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**粵海制革有限公司**

**GUANGDONG TANNERY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 1058)**

**DISCLOSEABLE TRANSACTIONS**

**CONSTRUCTION OF XUZHOU ADDITIONAL FACILITY**

**and**

**CONSTRUCTION OF JINSANQIAO FACTORY**

The Board is pleased to announce that on 5 November 2007, Xuzhou Co (a wholly owned subsidiary of the Company) has entered into the Xuzhou Additional Facility Agreement with the Suining Government for the establishment of the Xuzhou Additional Facility. The Xuzhou Additional Facility will be designed to handle the upstream processing of leather products. Although the contracts for the construction of the Xuzhou Additional Facility (including, for example, those for the acquisition of the relevant land use right, purchasing new production and related environmental protection equipment, construction of the factory premises and the installation of production line) will only be entered into in stages, the Company currently anticipates that it will need to inject approximately HK\$80.33 million into Xuzhou Co for such purpose. The capital expenditure of the said amount of HK\$80.33 million in aggregate constitutes a discloseable transaction for the Company under the Listing Rules.

The Board further announces that on 5 November 2007, the Company has entered into the Jinsanqiao Factory Agreement with the Xuzhou Economic Development Management Committee for the establishment of the Jinsanqiao Factory. The Jinsanqiao Factory will be designed to handle the downstream processing of leather products. Although the contracts for the construction of the Jinsanqiao Factory (including, for example, those for the acquisition of the relevant land use right, purchasing new production and related environmental protection equipment, construction of the factory premises and the installation of production line) will only be entered into in stages, the Company currently anticipates that it will need to, through Jinsanqiao Co, expend approximately HK\$80.76 million for such purposes. The capital expenditure of the said amount of HK\$80.76 million in aggregate constitutes a discloseable transaction for the Company under the Listing Rules.

A circular containing further details of the above discloseable transactions will be dispatched to the Shareholders in due course.

## **A. THE XUZHOU ADDITIONAL FACILITY**

### **1. Introduction**

Xuzhou Co was established in the PRC in 1991 and is engaged in the business of the production of leather products, i.e. the upstream processing of raw materials (namely, hides) and the downstream manufacture of finished leather products. The purpose of entering into the Xuzhou Additional Facility Agreement is for Xuzhou Co to expand its production capacity by acquiring more land near its existing factory in Suining County Economic Development Zone and constructing an additional production facility (namely, the Xuzhou Additional Facility) thereon.

### **2. Xuzhou Additional Facility Agreement**

Set out below is a summary of the principal terms of the Xuzhou Additional Facility Agreement:

- (i) Date: 5 November 2007
- (ii) Parties:
  - (a) Xuzhou Co
  - (b) Suining Government
- (iii) Subject matter: The establishment of the Xuzhou Additional Facility by Xuzhou Co in Suining County Economic Development Zone, Xuzhou City, Jiangsu Province, the PRC.
- (iv) Suining Government's obligations:
  - (a) Suining Government shall, in accordance with the relevant legal procedures, supply approximately 200 mou (equivalent to approximately 133,333.33 sq.m.) of land (being the Xuzhou Additional Facility Site) in the Suining County Economic Development Zone to Xuzhou Co at RMB68,000 per mou (inclusive of State land tax (國家土地稅費), land acquisition costs and compensation fees, but exclusive of deed tax (契稅) and land transfer handling fee (土地出讓業務費))

(b) Suining Government shall be responsible for:

- acquiring the land containing the Xuzhou Additional Facility Site from the occupants and paying them the related land acquisition compensation
- clearing the Xuzhou Additional Facility Site
- arranging for the issue of the construction permit and obtaining the approval for the establishment of the Xuzhou Additional Facility and the land use right certificate
- providing road access and connection of sewage system and utilities (such as water and electricity supply and telecommunication connection) to the boundary of the Xuzhou Additional Facility Site

(v) Xuzhou Co's obligations:

