28, being the consideration payable by GDH to the Scheme Shareholders for each Scheme Share held by them on the Effective Date (assuming that the Scheme becomes effective)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Court”	the High Court of Hong Kong
“Court Meeting”	a meeting of the Scheme Shareholders convened at the direction of the Court at which the Scheme will be voted upon, which will be held at 3:00 p.m. on Thursday, 22nd September, 2005 at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong, the notice of which is set out on pages 120 to 121 of this document, or any adjournment thereof
“Effective Date”	the date on which the Scheme, if approved, becomes effective
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Explanatory Statement”	the explanatory statement set out on pages 34 to 47 of this document and issued in compliance with the Companies Ordinance
“Extraordinary General Meeting”	the extraordinary general meeting of GTL to be held immediately following the Court Meeting, at 3:30 p.m. on Thursday, 22nd September, 2005 at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong for the approval and implementation of the Scheme, the notice of which is set out on pages 122 to 123 of this document

DEFINITIONS

“GDH”	GDH Limited, a company incorporated in Hong Kong with limited liability
“GDH Board”	the board of the GDH Directors
“GDH Director(s)”	director(s) of GDH
“GDH Group”	GDH and its subsidiaries
“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
“GTL”	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
“GTL Board”	the board of the GTL Directors
“GTL Director(s)”	director(s) of GTL
“GTL Group”	GTL and its subsidiaries
“Guangnan”	Guangnan (Holdings) 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
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“ICEA”	ICEA Capital Limited, a company incorporated in Hong Kong with limited liability, the financial adviser to GDH. It is a licensed corporation and is so licensed to carry out regulated activities of dealing in securities (Type 1) and advising on corporate finance (Type 6) under the SFO
“Independent Board Committee”	the independent board committee of GTL comprising Cheng Hok Lai James, Choi Kam Fai Thomas and Fung Lak, all of whom are independent non-executive directors of GTL, which has been established for the purpose of advising the Independent Shareholders in relation to the Scheme
“Independent Shareholders”	GTL Shareholders other than GDH and any party acting in concert with it
“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
“Last Trading Day”	28th June, 2005, being the last trading day during which trading in the Shares was suspended pending the issue of the Announcement

DEFINITIONS

“Latest Practicable Date”	23rd August, 2005, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the stock market operated by the Stock Exchange, which excludes GEM and the options market
“NTAV”	net tangible asset value
“Offer Period”	from the date of the Announcement until the later of (i) the date when the Scheme lapses; or (ii) an announcement is made of the withdrawal of the Scheme
“Option Cancellation Price(s)”	the price(s) payable by GDH to the Option Holders in consideration for their agreement to cancel their Share Options, further details of which are set out in the paragraph headed “The Share Options” in the “Letter from the GTL Board” of this document
“Option Holder(s)”	holder(s) of Share Option(s)
“PRC”	the Peoples’ Republic of China, which, for the purpose of this document, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Proposal”	the Scheme and the payment of the relevant Option Cancellation Prices to the Option Holders in consideration of their agreeing to cancel their Share Options
“Record Date”	the Business Day immediately preceding the Effective Date for the purpose of determining the entitlement of the Scheme Shareholders under the Scheme
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions including the SFC and the Stock Exchange
“Relevant Period”	the period commencing on the date falling six months prior to the commencement date of the Offer Period and ending on the Latest Practicable Date
“Scheme”	the proposed scheme of arrangement under section 166 of the Companies Ordinance involving the cancellation of all the Scheme Shares, further particulars of which are set out in the Scheme of Arrangement as set out on pages 116 to 119 of this document
“Scheme Share(s)”	Share(s) held by the Scheme Shareholder(s)
“Scheme Shareholder(s)”	holder(s) of Shares other than GDH

DEFINITIONS

“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)” or “GTL Share(s)”	share(s) of HK\$0.10 each in the share capital of GTL
“Shareholder(s)” or “GTL Shareholder(s)”	holder(s) of Share(s)
“Share Option(s)”	the share option(s) granted under the Share Option Scheme, the details of which are set out in the paragraph headed “The Share Options” in the “Letter from the GTL Board” of this document
“Share Option Scheme”	the share option scheme adopted by GTL on 31st May, 2002
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Fook”	Tai Fook Capital Limited, the independent financial adviser to the Independent Board Committee. Tai Fook is a licensed corporation and is so licensed to carry out Type 6 regulated activity of advising on corporate finance under the SFO
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Tongyuan Tannery”	Foshan City Nanhai Tong Yuan Tanning Co., Ltd, a wholly foreign owned enterprise established in the PRC
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

For use in this document, unless otherwise stated, and for illustration purposes only, conversion of Hong Kong dollar into RMB is based on the approximate exchange rate of HK\$1 to RMB1.04. No representation is made that any amount in Hong Kong dollars or RMB could be converted at such rate or any other rate.

EXPECTED TIMETABLE

Hong Kong time (2005)

- Latest time for lodging transfers of Shares to qualify
for attending and voting at the Court Meeting
and the Extraordinary General Meeting 4:30 p.m. on Wednesday, 14th September
- Register closed for determination of entitlements of
Scheme Shareholders to attend and vote at the
Court Meeting and of Shareholders to attend and
vote at the Extraordinary General Meeting Thursday, 15th September to
Thursday, 22nd September
(both days inclusive)
- Latest time for lodging forms of proxy in respect of
Court Meeting 3:00 p.m. on Tuesday, 20th September
Extraordinary General Meeting 3:30 p.m. on Tuesday, 20th September
- Suspension of dealings in the Shares 9:30 a.m. on Thursday, 22nd September
- Court Meeting (*Note 1 and Note 3*) 3:00 p.m. on Thursday, 22nd September
- Extraordinary General Meeting (*Note 1 and Note 3*) . . . 3:30 p.m. on Thursday, 22nd September
- Press announcement of the results of the Court Meeting
and the Extraordinary General Meeting in South China Morning Post,
China Daily and Hong Kong Economic Times Friday, 23rd September
- Resumption of dealings in the Shares 9:30 a.m. on Friday, 23rd September
- Hearing of GTL's application to the Court to dispense
with the settling of a list of creditors Tuesday, 4th October
- Latest time for dealing in Shares 4:00 p.m. on Monday, 10th October
- Latest time for lodging transfers of Shares
to qualify for entitlements under the Scheme 4:30 p.m. on Friday, 14th October
- Court hearing of the petition to sanction the Scheme (*Note 2*) Tuesday, 18th October
- Press announcement of the results of Court hearing of
the petition to sanction the Scheme in South China Morning Post,
China Daily and Hong Kong Economic Times Wednesday, 19th October
- Record Date Thursday, 20th October
- Effective Date (*Note 2*) Thursday, 20th October
- Withdrawal of the listing of the Shares on the
Stock Exchange becomes effective (*Note 2*) 9:30 a.m. on Friday, 21st October

EXPECTED TIMETABLE

Press announcement on the Effective Date and withdrawal of
listing of the Shares in South China Morning Post, China Daily
and Hong Kong Economic Daily Friday, 21st October

Cheques for cash entitlements under the Scheme and
to the Option Holders to be despatched on or before Wednesday, 26th October

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

1. Forms of proxy should be lodged, by hand or by post, with Tengis Limited, the share registrar and share transfer office of GTL, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, as soon as possible and in any event no later than the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy for the Extraordinary General Meeting must be lodged not later than the time and date stated above. Completion and return of a form of proxy for the Court Meeting or the Extraordinary General Meeting will not preclude a Shareholder from attending the relevant meeting(s) and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
2. This Scheme shall become effective upon all the conditions set out in the paragraph headed “Conditions of the Scheme” in the Explanatory Statement on pages 36 to 37 of this document are fulfilled and/or otherwise waived (as the case may be).
3. Unregistered owners of Shares are urged to register their names with respect to their unregistered holdings in Shares in the register of members of GTL. For the purpose of the Court Meeting and the Extraordinary General Meeting, unregistered owners of Shares are urged to lodge their relevant transfers of Shares by 4:30 p.m. on Wednesday, 14th September, 2005 in order to have their names and particulars duly entered in the register of members of GTL with respect to their unregistered holdings in Shares. Otherwise, unregistered owners of Shares will have to:
 - (a) regarding attending and casting votes in respect of the relevant Shares, resort to duly obtaining the Court documents and proxies specifically prepared in respect of each of the Court Meeting and the Extraordinary General Meeting from those members who have disposed of the Shares in question; and
 - (b) regarding receiving payment in respect of the Cancellation Price, either have their names together with their shareholdings in GTL entered in the register of members of GTL as soon as possible and in any event, no later than 4:30 p.m. on Friday, 14th October, 2005 (the register of members of GTL will be closed thereafter) or resort to making due and prompt arrangements with those members who have disposed of the Shares in question,

and/or by making appropriate arrangements with their respective brokers, nominees or agents, or otherwise, as the case may be.



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock code: 1058)

Executive directors:

Zhang Chunting
Hui Wai Man Lawrence

Non-Executive directors:

Xiong Guangyang
Ho Lam Lai Ping Theresa

Independent non-executive directors:

Cheng Hok Lai James
Choi Kam Fai Thomas
Fung Lak

Registered office:

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

26th August, 2005

To the GTL shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
GUANGDONG TANNERY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 166 OF THE COMPANIES ORDINANCE
(CHAPTER 32 OF THE LAWS OF HONG KONG))
AT THE CANCELLATION PRICE OF HK\$0.28 PER SCHEME SHARE**

INTRODUCTION

On 12th July, 2005, the respective boards of directors of GDH and GTL announced that on 5th July, 2005, GDH requested the GTL Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of GTL by way of a scheme of arrangement under section 166 of the Companies Ordinance involving the cancellation of all the Scheme Shares, as a result of which, and upon the successful implementation and completion of the Proposal as outlined in this document, GTL will become a wholly-owned subsidiary of GDH.

On the same date, the respective boards of directors of GDH and GTL also announced that GDH would make a conditional cash offer to pay the relevant Option Cancellation Price to the Option Holders for each Share Option held by them in consideration of their agreeing to cancel their Share Options.

As at the Latest Practicable Date, GDH, together with parties acting in concert with it, was interested in approximately 71.58% of the issued share capital of GTL.

LETTER FROM THE GTL BOARD

The GTL Board comprises two executive GTL Directors, two non-executive GTL Directors and three independent non-executive GTL Directors. Of the two executive GTL Directors, Mr. Zhang Chunting is the Chairman of the Board of GTL and an executive GTL Director whilst Mr. Hui Wai Man Lawrence is also a director of certain subsidiaries of GDH (other than the GTL Group). Of the two non-executive Directors, Mr. Xiong Guangyang is also a director of GDH and Mrs. Ho Lam Lai Ping Theresa is also a director of certain subsidiaries of GDH (other than the GTL Group). Consequently, none of these four Directors are considered to be independent in the context of the Scheme. Accordingly, the remaining Directors, namely Mr. Cheng Hok Lai James, Mr. Choi Kam Fai Thomas and Mr. Fung Lak, being also the independent non-executive GTL Directors, have been appointed by the GTL Board to constitute the Independent Board Committee to provide recommendations to the Independent Shareholders regarding the terms of the Scheme.

The purpose of this document is to provide you with further information regarding the Proposal and to give you notices of the Court Meeting and the Extraordinary General Meeting. Your attention is also drawn to the letter from the Independent Board Committee set out on page 14 of this document, the letter from Tai Fook, being the independent financial adviser to the Independent Board Committee set out on pages 15 to 33 of this document, the Explanatory Statement set out on pages 34 to 47 of this document and the Scheme set out on pages 116 to 119 of this document.

SUMMARY OF THE SCHEME

It is proposed that, subject to the fulfilment or waiver (as applicable) of the conditions of the Scheme as described in the Explanatory Statement, the Scheme will be implemented by way of a scheme of arrangement. The Scheme provides that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive the Cancellation Price, being HK\$0.28 in cash for each Scheme Share held.

The Cancellation Price represents:

- a premium of approximately 3.7% over the closing price of HK\$0.270 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- a premium of approximately 32.1% over the closing price of HK\$0.212 per Share as quoted on the Stock Exchange on 28th June, 2005 (being the Last Trading Day);
- a premium of approximately 46.6% over the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on 27th June, 2005 (being the last full trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 46.6% over the average closing price of about HK\$0.191 per Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 28th June, 2005;
- a premium of approximately 52.2% over the average closing price of about HK\$0.184 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including 28th June, 2005;
- a premium of approximately 47.4% over the average closing price of about HK\$0.190 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 28th June, 2005;

LETTER FROM THE GTL BOARD

- a premium of approximately 41.4% over the average closing price of about HK\$0.198 per Share based on the daily closing prices as quoted on the Stock Exchange over the 90 trading days up to and including 28th June, 2005;
- a discount of approximately 14.1% to the audited consolidated net asset value per Share of about HK\$0.326 on 31st December, 2004; and
- a discount of approximately 6.35% to the consolidated Adjusted NTAV per Share of about HK\$0.299.

As at the Latest Practicable Date, there were 524,154,000 Shares in issue and the Scheme Shareholders were interested in 149,054,000 Shares, representing approximately 28.44% of the issued share capital of GTL. On the basis of the cash cancellation price of HK\$0.28 per Scheme Share, the Scheme values the entire issued share capital of GTL at approximately HK\$147 million (assuming that none of the Share Options will be exercised). The maximum aggregate cancellation price payable under the Scheme amounting to approximately HK\$46 million (assuming all the Share Options were exercised in full) will be financed by internal resources of GDH. ICEA, the financial adviser to GDH, is satisfied that sufficient financial resources are available to GDH for the implementation of the Proposal in full.

The Scheme will lapse if it does not become effective on or before 31st January, 2006 or such later date as GDH and GTL may agree and the Court may allow, and, in such events, the Scheme Shareholders will be notified by way of a press announcement accordingly. Further announcement on any change regarding the timetable of the Scheme will be made as and when necessary.

Assuming that the Scheme becomes effective on 20th October, 2005, cheques for cash entitlements are expected to be despatched to the Scheme Shareholders and the Option Holders on or before 26th October, 2005.

THE SHARE OPTIONS

As at the Latest Practicable Date, there were in total 15,350,000 outstanding Share Options held by the Option Holders under the Share Option Scheme entitling them to subscribe for 15,350,000 new Shares in total at the following exercise prices and during the exercise periods specified below:

	Number of Share Options
Share Options exercisable now (and will lapse on 9th September, 2008) at the exercise price of HK\$0.22 per Share	6,650,000
Share Options exercisable now (and will lapse on 11th May, 2009) at the exercise price of HK\$0.246 per Share	8,700,000

Subsequent to the issue of the Announcement, all the Option Holders have irrevocably undertaken to GDH and GTL that they will surrender their Share Options in consideration of GDH agreeing to pay them the relevant Option Cancellation Prices for their Share Options upon the Scheme becoming effective. Accordingly, as between the date hereof and the time of the Court Meeting, no further Shares will be issued by GTL, and the number of Scheme Shares will remain 149,054,000 Shares from the date hereof until the date of the Court Meeting.

LETTER FROM THE GTL BOARD

The Option Cancellation Prices per Share Option are HK\$0.06 (in respect of the Share Options with an exercise price of HK\$0.22 per Share) and HK\$0.034 (in respect of the Share Options with an exercise price of HK\$0.246 per Share), in each case being the see through price (relative to the Cancellation Price of HK\$0.28 per Scheme Share) for the Share Options concerned.

REASONS FOR AND BENEFITS OF THE SCHEME

Reasons for the Scheme

During the period from 29th June, 2002 to 28th June, 2005 (being the Last Trading Day), the Shares were consistently trading at a discount to GTL's consolidated net asset value and the trading volume of the Shares was, most of the time, thin. For the period from 29th June, 2004 up to and including 28th June, 2005 (being the Last Trading Day), the closing prices of the Shares were within the range of HK\$0.175 to HK\$0.248 per Share, with an average closing price of the Shares at approximately HK\$0.207 per Share. Such average closing price represents a discount of about 36.5% to the audited consolidated net asset value per Share of about HK\$0.326 as at 31st December, 2004. The average daily trading volume of the Shares for the period from 29th June, 2004 up to and including 28th June, 2005 was 92,089 Shares. Such daily trading volume represents approximately 0.018% of the issued share capital of GTL as at the date of the Announcement and the date of this document.

Given the substantial discount of the market price to the said consolidated net asset value per Share and the low liquidity of the Shares on the Stock Exchange, the GTL Directors are, and, as stated in the Announcement, the GDH Directors were, of the opinion that whether there would be any significant improvement in those respects remains uncertain in the foreseeable future, and accordingly, and as stated in the Announcement, the GDH Directors believe that the Scheme offers the Scheme Shareholders a good opportunity to exit their investments in GTL.

Furthermore, given the said consolidated net asset value per Share, any fund raising exercise by GTL from the equity market at the current level of its share price, depending on the amount of funds to be raised, may involve the issuance of a substantial number of new Shares, thereby diluting the net asset value per Share.

In addition, since the listing of the Shares on the Stock Exchange in December 1996, GTL has only accessed the equity market once in June 1997, and since then it has not raised funds in the open market, the GTL Directors regard, and, as stated in the Announcement, the GDH Directors regarded, the costs of maintaining the listing status of GTL on the Stock Exchange to be not justifiable.

Benefit for GTL Shareholders

Although the cash Cancellation Price represents a discount of about 14.1% to the audited consolidated net asset value per Share as at 31st December, 2004, it represents a premium of approximately 32.1% and 46.6% over the closing price of the Shares as at 28th June, 2005, (being the Last Trading Day) and 27th June, 2005, respectively and a premium of approximately 46.6%, 52.2%, 47.4% and 41.4% of the average daily closing price of the Shares over the five trading days, 30 trading days, 60 trading days and 90 trading days, respectively ended on (and including) 28th June, 2005 (being the Last Trading Day). In view of the prevailing market price and the low liquidity of the Shares, the GTL Directors believe that the Scheme provides an opportunity for all Scheme Shareholders to realise their investments in GTL at a premium to the prevailing market price of the Shares.

LETTER FROM THE GTL BOARD

INFORMATION ON THE GTL GROUP AND GDH

Your attention is drawn to the paragraph headed “Information on the GTL Group” and “Information on GDH” in the Explanatory Statement of this document. Your attention is also drawn to (i) the financial information of the GTL Group set out in Appendix I to this document, and (ii) the valuation report set out in Appendix II to this document.

FUTURE INTENTIONS OF GDH

Your attention is drawn to the paragraph headed “Future intentions of GDH” in the Explanatory Statement.

COURT MEETING AND EXTRAORDINARY GENERAL MEETING

In accordance with the direction of the Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). The Scheme will be subject to the approval by the Scheme Shareholders at the Court Meeting (without counting the votes of those Scheme Shareholders not being Independent Shareholders) in the manner referred to in the paragraph headed “Conditions of the Scheme” in the Explanatory Statement.

As at the Latest Practicable Date, GDH was interested in 375,100,000 Shares, representing approximately 71.56% of the issued share capital of GTL. The Shares held by GDH will not form part of the Scheme Shares and GDH will not vote at the Court Meeting. In addition, 90,000 Shares are held by two GDH Directors and they are deemed to be parties acting in concert with GDH. Accordingly, in order to satisfy the requirements of Rule 2.10 of the Takeovers Code in relation to privatisation of a company by way of a scheme of arrangement, their votes will not be counted at the Court Meeting. However, those 90,000 Shares will still form part of the Scheme Shares. GDH does not have any other concert party having an interest in Shares. The Shares held by the directors of GTL and/or of its subsidiaries may be voted at the Court Meeting. None of them has indicated how they will vote at the Court Meeting.

The Extraordinary General Meeting has been convened to be held on 22nd September, 2005 immediately following the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the GTL Shareholders present and voting, in person or by proxy, at the Extraordinary General Meeting. All Shareholders will be entitled to attend and vote on such special resolution at the Extraordinary General Meeting. GDH and the aforesaid parties acting in concert with it have indicated that if the Scheme is approved at the Court Meeting, they will each vote in favour of the special resolution to be proposed at the Extraordinary General Meeting.

Notice of the Court Meeting is set out on pages 120 to 121 of this document. The Court Meeting will be held on 22nd September, 2005 at the time specified in the notice of the Court Meeting at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong.

A copy of the notice of the Extraordinary General Meeting is set out on pages 122 to 123 of this document. The Extraordinary General Meeting will be held at 3:30 p.m. on 22nd September, 2005 at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong or, if later, immediately after the conclusion of the Court Meeting.

LETTER FROM THE GTL BOARD

ACTION TO BE TAKEN

Your attention is drawn to the paragraph headed “Action to be taken” in the Explanatory Statement.

RECOMMENDATION

The Independent Board Committee, having considered the terms of the Scheme and taken into account the opinion of Tai Fook, the independent financial adviser to the Independent Board Committee, in particular the factors, reasons and recommendations as set out in the letter from Tai Fook on pages 15 to 33 of this document, considers that the terms of the Scheme are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and to vote in favour of the special resolution to approve and give effect to the Scheme at the Extraordinary General Meeting. The letter from the Independent Board Committee is set out on page 14 of this document.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the paragraphs headed “Share certificates, dealings and listing” and “Registration and payment” in the Explanatory Statement.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the paragraph headed “Taxation” in the Explanatory Statement.

It is emphasised that none of GDH, GTL, ICEA, Tai Fook or any of their respective directors or associates or any other person involved in the Scheme accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from Tai Fook (the independent financial adviser to the Independent Board Committee) as set out on page 14 and pages 15 to 33, respectively of this document, the Explanatory Statement as set out on pages 34 to 47 of this document, the Appendices to this document, the Scheme of Arrangement as set out on pages 116 to 119 of this document, the notice of the Court Meeting as set out on pages 120 to 121 of this document and the notice of the Extraordinary General Meeting as set out on pages 122 to 123 of this document.

LETTER FROM THE GTL BOARD

Unregistered owners of Shares are urged to register their names with respect to their unregistered holdings in Shares in the register of members of GTL. For the purpose of the Court Meeting and the Extraordinary General Meeting, unregistered owners of Shares are urged to lodge their relevant transfers of Shares by 4:30 p.m. on Wednesday, 14th September, 2005 in order to have their names and particulars duly entered in the register of members of GTL with respect to their unregistered holdings in Shares will be excluded (to the extent of their unregistered holdings in Shares). Otherwise, unregistered owners of Shares will have to:

- (a) regarding attending and casting votes in respect of the relevant Shares, resort to duly obtaining the Court documents and proxies specifically prepared in respect of each of the Court Meeting and the Extraordinary General Meeting from those members who have disposed of the Shares in question; and
- (b) regarding receiving payment in respect of the Cancellation Price, either have their names together with their shareholdings in GTL entered in the register of members of GTL as soon as possible and in any event, no later than 4:30 p.m. on Friday, 14th October, 2005 (the register of members of GTL will be closed thereafter) or resort to making due and prompt arrangements with those members who have disposed of the Shares in question,

and/or by making appropriate arrangements with their respective brokers, nominees or agents, or otherwise, as the case may be.

Yours faithfully,
For and on behalf of the GTL Board
Zhang Chunting
Chairman



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock code: 1058)

26th August, 2005

To the Independent Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
GUANGDONG TANNERY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 166 OF THE COMPANIES ORDINANCE
(CHAPTER 32 OF THE LAWS OF HONG KONG))
AT THE CANCELLATION PRICE OF HK\$0.28 PER SCHEME SHARE**

We refer to the document of even date with this letter issued by GTL (the “Document”) of which this letter forms part. Terms defined in the Document shall have the same meanings when used in this letter unless the context requires otherwise.

We have been appointed by the GTL Board as the Independent Board Committee to give a recommendation to the Independent Shareholders in respect of the Scheme.

Having considered the terms of the Scheme and taken into account the opinion of Tai Fook, in particular the factors, reasons and recommendations as set out in the letter from Tai Fook set out on pages 15 to 33 of the Document, the Independent Board Committee considers that the terms of the Scheme taken as a whole are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends that the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting. The Independent Board Committee also recommends the Independent Shareholders to vote in favour of the special resolution to approve and give effect to the Scheme at the Extraordinary General Meeting.

The Independent Board Committee draws the attention of the Independent Shareholders to (i) the letter from the GTL Board, (ii) the Explanatory Statement, and (iii) the letter from Tai Fook which sets out the considerations and factors taken into account in arriving at its recommendation to the Independent Board Committee, each contained in the Document.

Yours faithfully,
Cheng Hok Lai James
Choi Kam Fai Thomas
Fung Lak

Independent Non-executive Directors

The following is the text of a letter of advice received from Tai Fook in respect of the Scheme and is prepared for the purpose of inclusion in this document:



25th Floor
New World Tower
16–18 Queen’s Road Central
Hong Kong

26th August, 2005

To the Independent Board Committee
Guangdong Tannery Limited

Dear Sirs,

**PROPOSED PRIVATISATION OF
GUANGDONG TANNERY LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT**

We refer to our appointment as the independent financial adviser to the Independent Board Committee with respect to the proposed privatisation of GTL by way of a scheme of arrangement under section 166 of the Companies Ordinance, details of which are set out in the document issued by GTL dated 26th August, 2005 (the “Document”), of which this letter forms part. Terms used in this letter shall have the same respective meanings as those defined in the Document unless the context otherwise requires.

In our capacity as the independent financial adviser to the Independent Board Committee, our role is to provide you with an independent opinion and recommendations as to whether the terms of the Scheme are fair and reasonable and are in the interest of the Independent Shareholders.

The GTL Board comprises two executive GTL Directors, two non-executive GTL Directors and three independent non-executive GTL Directors. Of the two executive GTL Directors, Mr. Zhang Chunting is the Chairman of the GTL Board and an executive GTL Director whilst Mr. Hui Wai Man Lawrence is also a director of certain subsidiaries of GDH (other than the GTL Group). Of the two non-executive Directors, Mr. Xiong Guangyang is also a director of GDH and Mrs. Ho Lam Lai Ping Theresa is also a director of certain subsidiaries of GDH (other than the GTL Group). Consequently, none of these four Directors are considered independent in the context of the Scheme. Accordingly, the remaining Directors, Mr. Cheng Hok Lai James, Mr. Fung Lak and Mr. Choi Kam Fai Thomas, being the independent non-executive GTL Directors, have been appointed by the GTL Board to constitute the Independent Board Committee to provide recommendations to the Independent Shareholders regarding the terms of the Scheme.

BASES AND ASSUMPTIONS

In formulating our recommendations, we have relied on the information and facts supplied and representations expressed by the GTL Directors and the senior management of the GTL Group. We have been advised by the GTL Directors and the senior management of the GTL Group that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and

representations untrue, inaccurate or misleading. We have assumed that the information contained and representations made or referred to in the Document were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Document.

