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

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

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**粤海制革有限公司**

**GUANGDONG TANNERY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 1058)**

**DISCLOSEABLE AND CONNECTED TRANSACTION**

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## DEFINITIONS

“associate”	has the meaning ascribed thereto in the Listing Rules
“Company”	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
“Completion”	completion of the sale and purchase of the Sale Share and the Sale Loan which took place on 8 November 2006
“Director(s)”	director(s) of the Company
“Fixed Assets”	land and buildings, plant and machineries, and prepaid land cost
“GDAM No. 1”	Guangdong Assets Management (BVI) No. 1 Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of GDH
“GDH”	GDH Limited, a company incorporated in Hong Kong and the controlling shareholder of the Company
“GDI”	Guangdong Investment Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the main board of the Stock Exchange, and a subsidiary of GDH
“Group”	Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Kingway”	Kingway Brewery Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange, and a subsidiary of GDH
“Latest Practicable Date”	16 November 2006, being the latest practicable date prior to the printing of this circular for the purposes of ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

## DEFINITIONS

“Nanhai Tannery”	南海皮廠有限公司(Nanhai Tannery & Leather Products Co., Ltd.) (now known as 佛山市南海皮廠有限公司 (Foshan Nanhai Tannery & Leather Products Co., Ltd.)), a company incorporated in the PRC with limited liability
“PRC”	the People’s Republic of China
“Sale and Purchase Agreement”	an agreement dated 1 November, 2006 entered into between Team Up, GDAM No. 1 and Sun Perfect in respect of the sale of the Sale Share and the Sale Loan by Team Up to GDAM No. 1
“Sale Loan”	loan owed by Sun Perfect to Team Up, the amount as at the date of the Sale and Purchase Agreement was approximately HK\$124 million. The loan was originally advanced by companies within the Group to Tongyuan Tannery. As a result of debt assignments within the Group, the loan had become owed by Sun Perfect to Team Up (with a corresponding amount owed by Tongyuan Tannery to Sun Perfect)
“Sale Share”	1 ordinary share of Sun Perfect with the nominal value of HK\$1, being the entire issued share capital of Sun Perfect
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Option Scheme”	the share option scheme adopted by the Company on 31 May 2002
“Shareholders”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sun Perfect”	Sun Perfect Limited (揚盛有限公司), a company incorporated in Hong Kong on 15 June 2006 and a wholly-owned subsidiary of Team Up
“Sun Perfect Group”	Sun Perfect and Tongyuan Tannery

## DEFINITIONS

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

LETTER FROM THE BOARD



粵海制革有限公司

GUANGDONG TANNERY LIMITED

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 1058)**

*Board of Directors:*

Zhang Chunting (*Chairman*)

Deng Rongjun (*Managing Director*)

Xiong Guangyang

Fung Lak\*

Choi Kam Fai Thomas\*

Chan Cheong Tat\*

Ho Lam Lai Ping Theresa

*Registered Office:*

29th Floor

Guangdong Investment Tower

148 Connaught Road Central

Hong Kong

\* *Independent non-executive director*

22 November 2006

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 1 November 2006 relating to the entering of the Sale and Purchase Agreement between Team Up, GDAM No. 1 and Sun Perfect on 1 November 2006 for the sale of the Sale Share and the Sale Loan by Team Up to GDAM No. 1 for a total consideration of HK\$8.5 million. The Sale and Purchase Agreement was completed on 8 November 2006.

The Transaction constituted a discloseable and connected transaction for the Company under the Listing Rules and this document constitutes the circular which the Company is required to send to you in respect thereof pursuant to Chapter 14 of the Listing Rules.

# LETTER FROM THE BOARD

## THE SALE AND PURCHASE AGREEMENT

### Date

1 November 2006

### Parties

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

### Transaction

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

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

The total consideration also had regard to the full provisions made in the individual accounts of the relevant companies within the Group (including all original lenders of the Sale Loan) in respect of the Sale Loan. The full provisions were made in 2003 and they represent the amount expected to be unrecoverable in respect of the Sale Loan in view of the negative net asset position of Tongyuan Tannery. The total consideration as aforesaid represents a premium of 32.6% over the adjusted net asset value of the Sun Perfect Group as at 31 August 2006, calculated by reference to the excess of the consideration of HK\$8.5 million over the unaudited negative net asset value of HK\$4,566,000 adjusted by the excess in the valuation of the Fixed Assets of HK\$10,978,000. The total consideration in respect of the Sale Share and the Sale Loan has been arrived at after arm's length negotiations between the parties.

## LETTER FROM THE BOARD

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

### REASONS FOR AND BENEFITS OF THE TRANSACTION

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

The effect of the disposal on the Group's earnings is that the Group is expected to realise a gain of approximately HK\$12.3 million arising from the Transaction. The gain is calculated by reference to the difference between the consideration and the carrying value of the Sun Perfect Group in the accounts of the Group as at 30 June 2006 together with the estimated expenses in respect of the Sale and Purchase Agreement.