- (a) Xuzhou Co shall inject equity in the amount of US\$8 million (equivalent to approximately HK\$62.4 million)
- (b) Xuzhou Co shall purchase the Xuzhou Additional Facility Site
- (c) Xuzhou Co shall ensure that the construction and emissions of the Xuzhou Additional Facility shall be in compliance with the applicable national and provincial standards
- (d) Xuzhou Co shall not transfer the Xuzhou Additional Facility Site and shall ensure that such land shall only be for industrial use

The terms of the Xuzhou Additional Facility Agreement have been arrived at after arm's length negotiation conducted between the parties thereto. To the best of the knowledge, information and belief of the Directors and after having made all reasonable enquiries, the Suining Government is a third party independent of the Company and its connected persons (as defined in the Listing Rules). The Suining Government is a local government.

### 3. Details of the Xuzhou Additional Facility

The Xuzhou Additional Facility will be designed to handle the upstream processing of leather products, i.e. the processing of raw materials (namely, hides) to produce chromed hides. The Xuzhou Additional Facility is expected to cover an area of approximately 200 mou (equivalent to approximately 133,333.33 sq.m.) with a production capacity of 3,500,000 sq.ft. per month. The construction of the Xuzhou Additional Facility is expected to be completed within 12 months.

### 4. Implementation and capital expenditure

Although the contracts for the construction of the Xuzhou Additional Facility (the “Xuzhou Additional Facility Project Contracts”, which are expected to include, for example, but without limitation, those for the acquisition of the land use right of the Xuzhou Additional Facility Site, the purchase of production and related environmental protection equipment and computer systems, the construction of the factory premises and the installation of production line, and other ancillary contracts necessary for the purpose of constructing the Xuzhou Additional Facility and developing the business of the Xuzhou Additional Facility) will only be entered into with various third parties in stages, the Company currently anticipates that it will need to inject approximately HK\$80.33 million into Xuzhou Co for such purpose.

The Xuzhou Additional Facility Project Contracts can be categorised as follows:

	<b>Land, buildings and ancillary facilities</b>	<b>Plant and machinery</b>	<b>Environmental protection equipment</b>	<b>Furniture, office equipment, motor vehicles and others</b>	<b>Total</b>
<i>Contract sum (HK\$ '000)</i>	33,229	34,895	10,658	1,549	80,331

The Xuzhou Additional Facility will be constructed by Xuzhou Co and the Company will finance this expansion plan by injecting further equity in the amount of US\$8 million and, as currently anticipated, a shareholder’s loan of not more than US\$2.3 million into Xuzhou Co. The Directors currently expect that the said aggregate amount of US\$10.3 million (equivalent to approximately HK\$80.33 million) will be funded by the Company’s internal resources and bank borrowings.

The construction of the Xuzhou Additional Facility is scheduled to start later this year and such facility is expected to become operational in the fourth quarter of 2008.

Xuzhou Co will go through a tender process for all the more substantial contracts (except for the acquisition of the land use right of the relevant land which was arrived at after negotiation between Xuzhou Co and the Suining Government) or a price comparison process for the less significant contracts before a contract is awarded to the individual party. Two committees will be formed to undertake the said tender process. A working committee will be established to be in charge of all documentation work and liaising with the tender participants, and an assessment committee will be set up to assess the tenders submitted. Multiple criteria will be used in the selection of suppliers and contractors, including, among others, their technical competence, track record and financial strength as well as the suitability of their services and/or products and pricing for the relevant task.

With the above tendering and selection processes in place and after having made all reasonable enquiries prior to entering into a Xuzhou Additional Facility Project Contract, the Directors will be able to conclude, to the best of their knowledge, information and belief, (i) the counterparty to such Xuzhou Additional Facility Project Contract and (if applicable) its ultimate beneficial owner is a third party independent of the Company and its connected persons, and (ii) the principal business of such counterparty (except for the Suining Government which is a local government) is the provision of the materials and/or services under such Xuzhou Additional Facility Project Contract.