Our review and analyses were based upon, among others, the information provided by the GTL Group as set out below:

- (i) the terms and conditions of the Scheme;
- (ii) the annual reports of GTL for the years ended 31st December, 2002, 2003 and 2004;
- (iii) the interim reports of GTL for the six months ended 30th June, 2003 and the six months ended 30th June, 2004; and
- (iv) the Document.

We have also discussed with the GTL Directors and the senior management of the GTL Group with respect to the terms of and reasons for the Scheme, and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us. We have not, however, conducted an independent investigation into the business and affairs of the GTL Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Scheme, we have considered the following principal factors and reasons:

I. The Scheme

(A) *Terms of the Scheme*

In summary, the Scheme involves the following steps:

- (i) all the Scheme Shares held by the Scheme Shareholders will be cancelled and extinguished and in consideration thereof, the Scheme Shareholders will receive HK\$0.28 from GDH in cash for every Scheme Share held;
- (ii) the authorised and issued share capital of GTL will be reduced and immediately thereafter, will be increased back to their respective amounts prior to the cancellation of the Scheme Shares and new Shares in the amount equal to the number of the Scheme Shares cancelled as aforesaid will be issued to GDH; and
- (iii) GTL will become a wholly-owned subsidiary of GDH and the listing of the Shares will be withdrawn from the Stock Exchange.

Further details of the conditions and terms of the Scheme, including how and when the Cancellation Price will be paid to the Scheme Shareholders, are set out in the Explanatory Statement contained in the Document.

(B) *Background of and reasons for the Scheme*

The GTL Group is principally engaged in the processing and sale of semi-finished and finished leather. During the three years ended 31st December, 2004, the audited consolidated turnover of the GTL Group had kept decreasing, down from approximately HK\$529.1 million for the year ended 31st December, 2002 to approximately HK\$282.0 million for the year ended 31st December, 2004. The GTL Group recorded audited consolidated net losses of approximately HK\$205.4 million and HK\$101.3 million for the two years ended 31st December, 2003 respectively. Although the GTL Group recorded an audited consolidated net profit of approximately HK\$4.7 million for the year ended 31st December, 2004, it was the result of the write-back of the impairment of fixed assets of approximately HK\$5.2 million.

During the period from 1st July, 2003 up to and including 28th June, 2005 (the “Last Trading Day”; being the last trading day of the Shares on the Stock Exchange prior to the issue of the Announcement), which is considered as an appropriate period to assess the historical market price and liquidity of the Shares before the date of the Announcement, the Shares were traded at a discount to the consolidated NTAV of the GTL Group and the trading volume of the Shares was thin. For the period from 29th June, 2004 up to and including the Last Trading Day, the closing prices of the Shares were within the range of HK\$0.175 to HK\$0.248 per Share, with an average of approximately HK\$0.207 per Share. Such average closing price represented (i) a discount of approximately 36.3% to the audited consolidated NTAV of the GTL Group of approximately HK\$0.325 per Share as at 31st December, 2003; and (ii) a discount of approximately 36.5% to the audited consolidated NTAV of the GTL Group of approximately HK\$0.326 per Share as at 31st December, 2004. The average daily trading volume of the Shares over the same period was approximately 92,089 Shares, representing approximately 0.018% of the issued share capital of GTL as at the Latest Practicable Date.

After GTL conducted a placing of new Shares in June 1997, it has not raised any funds from the equity market. Given the low liquidity of the Shares, the GTL Directors believe that the ability of GTL to take advantage of being a listed company to raise funds is limited and any significant improvement of this situation in the foreseeable future remains uncertain. Furthermore, after taking into account the business performance and working capital requirements of the GTL Group by the GTL Directors, no dividends have been declared by GTL for the past seven years ended 31st December, 2004 and it is uncertain that whether any dividend will be declared by GTL in the foreseeable future. As such, the GDH Directors are of the view that it is not justifiable for GTL to incur the costs for maintaining its listing status on the Stock Exchange.

In light of the above, GDH has requested the GTL Directors to put forward the Scheme to the Scheme Shareholders for their consideration. The GDH Directors and the GTL Directors believe that the Scheme provides a good opportunity for all Scheme Shareholders to realise their investments in GTL.

If the Scheme becomes effective, GTL will withdraw the listing of the Shares on the Stock Exchange. However, in the event that the Scheme is not approved or lapses, GTL will maintain the listing of the Shares on the Stock Exchange.

II. Business review, historical financial information and prospects of the GTL Group

(A) *Business review of the GTL Group*

The GTL Group had made consecutive losses since the year ended 31st December, 1998 until it returned to be profitable for the year ended 31st December, 2004, which, however, was the result of the write-back of the impairment of fixed assets of approximately HK\$5.2 million. Since early 2000, with a view to improving its business performance and financial position, the GTL Group had embarked on a programme of corporate restructuring including closing down loss-making businesses, disposing of under-performance assets and optimising the assets structure to enhance overall and long-term operational efficiency. Among others, in mid-2002, the non-core businesses of leather ware and paper box packaging of the GTL Group were discontinued given their limited turnover and development potential and since then, the GTL Group have focused its resources on the core leather business. Since the second half of 2002, the GTL Group had also taken various measures to consolidate its foundation, such as rationalising its management structure, strengthening the internal control systems and group decision-making process, and optimising the coordination between its production, supply and distribution functions.

During the course of the abovementioned restructuring, the GTL Group became aware in June 2002 that certain former executives of Nanhai Tannery & Leather Products Co., Ltd (“Nanhai Tannery”) had been engaged in the running of a business in parallel to the operations of Nanhai Tannery which appeared to have involved various irregularities under the applicable PRC laws and regulations (the “Incident”). Nanhai Tannery was a former wholly-owned subsidiary of GTL located in Nanhai, the PRC, and was principally engaged in the leather business. In January 2003, GTL established Nanhai City Tongyuan Tanning Company Limited (now known as Foshan City Nanhai Tong Yuan Tanning Co., Ltd.; “Tongyuan Tannery”) to operate the leather business of the GTL Group in Nanhai, the PRC, and Tongyuan Tannery then purchased most of the fixed assets and inventories of Nanhai Tannery. In December 2003, GTL disposed of its entire interest in Nanhai Tannery to Yong Sheng Limited, a former subsidiary of GDH.

As a result of the Incident, in early 2004, the Guangzhou Customs issued a demand letter to Tongyuan Tannery and Nanhai Tannery claiming payment of RMB36,989,000 (equivalent to approximately HK\$34.8 million)^{Note} in relation to the tax allegedly evaded by Nanhai Tannery during the period from 2000 to 2002. In addition, certain bank accounts of Tongyuan Tannery in the PRC with an aggregate balance of approximately RMB9 million (equivalent to approximately HK\$8.7 million)^{Note} were frozen by the Guangzhou Customs. Based on the PRC legal opinions obtained, if Nanhai Tannery and Tongyuan Tannery are considered to be one and the same entity (which is denied by GTL), the GTL Directors consider that Tongyuan Tannery would be liable to a tax claim of HK\$34.8 million and a tax penalty which may amount to one to five times of the tax allegedly evaded by Nanhai Tannery, i.e. approximately HK\$34.8 million^{Note} to HK\$174.0 million^{Note}. Accordingly, the GTL Group made provisions for tax claim of HK\$34.8 million and tax penalty of HK\$34.8 million during the year ended 31st December, 2003. Moreover, as the freezing of the bank balances of Tongyuan Tannery has severely affected its operations, Tongyuan Tannery suspended all of its operations in March 2004. Since then, the GTL Group has taken steps to liquidate inventories and accounts

Note: RMB has been translated into HK\$ at the approximate exchange rate prevailing at the close of business on 30th June, 2005, which is the date of the GTL Group’s indebtedness statement as set out in the section headed “Indebtedness” in Appendix I to the Document.

LETTER FROM TAI FOOK TO THE INDEPENDENT BOARD COMMITTEE

receivables of Tongyuan Tannery as well as to lease or dispose of fixed assets such as production plant and equipment of Tongyuan Tannery, the sales proceeds of which were and will be used to finance the GTL Group's operations. The GTL Directors are of the view that as the actions taken by the PRC authorities in relation to the Incident have not been concluded, it is not possible to determine with any degree of reasonable certainty the amount of any tax penalty which may finally be imposed by the PRC authorities on Tongyuan Tannery. Further details of the background and impact of the Incident are set out in the section headed "Indebtedness" in Appendix I to the Document.

With a view to mitigating the impacts of the suspension of the operations of Tongyuan Tannery, the GTL Group has shifted its core operations from Nanhai, the PRC to Xuzhou, the PRC since mid-2004. Currently, GTL's two wholly-owned subsidiaries in Xuzhou, the PRC, namely Xuzhou Nanhai Leather Factory Co., Ltd. and Xuzhou Gangwei Leather Co. Ltd., are the primary production arms of the GTL Group.

(B) Historical financial performance of the GTL Group

Set out below is a summary of the audited consolidated results of the GTL Group for the three years ended 31st December, 2004:

	Year ended 31st December,		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Turnover	529,055	381,601	281,951
Cost of sales	<u>(513,416)</u>	<u>(376,238)</u>	<u>(255,849)</u>
Gross profit	15,639	5,363	26,102
Other revenue and gains	9,425	19,663	2,922
Selling and distribution costs	(10,958)	(2,941)	(1,630)
Administrative expenses	(32,548)	(28,963)	(20,015)
Other operating profit/(expenses), net	(180,633)	(88,754)	4,226
Gain on disposal of a discontinued operation	636	—	—
Staff compensation payments in respect of a discontinued operation	<u>(552)</u>	<u>—</u>	<u>—</u>
Profit /(loss) from operating activities	(198,991)	(95,632)	11,605
Finance costs	<u>(6,387)</u>	<u>(5,948)</u>	<u>(5,734)</u>
Profit/(loss) before tax	(205,378)	(101,580)	5,871
Tax	<u>—</u>	<u>286</u>	<u>(1,203)</u>
Profit/ (loss) before minority interests	(205,378)	(101,294)	4,668
Minority interests	<u>177</u>	<u>—</u>	<u>—</u>
Net profit/(loss) from ordinary activities attributable to shareholders	<u><u>(205,201)</u></u>	<u><u>(101,294)</u></u>	<u><u>4,668</u></u>

(i) *Turnover analysis*

Based on the above, it is noted that the turnover of the GTL Group showed a decreasing trend during the three years ended 31st December, 2004. The turnover of the GTL Group decreased from approximately HK\$529.1 million for the year ended 31st December, 2002 to approximately HK\$381.6 million for the year ended 31st December, 2003, which was mainly due to the fact that (i) the business of leather ware product was discontinued in mid-2002 according to the above-mentioned GTL Group's corporate restructuring programme; and (ii) the GTL Group ceased the trading of cowhides and chemicals in relation to leather processing in 2003 in order to focus on the business of processing and sales of semi-finished and finished leather. For the year ended 31st December, 2004, the turnover of the GTL Group was further decreased to approximately HK\$282.0 million primarily as a result of the suspension of the operations of Tongyuan Tannery in March 2004.

(ii) *Analysis of consolidated gross profit and consolidated net profit or loss attributable to shareholders*

The GTL Group recorded audited consolidated gross profit of approximately HK\$15.6 million, HK\$5.4 million and HK\$26.1 million during each of the three years ended 31st December, 2004 respectively. The gross profit margin of the GTL Group decreased from approximately 3.0% during the year ended 31st December, 2002 to approximately 1.4% during the year ended 31st December, 2003 due to the outbreak of Severe Acute Respiratory Syndrome in 2003, and then increased significantly to approximately 9.3% during the year ended 31st December, 2004. As advised by the GTL Directors, the increase in gross profit margin was mainly attributable to the reduction of purchase costs of raw materials during the year ended 31st December, 2004 after improving controls in sourcing of raw materials.

As advised by the GTL Directors, due to the intense competition in the PRC leather industry and the impact of the Incident on the GTL Group, the results of the GTL Group for the three years ended 31st December, 2004 were not satisfactory, notwithstanding that such results were on an improving trend. For the year ended 31st December, 2002, the audited consolidated net loss of the GTL Group was approximately HK\$205.2 million which was mainly attributable to (i) the impairment of the goodwill arising from acquisition of Nanhai Tannery of approximately HK\$133.3 million; and (ii) the provision for trade receivables derived from the business of trading of cowhides and chemicals in relation to leather processing of approximately HK\$28.5 million. For the year ended 31st December, 2003, the audited consolidated net loss of the GTL Group was approximately HK\$101.3 million which was mainly attributable to (i) the above-mentioned aggregate provision for tax claims and tax penalty of approximately HK\$69.6 million; (ii) the provision for impairment of fixed assets of Tongyuan Tannery of approximately HK\$10.3 million; (iii) and the write-off of fixed assets of approximately HK\$8.0 million mainly relating to Nanhai Tannery. The GTL Group recorded an audited consolidated net profit of approximately HK\$4.7 million for the year ended 31st December, 2004 which was due to (i) the absence of the provisions for tax claims and tax penalty, impairment and write-off of assets as appeared during the two years ended 31st December, 2003; (ii) and the write-back of impairment of fixed assets of approximately HK\$5.2 million (which was included in the category "Other operating profit/(expenses), net"). Should such write-back not be made, the GTL Group would turn to a consolidated net loss of approximately HK\$0.5 million.

LETTER FROM TAI FOOK TO THE INDEPENDENT BOARD COMMITTEE

(C) *Financial position of the GTL Group*

Set out below is a summary of the major assets and liabilities of the GTL Group as at 31st December, 2004:

	As at	
	31st December, 2004	
	(Audited)	
	<i>HK\$'000</i>	<i>%</i>
Fixed assets	111,296	26.9
Inventories	141,089	34.2
Receivables, prepayments and deposits	54,698	13.2
Pledged and frozen deposits	14,794	3.6
Cash and cash equivalents	83,246	20.2
Others	<u>7,963</u>	<u>1.9</u>
Total assets	<u>413,086</u>	<u>100.0</u>
Trade and bills payables	(38,864)	
Accruals and other liabilities	(19,781)	
Loans from the immediate holding company and a fellow subsidiary	(100,626)	
Provisions	(72,600)	
Others	<u>(10,143)</u>	
Total liabilities	<u>(242,014)</u>	
Net assets	<u>171,072</u>	

As at 31st December, 2004, the total assets of the GTL Group of approximately HK\$413.1 million mainly comprised fixed assets and inventories, which accounted for approximately 26.9% and 34.2% of the total assets of the GTL Group respectively. Of the total fixed assets of the GTL Group amounting to approximately HK\$111.3 million as at 31st December, 2004, fixed assets of approximately HK\$78.9 million (or approximately 70.9%) were held by Tongyuan Tannery. Of the total inventories of the GTL Group amounting to HK\$141.1 million as at 31st December, 2004, inventories of approximately HK\$16.9 million (or approximately 11.9%) were held by Tongyuan Tannery. In addition, it is noted that the inventory turnover days of the GTL Group increased from approximately 201 days during the year ended 31st December, 2003 to approximately 259 days during the year ended 31st December, 2004, which as advised by the GTL Directors, was mainly due to the slow-moving inventories held by Tongyuan Tannery.

(D) *Prospects of the GTL Group*

As advised by the GTL Directors, following the Scheme becoming effective, there will be no change in the control or management of the GTL Group and the core leather business of the GTL Group will be continued. Moreover, GDH does not intend to make any significant and immediate changes to the business, management and staff employment of the GTL Group or any significant redeployment of the fixed assets of the GTL Group.

In the past few years, the GTL Directors consider that the GTL Group faced intense competition and the operating environment of the GTL Group was difficult. The GTL Group would still record net losses for the three years ended 31st December, 2004 amounting to approximately HK\$71.9 million, HK\$13.4 million and HK\$0.5 million respectively even excluding the write-offs and provisions arising from the Incident. Accordingly, notwithstanding the performance of the GTL Group was improving, it was still not satisfactory. In the foreseeable future, the GTL Directors consider that the business environment of the GTL Group may not be improved, in particular, after taking into account the following two factors:

- in July 2005, the European Union announced that it had initiated anti-dumping investigations on the leather-made footwear exported from the PRC. As manufacturers of the leather-made footwear in the PRC are the major customers of the GTL Group, the GTL Directors are concerned that any anti-dumping measures to be taken by the European Union after the investigations might have negative impact on the business of the GTL Group; and
- the PRC government has been continuously raising the standards of environment protection. As certain production processes of the GTL Group, such as soaking and liming, will produce pollutants, the GTL Group has to adopt various measures to ensure that the GTL Group can comply with the stringent rules and regulations relating to environment protection of the PRC, which may result in higher production costs of the GTL Group.

In addition to the above potentially adverse factors present in the business and operating environment of the leather industry, the GTL Directors consider that the Incident has also affected the normal operations of the GTL Group given that certain amount of management time and resources of the GTL Group have been diverted towards the resolution of the Incident with the relevant PRC authorities as well as for the treatment of the assets of Tongyuan Tannery.

Based on the above, the GTL Group presently does not have any expansion plan including whether to set up new production lines or otherwise. However, with a view to improving the performance of the GTL Group, the GTL Group plans to increase the utilisation rate of its production base in Xuzhou, the PRC should there be an increase in demand for its leather products. In addition, the GTL Group will continue its efforts to enhance its operational efficiency at its production base in Xuzhou, the PRC, reduce purchase costs of raw materials and strengthen its sales and marketing networks to maintain its market share.

The GTL Directors consider that there are no signs that the market conditions of the GTL Group's leather business will improve and the performance of the GTL Group in the foreseeable future is uncertain. Having taking into account the above factors and the historical performance of the GTL Group, we concur with the views of the GTL Directors in this respect.

LETTER FROM TAI FOOK TO THE INDEPENDENT BOARD COMMITTEE

III. Consolidated NTAV of the GTL Group

Set out below is the analysis of the consolidated NTAV of the GTL Group based on Section 6 of Appendix I to the Document, which has taken into account (i) the audited consolidated NTAV of the GTL Group as at 31st December, 2004; (ii) the valuation of the property interests of the GTL Group as set out in Appendix II to the Document; and (iii) the effect on the adoption of HKAS 17 “Leases”:

	<i>HK\$'000</i>
Audited consolidated NTAV of the GTL Group as at 31st December, 2004 (the “Audited NTAV”)	171,072
Less: Reduction of the carrying value of the GTL Group’s property interests as at 30th June, 2005 pursuant to the valuation of the GTL Group’s property interests	(2,330)
Effect on adoption of HKAS 17 “Leases”	<u>(11,925)</u>
Adjusted consolidated NTAV of the GTL Group (the “Adjusted NTAV”)	<u>156,817</u>
Audited NTAV per Share*	<u>HK\$0.326</u>
Adjusted NTAV per Share*	<u>HK\$0.299</u>

* Based on a total number of 524,154,000 issued Shares as at the Latest Practicable Date.

Based on the Audited NTAV of approximately HK\$171.1 million, the Cancellation Price represents a discount of approximately 14.1% to the Audited NTAV per Share of approximately HK\$0.326. Based on the Adjusted NTAV of approximately HK\$156.8 million which takes into account the valuation of property interests of the GTL Group and the effect on the adoption of HKAS 17 “Leases”, the Cancellation Price represents a discount of approximately 6.4% to the Adjusted NTAV per Share of approximately HK\$0.299.

As mentioned in the paragraph headed “Business review of the GTL Group” under the section headed “Business review, historical financial information and prospects of the GTL Group”, the GTL Group has made a provision of approximately HK\$34.8 million for the tax penalty which may be imposed by the PRC authorities on Tongyuan Tannery. Notwithstanding this, the GTL Directors consider that it is not possible to determine with any degree of reasonable certainty the amount of such tax penalty as the actions taken by the PRC authorities in relation to the Incident have not been concluded. Based on the PRC legal advice sought by the GTL Group, the amount of the tax penalty, if any, may be up to a maximum of approximately HK\$174 million. Therefore, attention should be drawn that should the GTL Group be subject to a tax penalty in excess of approximately HK\$34.8 million already provided for in the audited consolidated balance sheet of the GTL Group as at 31st December, 2004, the consolidated NTAV of the GTL Group would be reduced. In this case, depending on the excess amount of the tax penalty, the Cancellation Price would represent a discount of less than the aforesaid 6.4% to the Adjusted NTAV or even a premium to the Adjusted NTAV. However, the aforesaid effect of the tax penalty on the NTAV of the GTL Group is for information only and does not constitute a representation that the GTL Group would be subject to a tax penalty in excess of the amount of approximately HK\$34.8 million already provided for or that the GTL Group’s consolidated NTAV would be reduced by such excess amount.

LETTER FROM TAI FOOK TO THE INDEPENDENT BOARD COMMITTEE

(A) *Historical discount of market price to the NTAV of the GTL Group*

We have reviewed the historical closing prices of the Shares as quoted on the Stock Exchange against the then prevailing published consolidated NTAV of the GTL Group per Share as follows:

Period	Prevailing published consolidated NTAV of the GTL Group per Share during the period HK\$	Average closing price per Share during the period HK\$	Discount of average closing price per Share to consolidated NTAV of the GTL Group per Share
1st July, 2003 to 4th September, 2003 (<i>Note 2</i>)	0.526 (<i>Note 1</i>)	0.204	61.2%
5th September, 2003 (<i>Note 2</i>) to 13th April, 2004 (<i>Note 3</i>)	0.504 (<i>Note 2</i>)	0.239	52.6%
14th April, 2004 (<i>Note 3</i>) to 9th September, 2004 (<i>Note 4</i>)	0.325 (<i>Note 3</i>)	0.197	39.4%
10th September, 2004 (<i>Note 4</i>) to 7th April, 2005 (<i>Note 5</i>)	0.330 (<i>Note 4</i>)	0.215	34.8%
8th April, 2005 (<i>Note 5</i>) to the Last Trading Day	0.326 (<i>Note 5</i>)	0.189	42.0%

Notes:

- (1) The audited consolidated NTAV per Share of the GTL Group of HK\$0.526 as at 31st December, 2002 was released before 1st July, 2003.
- (2) The unaudited consolidated NTAV per Share of the GTL Group of HK\$0.504 as at 30th June, 2003 was released on 5th September, 2003.
- (3) The audited consolidated NTAV per Share of the GTL Group of HK\$0.325 as at 31st December, 2003 was released on 14th April, 2004.
- (4) The unaudited consolidated NTAV per Share of the GTL Group of HK\$0.330 as at 30th June, 2004 was released on 10th September, 2004.
- (5) The audited consolidated NTAV per Share of the GTL Group of HK\$0.326 as at 31st December, 2004 was released on 8th April, 2005.

Based on the above, it is noted that the Shares have been traded at a substantial discount to their underlying consolidated NTAV of the GTL Group during the period from 1st July, 2003 up to the Last Trading Day (the “Relevant Period”). Such discounts ranged from approximately 34.8% to 61.2%, which were greater than the discounts of the Cancellation Price to the Audited NTAV per Share and to the Adjusted NTAV per Share of approximately 14.1%

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and 6.4% respectively. In light of this, we are of the view that the discounts of the Cancellation Price to the Audited NTAV per Share and to the Adjusted NTAV per Share are acceptable.

(B) *Listed company with comparable business*

To the best of our knowledge and based on publicly available information, we are only able to identify one company (the “Comparable Company”) listed on the Stock Exchange which principal business is similar to that of the GTL Group during the Relevant Period. The Comparable Company is Hua Lien International (Holding) Company Limited which is principally engaged in the manufacturing and sale of leather and its market capitalisation as at the Latest Practicable Date is comparable to that of GTL. The table below illustrates the percentage of discount of the share price of the Comparable Company to its audited consolidated NTAV as at the Latest Practicable Date:

	Closing price per share as at the Latest Practicable Date HK\$	Latest published audited consolidated NTAV per share as at 31st December, 2004 HK\$	Discount of closing price per share to audited consolidated NTAV per share
Hua Lien International (Holding) Company Limited (stock code: 969)	0.205	1.01	79.7%

As shown above, the Comparable Company was traded at a discount to its audited consolidated NTAV per share of approximately 79.7%, which has a much deeper discount than the discount of approximately 14.1% of the Cancellation Price to the Audited NTAV per Share.

(C) *Privatisation precedents*

We have reviewed all the privatisation proposals for companies previously or currently listed on the Stock Exchange which were announced during the period from 1st July, 2003 up to the Latest Practicable Date, which is considered as an appropriate period to assess the discounts or premiums of the cancellation prices to or over the underlying NTAV of the previous privatisation precedents, details of which are summarised in the following table:

Date of announcement	Company	Principal activity	Cancellation price HK\$	Premium/(discount) of cancellation price over/(to) the underlying NTAV per share*
20th August, 2003	iLink Holdings Limited	Operation of data centers	0.035	(7.9)%
31st October, 2003	Chevalier Construction Holdings Limited	Construction services and maintenance	0.25	(21.1)%

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Date of announcement	Company	Principal activity	Cancellation price HK\$	Premium/(discount) of cancellation price over/(to) the underlying NTAV per share*
13th October, 2004	Alpha General (Holdings) Limited	Sale and distribution of electrical household appliances	0.70	(47.0)%
4th November, 2004	The Kwong Sang Hong International Limited	Property development, sales of properties, property leasing, manufacturing of and trading in cosmetic products	1.25	(31.7)%
29th December, 2004	Sinopec Beijing Yanhua Petrochemical Company Limited	Production and sale of petrochemical products	3.80	108.8%
3rd May, 2005	Hutchison Global Communications Holdings Limited	Telecommunications services	0.65	2,141.4%
19th May, 2005	Henderson China Holdings Limited	Property development and investment, sales of properties, project management, finance and investment holding	8.00	(36.1)%
16th August, 2005	Henderson Cyber Limited	Internet services, merchandising services, data centre services, intelligent building services and information technology investments	0.42	180.0%
Simple average				285.8%
Simple average of the Privatisation Comparables (as defined below)				(28.8)%
12th July, 2005	GTL		0.28	(14.1)%

* The related discounts or premiums are calculated based on information as extracted from the respective privatisation document or announcement of the above privatisation precedents. The underlying NTAV (the "Underlying NTAV") of the above privatisation precedents are based on the relevant adjusted NTAV or the relevant unadjusted NTAV. The adjusted NTAV is used for the calculation of each of such discounts or premiums if it was set out in the relevant privatisation document or announcement. If no adjusted NTAV was set out in the relevant privatisation document or announcement, the unadjusted NTAV is used for the relevant calculation.

