
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

If you have sold or otherwise transferred all your shares in GDH Guangnan (Holdings) Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer, licensed corporation, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).



粵海廣南(集團)有限公司

GDH GUANGNAN (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 01203)

MAJOR TRANSACTION MAIN CONTRACTOR CONSTRUCTION AGREEMENT

All capitalised terms used in this circular have the meanings set out in the section headed “Definitions” of this circular.

A letter from the Board (as defined in this circular) is set out on pages 6 to 19 of this circular.

The Company has obtained written approval for the Agreement pursuant to Rule 14.44 of the Listing Rules from the controlling Shareholder of the Company which holds more than 50% of the issued share capital of the Company giving the right to attend and vote at an extraordinary general meeting. Accordingly, no Shareholders’ meeting will be convened to approve the Agreement pursuant to Rule 14.44 of the Listing Rules. This circular is being despatched to the Shareholders for information only.

18 May 2021

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
A. INTRODUCTION	6
B. THE AGREEMENT	7
C. REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT	17
D. INFORMATION ON THE GROUP	17
E. INFORMATION ON THE CONTRACTOR	18
F. LISTING RULES IMPLICATIONS	18
G. FINANCIAL EFFECTS OF THE TRANSACTIONS UNDER THE AGREEMENT ON THE GROUP	19
H. ADDITIONAL INFORMATION	19
APPENDIX I – FINANCIAL INFORMATION OF THE GROUP	20
APPENDIX II – GENERAL INFORMATION	23

DEFINITIONS

In this circular, the following terms or expressions shall have the meanings set out below unless the context requires otherwise:

“Agreement”	《粵海食品(佛山)有限公司肉品加工項目施工總承包合同》(GDH Food (Foshan) Co., Ltd. Meat Processing Project Main Contractor Construction Agreement*) dated 28 April 2021 between GDH Food Foshan and the Contractor in respect of the Construction
“Board”	the board of Directors
“Company”	GDH Guangnan (Holdings) Limited (粵海廣南(集團)有限公司), a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“Competing Business”	has the meaning ascribed to it under section headed “6. Directors’ interest in Competing Business” in Appendix II to this circular
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	has the meaning ascribed to it under the section headed “B. The Agreement – Subject matter” in the letter from the Board contained in this circular
“Construction”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular
“Construction Fees”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular

DEFINITIONS

“Construction Supervisor”	成都衡泰工程管理有限責任公司 (Chengdu Hengtai Engineering Management Co., Ltd.*), appointed by GDH Food Foshan to supervise the Construction in accordance with the applicable rules and regulations in the PRC, being a third party independent of and not connected with the Company and its connected person(s)
“Contractor”	中國化學工程第四建設有限公司 (China National Chemical Engineering Fourth Construction Co., Ltd.*), a company established in the PRC
“Director(s)”	the director(s) of the Company
“Foshan Natural Resources Bureau”	佛山市自然資源局 (Foshan Natural Resources Bureau*), a department of the Foshan City government
“GDH Food Foshan”	粵海食品(佛山)有限公司 (GDH Food (Foshan) Co., Ltd.)*(formerly known as 佛山市南海潤圓食品有限公司 (Foshan Nanhai Runyuan Food Co., Ltd.*)), a company established in the PRC and a subsidiary of the Company
“GDH Guangnan Hong”	GDH Guangnan Hong Company Limited (粵海廣南行有限公司), a company incorporated in Hong Kong and a direct wholly-owned subsidiary of the Company
“GDH”	GDH Limited, a company incorporated in Hong Kong
“Green Construction Measure Fees”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular
“Group”	the Company and its subsidiaries
“Guangdong Holdings”	廣東粵海控股集團有限公司 (Guangdong Holdings Limited*), a company established in the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Land”	two pieces of land located at the south of Changxing Road* (長興路) and the north of Guangsan Expressway* (廣三高速), Changhongling Industrial Park* (長虹嶺工業園區) of Shishan Town* (獅山鎮), Nanhai District (南海區), Foshan City (佛山市), Guangdong Province, the PRC (Parcel No. YDCR44060500601632), with a total site area of approximately 34,368.60 sq.m.
“Latest Practicable Date”	12 May 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Measure Fees”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular
“Management Fees”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Other Measure Fees”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular
“Performance Guarantee”	has the meaning ascribed to it under the section headed “B. The Agreement – Guarantee” in the letter from the Board contained in this circular

DEFINITIONS

“PRC”	the People’s Republic of China and, for the purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Prepayment”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the share(s) of the Company
“Shareholder(s)”	the holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-project Fees”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular
“sq. m.”	square metre(s)
“Taxes”	has the meaning ascribed to it under the section headed “B. The Agreement – Consideration and basis of determination of Consideration” in the letter from the Board contained in this circular
“Xinying Enterprise”	佛山市南海區信盈企業策劃總公司 (Foshan City Nanhai District Xinying Enterprise Planning Corporation*), a company established in the PRC

DEFINITIONS

“2013 Pricing Specification” has the meaning ascribed to it under the section headed “B. The Agreement – Adjustment mechanism for the Consideration” in the letter from the Board contained in this circular

“%” per cent.