The consideration payable under the Xuzhou Additional Facility Project Contracts will be satisfied by way of cash and/or letters of credit, and on one-off or instalment basis. It is currently anticipated that after the conclusion of a Xuzhou Additional Facility Project Contract, a down payment equal to 10% to 30% of the contract sum may be paid to the suppliers and contractors. For agreements in relation to construction of buildings and plant, progress payments will be made according to the progress of construction and the balance of 5% to 10% will be paid one year after the completion of construction. For machinery and equipment related agreements, 60% to 80% of the contract sum will be made upon installation and the balance will be paid upon the satisfactory checking of such machinery and equipment. For the cost of land use rights, it will be paid by instalments.

## **5. Listing Rules implications**

The capital expenditure of the said amount of approximately HK\$80.33 million in aggregate constitutes a discloseable transaction for the Company under the Listing Rules. However, as stated above, the capital expenditure of HK\$80.33 million for the Xuzhou Additional Facility represents the Company's current estimates. Should there be an over-run of the construction costs, and the asset ratio or the consideration ratio under Rule 14.07 of the Listing Rules in respect of the aggregate amount of the capital expended (which are of a capital nature) under the Xuzhou Additional Facility Project Contracts exceeds 25%, the Company will comply with the applicable requirements of Chapter 14 of the Listing Rules concerning major transaction (as defined therein).

## **6. Reasons for and benefits of constructing the Xuzhou Additional Facility**

In order to reduce the outsourcing of chromed hides processing activities and thus lowering the subcontracting cost, the Company has decided to establish the Xuzhou Additional Facility to strengthen its upstream processing capability. The Directors believe that this will benefit the Company for the long-term.

## **7. Financial effect of the establishment of the Xuzhou Additional Facility**

After the Xuzhou Additional Facility becomes operational, the Company will charge depreciation expense on the capital expenditure incurred and capitalized during the construction of the Xuzhou Additional Facility. As the Xuzhou Additional Facility will be owned by Xuzhou Co, which is a wholly owned subsidiary of the Company, the results of the Xuzhou Additional Facility will be consolidated into the Group's financial statements. The Directors consider that the establishment of Xuzhou Additional Facility will enlarge the earnings base of the Group, but the results of such impact will depend on the future performance of the Xuzhou Additional Facility.

## **B. THE JINSANQIAO FACTORY**

### **1. Introduction**

The Company has entered into the Jinsanqiao Factory Agreement to establish Jinsanqiao Co as a wholly owned subsidiary to construct and operate the Jinsanqiao Factory in Xuzhou Economic Development Zone for the downstream processing of leather products, i.e. the processing of chromed hides to manufacture finished leather products. The Jinsanqiao Factory Site is expected to have an area of approximately 260 mou (equivalent to approximately 173,333.33 sq.m.).

### **2. Jinsanqiao Factory Agreement**

Set out below is a summary of the principal terms of the Jinsanqiao Factory Agreement:

- (i) Date: 5 November 2007
- (ii) Parties:
  - (a) The Company
  - (b) Xuzhou Economic Development Management Committee
- (iii) Subject matter: The establishment of the Jinsanqiao Factory by Jinsanqiao Co in Xuzhou Economic Development Zone, Xuzhou City, Jiangsu Province, the PRC.