Although none of the companies in the above privatisation precedents have a principal business similar to that of the GTL Group, we consider that it is meaningful to compare the discounts or premiums of the cancellation prices to or over the Underlying NTAV of such precedent companies with that of GTL. Based on the table above, among the eight past privatisation proposals, (i) five privatisation proposals (the "Privatisation Comparables") had their cancellation prices representing a discount to the Underlying NTAV ranging from 7.9% to

47.0%; and (ii) three privatisation proposals, namely the privatisation proposals for Sinopec Beijing Yanhua Petrochemical Company Limited, Hutchison Global Communications Holdings Limited and Henderson Cyber Limited (together, the “Excluded Companies”), had their cancellation prices representing a premium over the Underlying NTAV ranging from 108.8% to 2,141.4%.

After taking into account the fact that (i) the issued shares of the Excluded Companies had been traded at premium over the respective underlying NTAV prior to the issue of the announcements regarding the respective privatisation proposals; (ii) the market capitalisation of the Excluded Companies were significantly higher than that of GTL; (iii) the Excluded Companies (save for Henderson Cyber Limited) had recorded net profit for the two financial years immediately preceding the issue of the announcements regarding the respective privatisation proposals; and (iv) the liquidity of the issued shares of the Excluded Companies (save for Henderson Cyber Limited) prior to the issue of the announcements regarding the respective privatisation proposals were relatively higher than that of the Shares prior to the issue of the Announcement, we consider that it may not be appropriate to use the Excluded Companies to assess the reasonableness of the discount of the Cancellation Price to the Audited NTAV per Share and the Adjusted NTAV per Share. On the other hand, we consider that it is appropriate to use the Privatisation Comparables for our comparison purposes since the Privatisation Comparables did not have all of the aforesaid features of the Excluded Companies.

If the privatisation proposals of the Excluded Companies are excluded for our comparison, it is noted that the average discount of the cancellation prices to the Underlying NTAV of the Privatisation Comparables is approximately 28.8%, which is greater than the discounts of the Cancellation Price to the Audited NTAV per Share and the Adjusted NTAV per Share of approximately 14.1% and 6.4% respectively. In light of the above, we are of the view that the discounts of Cancellation Price to the Audited NTAV per Share and the Adjusted NTAV per Share as compared with those of the Privatisation Comparables are reasonable.

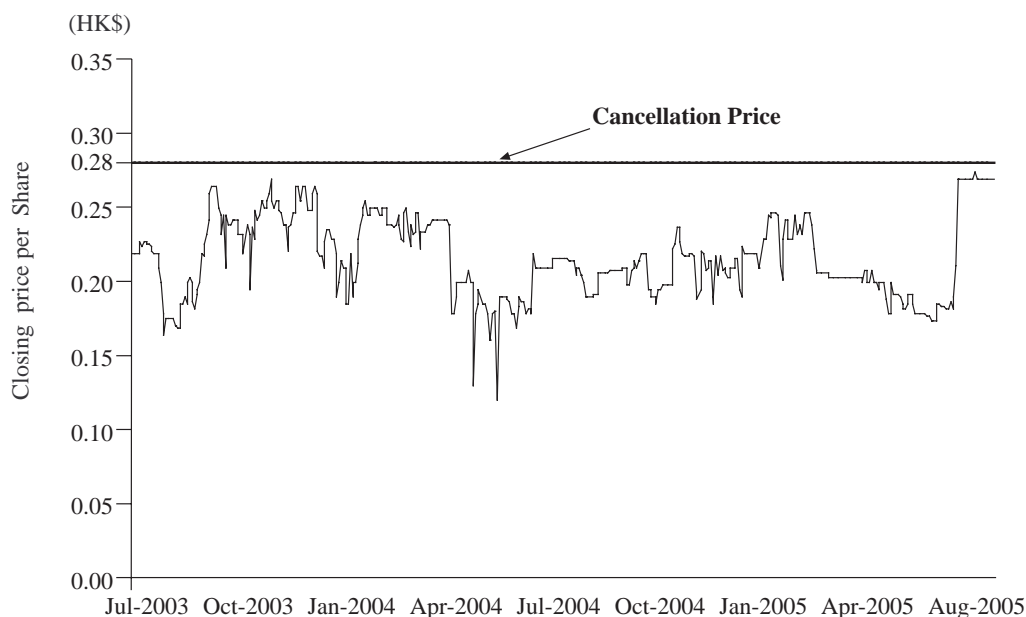
IV. Share prices

The following table sets out the monthly highest and lowest traded prices and the average closing prices of the Shares in each month during the period from 1st July, 2003 to the Latest Practicable Date, which is considered as an appropriate period to assess the historical trading price of the Shares:

Month	Closing price per Share		Average
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>	closing price per Share <i>HK\$</i>
2003			
July	0.228	0.165	0.212
August	0.220	0.170	0.188
September	0.265	0.210	0.244
October	0.270	0.195	0.243
November	0.265	0.222	0.249
December	0.265	0.190	0.227
2004			
January	0.255	0.185	0.229
February	0.250	0.225	0.241
March	0.247	0.223	0.239
April	0.243	0.180	0.210
May	0.200	0.131	0.178
June	0.220	0.170	0.191
July	0.216	0.205	0.213
August	0.210	0.190	0.201
September	0.220	0.195	0.210
October	0.238	0.186	0.204
November	0.221	0.185	0.209
December	0.225	0.190	0.212
2005			
January	0.248	0.202	0.231
February	0.248	0.206	0.233
March	0.207	0.204	0.205
April	0.208	0.180	0.200
May	0.200	0.180	0.187
June	0.212	0.175	0.183
July	0.275	0.270	0.270
August (up to the Latest Practicable Date)	0.270	0.270	0.270

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The graph below illustrates the daily closing price per Share as quoted on the Stock Exchange from 1st July, 2003 up to the Latest Practicable Date:



As illustrated in the above share price chart, the Shares were traded between the upper end of HK\$0.275 and the lower end of HK\$0.131. We wish to draw your attention of the fact that (i) the Shares were traded below the Cancellation Price during the whole period under review; and (ii) during the past one year, the Shares were traded at the upper end of HK\$0.275 only after the issue of the Announcement on 13th July, 2005.

The Cancellation Price of HK\$0.28 per Share represents:

- (i) a premium of approximately 32.1% over the closing price of HK\$0.212 per Share as quoted on the Stock Exchange on 28th June, 2005, being the date of suspension of trading in the Shares on the Stock Exchange prior to the issue of the Announcement;
- (ii) a premium of approximately 46.6% over the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on 27th June, 2005, being the last full trading day prior to 28th June, 2005;
- (iii) a premium of approximately 46.6% over the average closing price of approximately HK\$0.191 per Share, which was calculated based on the daily closing prices as quoted on the Stock Exchange over the five consecutive trading days up to and including 28th June, 2005;
- (iv) a premium of approximately 52.2% over the average closing price of approximately HK\$0.184 per Share, which was calculated based on the daily closing prices as quoted on the Stock Exchange over the 30 consecutive trading days up to and including 28th June, 2005;

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- (v) a premium of approximately 47.4% over the average closing price of approximately HK\$0.190 per Share, which was calculated based on the daily closing prices as quoted on the Stock Exchange over the 60 consecutive trading days up to and including 28th June, 2005;
- (vi) a premium of approximately 41.4% over the average closing price of approximately HK\$0.198 per Share, which was calculated based on the daily closing prices as quoted on the Stock Exchange over the 90 consecutive trading days up to and including 28th June, 2005; and
- (vii) a premium of approximately 3.7% over the closing price of HK\$0.270 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

In our opinion, the significant rise in the price of the Shares subsequent to the date of the Announcement on 13th July, 2005 from an average closing price of HK\$0.183 per Share during June 2005 was likely to be the outcome of the announcement of the Scheme. Without the Scheme or if the Scheme is not approved or lapses, the price of the Shares may not be able to maintain at the current level. Therefore, based on the above, we consider that the Cancellation Price is fair and reasonable.

V. Turnover of the Shares

The table below sets out the average daily trading volume of the Shares per month, the percentage of the average daily trading volume of the Shares to the total number of issued Shares and the percentage of the average daily trading volume of the Shares to the number of Shares held by the public GTL Shareholders respectively during the period from 1st July, 2003 to the Latest Practicable Date, which is considered as an appropriate period to assess the historical liquidity of the Shares:

	Average daily trading volume of the Shares	Percentage of average daily trading volume of the Shares to the total number of issued Shares as at the Latest Practicable Date <i>(Note 1)</i>	Percentage of average daily trading volume of the Shares to the number of Shares held by the public GTL Shareholders as at the Latest Practicable Date <i>(Note 2)</i>
2003			
July	51,451	0.010%	0.035%
August	104,886	0.020%	0.071%
September	131,703	0.025%	0.089%
October	161,273	0.031%	0.109%
November	136,757	0.026%	0.092%
December	50,736	0.010%	0.034%
2004			
January	72,516	0.014%	0.049%
February	156,682	0.030%	0.106%
March	67,667	0.013%	0.046%
April	18,232	0.003%	0.012%
May	69,386	0.013%	0.047%
June	17,861	0.003%	0.012%
July	14,476	0.003%	0.010%
August	28,500	0.005%	0.019%
September	8,205	0.002%	0.006%
October	45,284	0.009%	0.031%
November	425,520	0.081%	0.287%
December	104,336	0.020%	0.070%
2005			
January	122,810	0.023%	0.083%
February	84,559	0.016%	0.057%
March	12,966	0.002%	0.009%
April	83,000	0.016%	0.056%
May	65,661	0.013%	0.044%
June	97,475	0.019%	0.066%
July	1,506,293	0.287%	1.015%
August (up to the Latest Practicable Date)	407,266	0.078%	0.274%

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Notes:

1. Based on 524,154,000 Shares in issue as at the Latest Practicable Date.
2. Based on the number of Shares held by public of 148,448,000 Shares as at the Latest Practicable Date.

Based on the above, it is noted that, during the Relevant Period, the average daily trading volume of the Shares was below 0.1% of the total number of issued Shares as at the Latest Practicable Date and below 0.3% of the number of Shares held by the public GTL Shareholders. During the period from 13th July, 2005 (being the date of issue of the Announcement) up to and including the Latest Practicable Date, the percentages of the average daily trading volume of the Shares as compared with the total number of issued Shares as at the Latest Practicable Date and the number of Shares held by the public GTL Shareholders were increased to not more than 0.3% and 1.1% respectively. However, based on the historical trading volume of the Shares, it is uncertain whether the increase in trading volume of the Shares can be sustained without the Scheme or if the Scheme is not approved or lapses. Moreover, we consider that, without the Scheme or if the Scheme is not approved or lapses, the historical trading volume of the Shares would not be sufficient for the Scheme Shareholders to sell their Shares in the market, especially in large blocks, without selling at a significant discount to the market price of the Shares. Therefore, the Scheme represents a good opportunity for the Scheme Shareholders to dispose of their Shares at the Cancellation Price should they wish.

VI. Price earnings multiple

We acknowledge that price earnings multiple analysis is commonly used in assessing the value of the shares of listed companies. However, we consider that this valuation methodology may not be appropriate to determine the value of the Shares given that (i) the GTL Group had made losses from the year ended 31st December, 1998 to the year ended 31st December, 2003; and (ii) the audited consolidated net profit of the GTL Group for the year ended 31st December, 2004 of approximately HK\$4.7 million was attributable to the write-back of the impairment of fixed assets of approximately HK\$5.2 million. Nevertheless, we have made a comparison between the price earnings multiple of GTL with that of the Comparable Company as follows:

Price earnings multiple of GTL (based on the audited consolidated net profit of the GTL Group for the year ended 31st December, 2004 and the Cancellation Price)	31.4 times
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Price earnings multiple of the Comparable Company (based on the audited consolidated net profit of the Comparable Company and its subsidiaries for the year ended 31st December, 2004 and its share price as at the Latest Practicable Date)	7.1 times
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Based on the above, the price earnings multiple of GTL based on the Cancellation Price is considered to be more favourable than that of the Comparable Company.

CONCLUSION AND RECOMMENDATION

We have considered the Scheme in light of the following three principal factors: (i) the discount of the Cancellation Price to the Audited NTAV per Share and the Adjusted NTAV per Share; (ii) the premium of the Cancellation Price over the market price of the Shares; and (iii) the uncertainty of the prospects and the future performance of the GTL Group.

It is noted that the discounts of the Cancellation Price to the Audited NTAV per Share and the Adjusted NTAV per Share are approximately 14.1% and 6.4% respectively. Notwithstanding this, such discounts are significantly lower than the historical discount of the average closing prices of the Shares to the consolidated NTAV of the Shares of approximately 34.8% to 61.2% during the Relevant Period. We also found that the shares of the Comparable Company were traded in the market at a substantial discount of approximately 79.7% to its consolidated NTAV as at the Latest Practicable Date and the discounts of cancellation prices to the Underlying NTAV of the Privatisation Comparables fell within the range of approximately 7.9% and 47.0% with an average of approximately 28.8%. Accordingly, we consider that the discounts of the Cancellation Price to the Audited NTAV per Share and the Adjusted NTAV per Share are acceptable and are fair and reasonable so far as the Scheme Shareholders are concerned.

The Cancellation Price of HK\$0.28 per Share represents a substantial premium over the market price of the Shares during the Relevant Period. In addition, as the trading volume of the Shares was very thin during the Relevant Period, we consider that the Scheme, through which the Scheme Shareholders will be able to dispose of their shareholdings at a large premium over the market prices of the Shares during the Relevant Period, represents a good opportunity for the Scheme Shareholders to realise their investments.

Having considered the abovementioned principal factors and reasons, we consider that the terms of the Scheme are fair and reasonable and the Scheme is in the interest of the Independent Shareholders. Accordingly, we recommend that the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions to approve the Scheme to be proposed at the Court Meeting and the Extraordinary General Meeting respectively.

Yours faithfully,
For and on behalf of
Tai Fook Capital Limited
Derek C. O. Chan **Marcus Ho**
Managing Director *Director*

EXPLANATORY STATEMENT

This explanatory statement constitutes the statement required under Section 166A of the Companies Ordinance

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF GDH AGREEING TO PAY THE CANCELLATION PRICE FOR EACH SCHEME SHARE

INTRODUCTION

By an announcement dated 12th July, 2005 published in the newspapers on 13th July, 2005, GDH and GTL jointly announced, inter alia, that GDH requested the GTL Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of GTL by way of a scheme of arrangement under section 166 of the Companies Ordinance involving the cancellation of all the Scheme Shares, as a result of which, and upon the successful implementation and completion of the Proposal as outlined in this document, GTL will become a wholly-owned subsidiary of GDH.

The purpose of this Explanatory Statement is to explain the terms and effects of the Scheme and to provide the Scheme Shareholders with other relevant information in relation to the Scheme, and in particular, to state any material interests of the GTL Directors, whether as directors of GTL or as members or as creditors of GTL or otherwise, and the effect thereon of the Scheme, in so far as it is different from the effect on the like interests of other persons pursuant to section 166A of the Companies Ordinance.

The particular attention of the GTL Shareholders is drawn to the following sections of this document: (i) a letter from the GTL Board set out on pages 7 to 13 of this document; (ii) a letter from the Independent Board Committee in connection with the Scheme set out on page 14 of this document; (iii) a letter of advice from Tai Fook (the independent financial adviser appointed to advise the Independent Board Committee) set out on pages 15 to 33 of this document; and (iv) the Scheme set out on pages 116 to 119 of this document.

SUMMARY OF THE SCHEME

The Scheme is to be implemented by way of a scheme of arrangement under section 166 of the Companies Ordinance between GTL and the Scheme Shareholders. The Scheme provides that, subject to the conditions of the Scheme being fulfilled or waived (as applicable), the Scheme Shares will be cancelled and, in consideration for such cancellation, the Scheme Shareholders whose names appear on the register of members of GTL on the Record Date, which is expected to be 20th October, 2005, will be entitled to receive the payment of HK\$0.28 in cash for each Scheme Share held on the Record Date.

As at the Latest Practicable Date, there were 524,154,000 Shares in issue and the Scheme Shareholders were interested in 149,054,000 Shares, representing approximately 28.44% of the issued share capital of GTL. On the basis of the cash Cancellation Price of HK\$0.28 per Scheme Share, the Scheme values the entire issued share capital of GTL at approximately HK\$147 million (on the basis that none of the Share Options will be exercised). The maximum aggregate Cancellation Price payable under the Scheme amounting to approximately HK\$46 million (assuming all the Share Options were exercised in full) will be financed by internal resources of GDH. ICEA, the financial adviser to GDH, is satisfied that sufficient financial resources are available to GDH for the implementation of the Proposal in full.

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The Scheme will lapse if it does not become effective on or before 31st January, 2006 or such later date as GDH and GTL may agree and the Court may allow, and, in such event, the Scheme Shareholders will be notified by way of a press announcement accordingly. Further announcement on any change regarding the timetable of the Scheme will be made as and when necessary.

Assuming that the Scheme becomes effective on 20th October, 2005, cheques for cash entitlements are expected to be despatched to the Scheme Shareholders and Option Holders on or before 26th October, 2005.

Settlement of the consideration to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which GDH may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

THE SHARE OPTIONS

As at the Latest Practicable Date, there were in total 15,350,000 outstanding Share Options held by the Option Holders under the Share Option Scheme entitling them to subscribe for 15,350,000 new Shares in total at the following exercise prices and during the exercise periods specified below:

	Number of Share Options
Share Options exercisable now (and will lapse on 9th September, 2008) at the exercise price of HK\$0.22 per Share	6,650,000
Share Options exercisable now (and will lapse on 11th May, 2009) at the exercise price of HK\$0.246 per Share	8,700,000

Subsequent to the issue of the Announcement, all the Option Holders have irrevocably undertaken to GDH and GTL that they will surrender their Share Options in consideration of GDH agreeing to pay them the relevant Option Cancellation Prices upon the Scheme becoming effective, and there upon (assuming that the Scheme becoming effective) GTL will become a wholly owned subsidiary of GDH. Accordingly, as between the date hereof and the time of the Court Meeting, no further Share will be issued by GTL, and the number of Scheme Shares will remain 149,054,000 Shares as from the date of this document until the date of the Court Meeting.

The Option Cancellation Prices per Share Option are HK\$0.06 (in respect of the Share Options with an exercise price of HK\$0.22 per Share) and HK\$0.034 (in respect of the Share Options with an exercise price of HK\$0.246 per Share), in each case being the see through price (relative to the Cancellation Price of HK\$0.28 per Scheme Share) for the Share Options concerned.

Save as disclosed herein, there were no other outstanding options, warrants or convertible securities in GTL as at the Latest Practicable Date.

EXPLANATORY STATEMENT

CONDITIONS OF THE SCHEME

The Scheme is subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval (by way of poll) of the Scheme by a majority in number representing not less than three-fourths in value of the Shares of the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting to consider the Scheme, provided that:
 - (i) the Scheme is approved by at least 75% of votes attaching to the Scheme Shares held by the Independent Shareholders present and voting either in person or by proxy; and
 - (ii) the number of votes cast against the resolution to approve the Scheme is not more than 10% of the votes attaching to the Scheme Shares held by all the Independent Shareholders;
- (b) the passing of a special resolution by a majority of at least three-fourths of the votes cast by the GTL Shareholders present and voting, in person or by proxy, at the extraordinary general meeting of GTL to be convened following the Court Meeting to reduce the authorised and issued share capital of GTL by cancelling and extinguishing the Scheme Shares and, immediately thereafter, increase the authorised share capital of GTL to the amount prior to the cancellation of the Scheme Shares and apply the credit arising from its books of accounts as a result of the aforesaid reduction of capital to pay up in full at par and issue to GDH such number of new Shares being equal to the Scheme Shares cancelled;
- (c) the Court (with or without modification) sanctioning the Scheme and confirming the reduction of capital involved in the Scheme;
- (d) the delivery to and registration by the Hong Kong Registrar of Companies of the Order of the Court sanctioning the Scheme and confirming such reduction of capital (with or without modification), together with a minute relating to the share capital of GTL and containing the particulars required by section 61 of the Companies Ordinance;
- (e) all Authorisations in connection with the Scheme having been obtained or made from, with or by (as the case may be) the Relevant Authorities in Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations required and having been obtained remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with, and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to any requirement expressly provided for, in or under any relevant law, order, rule, regulation or code in connection with the Scheme or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective; and
- (g) all bank and other necessary consents which may be required under any existing contractual obligations of GTL having been obtained and remain in full force and effect without modification.

EXPLANATORY STATEMENT

GDH reserves the right to waive condition (g), either in whole or in respect of any particular matter. In the event that conditions (e) and/or (f) is/are not fulfilled, GDH reserves the right to assess the materiality of such non-fulfilment and to waive the fulfilment of any such condition to such extent where it considers appropriate. Conditions (a) to (d) cannot be waived in any event. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31st January, 2006 (or such other date as GDH and GTL may agree or as the Court may direct), otherwise the Scheme will lapse.

An announcement will be made by GDH and GTL if the Scheme lapses.

SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND COURT MEETING

According to section 166 of the Companies Ordinance where an arrangement is proposed between a company and its members or any class of them, the court may, on the application in a summary way of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such a manner as the court directs.

It is expressly provided in section 166 of the Companies Ordinance that if a majority in number representing three-fourths in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting or meetings, as the case may be, summoned as directed by the court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the court, be binding on all members or class of members, as the case may be, and also on the company.

THE ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, unless with the consent of the Executive to dispense with compliance or strict compliance thereof, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the disinterested Shares that are cast either in person or by proxy at a duly convened meeting of the holders of the disinterested Shares (namely, the Independent Shareholders); and
- (b) the number of votes cast against the resolution to approve the Scheme at such meeting is not more than 10% of the votes attaching to all disinterested Shares.

BINDING EFFECT OF THE SCHEME

Notwithstanding the fact that there may be a dissenting minority, if the Scheme is approved at the Court Meeting by a majority in number, representing three-fourths in value, of the Scheme Shareholders present and voting in person or by proxy, the Scheme becomes binding on GTL and all the Scheme Shareholders, so long as it is sanctioned by the Court and the GTL Shareholders having passed the necessary resolution(s) to implement the Scheme. GDH will be entitled to, upon fulfillment of the requirements as set forth at Rule 2.10 of the Takeovers Code exercise the legal rights vested in it, by virtue of the Scheme having been duly approved by the Scheme Shareholders at the Court Meeting and sanctioned by the Court, and the order sanctioning the Scheme having taken effect within the meanings as ascribed thereto pursuant to section 166(3) of the Companies

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Ordinance, to cause GTL, upon GTL Shareholders having passed the necessary resolution(s) to implement the Scheme, to: (1) cancel all Scheme Shares whereupon the authorised and issued share capital of GTL shall be reduced from HK\$70,000,000 and HK\$52,415,400 respectively to HK\$55,094,600 and HK\$37,510,000 respectively; (2) increase the authorised share capital of GTL to its former amount of HK\$70,000,000 by the creation of 149,054,000 new Shares; and (3) apply, on the Effective Date, the credit of HK\$14,905,400 which will arise in its books of account as a result of the said reduction of capital in paying up in full at par the 149,054,000 new Shares which shall be allotted and issued, credited as fully paid, to GDH, whereupon all Shares representing holdings of those Shares cancelled as aforesaid shall cease to have effect as document of title, and GDH will pay the Cancellation Price of HK\$0.28 per Scheme Share to the Scheme Shareholders for each Scheme Share held by them prior to the said cancellation of the Scheme Shares. Thereupon GTL shall become a wholly-owned subsidiary company of GDH.

EFFECTS OF THE SCHEME

Shareholding structure

The table below sets out the shareholding structure of GTL as at the Latest Practicable Date and immediately upon completion of the Scheme:

At the Latest Practicable Date			Upon successful implementation of the Scheme		
Shareholder	Number of Shares	(%)	Shareholder	Number of Shares	(%)
GDH	375,100,000	71.56	GDH	524,154,000	100.00
Directors of GTL or GTL's subsidiaries <i>(Note (a))</i>	516,000	0.10	Directors of GTL or GTL's subsidiaries	—	—
Directors of GDH <i>(Note (b))</i>	90,000	0.02	Directors of GDH	—	—
Public <i>(Note (a))</i> other than directors of GDH	<u>148,448,000</u>	<u>28.32</u>	Public other than directors of GDH	<u>—</u>	<u>—</u>
	<u><u>524,154,000</u></u>	<u><u>100</u></u>		<u><u>524,154,000</u></u>	<u><u>100</u></u>

Notes:

- (a) The Shares held by the directors of GTL or GTL's subsidiaries and the public are Scheme Shares.
- (b) Two directors of GDH hold in aggregate 90,000 Shares, which form part of the Scheme Shares. These two directors are deemed to be acting in concert with GDH. GDH does not have any other concert parties having an interest in GTL.

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Capital value

The Cancellation Price represents:

- a premium of approximately 3.7% over the closing price of HK\$0.270 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- a premium of approximately 32.1% over the closing price of HK\$0.212 per Share as quoted on the Stock Exchange on 28th June, 2005 (being the Last Trading Day);
- a premium of approximately 46.6% over the closing price of HK\$0.191 per Share as quoted on the Stock Exchange on 27th June, 2005 (being the last full trading day prior to the suspension of trading in the Shares pending the issue of the Announcement);
- a premium of approximately 46.6% over the average closing price of about HK\$0.191 per Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 28th June, 2005;
- a premium of approximately 52.2% over the average closing price of about HK\$0.184 per Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including 28th June, 2005;
- a premium of approximately 47.4% over the average closing price of about HK\$0.190 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 28th June, 2005;
- a premium of approximately 41.4% over the average closing price of about HK\$0.198 per Share based on the daily closing prices as quoted on the Stock Exchange over the 90 trading days up to and including 28th June, 2005;
- a discount of approximately 14.1% to the audited consolidated net asset value per Share of about HK\$0.326 on 31st December, 2004; and
- a discount of approximately 6.35% to the consolidated Adjusted NTAV per Share of about HK\$0.299.

EXPLANATORY STATEMENT

On the basis of the said Cancellation Price, the table below illustrates the change in capital value for the Scheme Shareholders, assuming that the Scheme is implemented.

	On 27th June, 2005 (being the last full trading day of the Shares prior to the suspension pending the release of the Announcement) HK\$	On the Latest Practicable Date HK\$
Consideration receivable (per 1,000 Shares) under the Scheme	280	280
Value of 1,000 Shares (<i>Note</i>)	<u>(191)</u>	<u>(270)</u>
	<u>89</u>	<u>10</u>
This represents an increase of	46.6%	3.7%

Note: Based on the closing price of the Shares as quoted on the Stock Exchange on the respective dates.

A summary of the closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months preceding the date of the Announcement; (ii) on 27th June, 2005 (being the last full trading day immediately preceding the date of the Announcement); and (iii) on the Latest Practicable Date are set out in Appendix III to this document.