For the purpose of this circular, unless otherwise indicated, the exchange rate of RMB1.00 = HK\$1.1832 has been used, where applicable, for purpose of illustration only and it does not constitute any representation that any amount has been, could have been or may be exchanged at that rate or at any other rate.

* *The English translation of the Chinese name of the relevant company included in this circular is prepared for identification purpose only. In the event of any inconsistency, the Chinese name shall prevail.*

LETTER FROM THE BOARD



粵海廣南(集團)有限公司 GDH GUANGNAN (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 01203)

Board of Directors:

Executive Directors:

CHEN Benguang (*Chairman*)

HE Jinzhou (*General Manager*)

CHAU Wang Kei (*Chief Financial Officer*)

Registered Office:

22nd Floor

Tesbury Centre

No. 24-32 Queen's Road East

Hong Kong

Non-Executive Director:

WANG Longhai

Independent Non-Executive Directors:

Gerard Joseph McMAHON

LI Kar Keung, Caspar

WONG Yau Kar, David

18 May 2021

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION MAIN CONTRACTOR CONSTRUCTION AGREEMENT

A. INTRODUCTION

Reference is made to the announcement of the Company dated 28 April 2021 in relation to the Agreement which disclosed that on 28 April 2021, GDH Food Foshan (a subsidiary of the Company) entered into the Agreement with the Contractor, being the successful bidder for the Construction, in relation to the Construction as more particularly set out below.

The purpose of this circular is to provide Shareholders with further details of the Agreement.

LETTER FROM THE BOARD

B. THE AGREEMENT

A summary of the salient terms of the Agreement is set out below:

Parties

Principal (發包人) : GDH Food Foshan, a subsidiary of the Company

Contractor (承攬人) : 中國化學工程第四建設有限公司
(China National Chemical Engineering Fourth
Construction Co., Ltd.*)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Contractor and its ultimate beneficial owner(s) are third parties independent of and not connected with the Company and its connected person(s).

Subject matter

The Contractor shall be appointed as the main contractor for the construction of a slaughterhouse and related facilities and works on the Land (the "**Construction**") undertaking, *inter alia*, construction works (main factory, animal quarantine inspection building, research and development building, office building, firefighting centre, firefighting pool, etc.); construction of general installation works (indoor water supply and drainage, lighting, lightning protection, ventilation, air conditioning, indoor firefighting works, outdoor electricity, outdoor water supply and drainage and firefighting works, gas works, hydraulic freight elevators, passenger elevators, canteen facilities, etc.) and other works; environmental protection system (sewage treatment system, waste gas treatment system, solid waste treatment, hazard-free treatment); plant master plan works (works in relation to earth, gates, roads and car parks and wall etc.), power transformation and distribution works, refrigeration equipment (including cold storage facility), in-plant road works (excluding municipal roads between east and west plots of the Land); temporary water supply and telegraph installation, etc. in relation to the Construction as specified in the Agreement.

Consideration and basis of determination of Consideration

The total consideration ("**Consideration**") payable to the Contractor for the Construction shall be RMB252,201,091.23 (equivalent to approximately HK\$298,404,000), subject to adjustments (if any) in relation to change of works after on-site inspections, value-added tax and unbalanced offer price (as described below).

LETTER FROM THE BOARD

The Consideration comprises (i) sub-project fees (分部分項工程費) (“**Sub-project Fees**”), including construction fees for sub-projects of the works under the Construction as set out in the paragraph headed “Subject matter” above; (ii) measure fees (“**Measure Fees**”) in relation to the Construction, including (a) green construction and safety protection measure fees (綠色施工安全防護措施費) (“**Green Construction Measure Fees**”); (b) main contractor management fees (總承包管理費) (“**Management Fees**”) for the management of individual professional works; and (c) other measure fees (其它措施費) (“**Other Measure Fees**”), including, inter alia, moulding work fees (模板工程費), vertical transportation work fees (垂直運輸工程費) and certain regulatory fees in accordance with the requirements of the local government; and (iii) taxes in relation to the Construction under the applicable rules and regulations in the PRC (“**Taxes**”).