The effect of the disposal on the Group's balance sheet is as follows: (i) the Group's total assets has decreased by an amount equals to the difference between the total assets of the Sun Perfect Group and the net proceeds derived by Team Up from the Transaction (taking into account the estimated expenses in respect of the Sale and Purchase Agreement); and (ii) the Group's total liabilities has decreased by an amount equals to the total liabilities of the Sun Perfect Group. As at 31 August 2006, Sun Perfect Group's unaudited total assets and unaudited total liabilities were HK\$72.1 million and HK\$76.6 million respectively.

The net proceeds derived by Team Up from the Transaction will be used for the general working capital purposes of the Group.

### DISCLOSEABLE AND CONNECTED TRANSACTION

GDAM No. 1 is a wholly-owned subsidiary of GDH, which is a substantial shareholder of the Company holding 71.56% of the issued share capital of the Company. Accordingly, it is a connected person of the Company under the Listing Rules. As the relevant percentage ratios in respect of the Transaction are more than 2.5% but less than 25%, the Transaction constituted a discloseable and connected transaction of the Company under Rules 14.08 and 14A.32 of the Listing Rules respectively. As the total consideration is less than HK\$10 million, the Transaction is only subject to reporting and announcement requirements and is exempted from independent shareholders' approval under the Listing Rules.



## LETTER FROM THE BOARD

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

### INFORMATION ON THE GROUP

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

### INFORMATION ON GDAM NO. 1 AND GDH

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

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully  
On behalf of the board of Directors of  
**Guangdong Tannery Limited**  
**Zhang Chunting**  
*Chairman*

## 1. RESPONSIBILITY STATEMENT

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

## 2 DISCLOSURE OF DIRECTORS' INTERESTS

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

### 2.1 Interests and Short Positions in the Company

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

Name of Director	Number of underlying Shares	Percentage of issued Shares
Zhang Chunting	4,500,000	0.86%
Deng Rongjun	1,500,000	0.29%
Xiong Guangyang	5,200,000	0.99%
Fung Lak	600,000	0.11%

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

## 2.2 Share options

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

Name of Director	Exercisable period	Price per Share on exercise of options (HK\$)	Number of share options outstanding
Zhang Chunting	10/09/2003 – 09/09/2008	0.220	2,500,000
	12/05/2004 – 11/05/2009	0.246	2,000,000
Deng Rongjun	12/05/2004 – 11/05/2009	0.246	1,500,000
Xiong Guangyang	10/09/2003 – 09/09/2008	0.220	3,000,000
	12/05/2004 – 11/05/2009	0.246	2,200,000
Fung Lak	10/09/2003 – 09/09/2008	0.220	300,000
	12/05/2004 – 11/05/2009	0.246	300,000

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

## 2.3 Interests and short positions in GDI, an associated corporation of the Company

### (a) Interests in ordinary shares of GDI

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

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

*Note:* The number of ordinary shares of GDI in issue as at the Latest Practicable Date was 6,028,948,071.

*(b) Interests in options relating to ordinary shares of GDI*

As at the Latest Practicable Date, details of the outstanding share options granted to a Director by GDI were as follows:

Name of Director	Exercisable period	Price per share on exercise of options (HK\$)	Number of share options outstanding
Ho Lam Lai Ping	07/05/2004 – 06/05/2009	1.59	1,500,000
Theresa	25/08/2004 – 24/08/2009	1.25	1,000,000

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

## 2.4 Interests and short positions in Kingway, an associated corporation of the Company

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

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of holding
Ho Lam Lai Ping	Personal	80,000	Long	0.0057%
Theresa				

*Note:* The number of ordinary shares of Kingway in issue as at the Latest Practicable Date was 1,396,368,000.

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

### 3. SUBSTANTIAL SHAREHOLDERS

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

Name of Shareholder	Capacity/ nature of interests	Number of Shares held	Long/short position	Approximate percentage of the Company's 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	Long	71.56%
GDH	Beneficial owner /interest of controlled corporation	375,100,000	Long	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) has in the Company is held through its 100% direct interest in GDH.

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

### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or proposed to enter, into a service contract with any member of the Group which will not expire or is not determinable within one year without payment of compensation (other than statutory compensation).

## 5. LITIGATION

As reported in the Company's annual reports for 2002, 2003, 2004 and 2005 and the interim reports in 2006, 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 (one of whom was also a former director of the Company) had been involved in certain irregularities. Nanhai Tannery was until 31 December 2003 a 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 were of the opinion that the Parallel Operation should not be (and it had not been) incorporated in the financial statements of the Group and that the Parallel Operation appeared 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 items of property, plant and equipment and inventories in 2003.

On 31 December 2003, Nanhai Tannery became a wholly-owned subsidiary of Yong Sheng Limited, a former subsidiary of GDH and a former fellow subsidiary of the Company, and ceased to be a subsidiary of the Company.