Net tangible assets

As at 31st December, 2004, the audited consolidated NTAV of GTL amounted to approximately HK\$171.1 million, or approximately HK\$0.326 per Share. The Cancellation Price represents a discount of approximately 14.1% to the aforesaid audited consolidated NTAV per Share as at 31st December, 2004.

The consolidated Adjusted NTAV of GTL (reference is made to section 6 in Appendix I on page 91 of this document regarding the adjustment) amounted to approximately HK\$156.8 million, or approximately HK\$0.299 per Share. The Cancellation Price represents a discount of approximately 6.35% to the aforesaid consolidated Adjusted NTAV per Share.

Earnings

The GTL Group's audited consolidated profit attributable to the GTL Shareholders for the year ended 31st December, 2004 amounted to approximately HK\$4,668,000, representing an earning of approximately HK\$0.0089 per Share.

Dividends

GTL did not declare any dividend for the year ended 31st December, 2004.

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INFORMATION ON THE GTL GROUP

Business

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

Historical financial information

A summary of the audited consolidated results of the GTL Group and certain financial information of GTL for each of the three years ended 31st December, 2004 is set out below:

	For the year ended 31st December,		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
GTL Group			
Turnover	529,055	381,601	281,951
Profit/(loss) from operations	(198,991)	(95,632)	11,605
Profit/(loss) before taxation	(205,378)	(101,580)	5,871
Profit/(loss) after tax but before minority interest	(205,378)	(101,294)	4,668
Profit/(loss) attributable to Shareholders	(205,201)	(101,294)	4,668
GTL			
Accumulated losses	(604,148)	(554,606)	(538,956)

As at 31st December, 2004, the audited consolidated net asset value of the GTL Group was approximately HK\$171.1 million, representing approximately HK\$0.326 per Share (based on 524,154,000 Shares in issue as at the Latest Practicable Date).

In accordance with Rule 11.1(f) of the Takeovers Code, GTL has appointed RHL Appraisal Limited (an independent valuer and a corporate member of The Hong Kong Institute of Surveyors) to revalue the properties of the GTL Group as at 30th June, 2005. Based on the said revaluation of its properties, GTL had a deficit of approximately HK\$2,330,000. Reference is made to page 91 of this document for details of the above reduction in section 6 in Appendix I and to Appendix II to this document.

Your attention is also drawn to Appendix I to this document which sets out the financial information of the GTL Group.

Based on the closing price of HK\$0.270 per Share and the total number of Shares in issue as at the Latest Practicable Date, the market capitalisation of GTL was approximately HK\$142 million.

INFORMATION ON GDH

GDH is an investment holding company. In addition to its interest in GTL, GDH is the holding company of GDI, Kingway and Guangnan, the shares of all of which are listed on the Stock Exchange. GDI and its subsidiaries are principally engaged in businesses including water distribution, electric power generation, toll roads and bridges, property investment and development, hotel operations and management, and department stores operation. Kingway and its

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subsidiaries are principally engaged in the production, distribution and sale of beer under its renowned “Kingway” brand. Guangnan and its subsidiaries are principally engaged in the manufacturing and sale of tinsplates and related products, leasing of properties, distribution of live and fresh foodstuffs. In addition, GDH (together with its other subsidiaries) is also engaged in the production and sale of malt, medium density fibre boards and decorative boards, real estate development and asset management.

FUTURE INTENTIONS OF GDH

Upon the Scheme becoming effective and upon the successful implementation and completion of the Proposal as outlined in this document, GTL will become a wholly-owned subsidiary of GDH, and GDH intends to continue with the business of the GTL Group, and GDH does not intend to make any significant and immediate changes to the business, management and staff employment of the GTL Group or any significant redeployment of the fixed assets of the GTL Group. The listing of the Shares on the Stock Exchange will be withdrawn if the Scheme is implemented, but it will be maintained in the event that the Scheme lapses. GDH has no intention to seek a listing of the Shares on any stock exchange in the foreseeable future.

REASONS FOR AND BENEFITS OF THE SCHEME

Reasons for the Scheme

During the period from 29th June, 2002 to 28th June, 2005 (being the Last Trading Day), the Shares were consistently trading at a discount to GTL’s consolidated net asset value and the trading volume of the Shares was, most of the time, thin. For the period from 29th June, 2004 up to and including 28th June, 2005 (being the Last Trading Day), the closing prices of the Shares were within the range of HK\$0.175 to HK\$0.248 per Share, with an average closing price of the Shares at approximately HK\$0.207 per Share. Such average closing price represents a discount of about 36.5% to the audited consolidated net asset value per Share of about HK\$0.326 as at 31st December, 2004. The average daily trading volume of the Shares for the period from 29th June, 2004 up to and including 28th June, 2005 was 92,089 Shares. Such daily trading volume represents about 0.018% of the issued share capital of GTL as at the date of the Announcement and the date of this document.

Given the substantial discount of the market price to the said consolidated net asset value per Share and the low liquidity of the Shares on the Stock Exchange, the GTL Directors are, and, as stated in the Announcement, the GDH Directors were, of the opinion that whether there would be any significant improvement in those respects remains uncertain in the foreseeable future, and accordingly, as stated in the Announcement, the GDH Directors believed that the Scheme offers the Scheme Shareholders a good opportunity to exit their investments in GTL.

Furthermore, given the said consolidated net asset value per Share, any fund raising exercise by GTL from the equity market at the current level of its share price, depending on the amount of funds to be raised, may involve the issuance of a substantial number of new Shares, and thereby diluting the net asset value per Share.

In addition, since the listing of the Shares on the Stock Exchange in December 1996, GTL has only accessed the equity market once in June 1997, and since then it has not raised funds in the open market, the GTL Directors regard and, as stated in the Announcement, the GDH Directors regarded the costs of maintaining the listing status of GTL on the Stock Exchange to be not justifiable.

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Benefit for the Scheme Shareholders

Although the cash Cancellation Price represents a discount of about 14.1% to the audited consolidated net asset value per Share as at 31st December, 2004, it represents a premium of approximately 32.1% and 46.6% over the closing price of the Shares as at 28th June, 2005 (being the Last Trading day) and 27th June, 2005, respectively and a premium of approximately 46.6%, 52.2%, 47.4% and 41.4% of the average daily closing price of the Shares over the five trading days, 30 trading days, 60 trading days and 90 trading days, respectively ended on (and including) 28th June, 2005 (being the Last Trading Day). In view of the then prevailing level of the market price and the low liquidity of the Shares, the GTL Directors believe that the Scheme provides an opportunity for all Scheme Shareholders to realise their investments in GTL at a premium to the then prevailing level of the market price of the Shares.

INTERESTS OF DIRECTORS OF GTL IN THE SCHEME AND EFFECTS THEREON

A number of persons, being directors of GTL or GTL's subsidiaries, are interested in 516,000 Shares in aggregate (representing approximately 0.10% of the issued capital of GTL as at the Latest Practicable Date). The successful implementation of the Scheme will not have any effect on the interest of such directors which is different from the effect on the like interest of other persons.

Save for the Share Options which may be held, each GTL Director has severally confirmed with the GTL Board that none of them is a creditor of GTL.

SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and all certificates representing the Scheme Shares will cease to have effect as documents or evidence of title. The Scheme Shareholders will be notified by way of a press announcement of the exact date on which the Scheme and the withdrawal of listing of the Shares on the Stock Exchange will become effective. In the event that the Scheme is not implemented, it is intended that the listing of the Shares on the Stock Exchange will be maintained.

REGISTRATION AND PAYMENT

It is proposed to close the register of members of GTL on 15th September, 2005 or at the same time on such other date as may be notified to the GTL Shareholders by press announcement, in order to establish entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of the GTL Shareholders to attend and vote at the Extraordinary General Meeting. The Scheme Shareholders should ensure that their Shares are registered or lodged for registration in their names or in the name(s) of their nominees at or with Tengis Limited, the share registrar and share transfer office of GTL, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, before the register of members of GTL is closed.

Upon the Scheme becoming effective, payment for the consideration of the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of GTL on the Record Date. On the basis that the Scheme becomes effective on or about 20th October, 2005, cheques for payment of the consideration payable under the Scheme are expected to be despatched on or about 26th October, 2005. In the absence of any specific instructions to the contrary received in writing by Tengis Limited, the share registrar and share transfer office of GTL, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, cheques will be sent to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to

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the registered address of that joint holder whose name stands first in such register in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and GTL, GDH or ICEA or any of their officers or agents will not be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, GDH shall have the right to cancel or countermand payment of any such cheque which has not been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in GTL's name with a licensed bank in Hong Kong selected by GTL.

GTL shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums, together with interest thereon, to persons who satisfy GTL that they are respectively entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, GDH shall be released from any further obligation to make any payments under the Scheme and GTL shall thereafter transfer to GDH the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from 20th October, 2005.

Settlement of the cash entitlements to which any Scheme Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which GDH may otherwise be, or claim to be entitled against such Scheme Shareholder.

OVERSEAS SHAREHOLDERS

The making of the Scheme to persons not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such persons should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders wishing to accept the Scheme to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

TAXATION

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme and in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

COURT MEETING AND EXTRAORDINARY GENERAL MEETING

In accordance with the direction of the Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolution to approve the Scheme (with or without modifications). The Scheme will be subject to the approval by the Scheme Shareholders at the Court Meeting (without counting the votes of those Scheme Shareholders not

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being Independent Shareholders) in the manner referred to in the paragraph headed “Conditions of the Scheme” in this Explanatory Statement. The Extraordinary General Meeting has been convened to be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme.

As at the Latest Practicable Date, GDH was interested in 375,100,000 Shares, representing approximately 71.56% of the issued share capital of GTL. Shares held by GDH will not form part of the Scheme Shares and GDH will not vote at the Court Meeting. In addition, 90,000 Shares are held by two GDH Directors and they are deemed to be parties acting in concert with GDH. Accordingly, in order to satisfy the requirements of Rule 2.10 of the Takeovers Code in relation to privatisation of a company by way of a scheme of arrangement, their votes will not be counted at the Court Meeting. However, those 90,000 Shares will still form part of the Scheme Shares. GDH does not have any other concert party having an interest in Shares. The Shares held by the directors of GTL and/or of its subsidiaries may be voted at the Court Meeting. None of them has indicated how they will vote at the Court Meeting.

The Extraordinary General Meeting has been convened to be held on 22nd September, 2005, immediately following the Court Meeting, for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the GTL Shareholders present and voting, in person or by proxy, at the Extraordinary General Meeting. All GTL Shareholders will be entitled to attend and vote on such special resolution at the Extraordinary General Meeting. GDH and parties acting in concert with it have indicated that if the Scheme is approved at the Court Meeting, they will each vote in favour of the special resolution to be proposed at the Extraordinary General Meeting to reduce the authorised and issued share capital by cancelling and extinguishing the Scheme Shares and apply the credit arising from GTL’s books of accounts as a result of the aforesaid reduction of capital and to pay up in full and issue to GDH such number of new Shares being equal to the Scheme Shares cancelled.

Purchasers and unregistered owners of Shares and Shareholders are urged to have their names entered in the register of members of GTL with respect to their unregistered holdings in Shares as soon as possible for, inter alia, the following reasons:

- (a) to enable GTL Shareholders (being Scheme Shareholders) to attend the meeting as required under section 166 of the Companies Ordinance in the capacity as members of GTL or to be represented by proxies to be appointed by them;
- (b) to enable GTL to properly classify members of GTL for the purposes of section 166 of the Companies Ordinance; and
- (c) to enable GTL and GDH to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective. All deliveries of cheques required for making payment in respect of the Share or Shares as aforesaid shall be effected by duly posting the same in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses as appearing in the register of members of GTL at the close of business on the Record Date.

Notice of the Court Meeting is set out on pages 120 to 121 of this document. The Court Meeting will be held on 22nd September, 2005 at the time specified in the notice of the Court Meeting at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong.

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A copy of the notice of the Extraordinary General Meeting is set out on pages 122 to 123 of this document. The Extraordinary General Meeting will be held at 3:30 p.m. on 22nd September, 2005 at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong or immediately after the conclusion of the Court Meeting, whichever is the later.

ACTION TO BE TAKEN

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the Extraordinary General Meeting are enclosed with this document.

Whether or not you are able to attend the Court Meeting and/or the Extraordinary General Meeting, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed thereon, and to lodge them with Tengis Limited, the share registrar and share transfer office of GTL, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 3:00 p.m. on 20th September, 2005 and the white form of proxy for use at the Extraordinary General Meeting should be lodged not later than 3:30 p.m. on 20th September, 2005 for the purpose of the Extraordinary General Meeting to be convened on 22nd September, 2005. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. The completion and return of a form of proxy for the Court Meeting or the Extraordinary General Meeting will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

An announcement will be made by GTL in relation to the results of the Court Meeting and the Extraordinary General Meeting. In addition, an announcement will be made on the results of the hearing of the petition to sanction the Scheme by the Court and, if the Scheme is sanctioned, the last date of dealings in the Shares on the Stock Exchange, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting, you (being a Scheme Shareholder) will still be bound by the outcome of such Court Meeting. You are therefore strongly urged to attend and vote at the Court Meeting in person or by proxy.

For the purpose of determining the entitlements of GTL Shareholders to attend and vote at the Court Meeting and the Extraordinary General Meeting, the register of members of GTL will be closed from 15th September, 2005 to 22nd September, 2005 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with Tengis Limited, the share registrar and share transfer office of GTL, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 14th September, 2005.

COSTS OF THE SCHEME

In the event that the Scheme becomes effective, the costs of the Scheme will be borne by GTL. The costs of the Scheme and of its implementation are expected to amount to approximately HK\$2,800,000. These primarily consist of fees for financial advisers, legal advisers, and accounting, property valuation, printing and other related charges.

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In the event that the Scheme is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the independent financial adviser to the aforesaid Independent Board Committee, and the Scheme is not approved at the relevant shareholders' meeting(s) or does not become unconditional, all the expenses incurred by GTL in connection with the Scheme shall be borne by GDH.

RECOMMENDATION

Your attention is drawn to the following:

- (i) the paragraph headed "Recommendation" in the "Letter from the GTL Board" set out on page 12 of this document;
- (ii) the letter from the Independent Board Committee set out on page 14 of this document; and
- (iii) the letter from Tai Fook (being the independent financial adviser engaged to advise the Independent Board Committee) set out on pages 15 to 33 of this document.

FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this document, all of which forms part of this Explanatory Statement.

1. THREE-YEAR FINANCIAL SUMMARY

The following is a summary of the audited consolidated results of the GTL Group for each of the three financial years ended 31st December, 2004.

	For the year ended 31st December,		
	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	529,055	381,601	281,951
Profit/(loss) from operations	(198,991)	(95,632)	11,605
Profit/(loss) before taxation	(205,378)	(101,580)	5,871
Taxation	—	286	(1,203)
Profit/(loss) after tax but before minority interest	(205,378)	(101,294)	4,668
Minority interests	177	—	—
Profit/(loss) attributable to Shareholders	(205,201)	(101,294)	4,668
Earning/(loss) per share (HK\$ cents)	(39.15)	(19.33)	0.89
Dividend per share	Nil	Nil	Nil

Notes:

1. There are no extraordinary or exceptional items for the past three financial years.
2. The auditor of GTL was Ernst & Young for the three years ended 31st December, 2004.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GTL GROUP FOR THE YEAR ENDED 31ST DECEMBER, 2004

Set out below is a summary of the report of the auditors, the consolidated profit and loss account, the consolidated cash flow statement and the consolidated summary statement of changes in equity of the financial year ended 31st December, 2004 (with comparative figures for the year ended 31st December, 2003) and the consolidated balance sheet as at 31st December, 2004 of the GTL Group together with the relevant notes as extracted from the audited financial statements of the GTL Group for the year ended 31st December, 2004.

Report of the Auditors



To the members

Guangdong Tannery Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 27 to 83 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty — Contingent liabilities

In arriving at our audit opinion, we have considered the adequacy of the disclosures made in note 32 to the financial statements concerning the irregularities involving certain former executives of a former subsidiary of the Company in a previous year and the related provision of HK\$69,600,000 for the tax claim and tax penalty made by the Group as detailed in note 24(a) to the financial statements. As the actions taken by the authorities of the People's Republic of China (the "PRC") have not yet been concluded, it is not possible to ascertain with any degree of reasonable certainty the amount of any tax penalty which may finally be imposed by the PRC authorities and the other consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations, or the existence or otherwise of any other penalties and claims arising as a result of the aforesaid irregularities. As of the date of this report, no further provision other than that disclosed in notes 24(a) and 32 to the financial statements has been made in the financial statements for such contingencies. We consider that appropriate disclosures and estimates have been made in the financial statements and our audit opinion is therefore not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young*Certified Public Accountants*

Hong Kong

8 April 2005

Consolidated Profit and Loss Account*Year ended 31 December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
TURNOVER	5	281,951	381,601
Cost of sales		<u>(255,849)</u>	<u>(376,238)</u>
Gross profit		26,102	5,363
Other revenue and gains	5	2,922	19,663
Selling and distribution costs		(1,630)	(2,941)
Administrative expenses		(20,015)	(28,963)
Other operating profit/(expenses), net		<u>4,226</u>	<u>(88,754)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	11,605	(95,632)
Finance costs	7	<u>(5,734)</u>	<u>(5,948)</u>
PROFIT/(LOSS) BEFORE TAX		5,871	(101,580)
Tax	8	<u>(1,203)</u>	<u>286</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>4,668</u>	<u>(101,294)</u>
EARNINGS/(LOSS) PER SHARE	11		
— Basic		<u>0.89 cents</u>	<u>(19.33 cents)</u>
— Diluted		<u>N/A</u>	<u>N/A</u>

Consolidated Balance Sheet

31 December 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	12	<u>111,296</u>	<u>118,406</u>
CURRENT ASSETS			
Inventories	15	141,089	221,395
Receivables, prepayments and deposits	16	54,698	47,683
Tax recoverable		7,040	7,031
Loan to an officer	17	923	970
Pledged and frozen deposits	18	14,794	7,355
Cash and cash equivalents	18	<u>83,246</u>	<u>76,977</u>
		<u>301,790</u>	<u>361,411</u>
CURRENT LIABILITIES			
Trade and bills payables	19	(38,864)	(67,725)
Accruals and other liabilities		(19,781)	(25,720)
Due to a PRC joint venture partner	20	(1,131)	(1,131)
Loans from the immediate holding company	21	(46,026)	(45,957)
Loan from a fellow subsidiary	22	(54,600)	(54,600)
Interest bearing bank borrowings	23	—	(33,091)
Provisions	24	<u>(72,600)</u>	<u>(72,600)</u>
		<u>(233,002)</u>	<u>(300,824)</u>
NET CURRENT ASSETS		<u>68,788</u>	<u>60,587</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>180,084</u>	<u>178,993</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	<u>(9,012)</u>	<u>(8,833)</u>
		<u>171,072</u>	<u>170,160</u>
CAPITAL AND RESERVES			
Issued capital	26	52,415	52,415
Reserves	28	<u>118,657</u>	<u>117,745</u>
		<u>171,072</u>	<u>170,160</u>

Consolidated Summary Statement of Changes in Equity*Year ended 31 December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total equity at 1 January		170,160	275,643
Deficit on revaluation of properties	12, 28	(4,969)	(4,028)
Deferred tax credited to the property revaluation reserve account	25, 28	1,024	960
Exchange differences on translation of the financial statements of subsidiaries in Mainland China	28	<u>189</u>	<u>(152)</u>
Net losses not recognised in the profit and loss account		<u>(3,756)</u>	<u>(3,220)</u>
Release of exchange translation reserve upon disposal of subsidiaries	28, 29	—	(969)
Net profit/(loss) for the year from ordinary activities attributable to shareholders		<u>4,668</u>	<u>(101,294)</u>
Total equity at 31 December		<u><u>171,072</u></u>	<u><u>170,160</u></u>

Consolidated Cash Flow Statement*Year ended 31 December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		5,871	(101,580)
Adjustments for:			
Finance costs	7	5,734	5,948
Interest income	5	(417)	(194)
Write off of fixed assets	6	83	8,021
Loss/(gain) on disposal of fixed assets, net	6	13	(630)
Gain on disposal of subsidiaries	5	—	(16,609)
Depreciation of fixed assets	6	9,408	16,315
Reversal of impairment of fixed assets	6	(5,162)	—
Impairment of fixed assets	6	—	10,320
Provision for doubtful debts	6	—	816
Deficit/(surplus) arising on revaluation of properties, net	6	96	(704)
Provisions for tax claim and tax penalty by the PRC authorities	6	—	69,600
Operating profit/(loss) before working capital changes		15,626	(8,697)
Decrease/(increase) in inventories		80,306	(30,399)
Increase in receivables, prepayments and deposits		(6,991)	(9,522)
Increase in frozen bank balances		(8,685)	—
Increase/(decrease) in trade and bills payables, accruals and other liabilities		(34,800)	44,489
Decrease in trust receipt loans		(16,091)	(12,457)
Cash generated from/(used in) operations		29,365	(16,586)
Interest received		417	194
Interest paid		(5,734)	(5,948)
Overseas taxes paid		—	(7,031)
Net cash inflow/(outflow) from operating activities		24,048	(29,371)

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities		<u>24,048</u>	<u>(29,371)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	12	(2,186)	(3,044)
Proceeds from disposal of fixed assets		50	16,128
Disposal of subsidiaries	29	—	12,276
Repayment of a loan to an officer		47	45
Decrease in pledged bank balances		<u>1,246</u>	<u>5,617</u>
Net cash inflow/(outflow) from investing activities		<u>(843)</u>	<u>31,022</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
New loan from a fellow subsidiary		—	54,600
Repayment of a loan from a fellow subsidiary		—	(9,418)
New loans from the immediate holding company		10,350	—
Repayment of loans from the immediate holding company		(10,281)	—
New bank loans		—	48,817
Repayment of bank loans		<u>(17,000)</u>	<u>(70,327)</u>
Net cash inflow/(outflow) from financing activities		<u>(16,931)</u>	<u>23,672</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		6,274	25,323
Cash and cash equivalents at beginning of year		76,977	51,854
Effect of foreign exchange rate changes, net		<u>(5)</u>	<u>(200)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u>83,246</u>	<u>76,977</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	<u>83,246</u>	<u>76,977</u>

Balance Sheet*31 December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	12	31	111
Interests in subsidiaries	13	<u>139,294</u>	<u>123,808</u>
		<u>139,325</u>	<u>123,919</u>
CURRENT ASSETS			
Prepayments and deposits		28	—
Loan to an officer	17	923	970
Cash and cash equivalents	18	<u>501</u>	<u>1,095</u>
		<u>1,452</u>	<u>2,065</u>
CURRENT LIABILITIES			
Accruals and other liabilities		(985)	(1,911)
Loans from the immediate holding company	21	<u>(46,026)</u>	<u>(45,957)</u>
		<u>(47,011)</u>	<u>(47,868)</u>
NET CURRENT LIABILITIES			
		<u>(45,559)</u>	<u>(45,803)</u>
		<u>93,766</u>	<u>78,116</u>
CAPITAL AND RESERVES			
Issued capital	26	52,415	52,415
Reserves	28	<u>41,351</u>	<u>25,701</u>
		<u>93,766</u>	<u>78,116</u>

Notes to Financial Statements*31 December 2004***1. CORPORATE INFORMATION**

The registered office of Guangdong Tannery Limited is located at 29/F, Guangdong Investment Tower, 148 Connaught Road, Central, Hong Kong.

During the year, the Group was principally engaged in the processing and sale of semi-finished and finished leather and property investment.

In the opinion of the directors, the ultimate holding company of the Company is Guangdong Yue Gang Investment Holdings Company Limited (廣東粵港投資控股有限公司) (“Yue Gang Investment”), a company established in the mainland of the People’s Republic of China (the “PRC” or “Mainland China”).

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND INTERPRETATIONS

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and leasehold land and buildings, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share/registered capital or controls the composition of its board of directors.

The results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as a subsidiary if the Group has unilateral control, directly or indirectly, over the joint venture company or an associate if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company.

Associates

An associate is a company, not being a subsidiary or jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of leasehold land and buildings are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land held under medium term leases	Over the lease terms
Buildings	2% – 10%
Leasehold improvements	4% – 20%
Plant and machinery	10% – 12.5%
Electronic equipment	20%
Motor vehicles	15% – 20%
Furniture, fixtures and equipment	15% – 20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, machinery and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values, on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provisions for staff redundancy payments and compensation to a PRC joint venture partner for early termination of a joint venture agreement are determined based on employment contracts and the terms of the joint venture agreement.

Provisions for a tax claim and a tax penalty by the PRC authorities is determined based on the amount set out in a demand letter issued by the PRC authorities to a subsidiary and a former subsidiary of the Company, and with reference to the relevant PRC laws and regulations and a PRC legal opinion.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

- (b) rental income, on a time proportion basis over the lease terms; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in central pension schemes (the “PRC Scheme”) operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll to the PRC Scheme to fund their benefits. The only obligation of the Group with respect to the PRC Scheme is to pay the ongoing required contributions under the PRC Scheme. Contributions under the PRC Scheme are charged to the profit and loss account as they become payable in accordance with the rules of the PRC Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise dates, or which lapse, are deleted from the register of outstanding options.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and an associate operating in Mainland China and overseas are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and an associate are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange translation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries and an associate operating in Mainland China and overseas are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries and an associate operating in Mainland China and overseas which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the leather processing segment processes raw leather to finished leather for use in the leather ware products manufacturing industry mainly in Mainland China;
- (b) the property investment segment invests in residential and commercial properties in Mainland China for rental income purposes; and
- (c) the corporate and other segment mainly comprises the Group's corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Intersegment transactions mainly represented management services provided and charged by the Company to its subsidiaries at the bases determined by the Group.

(a) **Business segments**

The following tables present revenue, profit/(loss) and certain assets, liability and expenditure information for the Group's business segments.