The Consideration shall be settled by GDH Food Foshan in the manner set out below:

(i) Prepayment

- (1) subject to the delivery of the Performance Guarantee and prepayment guarantee (being the guarantee for the performance of the Contractor’s obligations under the Agreement up to the amount of the Prepayment) to GDH Food Foshan from the Contractor, 3% of the Consideration (after deduction of Green Construction Measure Fees, Management Fees and certain estimated and provisional amounts) (“**Prepayment**”), shall be paid within 20 days from issuance of an entry notice of construction sites by GDH Food Foshan or the Construction Supervisor. In the event that the Contractor does not deliver the said prepayment guarantee to GDH Food Foshan, GDH Food Foshan shall not have the obligation to make the Prepayment;
- (2) the Prepayment shall be gradually deducted from the payments of Construction Fees in accordance with works progress as described below. When the evaluated construction price accumulates to 60% of the Consideration (after deduction of Green Construction Measure Fees, Management Fees and certain estimated and provisional amounts), the full amount of Prepayment shall have been deducted, provided that where there is any portion of Prepayment exceeding the amount of the relevant payment of Construction Fees, such excessive amount shall be deducted from the next subsequent payment of Construction Fees; and
- (3) In the event that GDH Food Foshan has made any payment of worker’s wages deposits on behalf of the Contractor pursuant to the applicable laws and regulations, such amount shall be deducted from the Prepayment or subsequent payments of Construction Fees (as the case may be);

LETTER FROM THE BOARD

(ii) Green Construction Measure Fees

- (1) 50% of Green Construction Measure Fees (after deduction of deductible amounts (if any)) shall be paid within 30 days after the satisfaction of relevant conditions as approved by GDH Food Foshan subsequent to the submission of the plan of green construction and safety protection measures by the Contractor;
- (2) Green Construction Measure Fees incurred in accordance with the corresponding evaluation of the completed works shall be gradually deducted from the above prepaid amount; and
- (3) after the above prepaid amount has been deducted in full, the remainder of Green Construction Measure Fees shall be paid under the subsequent payments of Construction Fees as described below, calculated in accordance with the corresponding evaluation of the completed works;

(iii) Management Fees

Management Fees shall be paid in the following manner:

- (1) 30% of such Management Fees shall be paid to the Contractor after the signing of the contracts for the relevant professional works, implementation of site layout and submission of eligible work plan;
- (2) 90% of such Management Fees shall be paid to the Contractor after eligible inspection of the completion of such professional works and successful transmission of all works; and
- (3) the remainder of Management Fees shall be paid after completion of review on settlement of completion of such professional works;

LETTER FROM THE BOARD

(iv) Construction Fees

Sub-project Fees, Measure Fees and the relevant Taxes (together, the “**Construction Fees**”) (after deduction of deductible amounts (if any)) shall be paid in the following manner:

- (1) where the Contractor lodges an application for the work progress fees to GDH Food Foshan and Construction Supervisor in accordance with the Agreement, upon review and approval of such application for the relevant work progress fees by GDH Food Foshan and Construction Supervisor, 80% of the evaluated construction price (after deduction of deductible amounts (if any)) in respect of the completed works reviewed and confirmed by GDH Food Foshan and Construction Supervisor shall be paid to the Contractor for the relevant month;
- (2) if GDH Food Foshan determines that it is necessary to adjust the construction price for on-site permit and change of works, payment and deduction shall be made based on 80% of the evaluated construction price (after deduction of deductible amounts (if any)) in respect of the next subsequent payment of work progress fees;
- (3) when the works completed regarding certain land parcels, buildings, professional works or sections satisfy the relevant settlement conditions, upon written confirmation of both parties, an aggregate of 88% of the settlement price corresponding to the completion of such works (after deduction of deductible amounts (if any)) shall be paid to the Contractor; and
- (4) after eligible inspection of the completion, completion of construction filing, relocation of all equipment, machineries, materials and other articles of the Contractor from the worksite and delivery of the complete completion and settlement information to GDH Food Foshan and Construction Supervisor, an aggregate of 90% of the evaluated construction price (after deduction of deductible amounts (if any)) in respect of the completed works as reviewed and confirmed by GDH Food Foshan and Construction Supervisor shall be paid to the Contractor; and

LETTER FROM THE BOARD

(v) *Remainder of Consideration*

the remainder of the Consideration shall be paid in the following manner:

- (1) upon written confirmation of the settlement price for the completion of works (竣工結算總額) by both parties, the Contractor shall apply to GDH Food Foshan for payment of the said settlement price and GDH Food Foshan shall pay to the Contractor up to 97% of the said settlement price (after deduction of deductible amounts (if any)); and
- (2) the remaining 3% of the settlement price for the completion of works (竣工結算總額), being quality bond, shall be paid to the Contractor (after deduction of deductible amounts (if any)) (a) within 30 days from the expiry of one year from the completion and eligible inspection of the Construction as to 50% provided that GDH Food Foshan has no objection; and (b) within 30 days from the expiry of the two-year defects liability period as to the remainder.