- (iv) Xuzhou Economic Development Management Committee's obligations:
- Xuzhou Economic Development Management Committee shall:
- (a) complete the incorporation, business registration and environmental assessment procedures for Jinsanqiao Co
  - (b) provide the Jinsanqiao Factory Site according to the relevant legal procedures and arrange for the issue of the land use right certificate for the Jinsanqiao Factory Site
  - (c) supply the accurate site plan for the Jinsanqiao Factory Site and arrange for the issue of the construction permit
  - (d) obtain and/or facilitate the issue of the necessary approvals for the operation of the Jinsanqiao Factory
  - (e) be responsible for clearing the Jinsanqiao Factory Site and providing road access and connection of sewage system and utilities (such as water and electricity supply and telecommunication connection) to the boundary of the site
- (v) The Company's obligations:
- (a) The Company shall establish Jinsanqiao Co with a registered capital of US\$20 million and complete the incorporation and business and tax registration procedures for Jinsanqiao Co within Xuzhou Economic Development Zone. The first instalment of the equity capital in the sum of US\$8 million shall be paid within three months, with the balance payable within two years, of the date of the Jinsanqiao Factory Agreement
  - (b) The Company shall complete all administrative and project procedures for the construction of the Jinsanqiao Factory including, for example, environmental and production safety assessments, obtain planning and land pre-approval guidance, geological assessment and project feasibility study

The terms of the Jinsanqiao Factory Agreement have been arrived at after arm's length negotiation conducted between the parties thereto. To the best of the knowledge, information and belief of the Directors and after having made all reasonable enquiries, Xuzhou Economic Development Management Committee and its ultimate beneficial owner (if any) are third parties independent of the Company and its connected persons (as defined in the Listing Rules). Xuzhou Economic Development Management Committee is the body in charge of the development of the Xuzhou Economic Development Zone in Xuzhou City, Jiangsu Province, the PRC.

### 3. Details of the Jinsanqiao Factory

The Jinsanqiao Factory is designed for the downstream processing of leather products, i.e. the processing of chromed hides to manufacture finished leather products. The Jinsanqiao Factory Site is expected to have an area of approximately 260 mou (equivalent to approximately 173,333.33 sq.m.) with a production capacity of 1,500,000 sq.ft. per month. The construction of the Jinsanqiao Factory is expected to be completed within 24 months.

### 4. Implementation and capital expenditure

Although the contracts for the construction of the Jinsanqiao Factory (the "Jinsanqiao Factory Project Contracts", which are expected to include, for example, but without limitation, those for the acquisition of the land use right of the Jinsanqiao Factory Site, the purchase of production and related environmental protection equipment and computer systems, the construction of the factory premises and the installation of production line, and other ancillary contracts necessary for the purpose of constructing the Jinsanqiao Factory and developing the business of the Jinsanqiao Factory) will only be entered into with various third parties in stages, the Company currently anticipates that it will need to inject approximately HK\$80.76 million into Jinsanqiao Co for such purposes.

The Jinsanqiao Factory Project Contracts can be categorised as follows:

	<b>Land, buildings and ancillary facilities</b>	<b>Plant and machinery</b>	<b>Environmental protection equipment</b>	<b>Furniture, office equipment, motor vehicles and others</b>	<b>Total</b>
<i>Contract sum (HK\$ '000)</i>	47,504	29,639	2,065	1,549	80,757

Under the Jinsanqiao Factory Agreement, the Company will inject US\$20 million (equivalent to approximately HK\$156 million or RMB151 million) as equity into Jinsanqiao Co, and a part of this capital contribution in the amount of approximately US\$10.35 million (equivalent to approximately HK\$80.76 million or RMB78.20 million) will be used to satisfy the above

capital expenditure requirements, and the balance thereof will be used as general working capital. The Directors currently expect that the said aggregate amount of US\$20 million will be funded by the Company's internal resources and bank borrowings.

The construction of the Jinsanqiao Factory is scheduled to start in early 2008 and is separated into two phases. The first phase of the Jinsanqiao Factory will be completed by the end of 2008 with the second phase scheduled to be completed by the end of 2009.

Jinsanqiao Co will go through a tender process for all the more substantial contracts (except for the acquisition of the land use right of the relevant land which will be arrived at after negotiation between the Company and Xuzhou Economic Development Management Committee) or a price comparison process for the less significant contracts before a contract is awarded to the individual party. Two committees will be formed to undertake the said tender process. A working committee will be established to be in charge of all documentation work and liaising with the tender participants, and an assessment committee will be set up to assess the tenders submitted. Multiple criteria will be used in the selection of suppliers and contractors, including, among others, their technical competence, track record and financial strength as well as the suitability of their services and/or products and pricing for the relevant task.