Group

	Leather processing		Property investment		Corporate and other		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	281,951	381,601	—	—	—	—	—	—	281,951	381,601
Intersegment sales	—	—	—	—	480	480	(480)	(480)	—	—
Other revenue (excluding exchange gains/(losses), net)	1,408	941	1,066	1,825	31	16,703	—	—	2,505	19,469
Exchange gains/(losses), net	491	(1,171)	—	—	22	(160)	—	—	513	(1,331)
Total	283,850	381,371	1,066	1,825	533	17,023	(480)	(480)	284,969	399,739
Segment results	18,379	(106,898)	342	2,075	(7,533)	8,997	—	—	11,188	(95,826)
Interest income									417	194
Profit/(loss) from operating activities									11,605	(95,632)
Finance costs									(5,734)	(5,948)
Profit/(loss) before tax									5,871	(101,580)
Tax									(1,203)	286
Net profit/(loss) from ordinary activities attributable to shareholders									4,668	(101,294)

Group	Leather processing		Property investment		Corporate and other		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	386,012	469,165	12,924	12,848	19,331	2,684	(6,104)	(5,850)	412,163	478,847
Unallocated assets									923	970
Total assets	=====	=====	=====	=====	=====	=====	=====	=====	413,086	479,817
Segment liabilities	(136,312)	(163,886)	(433)	(359)	(1,829)	(8,781)	6,104	5,850	(132,470)	(167,176)
Unallocated liabilities									(109,544)	(142,481)
Total liabilities	=====	=====	=====	=====	=====	=====	=====	=====	(242,014)	(309,657)
Other segment information:										
Capital expenditure	2,165	2,985	—	—	21	59	—	—	2,186	3,044
Depreciation	8,956	15,531	—	—	452	784	—	—	9,408	16,315
Reversal of impairment of fixed assets	(5,162)	—	—	—	—	—	—	—	(5,162)	—
Impairment of fixed assets	—	10,320	—	—	—	—	—	—	—	10,320
Revaluation deficit/ (surplus) of investment properties	—	—	234	(662)	—	—	—	—	234	(662)
Revaluation surplus of leasehold land and buildings	(138)	(42)	—	—	—	—	—	—	(138)	(42)
Other non-cash expenses	25	8,098	—	(681)	71	790	—	—	96	8,207
Provisions for tax claim and tax penalty by the PRC authorities	—	69,600	—	—	—	—	—	—	—	69,600

(b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group	Mainland China		Hong Kong		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	281,951	381,601	—	—	—	—	281,951	381,601
Other revenue (excluding exchange gains/(losses), net)	2,505	18,843	—	626	—	—	2,505	19,469
Exchange gains/(losses), net	675	(1,171)	(162)	(160)	—	—	513	(1,331)
Total	<u>285,131</u>	<u>399,273</u>	<u>(162)</u>	<u>466</u>	<u>—</u>	<u>—</u>	<u>284,969</u>	<u>399,739</u>
Other segment information:								
Segment assets	388,033	445,487	24,130	33,360	—	—	412,163	478,847
Unallocated assets							923	970
Total assets	<u>388,033</u>	<u>445,487</u>	<u>24,130</u>	<u>33,360</u>	<u>—</u>	<u>—</u>	<u>413,086</u>	<u>479,817</u>
Capital expenditure	<u>2,165</u>	<u>3,035</u>	<u>21</u>	<u>9</u>	<u>—</u>	<u>—</u>	<u>2,186</u>	<u>3,044</u>

5. TURNOVER AND OTHER REVENUE AND GAINS

Turnover represents gross proceeds received and receivable on the processing and sale of leather, net of goods returned, trade discounts and value-added tax, during the year.

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

	2004	2003
	HK\$'000	HK\$'000
<u>Turnover</u>		
Processing and sale of leather	<u>281,951</u>	<u>381,601</u>
<u>Other revenue and gains</u>		
Rental income	1,304	2,068
Interest income	417	194
Gain on disposal of subsidiaries (note 29)	—	16,609
Others	<u>1,201</u>	<u>792</u>
	<u>2,922</u>	<u>19,663</u>
	<u>284,873</u>	<u>401,264</u>

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cost of inventories sold		255,849	376,238
Auditors' remuneration		720	799
Depreciation	12	9,408	16,315
Staff costs (excluding directors' remuneration (<i>note 9</i>)):			
Wages and salaries		9,912	20,741
Redundancy payments (included in other operating profit/ (expenses), net below)		1,257	—
Pension scheme contributions (defined contributions scheme)*		<u>714</u>	<u>1,153</u>
		<u>11,883</u>	<u>21,894</u>
Minimum lease payments under operating leases in respect of land and buildings		251	359
Other rental income		(449)	(384)
Gross rental income from investment properties		(855)	(1,684)
Less: Outgoings from investment properties		<u>158</u>	<u>320</u>
Net rental income		<u>(697)</u>	<u>(1,364)</u>
Expenses/(income) included in other operating profit/(expenses), net:			
Deficit/(surplus) arising on revaluation of investment properties	12	234	(662)
Surplus arising on revaluation of leasehold land and buildings	12	(138)	(42)
Provision for doubtful debts		—	816
Write off of fixed assets	12	83	8,021
Loss/(gain) on disposal of fixed assets, net		13	(630)
Reversal of impairment of fixed assets		(5,162)	—
Impairment of fixed assets		—	10,320
Exchange losses/(gains), net		(513)	1,331
Redundancy payments		1,257	—
Provisions for tax claim and tax penalty by the PRC authorities	24	<u>—</u>	<u>69,600</u>
		<u>(4,226)</u>	<u>88,754</u>

* The amount of forfeited pension scheme contributions available at the current and the prior year ends to reduce contributions in future years is not material.

7. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans	1,847	3,585
Loans from the former immediate holding company	—	434
Loans from the immediate holding company	1,778	1,343
Loans from a fellow subsidiary	<u>2,109</u>	<u>586</u>
	<u>5,734</u>	<u>5,948</u>

8. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2003: Nil). No provision for Mainland China and overseas profits tax has been made (2003: Nil) as there were no assessable profits arising from certain subsidiaries of the Company operating in Mainland China and overseas during the year and certain subsidiaries of the Company operating in Mainland China and overseas had tax losses brought forward from prior years to offset the assessable profits during the year.

	2004 HK\$'000	2003 HK\$'000
	Group:	
Current — Hong Kong		
Charge for the year	—	—
Overprovision in prior years	—	(286)
Deferred (<i>note 25</i>)	<u>1,203</u>	<u>—</u>
Total tax charge/(credit) for the year	<u>1,203</u>	<u>(286)</u>

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the regions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group — 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>(10,487)</u>		<u>16,358</u>		<u>5,871</u>	
Tax at the statutory tax rate	(1,835)	17.5	5,398	33.0	3,563	60.7
Lower tax rate for specific provinces or local authority	—	—	323	2.0	323	5.5
Income not subject to tax	(349)	3.3	(8,942)	(54.7)	(9,291)	(158.3)
Expenses not deductible for tax	598	(5.7)	3,563	21.8	4,161	70.9
Tax losses not recognised	<u>1,586</u>	<u>(15.1)</u>	<u>861</u>	<u>5.3</u>	<u>2,447</u>	<u>41.7</u>
Tax charge at the Group's effective rate	<u>—</u>	<u>—</u>	<u>1,203</u>	<u>7.4</u>	<u>1,203</u>	<u>20.5</u>

Group — 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>560</u>		<u>(102,140)</u>		<u>(101,580)</u>	
Tax at the statutory tax rate	98	17.5	(33,706)	33.0	(33,608)	33.1
Lower tax rate for specific provinces or local authority	—	—	10,137	(9.9)	10,137	(9.9)
Income not subject to tax	(3,792)	(677.2)	(7,701)	7.5	(11,493)	11.3
Expenses not deductible for tax	3,321	593.0	19,336	(18.9)	22,657	(22.3)
Adjustments in respect of current tax of previous periods	(286)	(51.1)	—	—	(286)	0.3
Tax losses utilised from previous periods	(861)	(153.7)	—	—	(861)	0.8
Tax losses not recognised	<u>1,234</u>	<u>220.4</u>	<u>11,934</u>	<u>(11.7)</u>	<u>13,168</u>	<u>(13.0)</u>
Tax credit at the Group's effective rate	<u>(286)</u>	<u>(51.1)</u>	<u>—</u>	<u>—</u>	<u>(286)</u>	<u>0.3</u>

Certain subsidiaries of the Company established in the PRC were exempt from PRC corporate income tax for two years starting from their first profit-making year of operations, and are eligible for a 50% relief from PRC corporate income tax for the following three years under the PRC tax laws. The standard PRC corporate income tax rate applicable to those PRC subsidiaries ranged from 24% to 33% for the year ended 31 December 2004.

9. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

- (a) Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	<u>225</u>	<u>200</u>
	<u>225</u>	<u>200</u>
Other emoluments to executive directors:		
Salaries, allowances and benefits in kind	1,794	791
Performance related bonuses	330	—
Pension scheme contributions	<u>303</u>	<u>89</u>
	<u>2,427</u>	<u>880</u>
	<u>2,652</u>	<u>1,080</u>

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	8	12
HK\$1,000,001 – HK\$1,500,000	<u>1</u>	<u>—</u>
	<u>9</u>	<u>12</u>

No director's fee was paid to Mr. Xiong Guangyang, Mr. Hui Wai Man Lawrence, Mrs. Ho Lam Lai Ping Theresa, Mr. Chan Hee Kwan, Mr. Zeng Hai Peng, Mr. Yuen Lam Fai Antony, Mr. Tam Chiu Pang Jaffe, Mr. Wang Man Kwan Paul, Mr. Luo Fan Yu and Mr. Li Wai Keung, directors of the Company, for the year ended 31 December 2003.

During the year, certain directors were granted 6,600,000 share options in respect of their services to the Group under the share option scheme, further details of which are set out in note 27 to the financial statements. The estimated value of such options, which has not been charged to the profit and loss account, was HK\$1,254,000 as at the date of grant. This was determined by using the Black-Scholes option pricing model. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above directors' remuneration disclosures.

- (b) The five highest paid employees of the Group during the year included three (2003: two) directors, details of whose remuneration are set out in (a) above. Details of the remuneration of the remaining two (2003: three) non-director, highest paid employees for the year are as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	813	1,372
Performance related bonuses	—	100
Pension scheme contributions	<u>159</u>	<u>153</u>
	<u><u>972</u></u>	<u><u>1,625</u></u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil – HK\$1,000,000	<u><u>2</u></u>	<u><u>3</u></u>

During the year, 1,800,000 share options were granted to the two non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The estimated value of such options, which has not been charged to the profit and loss account, was HK\$342,000 as at the date of grant. This was determined by using the Black-Scholes option pricing model. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$15,650,000 (2003: HK\$49,542,000) (note 28).

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$4,668,000 (2003: net loss of HK\$101,294,000) and the 524,154,000 (2003: 524,154,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 December 2004 and 2003 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

12. FIXED ASSETS

Group

	Leasehold land and buildings	Investment properties	Leasehold improvement	Plant and machinery	Electronic equipment	Motor vehicles	Furniture, fixtures and equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:									
At beginning of year	77,820	6,970	6,349	123,929	2,883	11,024	1,114	318	230,407
Additions	—	—	105	14	18	—	21	2,028	2,186
Disposals	—	—	—	—	(6)	(853)	(29)	—	(888)
Write off	—	—	(44)	—	—	—	(536)	—	(580)
Transfers	—	—	191	1,388	28	—	—	(1,607)	—
Deficit on revaluation, net	(9,001)	(234)	—	—	—	—	—	—	(9,235)
Exchange realignment	21	4	7	155	4	2	—	—	193
At 31 December 2004	68,840	6,740	6,608	125,486	2,927	10,173	570	739	222,083
Analysis of cost or valuation:									
At cost	—	—	6,608	125,486	2,927	10,173	570	739	146,503
At 2004 valuation	68,840	6,740	—	—	—	—	—	—	75,580
	68,840	6,740	6,608	125,486	2,927	10,173	570	739	222,083
Accumulated depreciation and impairment:									
At beginning of year	—	—	4,226	94,966	2,162	9,653	994	—	112,001
Depreciation provided for the year	4,229	—	426	3,968	176	581	28	—	9,408
Reversal of impairment during the year recognised in the profit and loss account	—	—	—	(5,162)	—	—	—	—	(5,162)
Disposals	—	—	—	—	(5)	(806)	(14)	—	(825)
Write off	—	—	(22)	—	—	—	(475)	—	(497)
Written back on revaluation	(4,170)	—	—	—	—	—	—	—	(4,170)
Exchange realignment	(59)	—	3	88	2	(2)	—	—	32
At 31 December 2004	—	—	4,633	93,860	2,335	9,426	533	—	110,787
Net book value:									
At 31 December 2004	68,840	6,740	1,975	31,626	592	747	37	739	111,296
At 31 December 2003	77,820	6,970	2,123	28,963	721	1,371	120	318	118,406

Company	Furniture, fixtures and equipment <i>HK\$'000</i>
Cost:	
At beginning of year	833
Additions	20
Disposals	(24)
Write off	<u>(536)</u>
At 31 December 2004	<u>293</u>
Accumulated depreciation:	
At beginning of year	722
Provided for the year	25
Disposals	(10)
Write off	<u>(475)</u>
At 31 December 2004	<u>262</u>
Net book value:	
At 31 December 2004	<u><u>31</u></u>
At 31 December 2003	<u><u>111</u></u>

The leasehold land and buildings and investment properties of the Group were held under medium term leases in Mainland China.

The leasehold land and buildings and investment properties of the Group were revalued at 31 December 2004 by an independent professionally qualified valuer, RHL Appraisal Ltd., at open market value, based on their existing use.

As at 31 December 2004, the Group's investment properties were revalued at HK\$6,740,000 (2003: HK\$6,970,000) with a revaluation deficit of HK\$234,000 (2003: revaluation surplus of HK\$662,000) charged (2003: credited) to the profit and loss account.

As at 31 December 2004, the Group's leasehold land and buildings were individually revalued at an aggregate open market value of HK\$68,840,000 (2003: HK\$77,820,000) with a net revaluation deficit of HK\$4,831,000 (2003: HK\$3,986,000), including a revaluation deficit of HK\$4,969,000 (2003: HK\$4,028,000) charged to property revaluation reserve (note 28) and a revaluation surplus of HK\$138,000 (2003: HK\$42,000) credited to the profit and loss account in the current year.

Had the leasehold land and buildings of the Group been carried at historical cost less accumulated depreciation and impairment, their carrying values as at 31 December 2004 would have been HK\$40,289,000 (2003: HK\$45,503,000).

At 31 December 2004, an amount of HK\$2,280,000 (2003: HK\$2,400,000) and HK\$490,000 (2003: HK\$490,000) included in the Group's investment properties and leasehold land and buildings, respectively, were leasehold properties situated in Mainland China, in respect of which the land use right certificates were in the process of being obtained.

At 31 December 2004, certain of the Group's plant and machinery, leasehold land and buildings and investment properties of HK\$7,100,000 (2003: Nil), HK\$3,300,000 (2003: HK\$3,370,000) and HK\$4,460,000 (2003: HK\$4,570,000), respectively, were pledged to secure general banking facilities granted to the Group (note 34).

During the year, certain items of plant and machinery of a wholly-owned subsidiary of the Group, which had previously been impaired, were sold to another wholly-owned subsidiary of the Group. The recoverable amount of these items of plant and machinery was determined as the value in use. The discount rate used in estimating the amount of

the value in use was the average rate of borrowings of the Group. Based on the change in the current and previous estimates of the value in use for these items of plant and machinery, a reversal of impairment of HK\$5,162,000 was credited to the profit and loss account during the year.

13. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	161,955	161,955
Due from subsidiaries	318,464	304,675
Due to subsidiaries	<u>(38,511)</u>	<u>(23,739)</u>
	441,908	442,891
Provision for impairment	<u>(302,614)</u>	<u>(319,083)</u>
	<u>139,294</u>	<u>123,808</u>

Included in the amounts due from subsidiaries are unsecured loans of HK\$126,007,000 (2003: HK\$126,599,000), which bear interest at rates ranging from 3.8% to 8.5% (2003: 3.8% to 8.5%) per annum and have no fixed terms of repayment. The remaining amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The amounts due to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

As certain amounts due from certain subsidiaries of the Company, which had previously been impaired, were repaid during the year, a reversal of impairment to the extent of such amounts was made during the year.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Crown South (Hong Kong) Limited	Hong Kong	HK\$2	—	100	Dormant
Gastor Enterprises Limited	British Virgin Islands	US\$150	100	—	Investment holding
Gold Star Assets Limited	Hong Kong	HK\$2	—	100	Investment holding
Harbour Hill International Limited	Hong Kong	HK\$1,000,000	100	—	Dormant
Jadeford Investments Limited	British Virgin Islands	US\$1	100	—	Dormant
Foshan City Nanhai Tong Yuan Tanning Co., Ltd. (formerly Nanhai City Tongyuan Tanning Company Limited) ⁺	Mainland China	US\$3,000,000	—	100	Dormant
Qingdao Nanhai Tannery Co., Ltd. [#]	Mainland China	US\$2,500,000	100	—	Dormant
Sun Po (Hong Kong) Leather Ware Company Limited	Hong Kong	HK\$2	—	100	Property investment
Team Up Profits Limited	British Virgin Islands	US\$1	100	—	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Time Wise Profits Limited	British Virgin Islands	US\$1	100	—	Dormant
Vermont Property Limited	British Virgin Islands	US\$1	100	—	Investment holding
Xuzhou Gangwei Colour Package Co., Ltd. ⁺	Mainland China	RMB18,000,000	100	—	Processing of cowhides, leather trading and lessor of plant and machinery
Xuzhou Nanhai Leather Factory Co., Ltd. ⁺	Mainland China	RMB12,000,000	100	—	Processing of cowhides and leather trading

+ Wholly-foreign-owned enterprises.

This is a Sino-foreign co-operative joint venture. Pursuant to the joint venture agreement, the registered capital of Qingdao Nanhai Tannery Co., Ltd. (“Qingdao Nanhai”) was solely contributed by the Company. The PRC joint venture partner contributed its plant and equipment for the operations of Qingdao Nanhai. The Company is entitled to all its distributable profits after the payment of an agreed annual fee to the PRC joint venture partner. In the event of liquidation, the initial injected assets will be distributed to the respective original contributors and thereafter, any remaining surplus will vest with the Company.

14. INTEREST IN AN ASSOCIATE

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	907	907
Due from an associate	<u>7,270</u>	<u>7,270</u>
	8,177	8,177
Less: Provision for impairment	<u>(8,177)</u>	<u>(8,177)</u>
	<u>—</u>	<u>—</u>

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the associate, which is a corporation are as follows:

Name	Place of incorporation/ operations	Issued share capital	Percentage of ownership interest attributable to the Group	Principal activities

15. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	24,319	61,855
Work in progress	85,338	107,246
Finished goods	<u>31,432</u>	<u>52,294</u>
	<u><u>141,089</u></u>	<u><u>221,395</u></u>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$40,804,000 (2003: HK\$40,854,000) as at 31 December 2004.

16. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2004, included in the Group's receivables, prepayments and deposits are trade receivables with a net balance of HK\$25,909,000 (2003: HK\$17,162,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to two to three months. Credit limits are set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

As at 31 December 2004, the aged analysis of the Group's trade receivables, based on the payment due date, is as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	25,855	17,479
More than 3 months and less than 6 months	471	10
More than 6 months and less than 1 year	3,056	244
More than 1 year	<u>—</u>	<u>34,835</u>
	29,382	52,568
Less: Provisions for doubtful debts	<u>(3,473)</u>	<u>(35,406)</u>
	<u><u>25,909</u></u>	<u><u>17,162</u></u>

17. LOAN TO AN OFFICER

Loan to an officer, disclosed pursuant to Section 161B of the Companies Ordinance, is as follows:

Group and Company

Name	Terms of the loan	31 December	1 January	Maximum
		2004	2004	amount
		HK\$'000	HK\$'000	outstanding
				during the year
				HK\$'000
Ms. Chan Miu Ting (Company Secretary)	Secured by her property, bears interest at 5% per annum and is repayable by monthly instalments	923	970	970

The loan is a staff housing loan used by Ms. Chan Miu Ting to purchase a flat as her main residence. During the year, the interest income earned from the officer amounted to HK\$47,000 (2003: HK\$50,000).

18. CASH AND BANK BALANCES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	98,040	84,332	501	1,095
Less: Pledged bank balances*	(6,109)	(7,355)	—	—
Frozen bank balances**	(8,685)	—	—	—
Cash and cash equivalents	<u>83,246</u>	<u>76,977</u>	<u>501</u>	<u>1,095</u>

* These bank balances were pledged to banks for banking facilities granted (note 34).

** These bank balances were frozen by the PRC authorities, details of which are set out in note 32 to the financial statements.

19. TRADE AND BILLS PAYABLES

As at 31 December 2004, the aged analysis of the Group's trade and bills payables, based on the payment due date, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within 3 months	32,453	62,672
More than 3 months and less than 6 months	2,205	2,831
More than 6 months and less than 1 year	1,855	67
More than 1 year	<u>2,351</u>	<u>2,155</u>
	<u>38,864</u>	<u>67,725</u>

20. DUE TO A PRC JOINT VENTURE PARTNER

The Group's amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment.

21. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The Group's and the Company's loans represented unsecured loans of RMB37,990,000 (2003: RMB49,000,000) (equivalent to approximately HK\$35,676,000 (2003: HK\$45,957,000)) and HK\$10,350,000 (2003: Nil) advanced from GDH Limited ("GDH"), the Company's immediate holding company. The loans bore interest at 3.8% (2003: 3.8%) per annum and were repayable on 30 June 2005. Subsequent to the balance sheet date, on 26 January 2005, GDH agreed to extend the repayment due date of the loans to 30 June 2006 and the interest rate of the RMB37,990,000 loan was adjusted to 4.15% per annum for the period from 1 January 2005 to 30 June 2006.

22. LOAN FROM A FELLOW SUBSIDIARY

The Group's loan represented an unsecured loan of US\$7,000,000 (2003: US\$7,000,000) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bore interest at 3.8% (2003: 3.8%) per annum and was repayable on 30 June 2005. Subsequent to the balance sheet date, on 26 January 2005, Guangdong Assets Management agreed to extend the repayment due date of the loan to 30 June 2006.

23. INTEREST BEARING BANK BORROWINGS

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank loans	—	17,000
Secured trust receipt loans	—	16,091
	<u>—</u>	<u>33,091</u>

The bank borrowings which were repaid during the year, were secured by certain bank deposits of the immediate holding company of the Company detailed in note 33 to the financial statements.

24. PROVISIONS**Group**

	Tax claim and tax penalty by the PRC authorities	Early termination of a joint venture agreement	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year and 31 December 2004	<u>69,600</u>	<u>3,000</u>	<u>72,600</u>

(a) Tax claim by the PRC authorities

With respect to the tax claim of RMB36,989,000 (equivalent to approximately HK\$34,800,000) made by the Anti-Smuggling Bureau of Guangzhou Customs (廣州海關緝私局) (the "Guangzhou Customs") to Foshan City Nanhai Tong Yuan Tanning Co., Ltd. (formerly Nanhai City Tongyuan Tanning Company Limited) ("Tongyuan Tannery"), a wholly-owned subsidiary of the Company established in Mainland China, provisions of HK\$69,600,000 was made as at 31 December 2003 for (a) the tax claim of HK\$34,800,000 made by the Guangzhou Customs; and (b) the tax penalty of HK\$34,800,000 that may be imposed by the relevant PRC authorities, which were provided for by the directors with reference to a PRC legal opinion obtained by them. Details of the claim by the Guangzhou Customs are set out in note 32 to the financial statements.

(b) Provisions for termination of a joint venture agreement

With respect to the Group's decision in August 2001 to curtail the operations of Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Tannery") due to its continuous losses, provisions of HK\$3,000,000 were made as at 31 December 2001 for (a) staff redundancy payments of HK\$2,000,000; and (b) compensation of HK\$1,000,000 to

the PRC joint venture partner for early termination of the joint venture agreement of Qingdao Tannery. These provisions were determined based on the relevant employment contracts and the terms of the joint venture agreement.

During the year, the arbitration proceedings undertaken by the Group and the PRC joint venture partner were concluded by the China International Economic and Trade Arbitration Commissions in Shenzhen and Beijing determined that (i) the joint venture agreement of Qingdao Tannery was terminated with effect from 23 August 2001; (ii) Qingdao Tannery should be liquidated in accordance with the joint venture agreement and with the relevant laws and regulations in the PRC; and (iii) the PRC joint venture partner's claim against the Company for an economic loss of RMB15 million due to the termination of the joint venture agreement be revoked.

As the liquidation of Qingdao Tannery has not been completed, no payment for the provisions was made during the year. Accordingly, there was no movement in the provisions during the year.

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Group

	Accelerated tax depreciation	Revaluation of properties	Losses available for offset against future taxable profit	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	2,641	9,793	(2,641)	9,793
Deferred tax credited to the property revaluation reserve account during the year	—	(960)	—	(960)
Deferred tax charged/(credited) to the profit and loss account during the year	(483)	—	483	—
Disposal of a subsidiary	<u>(1,107)</u>	<u>—</u>	<u>1,107</u>	<u>—</u>
Deferred tax liabilities at 31 December 2003 and 1 January 2004	1,051	8,833	(1,051)	8,833
Deferred tax credited to the property revaluation reserve account during the year	—	(1,024)	—	(1,024)
Deferred tax charged to the profit and loss account during the year	<u>152</u>	<u>—</u>	<u>1,051</u>	<u>1,203</u>
Deferred tax liabilities at 31 December 2004	<u><u>1,203</u></u>	<u><u>7,809</u></u>	<u><u>—</u></u>	<u><u>9,012</u></u>

The Group has tax losses arising in Hong Kong of HK\$71,914,000 (2003: HK\$62,851,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2004, there is no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

26. SHARE CAPITAL

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Authorised:		
700,000,000 ordinary shares of HK\$0.10 each	<u>70,000</u>	<u>70,000</u>
Issued and fully paid:		
524,154,000 ordinary shares of HK\$0.10 each	<u>52,415</u>	<u>52,415</u>

There were no changes in the ordinary share capital of the Company during the year.

27. SHARE OPTION SCHEME

The Company adopts a share option scheme (the “Scheme”) since 31 May 2002 for the purpose of providing incentives and rewards to eligible participants who contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long term basis, to maintain good relationships with its consultants, professional advisers, suppliers of goods and services and customers, and to attract human resources that are valuable to the Group. Eligible participants of the Scheme include the Company’s directors (including non-executive and independent non-executive directors), employees or executives of the Group, customers of the Group, and substantial shareholders of the Group. The Scheme, unless otherwise terminated or amended, will remain in force for 10 years from 31 January 2003.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the Scheme and any other schemes of the Company may not exceed 30% of its shares in issue at any time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Company may not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the Scheme, but the Company may seek approval of its shareholders at a general meeting to refresh the 10% limit under the Scheme.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant may not exceed 1% of the shares in issue at the date of grant. Any grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting of the Company.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer upon payment of a consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company’s shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of grant of the share options, which must be a business day; (ii) the average closing price of the Company’s shares as stated in the Stock Exchange’s daily quotation sheet for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company’s shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

No share options were exercised by the directors of the Company under the Scheme during the year.