Taxes corresponding to each payment above shall be paid according to the relevant policy and requirements in conjunction with the said relevant payment.

Each of the above payments, with exception of Prepayment, shall be made within 28 days from the receipt of the tax invoice for the relevant payment by GDH Food Foshan from the Contractor.

The above payments may be made by either wire transfer or bank acceptance draft (as the case may be) provided that at least 40% of the Consideration shall be paid by bank acceptance draft and GDH Food Foshan shall have the right to adjust the payment methods based on this principle.

The Consideration is expected to be funded by internal resources and/or borrowings of the Group. As the Consideration will be settled by the Group in different stages and the Group would manage the financing for its slaughterhouse construction project as a whole, it is impracticable for the Company to identify the specific amount from the internal resources and/or borrowings, respectively, to be used for the purpose of funding the Consideration only at the current stage. In the event that no borrowing is obtained, the Group will have sufficient internal resources to satisfy the Consideration.

LETTER FROM THE BOARD

The Consideration was determined based on the bidding price offered by the Contractor. Apart from the Contractor, there were other bidders which participated in the tender for the selection of the main contractor for the Construction. Although the bidding price offered by the Contractor was not the lowest among the bidders, the Contractor was selected by the Group for the reasons as described in the section headed “C. Reasons for and benefits of entering into the Agreement” in the letter of the Board below.

The Company understands that the payment terms for each part of the Consideration (including the Guarantee) are in line with market and industry practice for projects with similar scale, are on normal commercial terms or better to the Group and in the interests of the Company and the Shareholders as a whole.

Adjustment mechanism for the Consideration

The Consideration may be adjusted based on the mechanism as follows:

(i) Value-added tax rate adjustments according to the PRC government policy

in the event that there is any adjustment to the applicable value-added tax rate according to the PRC government policy, the adjusted value-added tax rate would be adopted (and reflected in the value-added tax invoices to be issued by the Contractor), and the amount of the adjustment shall be calculated based on the project price under the Agreement and the difference between the then original and the adjusted value-added tax rates at the relevant time;

(ii) Change of works after on-site inspections

in the event that GDH Food Foshan would need to make changes to the original works under the Construction, it shall give the Contractor a written notice in respect of the change of works and provide the corresponding plan or explanation for the change of works. The Contractor shall implement the change of works in accordance with the written notice and relevant instructions of GDH Food Foshan.

According to the terms of the Agreement, the construction price for new projects due to change of works shall be determined in the following manner:

- (1) where there is an identically applicable item in the Agreement, the new works shall apply the same integrated unit price as the item. Where there are several applicable items, the new works shall apply the integrated unit price most favorable to GDH Food Foshan, unless GDH Food Foshan considers it obviously unreasonable;

LETTER FROM THE BOARD

- (2) where there is a similarly applicable item in the Agreement, its integrated unit price shall be used as price determination basis for the new works, subject to adjustment with reference to the price of main materials and equipment, unless GDH Food Foshan considers it obviously unreasonable; and
- (3) where there is no identically or similarly applicable item in the Agreement or GDH Food Foshan considers the integrated unit price obviously unreasonable, the contract price of the new works shall be jointly negotiated and confirmed by the parties with reference to the benchmarks or regulations issued by the relevant official departments of the PRC and market prices (as applicable); and

(iii) Unbalanced offer price

before the signing of the Agreement, GDH Food Foshan has the right to conduct a full review of the rationality of the Contractor's commercial offer price. If there are obvious unbalanced offer price list items (as further explained below) in the offer price, GDH Food Foshan shall revise the integrated unit price of unbalanced offer price list items with the total bid price remaining unchanged.

If the above unbalanced offer price cannot be effectively corrected prior to the signing of the Agreement, the integrated unit price of unbalanced offer price list items during the term of the Agreement shall be implemented as follows:

(1) Criteria for determining unbalanced offer price

unbalanced offer price refers to the integrated unit price in the Contractor's list item, which exceeds 10% of the integrated unit price of the corresponding item compiled according to 2013 Construction Project Bill of Quantities Pricing Specification (《2013年建设工程工程量清单计价规范》) (GB50500-2013) (“**2013 Pricing Specification**”) and the corresponding project pricing specifications, or GDH Food Foshan has proof or reasonable explanation that such integrated unit price is significantly higher than the reasonable market price; and

LETTER FROM THE BOARD

(2) *Measures for revising unbalanced offer price*

where the actual work quantities for the implementation of unbalanced offer price list items differ by more than 10% from the corresponding work quantities in the bidding list, GDH Food Foshan shall have the right to directly revise the unbalanced offer price with reference to the 2013 Pricing Specification and the corresponding project pricing specifications, and the Contractor shall unconditionally cooperate and perform the contract at the revised price.