With the above tendering and selection processes in place and after having made all reasonable enquiries prior to entering into a Jinsanqiao Factory Project Contract, the Directors will be able to conclude, to the best of their knowledge, information and belief, (i) the counterparty to such Jinsanqiao Factory Project Contract and (if applicable) its ultimate beneficial owner is a third party independent of the Company and its connected persons, and (ii) the principal business of such counterparty (except for the Xuzhou Economic Development Management Committee which is responsible for provision of the Jinsanqiao Factory Site) is the provision of the materials and/or services under such Jinsanqiao Factory Project Contract.

The consideration payable under the Jinsanqiao Factory Project Contracts will be satisfied by way of cash and/or letters of credit, and on one-off or instalment basis. After the conclusion of a Jinsanqiao Factory Project Contract, a down payment equal to 10% to 30% of the contract sum may be paid to the suppliers and contractors. For agreements in relation to the construction of buildings and plant, progress payments will be made according to the progress of construction and the balance of 5% to 10% will be paid one year after the completion of construction. For machinery and equipment related agreements, 60% to 80% of the contract sum will be made upon installation and the balance will be paid upon the satisfactory checking of such machinery and equipment. For the cost of land use rights, it will be paid by instalments.

## **5. Listing Rules implications**

The capital expenditure in the amount of HK\$80.76 million in aggregate constitutes a discloseable transaction for the Company under the Listing Rules.

However, as stated above, the capital expenditure of Jinsanqiao Co in the aggregate amount of HK\$80.76 million represents the Company's current estimates. Should there be an over-run of the construction costs, and the asset ratio or the consideration ratio under Rule 14.07 of the Listing Rules in respect of the aggregate amount of the capital expended (which are of a capital nature) under the Jinsanqiao Factory Project Contracts exceeds 25%, the Company will comply with the applicable requirements of Chapter 14 of the Listing Rules concerning major transaction (as defined therein).

#### **6. Reasons for and benefits of constructing the Jinsanqiao Factory**

The establishment of Jinsanqiao Factory will provide a production capacity of 1,500,000 sq.ft. per month. As the location of Jinsanqiao Factory is close to Xuzhou city, the core business activities including production, procurement, distribution, management and research and development will therefore have easy access to the city centre. This convenient location of the Jinsanqiao Factory will provide a platform for the future expansion and diversification of business.

#### **7. Financial effect of the establishment of Jinsanqiao Co and the Jinsanqiao Factory**

After the Jinsanqiao Factory becomes operational, the Company will charge depreciation expense on the capital expenditure incurred and capitalized during the construction of the Jinsanqiao Factory. Upon the establishment of Jinsanqiao Co, Jinsanqiao Co will become a wholly owned subsidiary of the Company, and the results of the Jinsanqiao Co will be consolidated into the Group's financial statements. The Directors consider that the establishment of the Jinsanqiao Factory will enlarge the earnings base of the Group, but the results of such impact will depend on the future performance of Jinsanqiao Co.

### **C. GENERAL INFORMATION**

The Directors are of the view that the construction of the Xuzhou Additional Facility and the Jinsanqiao Factory are important to the development of the Group's business and it is also in line with the expansion strategy of the Group. The Directors believe that the terms of the Xuzhou Additional Facility Agreement and the Jinsanqiao Factory Agreement are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Group is an integrated manufacturer of leather products, and it, through two wholly owned subsidiaries, namely Xuzhou Co and Xuzhou Gangwei Leather Co., Ltd. ("Gangwei Co"), currently operates two leather products manufacturing factories in Suining County Economic Development Zone, Xuzhou City, Jiangsu Province, the PRC.