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** HK\$	Company's shares at grant date of options*** HK\$
	At 1 January 2004	Granted during the year	At 31 December 2004				
Directors							
Zhang Chunting	2,500,000	—	2,500,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.220
	—	2,000,000	2,000,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240
	<u>2,500,000</u>	<u>2,000,000</u>	<u>4,500,000</u>				
Chen Hong	—	1,800,000	1,800,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240
Xiong Guangyang	3,000,000	—	3,000,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.220
	—	2,200,000	2,200,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240
	<u>3,000,000</u>	<u>2,200,000</u>	<u>5,200,000</u>				
Cheng Hok Lai James	300,000	—	300,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.220
	—	300,000	300,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240
	<u>300,000</u>	<u>300,000</u>	<u>600,000</u>				
Fung Lak	300,000	—	300,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.220
	—	300,000	300,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240
	<u>300,000</u>	<u>300,000</u>	<u>600,000</u>				
Subtotal	<u>6,100,000</u>	<u>6,600,000</u>	<u>12,700,000</u>				
Other employees							
In aggregate	550,000	—	550,000	09/06/2003	10/09/2003–09/09/2008	0.220	0.220
	—	2,100,000	2,100,000	11/02/2004	12/05/2004–11/05/2009	0.246	0.240
	<u>550,000</u>	<u>2,100,000</u>	<u>2,650,000</u>				
Subtotal	<u>550,000</u>	<u>2,100,000</u>	<u>2,650,000</u>				
Total	<u>6,650,000</u>	<u>8,700,000</u>	<u>15,350,000</u>				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issue, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the closing price on the Stock Exchange on the trading day on which the options were granted.

At the balance sheet date, the Company had 15,350,000 share options outstanding under the Scheme. The exercise in full of all the share options would, under the present capital structure of the Company, result in the issue of 15,350,000 additional ordinary shares of the Company and additional share capital of HK\$1,535,000 and share premium of HK\$2,068,200 (before issue expenses).

28. RESERVES

Group

	Notes	Share premium account HK\$'000	General reserve fund HK\$'000 (Note)	Capital redemption reserve HK\$'000	Exchange translation reserve HK\$'000	Property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003		412,116	167,746	445	969	26,552	(384,600)	223,228
Deficit on revaluation of properties	12	—	—	—	—	(4,028)	—	(4,028)
Deferred tax credited to the property revaluation reserve account	25	—	—	—	—	960	—	960
Exchange adjustments		—	—	—	(152)	—	—	(152)
Release of reserve upon disposal of subsidiaries	29	—	—	—	(969)	—	—	(969)
Net loss for the year		—	—	—	—	—	(101,294)	(101,294)
At 31 December 2003 and 1 January 2004		412,116	167,746	445	(152)	23,484	(485,894)	117,745
Deficit on revaluation of properties	12	—	—	—	—	(4,969)	—	(4,969)
Deferred tax credited to the property revaluation reserve account	25	—	—	—	—	1,024	—	1,024
Exchange adjustments		—	—	—	189	—	—	189
Net profit for the year		—	—	—	—	—	4,668	4,668
At 31 December 2004		<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>37</u>	<u>19,539</u>	<u>(481,226)</u>	<u>118,657</u>
Reserves retained by Company and subsidiaries		412,116	167,746	445	44	19,539	(479,609)	120,281
Associate		—	—	—	(7)	—	(1,617)	(1,624)
At 31 December 2004		<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>37</u>	<u>19,539</u>	<u>(481,226)</u>	<u>118,657</u>
Company and subsidiaries		412,116	167,746	445	(145)	23,484	(484,277)	119,369
Associate		—	—	—	(7)	—	(1,617)	(1,624)
At 31 December 2003		<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>(152)</u>	<u>23,484</u>	<u>(485,894)</u>	<u>117,745</u>

Company

		Share premium account	General reserve fund	Capital redemption reserve	Accumulated losses	Total
	Notes	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003		412,116	167,746	445	(604,148)	(23,841)
Net profit for the year	10	<u>—</u>	<u>—</u>	<u>—</u>	<u>49,542</u>	<u>49,542</u>
At 31 December 2003 and 1 January 2004		412,116	167,746	445	(554,606)	25,701
Net profit for the year	10	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,650</u>	<u>15,650</u>
At 31 December 2004		<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>(538,956)</u>	<u>41,351</u>

Note: The general reserve fund of the Company is an undistributable reserve and may not be treated as realised profits.

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

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

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposal of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Fixed assets	—	11,660
Cash and bank balances	—	6
Receivables, prepayments and deposits	—	5,291
Inventories	—	260
Trade payables, accruals and other payables	<u>—</u>	<u>(20,575)</u>
	—	(3,358)
Release of exchange translation reserve	<u>—</u>	<u>(969)</u>
	—	(4,327)
Gain on disposal of subsidiaries	<u>—</u>	<u>16,609</u>
	<u>—</u>	<u>12,282</u>
Satisfied by:		
Cash (net of expenses of HK\$233,000)	<u>—</u>	<u>12,282</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004	2003
	HK\$'000	HK\$'000
Cash consideration (net of expenses of HK\$233,000)	—	12,282
Cash and bank balances disposed of	<u>—</u>	<u>(6)</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>—</u>	<u>12,276</u>

The results of the subsidiaries disposed of in the year ended 31 December 2003 had no significant impact on the Group's consolidated turnover or loss after tax for that year.

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties and certain plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years.

At 31 December 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	1,028	1,117
In the second to fifth years, inclusive	<u>1,381</u>	<u>2,639</u>
	<u>2,409</u>	<u>3,756</u>

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms arranging from 2 to 3 years.

At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	121	145
In the second to fifth years, inclusive	<u>71</u>	<u>—</u>
	<u>192</u>	<u>145</u>

31. COMMITMENTS

At the balance sheet date, the Company and the Group did not have any significant capital commitments (2003: Nil).

32. CONTINGENT LIABILITIES

Following the change in senior management of the Company in June 2002, it was discovered that certain former executives (the “Former Executives”) of Nanhai Tannery & Leather Products Co., Ltd. (“Nanhai Tannery”) (one of whom was also a former director of the Company) had been involved in certain irregularities. Nanhai Tannery was a former wholly-owned subsidiary of the Company established in Nanhai, the PRC.

Upon discovery of the irregularities, an internal audit team of the Company’s holding companies, working with the new management, conducted a preliminary investigation of the irregularities. The investigation revealed that the Former Executives apparently operated a business in parallel to the operations of Nanhai Tannery (the “Parallel Operation”) for their own personal gain.

The incident was reported by the Company to the relevant PRC authorities who have detained the Former Executives and seized documents related to the Parallel Operation for investigation. The Company also instructed its auditors and the PRC lawyers to carry out special investigations with a view to ascertaining the effects of the Parallel Operation on the business of Nanhai Tannery and to advise management of the Group’s possible recourse against the Former Executives.

Based on the findings of the special investigations and having regard to the professional advice received, the directors of the Company are of the opinion that the Parallel Operation should not be incorporated in the financial statements of the Group and that the Parallel Operation appears to have involved various irregularities in its transactions under the applicable PRC laws and regulations.

Pursuant to a business restructuring plan implemented by the Group, Tongyuan Tannery was established to operate the Group’s tannery operations and businesses in the Guangdong province in January 2003. Tongyuan Tannery is a wholly-owned subsidiary of the Company which owns and operates a factory and distribution operations in Nanhai, the PRC. Tongyuan Tannery had purchased from Nanhai Tannery most of its fixed assets and inventories in 2003.

On 31 December 2003, the Company entered into a conditional sale and purchase agreement with Yong Sheng Limited, a subsidiary of GDH Limited (“GDH”) and a fellow subsidiary of the Company, for the disposal of the Company’s entire 100% interest in Nanhai Tannery. The transaction was completed on 31 December 2003 and Nanhai Tannery became a wholly-owned subsidiary of GDH and a fellow subsidiary of the Company.

In February and March 2004, certain bank accounts of Tongyuan Tannery in the PRC containing in total approximately RMB7 million were frozen by the Guangzhou Customs. Subsequently, additional bank balances of RMB2 million were frozen by the Guangzhou Customs. Accordingly, bank balances of RMB9 million (equivalent to approximately HK\$8.7 million) were frozen as at 31 December 2004 (note 18).

The directors and management of the Company are satisfied that all the businesses and operations of Tongyuan Tannery have been conducted strictly in accordance with all the applicable PRC laws and regulations, and that there has been no wrongdoing on the part of Tongyuan Tannery or any of its management or staff.

On 22 March 2004, the Guangzhou Customs issued a demand letter to Tongyuan Tannery and Nanhai Tannery (i) claiming tax of RMB36,989,000 (equivalent to approximately HK\$34,800,000) payable within 30 days from the date of the demand letter in relation to the tax evaded by Nanhai Tannery during the period from 2000 to 2002; and (ii) asserting that Tongyuan Tannery and Nanhai Tannery failed to notify the Guangzhou Customs of the change from Nanhai Tannery to Tongyuan Tannery.

Although the Group had disposed of its entire interest in Nanhai Tannery to GDH and the tax evasion was related to the Parallel Operation of Nanhai Tannery, it cannot be precluded that the Guangzhou Customs may still claim the tax evaded by Nanhai Tannery against Tongyuan Tannery on the ground that Nanhai Tannery had transferred most of its fixed assets and inventories to Tongyuan Tannery after the commencement of the investigations undertaken by the Guangzhou Customs. The directors have sought PRC legal advice on such matters and consider that Tongyuan Tannery will be liable for the above-mentioned tax claim of HK\$34,800,000 by the Guangzhou Customs if the Guangzhou Customs considers that Tongyuan Tannery and Nanhai Tannery are one and the same entity. Accordingly, the Group made a provision of HK\$34,800,000 (note 24(a)).

In addition, based on a PRC legal opinion, under the existing PRC laws and regulations, the relevant PRC authorities may also impose a tax penalty on Tongyuan Tannery of an amount equal to 1 to 5 times the tax evaded by the Parallel Operation of Nanhai Tannery, ie. HK\$34,800,000 to HK\$174,000,000. The directors have sought legal advice on such matters and consider that a provision of HK\$34,800,000 for the tax penalty (note 24(a)) is appropriate.

As the actions taken by the PRC authorities have not yet been concluded, it is not possible to determine with any degree of reasonable certainty the amount of tax penalty which may finally be imposed by the PRC authorities against Tongyuan Tannery, which may be within the range of HK\$34,800,000 to HK\$174,000,000, other consequential actions that may be taken by the PRC authorities for the apparent breaches of certain PRC laws and regulations, and the existence or otherwise of any other penalties and claims as a result of the aforesaid irregularities. Should additional tax penalty in excess of the amount provided of HK\$34,800,000 be imposed against Tongyuan Tannery, the directors are of the opinion that the Group would have adequate net assets and resources to continue its operations.

As of the date of this report, no further action has been taken by the Guangzhou Customs or any other PRC authorities against Tongyuan Tannery and there have been no further claims made against Tongyuan Tannery. Accordingly, based on the current available information, no further provision for the tax penalty and other claims or liabilities has been made in the financial statements.

33. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

	<i>Notes</i>	Group	
		2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
Office rental paid to the immediate holding company	(a)	93	—
Office rental paid to a fellow subsidiary	(b)	103	316
Computer system maintenance service fees paid to the immediate holding company	(c)	111	54
Tax consultancy fee paid to the immediate holding company	(d)	50	—
Interest expense to the former immediate holding company	(e)	—	434
Interest expense to the immediate holding company	(f)	1,778	1,343
Interest expense to a fellow subsidiary	(g)	2,109	586
Gain on disposal of subsidiaries, net	(h)	—	(14,881)
Loss on disposal of a subsidiary	(i)	—	15

Notes:

- (a) The office rental was charged by the immediate holding company at HK\$9,276 (2003: Nil) per month commencing from 1 March 2004 in accordance with the terms of the rental agreement between the Group and the immediate holding company. At the balance sheet date, the Group had a rental deposit of HK\$27,828 (2003: Nil) with the immediate holding company of the Company.
- (b) The office rental was charged by a fellow subsidiary at HK\$25,740 per month for the first four months of 2004 (2003: HK\$28,311 per month for the first quarter of 2003 and HK\$25,740 per month for the remainder of 2003) in accordance with the terms of the rental agreement between the Group and the fellow subsidiary. The rental agreement between the Group and the fellow subsidiary was surrendered in May 2004 and the rental deposit of HK\$102,974 was returned from the fellow subsidiary to the Company.
- (c) The immediate holding company charged maintenance service fees at HK\$6,750 per month for the first 2 months of 2004 and HK\$9,750 per month for the remainder of 2004 (2003: HK\$6,750) for the computer system used by the Company commencing from 1 May 2003.
- (d) The immediate holding company charged consultancy fee for the tax consultancy services rendered in respect of reviewing the Group's tax matters for the year.

- (e) The interest expense to the former immediate holding company arose from the loans advanced from Guangdong Investment Limited (“GDI”) in 2002. On 31 March 2003, GDI disposed of its entire shareholdings in the Company and its interests in the loans to GDH, GDI’s immediate holding company. Since then, the Company ceased to pay interest to GDI.
- (f) The interest expense to the immediate holding company arose from the loans advanced from GDH. Further details of the loans, including the terms, are disclosed in note 21 to the financial statements.
- (g) The interest expense to a fellow subsidiary arose from a loan advanced from Guangdong Assets Management. Further details of the loan, including the terms, are disclosed in note 22 to the financial statements.
- (h) During the year ended 31 December 2003, pursuant to a conditional sale and purchase agreement entered into between the Company and Yong Sheng Limited, a fellow subsidiary of the Company, the Company disposed of its entire 100% interest in Guangdong Tannery (Nominees) Limited and Nanhai Tannery at a cash consideration of HK\$10,000. The transaction was completed on 31 December 2003.
- (i) During the year ended 31 December 2003, pursuant to a sale and purchase agreement entered into between the Company and Guangdong Assets Management on 26 April 2003, the Company disposed of its entire 100% interest in Prized Time Limited to Guangdong Assets Management at a cash consideration of HK\$7,998,000 (net of expenses).

In addition to the above, the Group’s bank loans of HK\$17,000,000 as at 31 December 2003 were secured by certain bank deposits of the immediate holding company of the Company at nil consideration. The bank loans were fully repaid by the Group during the year (note 23).

34. PLEDGE OF ASSETS

As at 31 December 2004, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

	<i>Notes</i>	Group	
		2004	2003
		<i>HK\$’000</i>	<i>HK\$’000</i>
Leasehold land and buildings	12	3,300	3,370
Investment properties	12	4,460	4,570
Bank balances	18	6,109	7,355
Plant and machinery	12	7,100	—
		<u>20,969</u>	<u>15,295</u>

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 April 2005.

3. SHARE CAPITAL

The authorised and issued share capital of GTL as at the Latest Practicable Date were as follows:

	<i>HK\$</i>
<i>Authorised:</i>	
<u>700,000,000</u> Shares	<u>70,000,000</u>
<i>Issued and fully paid:</i>	
<u>524,154,000</u> Shares	<u>52,415,400</u>

All of the Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. No Shares have been issued since 31st December, 2004 (the date to which the latest audited financial statements of the GTL Group were made up) to the Latest Practicable Date.

The Shares are listed on the Stock Exchange and none of the securities of GTL are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, there were in total 15,350,000 outstanding Share Options held by the Option Holders under the Share Option Scheme entitling them to subscribe for 15,350,000 new Shares.

Save as disclosed, as at the Latest Practicable Date, the GTL Group had no options, warrants, derivatives or other securities that are convertible into Shares.

4. INDEBTEDNESS

The GTL Group's indebtedness, commitments and contingent liability as at 30th June, 2005 were as follows:

a. Loans from GDH

The GTL Group had unsecured loans of RMB20,000,000 (equivalent to approximately HK\$18,778,000) and HK\$10,350,000 advanced from GDH. These loans bear interest at 4.15% and 3.8% per annum, respectively, and are repayable on 30th June, 2006.

b. Loan from a fellow subsidiary

The Group had an unsecured loan of US\$7,000,000 (equivalent to approximately HK\$54,600,000) advanced from Guangdong Assets Management Limited, a fellow subsidiary of GTL. This loan bears interest at 3.8% per annum and is repayable on 30th June, 2006.

c. Bank Borrowings

Certain assets of the Group amounting to approximately HK\$17,319,000 were pledged to a bank to secure general banking facilities granted to the Group and as at 30th June, 2005, no such banking facilities were utilized.

d. Contingent Liabilities

As reported in GTL's annual reports for 2002, 2003 and 2004, following the change in senior management of GTL in June 2002, it was discovered that certain former executives (the "**Former Executives**") of Nanhai Tannery & Leather Products Co., Ltd. ("**Nanhai Tannery**") (one of whom is also a former director of GTL) had been involved in certain irregularities. Nanhai Tannery was a wholly-owned subsidiary of GTL established in Nanhai, the PRC, until 31st December, 2003.

Upon discovery of the irregularities, an internal audit team of GTL's holding companies, working with the new management, conducted a preliminary investigation of the irregularities. The investigation revealed that the Former Executives operated a business in parallel to the operations of Nanhai Tannery (the "**Parallel Operation**") for their own personal gain.

The incident was reported by GTL to the relevant PRC authorities which detained the Former Executives and seized documents related to the Parallel Operation for investigation. GTL also instructed its auditors and its PRC lawyers to carry out special investigations with a view to ascertaining the effects of the Parallel Operation on the business of Nanhai Tannery and to advise management of the GTL Group's possible recourse against the Former Executives.

Based on the findings of the special investigations and having regard to the professional advice received, the directors of GTL came to the view that the Parallel Operation should not be (and it had not been) incorporated in the financial statements of the GTL Group and that the Parallel Operation appeared to have involved various irregularities in its previous transactions under the applicable PRC laws and regulations.

Pursuant to a business restructuring plan implemented by the GTL Group, Foshan City Nanhai Tong Yuan Tanning Co., Ltd. ("**Tongyuan Tannery**") was established to operate the GTL Group's tannery operations and businesses in the Guangdong province in January 2003. Tongyuan Tannery is a wholly-owned subsidiary of GTL and the directors consider that Tongyuan Tannery is a wholly separate business to Nanhai Tannery. Tongyuan Tannery purchased from Nanhai Tannery most of its fixed assets and inventories in 2003.

On 31st December, 2003, GTL entered into a conditional sale and purchase agreement with Yong Sheng Limited, a former subsidiary of GDH, for the disposal of GTL's entire 100% interest in Nanhai Tannery. The transaction was completed on 31st December, 2003 and Nanhai Tannery ceased to be a subsidiary of GTL since then. On 31st December, 2004, Yong Sheng Limited was disposed to GDH (Cayman) No. 1 Limited, which is not a subsidiary or associated company of GDH. The owner of GDH (Cayman) No. 1 Limited is an individual who is independent from and not connected with the directors of Yong Sheng, GDH or GTL.

In February and March 2004, six bank accounts of Tongyuan Tannery in the PRC containing in total approximately RMB7 million were frozen by the Guangzhou Customs. On 10 March 2004, one of the accounts, namely the frozen account used by Tongyuan Tannery to

pay customs duty and import value added tax, was unfrozen by Guangdong Customs to enable payments to be made from that account in satisfaction of customs duty and import value added tax, if any, in the future. Subsequently, additional bank balances of Tongyuan Tannery of approximately RMB2 million were frozen by the Guangzhou Customs. Accordingly, bank accounts of Tongyuan Tannery containing in total approximately RMB9 million (equivalent to approximately HK\$8.7 million) have been frozen by the Guangzhou Customs.

As the freezing of the bank accounts has severely affected Tongyuan Tannery's operations, Tongyuan Tannery suspended its operations with effect from 14th March, 2004. The said suspension has remained in effect until now. More than 600 employees of Tongyuan Tannery (i.e. approximately 99% of its staff) have been laid off to date.

In view of the new system of internal controls and measures that the GTL Group has put in place since June 2002 (which have been discussed at the audit committee meeting of GTL held on 31st July, 2002) and also the GTL Group's vigilant efforts to monitor and enforce compliance with all these new procedures, the directors and management of GTL are satisfied that all the businesses and operations of Tongyuan Tannery have been conducted strictly in accordance with all the applicable PRC laws and regulations since its establishment, and that there has been no wrongdoing on the part of Tongyuan Tannery or any of its management or staff. GTL's view is that the Guangzhou Custom's actions must relate to the activities prior to June 2002 of the Former Executives of Nanhai Tannery.

In addition to making telephone calls to the Guangzhou Customs in February and March 2004 and making verbal explanations to them in March 2004, all to no avail, Tongyuan Tannery also wrote to the Guangzhou Customs in February 2004 and March 2004 (i) to clarify that Tongyuan Tannery had not engaged in any illegal activities and that its businesses and operations had been conducted lawfully since its establishment; and (ii) to request that the Guangzhou Customs withdraw their actions in freezing Tongyuan Tannery's bank accounts. Tongyuan Tannery also met with Guangzhou Customs in March 2004 who explained that they would be commencing investigations against the Former Executives and they took the view that it was necessary to freeze Tongyuan Tannery's bank accounts for such investigations. This confirmed GTL's view that the actions of the Guangzhou Customs must be related to the previous activities of the Former Executives prior to June 2002 and therefore they are not related to the business or operations of Tongyuan Tannery.

In March 2004, the Guangzhou Customs issued a demand letter (the "**Demand**") to Tongyuan Tannery and Nanhai Tannery (i) claiming tax of RMB36,989,000 (equivalent to approximately HK\$34,800,000) being the amount of which the Guangzhou Customs is alleging that Nanhai Tannery had evaded during the period from 2000 to 2002; and (ii) asserting that Tongyuan Tannery and Nanhai Tannery had failed to notify the Guangzhou Customs of the change of operation from Nanhai Tannery to Tongyuan Tannery. Regarding the Demand, GTL sought to clarify the situation with the Guangzhou Customs in two meetings in April 2004, but to no avail.

Although the GTL Group had disposed of its entire interest in Nanhai Tannery and the alleged tax evasion was related to the Parallel Operation, the PRC legal advice obtained by GTL in April 2004 indicated that if, which is denied by GTL, Tongyuan Tannery and Nanhai Tannery are one and the same entity, then it will be possible for the Guangzhou Customs to impose Nanhai Tannery's liability of approximately HK\$34,800,000 (the "**Potential Tax**

Liability”) on Tongyuan Tannery. Accordingly, GTL made a provision of HK\$34,800,000 for the Potential Tax Liability in its annual results for the year ended 31st December, 2003. The same provision was carried in GTL’s balance sheet as at 31st December, 2004.

In addition, the PRC legal advice indicated that, under the existing PRC laws and regulations, the relevant PRC authorities may also impose a tax penalty on Tongyuan Tannery of an amount equal to 1 to 5 times the Potential Tax Liability, i.e. in the amount of approximately HK\$34,800,000 to HK\$174,000,000 (the “**Potential Liability**”). In light of such PRC legal advice, the directors of GTL considered it appropriate to make a provision of HK\$34,800,000 for the Potential Penalty in GTL’s annual results for the year ended 31st December, 2003. The same provision was carried in GTL’s balance sheet as at 31st December, 2004.

In April 2005, a prosecution was initiated in the Guangzhou Intermediate People’s Court (the “**Guangzhou Court**”) against, amongst others, Nanhai Tannery, in relation to alleged tax evasion activities on the part of Nanhai Tannery and others between January 2000 and May 2002 (the “**Guangzhou Proceedings**”). Nanhai Tannery has indicated that it has defended the Guangzhou Proceedings vigorously.

A hearing of the Guangzhou Proceedings was held on 10th May, 2005, but, as of the Latest Practicable Date, no judgment has yet been rendered. Tongyuan Tannery was not made a party to the Guangzhou Proceedings. However, allegations were made in these proceedings that Tongyuan Tannery was set up as a vehicle to take over the assets of Nanhai Tannery, and to place obstacles on the Guangzhou Custom’s attempt to recover the evaded tax. Tongyuan Tannery filed its objections to these allegations with the Guangzhou Court in June 2005 to explain that (i) Tongyuan Tannery and Nanhai Tannery were separate legal entities; (ii) the acquisition of Nanhai Tannery’s assets (including factory premises, machinery and raw materials) by Tongyuan Tannery were legitimate and genuine transactions at fair market prices; and (iii) the balances in the bank accounts of Tongyuan Tannery which were frozen by Guangzhou Customs were the proceeds of the normal operations of Tongyuan Tannery, and were not related to the operations of Nanhai Tannery.

Subsequent to the commencement of the Guangzhou Proceedings, on 23rd August, 2005, GTL obtained further PRC legal advice which confirmed that if the Guangzhou Court finds that Tongyuan Tannery is in fact the same entity as Nanhai Tannery, it may be possible for Guangzhou Customs to impose the Potential Tax Liability on Tongyuan Tannery and that the balance in the bank accounts of Tongyuan Tannery which are currently frozen by the Guangzhou Customs may be applied towards discharging the Potential Tax Liability. It may also be possible for Guangzhou Customs to impose the Potential Penalty on Tongyuan Tannery.

The PRC legal advice further indicated that once judgment has been rendered, the parties would have 10 days within which to lodge an appeal. If no appeal is lodged within this period, the judgment in the Guangzhou Proceedings will take effect. In the event that the judgment is unfavourable to Tongyuan Tannery, it has a right to file objections to higher level courts, although the filing of objections would not affect the enforcement of the judgment. If the parties to the Guangzhou Proceedings lodge an appeal against the judgment of the Guangzhou Court, the judgment will not take effect and the appeal will be heard by the Guangdong High Court. Tongyuan Tannery will have a right to file its objections with the Guangdong High Court. The decision of the Guangdong High Court will be final.

Save for the above-mentioned bank accounts of Tongyuan Tannery remain being frozen, no further action has been taken by the Guangzhou Customs or any other PRC authorities against Tongyuan Tannery and/or GTL.

Until judgment has been rendered in the Guangzhou Proceedings, it is not possible to confirm with any degree of certainty as to the quantum, if any, of Tongyuan Tannery's liability arising out of these proceedings. However, in light of the recent PRC legal advice obtained by GTL, the directors of GTL consider that no further provision for the Potential Tax Liability and Potential Penalty needs to be made.

For the purpose of the above indebtedness statement, foreign currency have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30th June, 2005.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of the business of the GTL Group, the GTL Group did not have any outstanding bank overdrafts, bank loans, mortgages, charges, debentures, loan capital or other similar indebtedness, or hire-purchase commitments, liabilities under acceptance or acceptance credits or any guarantees or other material contingent liabilities as at 30th June, 2005.