It is noted that the above adjustments (if any) under items (i) to (iii) could be upward or downward. The adjustment (if any) under item (i) to the value-added tax rate is in accordance with the PRC government policy, which is not within the control of the parties to the Agreement. The adjustments (if any) under items (ii) and (iii) are within the control of GDH Food Foshan and it is expected that such adjustments (if any) would involve insignificant changes considering the Construction project as a whole. While there is no cap on the Consideration after adjustments (if any) under the Agreement, the Company is of the view that the above adjustments (if any) will not result in the Consideration being increased significantly. Accordingly, the possibility of the Construction being re-classified as a very substantial acquisition under Chapter 14 of the Listing Rules (in which event the Company would comply with the relevant requirements under the Listing Rules) as a result of adjustments (if any) to the Consideration is very low.

Other terms

The Agreement has become effective on 28 April 2021.

The Construction shall be completed in 244 days from the commencement of works according to the instruction of GDH Food Foshan.

An expected timetable of the milestones under the Construction is set out below:

No.	Milestones	Completion
1	Completion of all pile foundations and obtaining inspection report on pile foundations	May 2021

LETTER FROM THE BOARD

No.	Milestones	Completion
2	Completion of (i) the roof of the first floor of the pig production workshop; (ii) installation of steel beams for the pig production workshop; and (iii) excavation of the sewage treatment station	July 2021
3	Completion of (i) the roof capping of pig, cattle and sheep slaughtering workshops; (ii) underground structure of the sewage station; (iii) roof capping of pig production workshop, cattle and sheep slaughtering workshops; and (iv) interior decoration of the G-R span on the first floor of the cattle and sheep slaughtering workshops and cleaning up of the site	August 2021
4	Completion of (i) all interior decoration, connection of water and electricity channels, and installation of doors and windows for the pig production workshop; (ii) interior decoration of cattle and sheep slaughtering workshops (including connection of water and electricity channels, and installation of doors and windows); (iii) interior decoration of the sewage treatment station, and animal inspection buildings, connection of water and electricity channels, and installation of doors and windows and cleaning up of the site; and (iv) brick masonry of the office building and roof capping of the scientific research building	September 2021
5	Completion of (i) pig production workshop, cattle and sheep slaughtering workshop and animal inspection buildings; (ii) entry of waste gas treatment equipment to the site for installation; (iii) five-story brick masonry of the scientific research building; and (iv) office building	October 2021

LETTER FROM THE BOARD

No.	Milestones	Completion
6	Completion of (i) scientific research building; (ii) installation of sewage and waste gas equipment and commencement of system debugging; (iii) system debugging of production lines of pig production workshop and cattle and sheep slaughtering workshops; and (iv) master plan of the factory area	November 2021
7	Completion of works inspection and acceptance	December 2021

During the period of Construction, the Group will closely monitor the progress and quality of works in accordance with the work plans as approved by the Group. GDH Food Foshan has also engaged the Construction Supervisor to supervise the progress, quality and safety of the works. The Construction Supervisor and the engineering construction department of GDH Food Foshan will review the work progress report submitted by the Contractor regularly. The engineering construction department of GDH Food Foshan will conduct regular meetings at which the work progress report will be analysed, and in the event of any delay in the Construction, the Contractor will be required to carry out remedial works with the view to ensuring that the Construction will be completed as planned.

Guarantee

The Contractor shall give an irrevocable guarantee in favour of GDH Food Foshan in respect of the performance of the obligations under the Agreement by the Contractor (“**Performance Guarantee**”), up to a maximum amount of 10% of contractual tentative total price, being RMB25,220,109 (equivalent to approximately HK\$29,840,400), for the period from the date of the relevant bank guarantee (銀行保函) to 28 days after the completion and eligible inspection of the Construction.

The Guarantee is given, and the relevant cap amount (which represents 10% of the Consideration) is determined, in accordance with the Regulation on the Implementation of the Bidding Law of the PRC* (《中華人民共和國招標投標法實施條例》), which are also in line with market practice for similar construction projects. In view of the scale and nature of the Construction, the construction period and the amount of Consideration, the Board is of the view that the Guarantee is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

C. REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

As disclosed in the announcement of the Company dated 12 April 2021, the Group has won the bid for the land use rights of the Land in Foshan, the PRC for the purpose of developing the slaughterhouse construction projects. GDH Food Foshan engaged the Contractor as the main contractor for the Construction under the said projects. By implementing the slaughterhouse construction projects, the Group shall be able to establish a stable and unified mechanism regarding farming, slaughtering, processing, cold chain logistics and product sales. It shall also facilitate the Group's branding development and promote production-marketing integration so as to better serve the customers in the Nanhai District and the Guangdong-Hong Kong-Macao Greater Bay Area for their demand of quality meat products. In the future, the chilled meat produced by the slaughterhouse of GDH Food Foshan can be used for supply to Hong Kong, thereby enhancing the Group's market competitiveness in the live and foodstuff business.