Xuzhou Co was established in the PRC in 1991 and is engaged in the business of the production of leather products, i.e. the upstream processing of raw materials (namely, hides) and the downstream manufacture of finished leather products. Gangwei Co was established in the PRC in 1994 and its facilities are designed to handle the downstream production of leather products, i.e. the processing of chromed hides to manufacture finished leather products.

## D. DESPATCH OF CIRCULAR

A circular containing further details of the above discloseable transactions will be dispatched to the Shareholders in due course.

## E. DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms and expressions shall have the following meanings:

“Board”	the board of Directors
“Company”	Guangdong Tannery Limited, the issued shares of which are listed on the main board of the Stock Exchange
“Director(s) ”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the legal currency of the Hong Kong Special Administrative Region of the PRC
“Jinsanqiao Co”	粤海制革(徐州)有限公司 (Guangdong Tannery (Xu Zhou) Limited), a wholly-owned subsidiary (in the form of a wholly-foreign owned enterprise) to be established by the Company in the PRC
“Jinsanqiao Factory”	the production facility to be established by Jinsanqiao Co in Xuzhou Economic Development Zone, Xuzhou City, Jiangsu Province, the PRC for the downstream processing of leather products, i.e. the processing of chromed hides to manufacture finished leather products
“Jinsanqiao Factory Agreement”	the agreement dated 5 November 2007 and entered into between the Company and the Xuzhou Economic Development Management Committee for the establishment of the Jinsanqiao Co to construct and operate the Jinsanqiao Factory
“Jinsanqiao Factory Project Contracts”	has the meaning ascribed thereto in the section headed “B. The Jinsanqiao Factory — 4. Implementation and capital expenditure” in this announcement
“Jinsanqiao Factory Site”	the land within the Xuzhou Economic Development Zone measuring approximately 260 mou to be purchased by Jinsanqiao Co
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

“mou”	畝 (mou), a unit of measurement of area commonly used in the PRC and is equivalent to approximately 666.67 sq.m.
“PRC”	The People’s Republic of China
“RMB”	Renminbi, the legal currency of the PRC
“Share(s) ”	ordinary share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s) ”	holder(s) of ordinary share(s) of the Company
“sq.ft.”	square feet
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Suining Government”	江蘇睢寧縣人民政府 (Jiangsu Suining County People’s Government)
“US\$”	United States dollars, the legal currency of the United States
“Xuzhou Additional Facility”	the additional production facility to be established by Xuzhou Co in Suining County Economic Development Zone, Xuzhou City, Jiangsu Province, the PRC to engage in the upstream processing of leather products, i.e. the processing of raw materials (namely, hides) for the production of chromed hides
“Xuzhou Additional Facility Agreement”	the agreement dated 5 November 2007 and entered into between Xuzhou Co and the Suining Government for the establishment of the Xuzhou Additional Facility
“Xuzhou Additional Facility Site”	the land within the Suining County Economic Development Zone as specified in the Xuzhou Additional Facility Agreement and measuring approximately 200 mou to be purchased by Xuzhou Co
“Xuzhou Additional Facility Project Contracts”	has the meaning ascribed thereto in the section headed “A. The Xuzhou Additional Facility — 4. Implementation and capital expenditure” in this announcement
“Xuzhou Co”	徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), a wholly-foreign owned enterprise established in the PRC. It is a wholly owned subsidiary of the Company

“Xuzhou Economic  
Development  
Management  
Committee”

徐州經濟開發區管理委員會, being the body in charge of the development of the Xuzhou Economic Development Zone in Xuzhou City, Jiangsu Province, the PRC. It is a third party independent of the Company and its connected persons (as defined in the Listing Rules)

In this announcement, the exchange rate of RMB0.9683 : HK\$1.00 and US\$1.00 : HK\$7.8 have been used and applied for reference only. There is no assurance that any amount in this announcement has been, can be or will be purchased or sold at any such rate.

By Order of the Board  
**Zhang Chunting**  
*Chairman*

Hong Kong, 5 November 2007

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