The GTL Directors have confirmed that, save as disclosed above, there has been no material changes in GTL's indebtedness, commitments or contingent liability position since 31st December, 2004, the date to which the latest published audited consolidated financial statements of the GTL Group were made up.

5. MATERIAL CHANGE

Save as set out in the statement of Adjusted NTAV in section 6 of this Appendix, the GTL Directors are not aware of any material change in the financial or trading position or prospects of the GTL Group since 31st December, 2004, the date to which the latest published audited consolidated financial statements of the GTL Group were made up.

6. STATEMENT OF ADJUSTED NET TANGIBLE ASSET VALUE

Set out below is a statement of the unaudited Adjusted NTAV, which has been calculated based on the audited consolidated net tangible asset value of the GTL Group as at 31st December, 2004 and the purpose of which is for reference only:

	<i>HK\$'000</i>
Audited consolidated net tangible assets of the GTL Group as at 31st December, 2004 (<i>Note 1</i>)	171,072
Adjustments: Reduction of the carrying value of an investment property of the GTL Group as at 30th June, 2005 pursuant to the valuation of all the GTL Group's property interests as required by Rule 11.1(f) of the Takeovers Code (<i>Note 2</i>)	(2,330)
Effect on the adoption of HKAS 17 "Leases" (<i>Note 3</i>)	<u>(11,925)</u>
Unaudited Adjusted NTAV	<u><u>156,817</u></u>
	<i>HK\$</i>
Unaudited Adjusted NTAV per Share (based on 524,154,000 Shares in issue as at the Latest Practicable Date)	<u><u>0.299</u></u>

Note:

1. This amount was extracted from section 2 headed "Audited consolidated financial statements of the GTL Group for the year ended 31st December, 2004" in this Appendix.
2. According to the valuation report of RHL Appraisal Ltd., an independent professionally qualified valuer, set out in Appendix II to this document, one of the GTL Group's property interests (i.e., property interest no. 5) with a carrying value of HK\$2,330,000 as recorded in the books of the GTL Group as at 31st December, 2004 has been assigned as no commercial value as the land grant procedures have not yet been completed as at 30th June, 2005.
3. This represents the effect on the adoption of Hong Kong Accounting Standard No. 17 "Leases" ("HKAS 17") issued by the Hong Kong Institute of Certified Public Accountants. The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less accumulated depreciation. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The up-front prepayments made for the leasehold land and land use right are stated at cost and amortised over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account whereas the leasehold buildings is stated at valuation less accumulated depreciation.

The adjustment of HK\$11,925,000 represents the difference between the amount of valuation less accumulated depreciation and the amount of cost less accumulated amortisation of a leasehold land as recorded in the books of the GTL Group as at 31st December, 2004, adjusted for applicable tax effect.



Member of RHL International Property Consultants
永利行國際物業顧問集團成員

RHL Appraisal Ltd.
永利行評值顧問有限公司

Surveyors, Valuers, Land & Property Consultants

26th August, 2005

The Directors

Guangdong Tannery Limited

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

Dear Sirs,

Re: Valuation of Various Properties in Hong Kong and the People's Republic of China (the "PRC")

1. INSTRUCTION

In accordance with the instructions from **Guangdong Tannery Limited** (referred to as the "Company") for us to value the certain properties (the "properties") held by the Company or its subsidiaries (the Company and its subsidiaries together referred to as the "GTL Group"), we confirm that we have carried out inspection of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of the market values of the properties as at 30th June, 2005 (referred to as the "valuation date").

2. BASIS OF VALUATION

The valuation is our opinion of the market value which we would define as intended to mean the estimated amount for which a Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

Property numbered 5 has no commercial value attributable to the Company because land grant procedures have not yet been completed as at the valuation date.

As the land portions of properties numbered 6 and 7 are held by the GTL Group under leasehold interest, our valuation of the properties only reflects the depreciated replacement costs of the buildings and structures erected thereon on the basis that the GTL Group shall have uninterrupted rights to use and occupied the concerned land parcels during the unexpired lease terms.

3. VALUATION METHODOLOGY

In valuing the properties, the "Direct Comparison Method" is adopted where comparison based on price information of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighted against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

For those properties or portion of certain properties which are subject to tenancies, we adopt the “Investment Method” on the basis of capitalization of the net rental incomes with due allowance for reversionary income potential. The direct comparison method is also adopted in estimating the market prices/rents of them.

Having regard to the nature of the buildings and structures of properties numbered 1, 6 and 7 which have no readily identifiable market, we have adopted the Depreciated Replacement Cost Methods to value them. It is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the valuation date. This method of valuation requires an estimate of the market value of the land in its existing use (if any) and an estimate of the new replacement cost of the buildings and other site works, from which deductions are then made to allow for age, condition, functional obsolescence, etc.

4. ASSUMPTIONS

With the exception of properties numbered 5, 6 and 7, our valuation has been made on the assumption that the owner sells the properties in the market in their existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the values of the properties.

For the properties which are held by the Company by means of Land Use Right Contracts or Land Leasing Agreements, we have assumed that the Group has free and uninterrupted right to use the properties for the whole of the unexpired term of their respective Land Use Right Contracts or Land Leasing Agreements subject to payment of annual ground rent/land use fees, and all requisite land premium/purchase consideration payable has been fully settled.

Other special assumptions of each property, if any, have been stated in the footnotes of the valuation certificate for each corresponding property.

5. TITLE INVESTIGATION

We have been provided by the Company with copies of legal documents regarding the properties. However, we have not verified ownership of the Properties nor the existence of any lease amendments which does not appear on the copies handed to us. In addition, we have also relied on the legal opinion prepared by the PRC Lawyer, Guang Dong Fair Strategy Law Firm (廣東正大方略律師事務所) on the GTL Group’s title to the properties situated in the PRC and in the nature of its land use rights in the same property.

All legal documents supplied by the Group have been used for reference only. No responsibility regarding legal title to the properties is assumed in this valuation report.

6. LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of all the premises valued but no structural surveys has been made. In the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services. Our valuation have been made on the basis that all buildings and structures are in compliance with all relevant building regulations and safety standards of the PRC. All dimensions, measurements and areas are only approximates.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as statutory notices, easements, tenure, occupation, construction costs, site and floor areas and in the identification of the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also advised by the Company that no material facts have been omitted from the information supplied.

No allowance has been made in our valuation for any charges, mortgages or amount owing on any property interests nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

7. REMARKS

We have valued the properties in Hong Kong Dollar (HK\$). The conversion of Renminbi (RMB) into HK\$ is based on the factors of RMB1.00 to HK\$0.9418 with reference to the prevailing exchange rate on the valuation date.

According to the information prepared by the Group, the potential tax liability which would arise on the disposal of property interests are PRC business tax (5%), PRC land appreciation tax (approximately 30–60% on capital gain) and PRC corporate income tax (33% on corporate's taxable profit). According to our established practice, in the course of our valuation, we have neither verified nor taken into account such tax liability. As advised by the Group, such tax liability is not likely to crystallise as it has no intention to dispose of these properties in the foreseeable future except that pursuant to a sale and purchase agreement signed in June 2005, a dormitory of Tongyuan Tannery was sold to a third party for a consideration of RMB3,501,000. The potential tax liability for this transaction is approximately RMB180,000. This is the only property sold by the GTL Group since March 2004.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Properties (1st Edition) and complied with all requirements contained in Chapter 5 of the Listing Rules and Practice Notes 12 issued by the Stock Exchange of Hong Kong Limited.

We enclose herewith the summary of valuation and the valuation certificates.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Sandra S.W. Lau
MFin MHKIS AAPI RPS (GP)
Director

Tse Wai Leung, who is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyor, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Sandra S. W. Lau, who is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. Both of them have over ten years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Property	Capital Value in existing state as at 30th June, 2005
1. A factory premises at Luocun Town Nanhai City Guangdong Province the PRC	HK\$58,000,000
2. Shop Nos. 16–19 and 76–78 on Level 2 Foshan Garden Plaza No. 81 Fenjiangnan Road Foshan City Guangdong Province The PRC	HK\$490,000
3. Block 42 Huayuen Plaza Nanguidong Road Guicheng Area Nanhai City Guangdong Province the PRC	HK\$6,000,000
4. Unit 906 on 9th Floor Qingdao World Trade Centre No. 6 Zhanliugan Road Shinan District Qingdao City Shandong Province the PRC	HK\$1,000,000
5. A factory premises at Zhufoling No. 168 Industrial District Tangxia Town Dongguan City Guangdong Province the PRC	No commercial value <i>(note 1)</i>
6. A factory premises at Gangtou Village Suining Town, Xuzhou City Jiangsu Province the PRC	HK\$4,460,000 <i>(note 2)</i>

Property	Capital Value in existing state as at 30th June, 2005
7. A factory premises at No. 45 Fuqianxi Street Suining Town, Xuzhou City Jiangsu Province the PRC	HK\$3,300,000 <i>(note 2)</i>
	<hr/>
	Total: <u><u>HK\$73,250,000</u></u>

Notes:

- Property numbered 5 has no commercial value because land grant procedures have not yet been completed on the valuation date
- The market value of properties numbered 6 & 7 do not include value of land portion as the concerned land parcels are being held by the GTL Group under leasehold interest.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30th June, 2005
1. A factory premises at Luocun Town Nanhai City Guangdong Province the PRC	The property is a factory complex for manufacturing of leather and leather products. The property comprises a parcel of land with an area of about 94,096.39 sq. m. (1,012,853.54 sq. ft.) with a total of about 43 buildings/structures erected thereon. The total floor area of the property is 67,053.84 sq. m. (721,767.53 sq. ft.) with breakdown set out as follows:	The property is currently vacant.	HK\$58,000,000

Type Building	Number of blocks	Number of storeys	Floor Area (sq. m.)
Workshops	11	1-3	37,843.00
Warehouses	10	1	8,181.22
Office	5	2	3,360.15
Plant rooms	9	1	2,311.97
Laboratory	1	2	456.00
Dormitories	2	1-6	10,316.98
Ancillary	<u>5</u>	1-2	<u>4,584.52</u>
Total:	<u>43</u>		<u>67,053.84</u>

Other services buildings and structures include oxidizing pool, water tower, carparking spaces, bicycle shed, roads and paving, landscaping, drainage, pipes and ducts, cables, boundary walls, etc..

The buildings and structures were completed in between 1988 and 1998.

The property is held for a term of years expiring on 22nd October, 2046.

Notes:

- Pursuant to a Property Transfer Agreement entered into between Nanhai Tannery & Leather Products Company Limited (Party A) and Nanhai City Tongyuan Tanning Ltd (南海市通遠皮革有限公司) (Party B) on 14th October, 2003, Party A transferred its entire interest in the property to Party B.
- As revealed by a Land Use Rights Certificate (ref no. Nan Fu Guo Yong 2003 Di Te 090057) and 19 sets Building and Land Ownership Certificate (ref nos. C2267633 to C2267650 and C2267661), the subject land with an area of 94,096.39 square metres and a total of 19 buildings of the property with a total gross floor area of 56,098.83 square metres are held by Nanhai City Tongyuan Tanning Ltd. for a term of years expiring on 22nd October, 2046.
- For those structures of which the Building and Land Ownership Certificates have yet to be issued, our valuation has been made on the assumption that there shall have no legal impediment to the owner's obtaining such Building and Land Ownership Certificates.

4. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
- 4.1 The property is held by Nanhai City Tongyuan Tanning Ltd. (now known as Foshan City Tong Yuan Tanning Co. Ltd. and it is a wholly-owned subsidiary of GTL); and
- 4.2 The property is free from any encumbrances.
5. The status of the title and grant of major approvals and licences in accordance with the information provided by the GTL Group and the opinion of the Company's legal advisers on the PRC law as at the valuation date are as follows:

Land Use Rights Certificate	Yes
Building and Land Ownership Certificate	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30th June, 2005
2. Shop Nos. 16–19 and 76–78 on Level 2 Foshan Garden Plaza No. 81 Fenjiangnan Road Foshan City Guangdong Province the PRC	The property comprises 7 shop (the “Properties”) units on Level 2 of a commercial complex within a 10-storey composite building completed in 1993. The total gross floor area of the Properties is 107.19 sq. m. (1,153.79 sq. ft.) with breakdown set out as follows:	The Properties are subject to various individual tenancies for terms of 1 to 2 years expiring on between 7th August, 2005 and 7th June, 2006 at a total monthly rent of RMB3,500 exclusive of management fees and other charges.	HK\$490,000
	Shop No.	Gross Floor Area (sq. m.)	
	16	15.15	
	17	15.28	
	18	15.20	
	19	15.49	
	76	15.35	
	77	15.35	
	78	<u>15.37</u>	
	Total:	<u>107.19</u>	
	The Properties are held for a term of 40 years commencing on 30th April, 2001		

Notes:

1. As revealed by seven sets of Building Ownership Certificate issued on 19th January, 1995, 23rd January, 1995 and 24th January, 1995 by the Real Estate Administration Bureau of Foshan, the Properties is held by Nanhai Tannery & Leather Products Company Limited which is a wholly-owned subsidiary of Guangdong Tannery Limited.
2. Pursuant to a Property Transfer Agreement entered into between Nanhai Tannery & Leather Products Company Limited (Party A) and Nanhai City Tongyuan Tanning Ltd (南海市通遠皮革有限公司) (Party B) on 14th October, 2003, Party A transferred its entire interest in the Properties to Party B.
3. The legal opinion from the PRC legal adviser to the Company on the Properties is summarized as follows:
 - 3.1 The Properties are held by Nanhai Tannery & Leather Products Company Limited;
 - 3.2 The Properties are subject to a Property Transfer Agreement in favour of Nanhai City Tongyuan Tanning Ltd;
 - 3.3 Due to the property transferring procedures not yet completed, the legal interests in the Properties is held by Nanhai Tannery & Leather Products Company Limited (a former subsidiary of GTL and it does not have any relationship with the GTL Group at present) on the valuation date. However, the PRC legal adviser to the Company considers that the GTL Group has the beneficial interests in the Properties under PRC law and regulation; and
 - 3.4 The Properties are free from any encumbrances.

4. A sale and purchase agreement (the “Agreement”) was entered into between Nanhai Tannery and Tongyuan Tannery in October 2003 for the acquisition by Tongyuan Tannery of the Properties in Foshan City. Pursuant to the Agreement, the transaction should be completed on or before 10th December, 2003 and is conditional on clean title of the Properties being transferred. The Properties were previously charged to Agriculture Bank of China, but had been released afterwards. However, when the parties proceeded to register the transfer with the local authority, the release documents could not be located. Tongyuan Tannery still endeavours to complete the registering procedures at present. As the consideration has been paid by Tongyuan Tannery in full and Tongyuan Tannery has been receiving the rental income of the Properties, it is considered that Tongyuan owns the beneficial interest in the Properties.
5. The status of the title and grant of major approvals and licences in accordance with the information provided by the GTL Group and the opinion of the Company’s legal advisers on the PRC law as at the valuation date are as follows:

Land Use Rights Certificate	No
Building Ownership Certificate	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30th June, 2005
3. Block 42 Huayuen Plaza Nanguidong Road Guicheng Area Nanhai City Guangdong Province the PRC	The property comprises the whole block of an 8-storey residential building completed in 1997. The total gross floor area of the property is 4,366.14 sq. m. (46,997.13 sq. ft.) with breakdown set out as follows:	The property is occupied by the GTL Group as dormitory.	HK\$6,000,000
		Gross Floor Area (sq. m.)	
	Uses		
	Domestic	3,832.32	
	Non-domestic	<u>533.82</u>	
	Total:	<u>4,366.14</u>	
	The property is held for a term of years expiring on 29th June, 2065.		
<i>Notes:</i>			
1.	As revealed by a Building and Land Ownership Certificate (ref no. C2090261), the property is held by Nanhai City Tongyuan Tanning Ltd (南海市通遠皮革有限公司) for a term of years expiring on 29th June, 2065.		
2.	Pursuant to an Agreement for Sale and Purchase entered into between Nanhai City Tongyuan Tanning Ltd. and 佛山市南海千禧房地產服務有限公司 on 23rd June, 2005, the latter acquired the east wing of the property with a gross floor area of 2,102.55 square metres from the former at a consideration of RMB3,501,000. Such sale proceeds have been reflected in our valuation.		
3.	The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:		
3.1	The property is held by Nanhai City Tongyuan Tanning Ltd.;		
3.2	Portion of the property (28 residential units, 30 car parking spaces on ground floor) is subject to an Agreement for Sale and Purchase in favour of 佛山市南海千禧房地產服務有限公司;		
3.3	Due to the property transferring procedures not yet completed, the legal interests in the property is held by Nanhai City Tongyuan Tanning Ltd. on the valuation date; and		
3.4	The property is free from any encumbrances.		
4.	The status of the title and grant of major approvals and licences in accordance with the information provided by the GTL Group and the opinion of the Company's legal advisers on the PRC law as at the valuation date are as follows:		
	Building and Land Ownership Certificate	Yes	

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30th June, 2005
4. Unit 906 on 9th Floor Qingdao World Trade Centre No. 6 Zhanliugan Road Shinan District Qingdao City Shandong Province the PRC	The property comprises an office unit on 9th floor within a commercial/residential building completed in 1996. The floor area of the property is 203.50 sq. m. (2,190.47 sq. ft.). The property is held for a term of expiring on 20th April, 2043.	The property is currently vacant.	HK\$1,000,000

Notes:

1. As revealed by a Building and Land Ownership Certificate dated 18th February, 2003, the property is held by Nanhai City Tongyuan Tanning Ltd (南海市通遠皮革有限公司).
2. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
 - 2.1 The property is held by Nanhai City Tongyuan Tanning Ltd.; and
 - 2.2 The property is free from any encumbrances.
3. The status of the title and grant of major approvals and licences in accordance with the information provided by the GTL Group and the opinion of the Company's legal advisers on the PRC law as at the valuation date are as follows:

Building and Land Ownership Certificate	Yes
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VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30th June, 2005								
5. A factory premises at Zhufoling No. 168 Industrial District Tangxia Town Dongguan City Guangdong Province the PRC	<p>The property comprises a 3-storey industrial building and a 5-storey dormitory building erected on a parcel of land having an area of approximately 2,775 sq. m. (29,870.10 sq. ft.).</p> <p>The buildings were completed in 1994.</p> <p>The total gross floor area of the buildings is approximately 4,686 sq. m. (50,440.10 sq. ft.) with breakdown set out as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Building</th> <th>Gross Floor Area (sq. m.)</th> </tr> </thead> <tbody> <tr> <td>Workshop</td> <td>2,921</td> </tr> <tr> <td>Dormitory</td> <td>1,765</td> </tr> <tr> <td>Total:</td> <td><u>4,686</u></td> </tr> </tbody> </table>	Building	Gross Floor Area (sq. m.)	Workshop	2,921	Dormitory	1,765	Total:	<u>4,686</u>	<p>The property is subject to a tenancy for a term commencing on 1st December, 2003 and expiring 28th February, 2007 at a monthly rent of HK\$30,000.</p>	<p>No commercial value (see note 3 below)</p>
Building	Gross Floor Area (sq. m.)										
Workshop	2,921										
Dormitory	1,765										
Total:	<u>4,686</u>										
	<p>The property is held for a term of 50 years commencing from 11th April, 1992.</p>										

Notes:

- Pursuant to a Land Use Right Contract dated 11th April, 1992 entered into between 東莞市塘廈鎮諸佛嶺管理區 (“Party A”) and 藝達昌有限公司 (Gain Hundred Limited) (“Party B”), Party A agreed to grant to Party B the property for the construction of factory premises for industrial use for a term of 50 years commencing from 11th April, 1992.
- Subsequently, the property was transferred to Sun Po (Hong Kong) Leather Ware Company Limited which is a wholly-owned subsidiary of Guangdong Tannery Limited via a Land Use Right Transfer Contract dated 20th June, 1997.
- Since the land use rights of the property were granted in the nature of collectively-owned and can only be transferred after completing surrender and re-grant by the Land Bureau, the property has no commercial value attributable to the Company.
- The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:

Upon the land grant procedures to be fully completed, the legal interests in the property will be held by Sun Po (Hong Kong) Leather Ware Company Limited (a wholly-owned subsidiary of GTL).
- The status of the title and grant of major approvals and licences in accordance with the information provided by the GTL Group and the opinion of the Company’s legal advisers on the PRC law as at the valuation date are as follows:

Land Use Rights Contract	Yes
Land Use Rights Certificate	No
Building Ownership Certificate	No
Building and Land Ownership Certificate	No

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30th June, 2005
6. A factory premises at Gangtou Village Suning Town, Xuzhou City Jiangsu Province the PRC	The property comprises an industrial complex with a total gross floor area of 8,297.2 sq. m. (89,311.06 sq. ft.) which is broken down as follows:	The 3 single-storey workshop and Level 1 of the office building of the property (together with 27 items of equipment and 2 items of transport vehicle) is subject to a tenancy for a term of 5 years commencing on 1st July, 2002 at an annual rent of RMB600,000. Based on the book asset values of the owner, the annual rent attributable to the leased buildings/ structures of the property is RMB375,587.	HK\$4,460,000 (see note 3 below)
	Building	Gross Floor Area (sq. m.)	
	3 blocks of single-storey workshop	6,436.59	
	1 block of office	1,378.60	
	1 boiler room	96.00	
	Other	<u>386.00</u>	
	Total:	<u>8,297.20</u>	
	The subject land of the property having an area of 30,680 sq. m. (330,239.52 sq. ft.) is being rented by the GTL Group for a term of 20 years from 23rd January, 2002 at a current annual rent of RMB150,000.		

Notes:

1. As revealed by 2 sets Building Ownership Certificate, the subject buildings mentioned above are held by Xuzhou Nanhai Leather Factory Co., Ltd.
2. Pursuant to a Land Lease Agreement dated 23rd January, 2002, the subject land having an area of 30,680 sq. m. is being leased to Xuzhou Nanhai Leather Factory for a term of 20 years commencing from the date of the said Land Lease Agreement i.e. 23rd January, 2002 and is renewable for a further term of 20 years by the tenant with notice to the landlord.
3. Given the leasehold interest held by the GTL Group in the subject land, our valuation does not include any value of the land portion of the property.
4. The buildings of the property are subject to mortgage in favour of Bank of China for general banking facilities.
5. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
 - 5.1 The aforesaid buildings are held by Xuzhou Nanhai Leather Factory Co., Ltd. (a wholly-owned subsidiary of GTL); and
 - 5.2 The aforesaid buildings are subject to mortgage in favour of Bank of China
6. The status of the title and grant of major approvals and licences in accordance with the information provided by the GTL Group and the opinion of the Company's legal advisers on the PRC law as at the valuation date are as follows:

Land Use Rights Contract	No
Land Lease Agreement	Yes
Land Use Rights Certificate	No
Building Ownership Certificate	Yes
Building and Land Ownership Certificate	No

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30th June, 2005
7. A factory premises at No. 45 Fuqianxi Street Suining Town Xuzhou City Jiangsu Province the PRC	The property comprises an industrial complex with a total gross floor area of 10,867.98 sq. m. (116,982.94 sq. ft.) which is broken down as follows:	The property is occupied by the GTL Group.	HK\$3,300,000 (see note 3 below)
	Building	Gross Floor Area (sq. m.)	
	5 blocks of single-storey workshop	7,854.70	
	4 blocks of single-storey warehouse	1,940.37	
	1 machine room	150.06	
	1 boiler room	206.40	
	Other	<u>716.45</u>	
	Total:	<u><u>10,867.98</u></u>	
	The subject land of the property having an area of 28,370 sq. m. (330,239.52 sq. ft.) is being rented by the GTL Group for a term of 20 years from 23rd January, 2002 at a current annual rent of RMB150,000.		

Notes:

1. As revealed by 4 sets Building Ownership Certificate, the subject buildings mentioned above are held by Xuzhou Nanhai Leather Factory Co., Ltd.
2. Pursuant to a Land Lease Agreement dated 23rd January, 2002, the subject land having an area of 28,370 sq. m. is being leased to Xuzhou Nanhai Leather Factory for a term of 20 years commencing from the date of the said Land Lease Agreement i.e. 23rd January, 2002 and is renewable for a further term of 20 years by the tenant with notice to the landlord.
3. Given the leasehold interest held by the GTL Group in the subject land, our valuation does not include any value of the land portion of the property.
4. The buildings of the property are subject to mortgage in favour of Bank of China for general banking facilities.
5. The legal opinion from the PRC legal adviser to the Company on the property is summarized as follows:
 - 5.1 The aforesaid buildings are held by Xuzhou Nanhai Leather Factory Co., Ltd.; and
 - 5.2 The aforesaid buildings are free from any encumbrances.

6. The status of the title and grant of major approvals and licences in accordance with the information provided by the GTL Group and the opinion of the Company's legal advisers on the PRC law as at the valuation date are as follows:

Land Use Rights Contract	No
Land Lease Agreement	Yes
Land Use Rights Certificate	No
Building Ownership Certificate	Yes
Building and Land Ownership Certificate	No

RESPONSIBILITY STATEMENT

The information in this document relating to the GTL Group has been supplied by the GTL Directors. The issue of this document has been approved by the GTL Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this document in relation to the GTL Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document in relation to the GTL Group misleading.

The information in this document relating to the GDH Group has been supplied by the GDH Directors. The issue of this document has been approved by the GDH Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the GTL Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those relating to the GTL Group) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document (other than those relating to the GTL Group) misleading.

SHARE CAPITAL

No new Shares have been issued by GTL since 31st December, 2004, being the end of the last financial year of GTL, and up to the Latest Practicable Date. The authorised and issued share capital of GTL as at the Latest Practicable Date were as follows:

HK\$

Authorised:

<u>700,000,000</u>	Shares of HK\$0.10 each	<u>70,000,000</u>
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Issued and fully paid up:

<u>524,154,000</u>	Shares of HK\$0.10 each	<u>52,415,400</u>
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All Shares rank *pari passu* in all respects as regards the rights to dividends, voting and return of capital.

The Shares are listed and traded on the Stock Exchange. None of the Shares is listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in Shares being, or proposed to be, sought on any other stock exchange.

As at the Latest Practicable Date, there were 15,350,000 outstanding Share Options issued under the Share Option Scheme. Under the Share Option Scheme, these 15,350,000 outstanding Share Options are not transferable or assignable. All the Option Holders have irrevocably undertaken to GDH and GTL that they will surrender their Share Options in consideration of GDH agreeing to pay them the relevant Option Cancellation Prices upon the Scheme becoming effective.

Save as aforesaid, as at the Latest Practicable Date, no other Shares or securities convertible into or warrants or options to subscribe for or derivatives relating to Shares in issued by GTL were outstanding.