GDH Food Foshan has selected the Contractor according to the specifications as stated in the tender notice taking into account the technical expertise, experience and the proposed construction price of the bidders. The Contractor has the required technical expertise and extensive experience in the construction business in the PRC. To engage the Contractor for carrying out the Construction will ensure that the Construction will be completed up to the standard as required by the Group as well as effectively minimising management and operational costs of the Group.

Based on the above, the Board (including the independent non-executive Directors) considers that the terms and conditions of the Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

D. INFORMATION ON THE GROUP

The Group is principally engaged in the manufacture and sale of tins and related products, distribution and sales of fresh and live foodstuffs, foodstuffs trading and leasing of properties.

GDH Food Foshan is a company established with limited liability in the PRC and is owned as to 65% by the Company and 35% by Xinying Enterprise. GDH Food Foshan is principally engaged in the business of food production, food business, livestock slaughtering, city distribution and transportation services, road cargo transportation, low temperature storage and manure treatment of livestock and poultry.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for Xinying Enterprise's holding of the said 35% interest in GDH Food Foshan, Xinying Enterprise and its ultimate beneficial owner (being the State-owned Assets Supervision and Administration Commission of Nanhai District of Foshan City* (佛山市南海區國有資產監督管理局)) are third parties independent of and not connected with the Company and its connected person(s).

E. INFORMATION ON THE CONTRACTOR

The Company understands that the Contractor is principally engaged in installation of equipment, wiring, pipeline, electrical, instrumentation and its overall production equipment for industrial construction projects, equipment installation and construction for industrial and civil construction projects and municipal public engineering construction business; professional business of environmental protection engineering and the construction of power facilities. The direct controlling shareholder of the Contractor is China National Chemical Engineering Co, Ltd. (中國化學工程股份有限公司) whose shares are listed and traded on the Shanghai Stock Exchange (上海證券交易所) in the form of A shares, and the ultimate beneficial owner is the State-owned Assets Supervision Administration Commission of the State Council (國務院國有資產監督管理委員會).

F. LISTING RULES IMPLICATIONS

Since one of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Agreement exceeds 25% but all of them are under 100%, the transactions contemplated under the Agreement will constitute a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the approval by the Shareholders. Since no Shareholder is required to abstain from voting if the Company were to convene an extraordinary general meeting for the approval of the Agreement and the transactions contemplated thereunder, and the Company has obtained a written approval for the Agreement and the transactions contemplated thereunder from GDH (the controlling Shareholder of the Company holding 537,198,868 Shares, representing approximately 59.19% of the issued share capital of the Company as at the date of such approval and as at the Latest Practicable Date), an extraordinary general meeting of the Company to approve the Agreement and the transactions contemplated thereunder is not required pursuant to Rule 14.44 of the Listing Rules and will not be convened.

LETTER FROM THE BOARD

G. FINANCIAL EFFECTS OF THE TRANSACTIONS UNDER THE AGREEMENT ON THE GROUP

The Consideration is approximately RMB252.2 million (equivalent to approximately HK\$298.4 million) for the Construction. The settlement terms of the Consideration is set out under the section headed “B. The Agreement — Consideration and basis of determination of Consideration” in this letter from the Board.

When the construction costs under the Agreement (being the Consideration) are incurred, the relevant portion of Consideration will be capitalised to “construction in progress” under the consolidated balance sheet of the Group, with the corresponding increase in the balance of “trade payables”. The assets and the liabilities of the Group will be increased accordingly. The payment of Consideration, and the payments and expenses incurred and to be incurred in connection with the Construction would result in the decrease in “trade payables”, decrease in “cash and cash equivalents” and/or “bank borrowings”. It is expected that completion of the Construction will have no impact on the net asset value of the Group because the Consideration will be settled by internal resources and/or borrowings of the Group.

The Company considers that there will not be any material effect on the earnings of the Group immediately due to the execution of the Agreement. Since the Consideration is expected to be funded by internal resources and/or borrowings of the Group, after the payment of the Consideration, the cash and cash equivalents of the Group will decrease by approximately RMB252.2 million (equivalent to approximately HK\$298.4 million) and as a result, the bank interest income of the Group will be reduced and the finance costs from interest-bearing loans will increase.