In 2004, certain bank accounts of Tongyuan Tannery in the PRC containing in total of approximately RMB9 million (equivalent to approximately HK\$8.7 million) were frozen by the Guangzhou Customs as at 31 December 2004. Taking into account the bank interest earned from the frozen bank balances and exchange realignment of HK\$0.5 million in aggregate up to 30 June 2006, the aggregate frozen bank balances amounted to approximately HK\$9.2 million as at 30 June 2006.

The directors and management of the Company are satisfied that all the business 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.

On 22 March 2004, the Guangzhou Customs issued a demand letter to Tongyuan Tannery and Nanhai Tannery (i) claiming tax of RMB36,989,000 (the “**Potential Tax Claim**”) 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 Yong Sheng Limited and the tax evasion was related to the Parallel Operation of Nanhai Tannery, the PRC legal advice obtained by the Company in April 2004 indicated that if, which is denied by the Company, Tongyuan Tannery and Nanhai Tannery are considered to be one and the same entity due to the transfer of most of Nanhai Tannery’s items of property, plant and equipment and inventories to Tongyuan Tannery, then it may be possible for the Guangzhou Customs to impose the Potential Tax Claim on Tongyuan Tannery. Accordingly, the Group carried a provision of RMB36,989,000 (equivalent to approximately HK\$35,884,000 as at 30 June 2006) for the Potential Tax Claim which was made during the year ended 31 December 2003.

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 Claim, i.e. RMB36,989,000 to RMB184,945,000 (equivalent to approximately HK\$35,884,000 to HK\$179,420,000 as at 30 June 2006 (the “**Potential Penalty**”). In light of the PRC legal advice, the directors of the Company considered it appropriate to carry a provision of RMB36,989,000 (equivalent to approximately HK\$35,884,000 as at 30 June 2006) for the Potential Penalty which was made during the year ended 31 December 2003.

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**”). Although Tongyuan Tannery was not made a party to the Guangzhou Proceedings, 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 Customs’ 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.

Judgment in the Guangzhou Proceedings (the “**Judgment**”) was rendered on 2 September 2005. Nanhai Tannery, amongst others, was found liable for tax evasion and it was ordered that all illegal gains from the tax evasion activities be recovered and confiscated by the State (such order is to be executed by the Guangzhou Customs). Further, a fine of RMB8,000,000 was imposed on Nanhai Tannery.

As no appeal was lodged within the required appeal period, i.e. 10 days after the Judgment, the Judgment took effect and the PRC legal advice obtained by the Company indicates, inter alia, that:

- (i) The Judgment made no finding to the effect that Tongyuan Tannery is in fact the same entity as Nanhai Tannery. Therefore, Tongyuan Tannery has not been held liable for any of the penalties which is imposed on Nanhai Tannery;
- (ii) The Judgment made no finding to the effect that the balances in the bank accounts of Tongyuan Tannery which were frozen by the Guangzhou Customs are the proceeds of Nanhai Tannery’s illegal activities. This gives Tongyuan Tannery grounds to apply to the Guangzhou Customs for release of such frozen bank accounts;
- (iii) The Judgment made no finding to the effect that the acquisition of Nanhai Tannery’s assets by Tongyuan Tannery was an attempt to dispose of Nanhai Tannery’s assets in order to place obstacles on the Guangzhou Customs’ attempt to recover the evaded tax. It is arguable that the Guangzhou Customs should not therefore seek to recover Nanhai Tannery’s illegal gains from its illegal activities from Tongyuan Tannery; and
- (iv) The possibility that, notwithstanding the apparent absence in the Judgment of any findings directly incriminating Tongyuan Tannery, the Guangzhou Customs may nevertheless still seek to apply the balances in Tongyuan Tannery’s bank accounts towards (or otherwise resort to the other assets of Tongyuan Tannery for) discharging Nanhai Tannery’s liabilities, cannot be excluded.

In light of the PRC legal advice as detailed above, it remains unclear whether the Guangzhou Customs will seek to enforce the Judgment against Tongyuan Tannery, and if so, what the amount of penalty which may finally be imposed against it is going to be, and the other possible 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 so arising as a result of the aforesaid irregularities. Accordingly, it was considered necessary for the provisions for the Potential Tax Claim and Potential Penalty made during the year ended 31 December 2003 to continue and did continue to be carried in the Group’s unaudited interim balance sheet as at 30 June 2006.

Based on the information available to date, following Completion, the foregoing provision will only continue to be carried by the Sun Perfect Group. Therefore, the foregoing provision is at present no longer carried in the unaudited accounts of the Group.



Save as disclosed in this circular, as at the Latest Practicable Date, the Directors are not aware of any litigation or claims of material importance which are pending or threatened against any member of the Group.

#### 6. DIRECTORS' INTEREST IN COMPETING BUSINESS

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

#### 7. GENERAL

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