DISCLOSURE OF INTERESTS

(a) Interests of the GTL Directors

As at the Latest Practicable Date, the interest and short positions of the GTL Directors in the Shares, underlying Shares or debentures of GTL and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to GTL and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules to be notified to GTL and the Stock Exchange were as follows:

(1) *Interests and short positions in GTL*a. *Interest in ordinary Shares*

Name of director	Nature of interest	Number of shares	% of issued share capital	Long/short position
Cheng Hok Lai James	Personal	400,000	0.076	Long position

b. *Interest in options relating to ordinary Shares*

Name of director	Options granted Date (dd/mm/yy)	Number	Period during which option is exercisable (dd/mm/yyyy)	Total consideration paid for options (HK\$)	Price per ordinary Share payable on exercise of option (HK\$)	Long/Short position
Zhang Chunting	09/06/2003	2,500,000	10/09/2003– 09/09/2008	1	0.22	Long position
	11/02/2004	2,000,000	12/05/2004– 11/05/2009	1	0.246	Long position
Xiong Guangyang	09/06/2003	3,000,000	10/09/2003– 09/09/2008	1	0.22	Long position
	11/02/2004	2,200,000	12/05/2004– 11/05/2009	1	0.246	Long position
Cheng Hok Lai James	09/06/2003	300,000	10/09/2003– 09/09/2008	1	0.22	Long position
	11/02/2004	300,000	12/05/2004– 11/05/2009	1	0.246	Long position
Fung Lak	09/06/2003	300,000	10/09/2003– 09/09/2008	1	0.22	Long position
	11/02/2004	300,000	12/05/2004– 11/05/2009	1	0.246	Long position

(2) *Interests and short positions in GDI*a. *Interest in ordinary shares of GDI*

Name of director	Nature of interest	Number of shares	% of issued share capital of GDI	Long/short position
Ho Lam Lai Ping Theresa	Personal	600,000	0.0107	Long position

b. *Interest in options relating to ordinary shares of GDI*

Name of director	Options granted Date (dd/mm/yy)	Number	Period during which option is exercisable (dd/mm/yyyy)	Total consideration paid for options (HK\$)	Price per ordinary share payable on exercise of option (HK\$)	Long/Short position
Ho Lam Lai Ping Theresa	04/12/2002	900,000	05/03/2003– 04/03/2008	1	0.96	Long position
	07/05/2003	1,500,000	08/08/2003– 07/08/2008	1	1.22	Long position
	06/02/2004	1,500,000	07/05/2004– 06/05/2009	1	1.59	Long position
	24/05/2004	1,000,000	25/08/2004– 24/08/2009	1	1.25	Long position

(3) *Interests and short positions in Kingway — Interest in ordinary shares of Kingway*

Name of director	Nature of interest	Number of shares	% of issued share capital of Kingway	Long/short position
Ho Lam Lai Ping Theresa	Personal	80,000	0.0057	Long position

(4) *Interests and short positions in Guangnan — Interest in options relating to ordinary shares of Guangnan*

Name of director	Options granted Date	Number	Period during which option is exercisable (dd/mm/yyyy)	Total consideration paid for options (HK\$)	Price per ordinary share payable on exercise of option (HK\$)	Long/Short position
Hui Wai Man Lawrence	06/02/2004	2,500,000	06/05/2004– 05/05/2009	10	0.1582	Long position

Save as disclosed above, as at the Latest Practicable Date, none of the GTL Directors had interests in any securities of GTL or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to GTL and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules relating to securities transactions by directors to be notified to GTL and the Stock Exchange.

As at the Latest Practicable Date, none of the subsidiaries of GTL or any pension fund of GTL or its subsidiaries had any interest in the Shares.

(b) Persons with interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to any GTL Director or the chief executive of GTL, the following persons had an interest or short position in Shares or underlying Shares which would fall to be disclosed to GTL under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interest	Number of Shares held	% of total issued Shares
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	71.56
GDH Limited	Beneficial owner/Interest of controlled corporation	375,100,000	71.56

Note: The attributable interest which 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) had in GTL was held through its 100 per cent. direct interest in GDH.

- (c) As at the Latest Practicable Date, two GDH Directors (namely, Luo Fan-yu and Sun Ying-ming) held in aggregate 90,000 Shares and save for the Shares held by GDH as stated in paragraph (b) above and the 90,000 Shares held by the said GDH Directors, GDH, its directors and person acting in concert with GDH did not own or control any securities of GTL.
- (d) As at the Latest Practicable Date, no subsidiary of GTL, or any pension fund of GTL or of any member of the GTL Group or GTL's financial advisers as defined in class (2) of the definition of associate in the Takeovers Code owned or controlled any securities in GTL.
- (e) No shareholding in GTL was managed on discretionary basis by fund managers (other than exempt fund managers) connected with GTL.
- (f) No person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with GDH or any party acting in concert with it.
- (g) There was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between GDH or any of its associates ("associates" as defined in the Takeovers Code) and any other person.
- (h) There was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between GTL or any of its associates ("associates" as defined in the Takeovers Code) and any other person.
- (i) None of GTL and the GTL Directors is interested in GDH.

DEALING IN SHARES

During the Relevant Period:

- (a) none of GDH, its directors or parties acting in concert with GDH had dealt for value in any securities of GTL.
- (b) neither GTL nor any of its directors dealt for value in the securities of GDH or GTL;
- (c) none of the subsidiaries of GTL, any pension funds of GTL or any of its subsidiaries or GTL's financial advisers as defined in class (2) of the definition of associate in the Takeovers Code, had dealt for value in any securities in GTL;
- (d) no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with GTL or with any person who was an associate of GTL by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code, and therefore the requirement of the Takeovers Code to state whether such person had dealt for value in any securities in GTL or to include an appropriate negative statement is not applicable;
- (e) no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with GDH or with any persons acting in concert with it, and therefore the requirement of the Takeovers Code to state whether such person had dealt for value in any securities in GTL or to include an appropriate negative statement is not applicable; and
- (f) no fund managers (other than exempted fund managers) connected with GTL and who managed funds on a discretionary basis connected with GTL had dealt for value in any securities in GTL.

PERSONS ACTING IN CONCERT WITH GDH

GDH has received a ruling from the Executive to modify the application of the presumption in class (2) of the definition of "acting in concert" under the Takeovers Code, to the effect that, the class (2) presumption shall not apply to directors (and their close relatives, related trusts and companies controlled by any of the directors, their relatives or related trusts) of GDH's subsidiaries, for the reasons that:

- (i) GDH has four subsidiaries listed on the Stock Exchange (namely, Guangdong Investment Limited, Kingway Brewery Holdings Limited, Guangnan (Holdings) Limited and GTL) plus around 300 subsidiaries with more than 100 directors of those subsidiaries;
- (ii) directors of GDH's subsidiaries are not involved in the Scheme and are not acting in concert with GDH; and
- (iii) accordingly, it is not practical or possible for GDH to control or monitor share dealings of the directors of GDH's subsidiaries regarding their personal investment.

Accordingly, all references to persons acting in concert with GDH in this document shall exclude the directors (and their close relatives, related trusts and companies controlled by any of the directors, their close relatives or related trusts) of GDH's subsidiaries.

The Shares held by the directors of GTL and its subsidiaries may be voted at the Court Meeting and the EGM. None of them has indicated how they will vote in either meeting.

MARKET PRICES

The Shares are traded on the Stock Exchange.

The table below shows the respective closing prices of the Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months preceding the date of the Announcement; (ii) on 27th June, 2005 (being the last full trading day immediately preceding the date of the Announcement); and (iii) on the Latest Practicable Date.

Date	Price per Share <i>HK\$</i>
31st December, 2004	0.219
31st January, 2005	0.23
28th February, 2005	0.207
31st March, 2005	0.204
29th April, 2005	0.18
31st May, 2005	0.18
27th June, 2005	0.191
Latest Practicable Date	0.270

The highest and lowest closing prices of the Shares recorded on the Stock Exchange during the period from 12th January, 2005, being the date six months prior to the date of the Announcement, to the Latest Practicable Date were HK\$0.275 on the trading days of 27th July, 2005 and HK\$0.175 on the trading days of 8th and 9th June, 2005 respectively.

MATERIAL CONTRACTS

The following material contracts have been entered into by GTL, not being contract entered into in the ordinary course of the business carried on or intended to be carried on by GTL, after the date two years prior to the date of the Announcement:

- (1) a loan extension agreement was entered into between GTL and GDH whereby GDH agreed to extend the repayment due date of an unsecured loan of RMB37,990,000 (equivalent to approximately HK\$36,529,000) (the “GDH Loan”) to 30th June, 2006 and the interest rate of the GDH Loan was adjusted to 4.15% per annum for the period from 1st January, 2005 to 30th June, 2006.
- (2) a loan extension agreement was entered into between GTL and GDH whereby GDH agreed to extend the repayment due date of an unsecured loan of HK\$10,350,000 to 30th June, 2006.
- (3) a loan extension agreement was entered into between GTL and Guangdong Assets Management Limited (“GAML”) whereby GAML agreed to extend the repayment due date of an unsecured loan of USD7,000,000 (equivalent to approximately HK\$54,600,000) to 30th June, 2006.

MATERIAL LITIGATION

Details of “Tongyuan Tannery Incident” (which were also reported on in GTL’s annual reports for 2002, 2003 and 2004) are set out in the section headed “4. Indebtedness” in Appendix I to this document.

Save as aforesaid, as at the Latest Practicable Date, neither GDH, GTL nor any of GTL’s subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to any of the GDH Directors or GTL Directors, respectively, to be pending or threatened by or against GDH or GTL or any of GTL’s subsidiaries, respectively.

EXPERTS

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

Name	Qualification
ICEA	Licensed corporation to carry out regulated activities of dealing in securities (Type 1) and advising on corporate finance (Type 6) registered under the SFO
Tai Fook	Licensed corporation to carry out Type 6 regulated activities of advising on corporate finance under the SFO
RHL Appraisal Limited	Professional property valuer
Ernst & Young	Certified Public Accountants

CONSENTS

ICEA, Tai Fook, RHL Appraisal Limited and Ernst & Young have given and have not withdrawn their respective written consents to the issue of this document with the inclusion therein of their respective opinions or letters, as the case may be, and the references to their respective names, opinions or letters in the form and context in which they respectively appear.

COSTS OF THE PROPOSAL

In the event that the Scheme becomes effective, the costs of the Proposal will be borne by GTL. The costs of the Proposal and of its implementation are expected to amount to approximately HK\$2,800,000. These primarily consist of fees for financial advisers, legal advisers and accounting, printing and other related charges.

In the event that the Scheme is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the independent financial adviser to the Independent Board Committee, and the Scheme is not approved at the relevant shareholders’ meeting(s) or does not become unconditional, all the expenses incurred by GTL in connection with the Proposal shall be borne by GDH.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of the transaction solicitors, Richards Butler, at 20th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong during normal business hours (9:30 a.m. to 5:30 p.m.) on any weekday (public holidays excepted) until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of GTL;
- (b) the memorandum and articles of association of GDH;
- (c) the audited consolidated financial statements of the GTL Group for each of the three years ended 31st December, 2004;
- (d) the letter from Tai Fook to the Independent Board Committee, the text of which is set out on pages 15 to 33 of this document;
- (e) the letter from the Independent Board Committee, the text of which is set out on page 14 of this document;
- (f) the valuation report from RHL Appraisal Ltd., which is set out in Appendix II to this document, and the valuation certificates from RHL Appraisal Ltd.;
- (g) the letters of consent referred to in this Appendix; and
- (h) the material contracts set out in the paragraph headed “Material contracts” in this Appendix.

MISCELLANEOUS

- (a) The directors of GTL are Zhang Chunting, Xiong Guangyang, Hui Wai Man Lawrence, Ho Lam Lai Ping Theresa, Cheng Hok Lai James, Fung Lak and Choi Kam Fai Thomas.
- (b) The directors of GDH are Li Wenyue, Jiang Jin, Ye Xuquan, Zhao Leili, Shafran Steven Michael, Li Wai Keung, Zhang Yaping, Liang Jiang, Sun Yingming, Xiong Guangyang, Zhai Zhiming and Luo Fanyu.
- (c) The company secretary of GTL is Chan Miu Ting who is an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. The qualified accountant of GTL is 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 registered office of GTL is situated at 29th Floor, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.
- (e) The registered office of GDH is situated at 29th Floor, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.
- (f) The controlling shareholder of GDH is 廣東粵港投資控股有限公司 (Guangdong Yue Gang Investment Holdings Company Limited) which is in turn wholly-owned by The People’s Government of Guangdong Province, PRC).

- (g) The share registrar and transfer office of GTL is Tengis Limited, situated at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (h) The principal place of business of ICEA is at 26/F., ICBC Tower, 3 Garden Road, Central, Hong Kong.
- (i) The principal place of business of Tai Fook is at 25/F., New World Tower, 16–18 Queen’s Road Central, Hong Kong.
- (j) None of the existing GTL Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Scheme.
- (k) Save as disclosed, there is no agreement or arrangement between any of the GTL Directors and any other person which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme.
- (l) Save as disclosed, there is no agreement or arrangement or understanding (including any compensation arrangement) between GDH or any person acting in concert with it (on the one part) and any of the directors, recent directors, shareholders or recent shareholders of GTL (on the other part) having any connection with or dependence upon the Proposal.
- (m) GDH does not have any intention to transfer any Shares acquired pursuant to the Scheme to any other person.
- (n) There is no person who has irrevocably committed to accepting or rejecting the Scheme.
- (o) As at the Latest Practicable Date, there was no material contract entered into by GDH in which any of the GTL Directors had a material personal interest.
- (p) Save as disclosed, none of the GTL Directors has entered into any service contract with GTL or any of its subsidiaries or associated companies which have more than 12 months to run, or which have been entered into or amended within six months before the commencement of the Offer Period.
- (q) The English language text of this document shall prevail over the Chinese language text.

**IN THE HIGH COURT OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1606 OF 2005**

**In the Matter
of
Guangdong Tannery Limited
粵海制革有限公司
and
In the Matter of
the COMPANIES ORDINANCE,
Chapter 32 of the Laws of the Hong Kong Special Administrative Region**

SCHEME OF ARRANGEMENT

**(under Section 166 of the Companies Ordinance,
Chapter 32 of the Laws of the Hong Kong Special Administrative Region)
between**

**Guangdong Tannery Limited
粵海制革有限公司
and
the holders of its equity share capital of HK\$0.10 each
(other than those beneficially owned by GDH Limited)
and
GDH Limited
(as beneficial owner of 375,100,000 shares in the equity
share capital of Guangdong Tannery Limited)**

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the following meanings:

“Companies Ordinance”	The Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Effective Date”	the date on which this Scheme becomes effective as contemplated by clause 1 of this Scheme;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“holder”	a registered holder of Shares including a person entitled by transmission to be registered as such;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

SCHEME OF ARRANGEMENT

“GDH”	GDH Limited, a company incorporated in Hong Kong with limited liability;
“GTL”	Guangdong Tannery Limited, a company incorporated in Hong Kong with limited liability;
“Record Date”	the business day (being any day on which banks are open for business in Hong Kong, other than Saturday) in Hong Kong immediately preceding the Effective Date;
“Scheme”	this scheme of arrangement in its present form or with or subject to any modification thereof or addition thereto or condition approved or imposed by the Court;
“Scheme Shares”	the Shares in issue on the Record Date which are not beneficially owned by GDH;
“Shares”	the ordinary shares of HK\$0.10 each in the capital of GTL; and
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers.

- (B) The authorised share capital of GTL is HK\$70,000,000.00 divided into 700,000,000 Shares of HK\$0.10 each, of which 524,154,000 Shares have been issued and fully paid.
- (C) The purpose of this Scheme is that all the Scheme Shares should be cancelled and that the credit arising from GTL’s books of accounts as a result of the aforesaid reduction of capital be applied to pay up in full and issue to GDH such number of new Shares being equal to the Scheme Shares cancelled.
- (D) As at the date of this Scheme, GDH is the registered and beneficial owner of 375,100,000 Shares, constituting approximately 71.56% of the issued share capital of GTL.
- (E) GDH has agreed to appear by Counsel on the hearing of the Petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme.

SCHEME OF ARRANGEMENT

THE SCHEME

PART I

Cancellation of the Scheme Shares

1. Upon the Effective Date:
 - (a) the authorised and issued share capital of GTL shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon the reduction of the said reduction of capital taking effect, the authorised share capital shall immediately be increased to its former amount of HK\$70,000,000 by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled; and
 - (c) GTL shall apply the credit which will arise in its books of account as a result of the said reduction of capital in paying up in full at par the new Shares to be created as aforesaid, which shall be allotted and issued, credited as fully paid, to GDH.

PART II

Consideration for cancellation of the Scheme Shares

2. In consideration of the cancellation and extinguishment of the Scheme Shares, GDH shall pay or cause to be paid to the holders of the Scheme Shares (as appearing in the register of members of GTL at 4:00 p.m. on the Record Date) the sum of HK\$0.28 in cash for each Scheme Share held.

PART III

General

3.
 - (a) Not later than ten calendar days after the Effective Date, GDH shall send or procure to be sent to the holders of the Scheme Shares (as appearing in the register of members of GTL at 4:00 p.m. on the Record Date) cheques in respect of the sums payable to such holders pursuant to clause 2 of this Scheme.
 - (b) Unless indicated otherwise in writing to Tengis Limited, the share registrar and share transfer office of GTL, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, all such cheques shall be sent through the post in pre-paid envelopes addressed to the persons entitled thereto:
 - (i) in the case of sole holders, to the respective registered addresses of such holders as appearing in the register of members of GTL at 4:00 p.m. on the Record Date; and
 - (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first in such register of members of GTL in respect of the joint holding as appearing in the register of members of GTL at 4:00 p.m. on the Record Date.
 - (c) Cheques shall be posted at the risk of the addressees and neither GDH, GTL or any of them shall be responsible for any loss or delay in the transmission of such cheques.

SCHEME OF ARRANGEMENT

- (d) Each such cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to GDH for the monies represented thereby.
- (e) On or after the day being six calendar months after the posting of the said cheques pursuant to paragraph (b) of this clause 3, GDH shall have the right to cancel or cause the cancellation of any such cheque which has not then been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in GTL's name with a licensed bank in Hong Kong selected by GTL. GTL shall hold such monies until the expiration of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to clause 2 of this Scheme to persons who satisfy GTL that they are respectively entitled thereto and provided that the cheques referred to in paragraph 3(b) of this Scheme of which they are payees have not been cashed. Any payments made by GTL hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to clause 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank with which the monies are deposited, from the date which falls six months after the posting of the said cheques pursuant to paragraph (b) of this clause 3 down to the date of payment of such sum, subject, if applicable, to deduction of interest or any other deduction or withholding tax required by law. GTL shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of GTL to the effect that any particular person is so entitled or is not so entitled shall be conclusive and binding upon all persons claiming an interest in the relevant monies. Upon the expiry of six years from the Effective Date, GDH shall be released from any further obligation to make any payment under this Scheme and GTL shall thereafter transfer to GDH the balance (if any) of the sums standing to the credit of the deposit account referred to in this paragraph (e) of this clause 3 including accrued interest subject, if applicable, to the deduction of interest or any withholding or any other tax or any other deduction required by law and subject to the deduction of any expenses.
4. As from and including the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title to the Shares comprised therein and every holder thereof shall be bound, on the request of GTL, to deliver up to GTL or to any person appointed by it to receive the same such certificate(s) for cancellation.
5. All mandates or relevant instructions in force at 4:00 p.m. of the Record Date relating to any of the Scheme Shares shall cease to be valid and effective mandates or instructions.
6. This Scheme shall become effective upon all the conditions set out in the paragraph headed "Conditions of the Scheme" in the Explanatory Statement are fulfilled and/or otherwise waived (as the case may be).
7. Unless this Scheme shall have become effective on or before 31st January, 2006 or such later date, if any, as GDH and GTL may agree and the Court may allow, this Scheme shall lapse.
8. GDH and GTL, by their duly authorised agent(s)/servant(s), may jointly consent for and on behalf of all parties concerned to any modification of or addition to this Scheme or to any condition which the Court may see fit to approve or impose without any further Court Meeting to be held therefor.

Dated the 26th day of August, 2005

NOTICE OF COURT MEETING

HCMP NO. 1606/2005

**IN THE HIGH COURT OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 1606 OF 2005**

**In the Matter
of
Guangdong Tannery Limited
粵海制革有限公司
and
In the Matter of
the COMPANIES ORDINANCE,
Chapter 32 of the Laws of the Hong Kong Special Administrative Region**

SCHEME OF ARRANGEMENT

**(under Section 166 of the Companies Ordinance,
Chapter 32 of the Laws of the Hong Kong Special Administrative Region)
between
Guangdong Tannery Limited
粵海制革有限公司
and
the holders of its equity share capital of HK\$0.10 each
(other than those beneficially owned by GDH Limited)
and
GDH Limited
(as beneficial owner of 375,100,000 shares in the equity
share capital of Guangdong Tannery Limited)**

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 23rd August 2005 (the “Order”) made by the Honourable Mr. Justice Chung in the above matters, the Court has directed a meeting (the “Meeting”) to be convened of the holders of ordinary shares of HK\$0.10 each in the capital of Guangdong Tannery Limited (“GTL”) other than those of such shares owned by GDH Limited for the purpose of considering and, if thought fit, approving, with or without modification, a scheme of arrangement proposed to be made between GTL and the holders of the Scheme Shares (as defined in the scheme of arrangement hereinafter mentioned (the “Scheme”)) and that the Meeting will be held at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on Thursday, 22nd September, 2005, at 3:00 p.m. at which place and time all such holders (the “Scheme Shareholders”) of ordinary shares of HK\$0.10 each in the capital of GTL are requested to attend.

NOTICE OF COURT MEETING

A copy of the Scheme and a copy of an explanatory statement explaining the effect of the Scheme are incorporated in the document to be despatched to the Scheme Shareholders (the "Document") of which a copy of this Notice forms part.

The above-mentioned holders of ordinary shares of HK\$0.10 each in the capital of GTL may vote in person at the Meeting or they may appoint one or more proxies (who must be an individual), whether a member of GTL or not, to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the Document.

In the case of joint holders, the vote of the most senior holder who tenders a vote, whether personally or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and, for this purpose, seniority will be determined by the order in which the names of the joint holders stand in the register of members of GTL in respect of the relevant joint holding.

It is requested that forms appointing proxies be lodged, by hand or by post, with Tengis Limited, the share registrar and share transfer office of GTL, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the Meeting, but if forms are not so lodged they may be handed to the chairman of the Meeting at the Meeting. Copies of the Document and the related proxy forms are available at 29th Floor, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong at any time up to (but excluding) 3:00 p.m. on Tuesday, 20th September, 2005.

By the Order, the Court has appointed Choi Kam Fai, Thomas, or failing him, Cheng Hok Lai James, or, failing him, Fung Lak, or, failing him, Zhang Chunting, or, failing him, Hui Wai Man Lawrence, or, failing him, Xiong Guangyang, or, failing him, Ho Lam Lai Ping Theresa all being directors of GTL to act as the chairman of the Meeting and has directed the chairman of the Meeting to report the results thereof to the Court.

By the said Order, the Court further directed that the resolution put to the vote at the Meeting shall be decided by poll to be cast in such manner as directed by the chairman of the Meeting.

The Scheme will be subject to a subsequent application seeking the sanction of the Court.

Dated 26th August, 2005.

Richards Butler
20th Floor,
Alexandra House
16–20 Chater Road
Central
Hong Kong
Solicitors for Guangdong Tannery Limited
粵海制革有限公司



粵海制革有限公司

GUANGDONG TANNERY LIMITED

(incorporated in Hong Kong with limited liability)

(Stock code: 1058)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Guangdong Tannery Limited (“GTL”) will be held at Chater Room I, The Function Room Level (B1), The Ritz-Carlton, Hong Kong, 3 Connaught Road, Central, Hong Kong on Thursday, 22nd September, 2005 at 3:30 p.m. (or as soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) convened for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a special resolution:

SPECIAL RESOLUTION

“**THAT:**

- (A) the proposed scheme of arrangement (the “Scheme”) between Guangdong Tannery Limited (“GTL”) and the holders of the Scheme Shares (as defined in the Scheme) which has been produced to this meeting and for the purposes of identification, signed by the chairman of this meeting, subject to any modifications, additions or conditions as may be approved or imposed by the High Court of Hong Kong, be and is hereby approved;
- (B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
 - (i) the authorised and issued share capital of GTL shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) subject to and forthwith upon the said reduction of capital taking effect, the authorised share capital shall immediately be increased to its former amount of HK\$70,000,000 by the creation of such number of new Shares as is equal to the number of Scheme Shares cancelled (being 149,054,000 Shares); and
 - (iii) GTL shall apply the credit arising in its books of account as a result of the said reduction of capital (being HK\$14,905,400) in paying up in full at par such number of new Shares being equal to the number of the Scheme Shares cancelled, which shall be allotted and issued, credited as fully paid, to GDH Limited;
- (C) subject to the Scheme taking effect, the directors of GTL be and are hereby authorised to make an application to The Stock Exchange of Hong Kong Limited (hereinafter called the “Stock Exchange”) for withdrawal of the listing of GTL’s shares on the Stock Exchange; and
- (D) the directors of GTL be and are hereby authorised to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme, including (without limitation) the giving of consent to any modifications of, or additions to, the Scheme, which the High Court of Hong Kong may see fit to impose

NOTICE OF EXTRAORDINARY GENERAL MEETING

and to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme and in relation to the Proposal (as defined in the document sent to the holders of Scheme Shares (the “Document”) of which the notice of this resolution forms part) a whole.

By order of the Board
Zhang Chunting
Chairman

Hong Kong, 26th August, 2005.

Registered Office:

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

Notes:

1. A white form of proxy for use at this meeting is enclosed with the Document (as defined above).
2. A member of GTL entitled to attend and vote at this meeting is entitled to appoint one or more proxies (who must be an individual) to attend and vote instead of him/her. A proxy need not be a member of GTL.
3. In order to be valid, the white form of proxy together with any power of attorney or other authority (if any) under which it is signed, or notarially certified copy of such power of attorney, must be deposited with Tengis Limited, the share registrar and share transfer office of GTL, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding this meeting or any adjournment thereof.
4. Completion and return of the form of proxy shall not preclude a member from attending and voting in person at this meeting and, in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any share in GTL, any one of such joint holders may vote at this meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto; but if more than one of such joint holders are present at this meeting personally or by proxy, the most senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of GTL in respect of the relevant joint holding.