H. ADDITIONAL INFORMATION

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

Yours faithfully,
By Order of the Board
GDH Guangnan (Holdings) Limited
CHEN Benguang
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Group for each of the financial years ended 31 December 2018, 31 December 2019 and 31 December 2020 respectively, together with the relevant notes thereto are disclosed in the following documents, which were published on both the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.gdguangnan.com) as follows:

- the Company’s annual report for the year ended 31 December 2018 published on 24 April 2019 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0424/ltn20190424406.pdf>) (pages 36 to 120);
- the Company’s annual report for the year ended 31 December 2019 published on 23 April 2020 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042301442.pdf>) (pages 33 to 123); and
- the Company’s annual report for the year ended 31 December 2020 published on 21 April 2021 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0421/2021042100786.pdf>) (pages 37 to 122).

2. INDEBTEDNESS

As at the close of business on 31 March 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular for ascertaining the information contained in this statement of indebtedness, the Group had total outstanding borrowings of approximately HK\$387.3 million, comprising unsecured and unguaranteed bills payable of approximately HK\$290.9 million, secured and unguaranteed bills payable of approximately HK\$37.2 million and unsecured and unguaranteed loan from a fellow subsidiary of the Company of approximately HK\$59.2 million. The aforesaid bills payable were secured by the Group’s certain land and buildings amounting to approximately HK\$103.9 million.

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liabilities over the lease term. As at 31 March 2021, the Group had lease liabilities of approximately HK\$17.9 million.

Save as disclosed above and apart from loan from a fellow subsidiary, the Group did not, at the close of business on 31 March 2021, have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or similar indebtedness, finance leases or hire purchase commitment, liabilities under acceptance (other than normal trade and other payables), acceptance credits, or any guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 31 March 2021.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the financial resources presently available to the Group, including the internally generated funds, cash flows from operation and currently available facilities, the Group has sufficient working capital to satisfy its requirements for its normal business for at least 12 months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is engaged in the manufacturing and sales of tinplate products, distribution and trading of fresh and live foodstuffs and property leasing. As disclosed in the Company's 2020 annual report, the Group had audited consolidated net assets and cash and cash equivalents of approximately HK\$2,784.4 million and HK\$895.1 million, respectively, as at 31 December 2020. For the year ended 31 December 2020, the Group's audited consolidated revenue and profit attributable to shareholders of the Company were approximately HK\$2,538.0 million and HK\$69.9 million, respectively. For the three months ended 31 March 2021, the Group's unaudited consolidated revenue and profit attributable to shareholders of the Company were approximately HK\$800.8 million and HK\$20.7 million, respectively.

With increasing risk of global economic downturn, slowdown in international trade and investment, intensifying adverse effect of trade protectionism and negative impact brought about by the outbreak of COVID-19 on global economic growth, instability and uncertainties have increased significantly, exerting certain pressure on the operations of the Group.

In respect of the tinplating business, the Group will focus on the implementation of innovation-driven development strategy. The Group will push forward strategic adjustment to its product structure through the research and development of new products and techniques in order to satisfy and provide guidance for customer demands as well as to take advantage of its scale of production capacity. The Group aims to build itself into the most reliable tinplating supply chain service provider.

As for the fresh and live foodstuffs business, the Group aims to further strengthen its business development through broadening its food import trade business and the sales channels for its wholesale and retail trade business in the Guangdong-Hong Kong-Macao Greater Bay Area while maintaining its market share in Hong Kong. The Group will seize the opportunities of development of the agricultural food industry so as to expand the food market in the Greater Bay Area and extend its business chain to cover farming, butchery, cold chain transportation, food processing and terminal retail. While extending its business chain, the Group will conduct research on and participate in the construction of modern agricultural industrial parks proactively and continue to develop new profit growth points.

Facing the continued impact of the COVID-19 pandemic both at home and abroad, the Group will develop relevant work plans, timely and reasonably adjust business strategies, strengthen food safety supervision and safeguard the health of its employees and customers. Leveraging on its sound financial condition and abundant capital resources, the Group will seize every opportunity for development and strategic cooperation with an aim to improve its profitability, thereby maximising value for its shareholders.

5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors confirm that there has been no material change in the financial or trading position of the Group since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE

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 and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) 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 the Directors or the chief executive of the Company were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests and short positions in the Company:

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held (Note)
Li Kar Keung, Caspar	Personal	100,000	Long Position	0.011%

Note: The approximate percentage of interests held was calculated on the basis of 907,593,285 ordinary Shares of the Company in issue as at 31 December 2020.

Save as disclosed above, as at the Latest Practicable Date, to the knowledge of the Company, none of the Directors or chief executive of the Company had any interests or short positions 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 were required to be (i) 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 the Directors and chief executive were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

3. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (other than Directors or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of ordinary shares beneficially held	Long/short position	Approximate percentage of interests held
Guangdong Holdings	537,198,868	Long position	59.19%
GDH	537,198,868	Long position	59.19%

Notes:

1. The attributable interest which Guangdong Holdings has in the Company is held through its 100% direct interest in GDH.
2. As at the Latest Practicable Date, the following Director was a director or an employee of Guangdong Holdings and or/GDH:

Name of Director	Position(s) held	
	in Guangdong Holdings	Position(s) held in GDH
WANG Longhai	General manager of the Investment and Capital Operations Department	General manager of the Investment and Capital Operations Department

Save as disclosed below, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other person (other than a Director or chief executive of the Company) was directly or indirectly interested in 10% or more of the issued shares carrying rights to vote in all circumstances at general meetings of other member(s) of the Group or had any option in respect of such issued shares:

Name of shareholder interested in 10% or more of the subsidiary of the Company	Name of subsidiary of the Company	Long/short position	Approximate percentage of interests held
佛山市南海區信盈企業策劃總公司 (Foshan City Nanhai District Xinying Enterprise Planning Corporation*)	GDH Food Foshan	Long position	35%
Skymax Trading Limited	GDH Guangnan Live Pigs Trading Limited	Long position	49%
株式會社 POSCO (POSCO Co., Ltd.)	GDH Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd. (formerly known as Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd.)*	Long position	34%

Save as disclosed herein, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, there was no other person, other than Directors or chief executive of the Company and (in the case of the other members of the Group) other than the Company, who had, or were deemed or taken to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange 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. DIRECTORS' SERVICE CONTRACTS

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

5. DIRECTORS' INTEREST IN CONTRACTS

As at the Latest Practicable Date:

- (i) none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2020, being the date to which the latest published audited accounts of the Company were made up; and
- (ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group.

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

The Group has been engaged in the businesses of leasing of properties, as at the Latest Practicable Date, so far as is known to the Board, the interests of the Directors or their respective close associate(s) in the business(es) which competed or were likely to compete, either directly or indirectly, with the leasing of properties businesses of the Company (the “**Competing Business**”) as required to be disclosed were as follows:

Name of Director	Name of entity (Note)	Nature of interest (Note)
WANG Longhai	Guangdong Holdings GDH	General manager of the Investment and Capital Operations Department

Note: The interests of the aforementioned Director in the businesses of the aforementioned entities may also arise through their respective directorships in its holding companies, subsidiaries, associated companies or other form of investment vehicles of such entities.

The aforementioned entities are engaged in, inter alia, leasing of properties, and the aforementioned Director is regarded as being interested in the Competing Business.

Save as disclosed above, as at the Latest Practicable Date and so far as the Directors were aware, none of the Directors or their respective close associates had an interest in any business that competes with or is likely to compete with the business of the Group.

7. LITIGATION

As at the Latest Practicable Date, so far as was known to the Directors, none of the members of the Group was engaged in any litigation, arbitration or administration proceedings of material importance and there was no litigation, arbitration or administration proceedings or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL CONTRACTS

The members of the Group had, within the date of two years immediately preceding the Latest Practicable Date, entered into the following contracts which were or might be material, other than contracts in the ordinary course of business of the Group:

- (i) the capital increase agreement dated 22 December 2020 entered into between GDH Guangnan Hong, Xinying Enterprise and GDH Food Foshan in relation to the subscriptions of the registered capital in GDH Food Foshan by GDH Guangnan Hong and Xinying Enterprise in the amount of RMB79,857,200 and RMB40,000,000, respectively;
- (ii) the state-owned construction land use right grant contract (《國有建設用地使用權出讓合同》) dated 13 April 2021 entered into between GDH Food Foshan and the Foshan Natural Resources Bureau in relation the acquisition of the Land by GDH Food Foshan for a total consideration of RMB60,000,000; and
- (iii) the Agreement.

9. GENERAL

- (i) The company secretary of the Company is Ms. Law Yu Ting, an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly The Institute of Chartered Secretaries and Administrators); and
- (ii) The registered office of the Company is situated at 22nd Floor, Tesbury Centre, No. 24-32 Queen's Road East, Hong Kong.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at 22nd Floor, Tesbury Centre, No. 24-32 Queen's Road East, Hong Kong during normal business hours on any weekday, except public holidays, from the date of this circular up to 1 June 2021:

- (i) the articles of association of the Company;
- (ii) the annual reports of the Company for the three years ended 31 December 2018, 31 December 2019 and 31 December 2020;
- (iii) the letter from the Board as set out in this circular;
- (iv) the material contracts referred to in the section headed "8. Material contracts" in this Appendix; and
- (v) this circular.