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GUANGNAN (HOLDINGS) LIMITED

廣南(集團)有限公司

(Incorporated in Hong Kong with limited liability)

ANNOUNCEMENT CONNECTED TRANSACTION

SUMMARY

The Directors announce that HK Jin Huang and Dongguan Foodstuffs had entered into an agreement on 28th May, 1997 to establish an equity joint venture company in the PRC, with a respective holding of 70% by HK Jin Huang and 30% by Dongguan Foodstuffs. Guanganan and Dongguan Foodstuffs also invested in BVI Jin Huang on 25th March, 1997 with a shareholding of 75% and 25% respectively. Dongguan Foodstuffs is a substantial shareholder with a 49% interest in Dongguan Guanganan and therefore a connected person of Guanganan under the Listing Rules. The principal business of the PRC JV at the time of its establishment was pig rearing and distribution of livestock in the PRC. As of May 2003, PRC JV ceased its previous business and leased out the land and buildings in the Pig Farm to receive rental income. Dongguan Foodstuffs is not connected with the Company other than the above mentioned.

HK Jin Huang has contributed an aggregate of approximately HK\$52 million in cash in January, May, August and December 1997 and January, March and June 1998 and Dongguan Foodstuffs has agreed to contribute the land use rights of certain lands situated in 謝崗鎮大厚管理區 (Xiegang Town Dahou Management Region) and 橫瀝鎮村頭管理區 (Hengli Town Cuntou Management Region) of Dongguan, the PRC valued at approximately RMB22.19 million to the capital of the PRC JV for carrying out the business of pig rearing. As Dongguan Foodstuffs has not made the agreed capital contribution to the PRC JV eventually, the Company and Dongguan Foodstuffs, after arm's length negotiations, signed agreements on 31st May, 2001 relating to the Cessation Arrangement.

Under the Cessation Arrangement, the Group and Dongguan Foodstuffs signed the Cessation Agreements pursuant to which they had mutually agreed to cease their co-operation respectively in BVI Jin Huang and the PRC JV. In addition, the legal title of all assets of the Pig Farm will be transferred to the PRC JV. However, HK Jin Huang discovered that the land use rights of the Pig Farm have been used as a collateral for the bank loans of Hengli Company. The re-registration of the land use rights of the land and the first registration of the buildings of the Pig Farm in the name of the PRC JV cannot be completed without the consent of the bank. The Company has been trying to pursue the re-registration of the legal title of the land and the first registration of the buildings of the Pig Farm since the entering into the Cessation Agreements but the re-registration has not been successful. The Directors believe that Dongguan Foodstuffs breached the JV Agreement and the PRC JV is taking legal action against Dongguan Foodstuffs.

The setting up of the PRC JV and BVI Jin Huang constituted a connected transaction of Guangnan and is required to be disclosed by way of an announcement. The value of such transaction exceeded the higher of HK\$10 million and 3.0% of the book value of the net tangible assets of the Group but independent Shareholders' approval had not been obtained prior to the entering into the above transaction. The breach of the Listing Rules was made by the previous management of Guangnan in 1997. Since 1997, there have been substantial changes in the Board and the management of the Company. As soon as the management of Guangnan discovered the breach of the JV Agreement in April 2001, inspection was made against the Company's records in relation thereto as well as the whole issue relating to the setting up of the PRC JV, the subsequent development of the PRC JV and the Cessation Arrangement. In view of the events that have transpired after the signing of the Cessation Agreements, the Directors consider it appropriate now to keep the Shareholders and the public informed of the matters. The existing Directors believe that the changes in the Board and the management of the Company coupled with high staff turnover have led to the delay in making the announcement of the breach in 1997. The Stock Exchange reserves the right to take appropriate action as a result of the breach of the Listing Rules in 1997 by Guangnan.

BACKGROUND — JV AGREEMENT

1. Parties: HK Jin Huang
Dongguan Foodstuffs

2. Date: 28th May, 1997

3. Purpose:

The PRC JV has been established by HK Jin Huang and Dongguan Foodstuffs with a proportionate shareholding of 70% and 30% respectively. The purpose of the joint venture agreement is to set out the respective rights and obligations of each party regarding the joint venture in connection with the operation, management and administration of the PRC JV.

4. Constitution of the board:

There were seven directors in total on the board of the PRC JV, four of which were nominated by HK Jin Huang and the remaining 3 directors were nominated by Dongguan Foodstuffs.

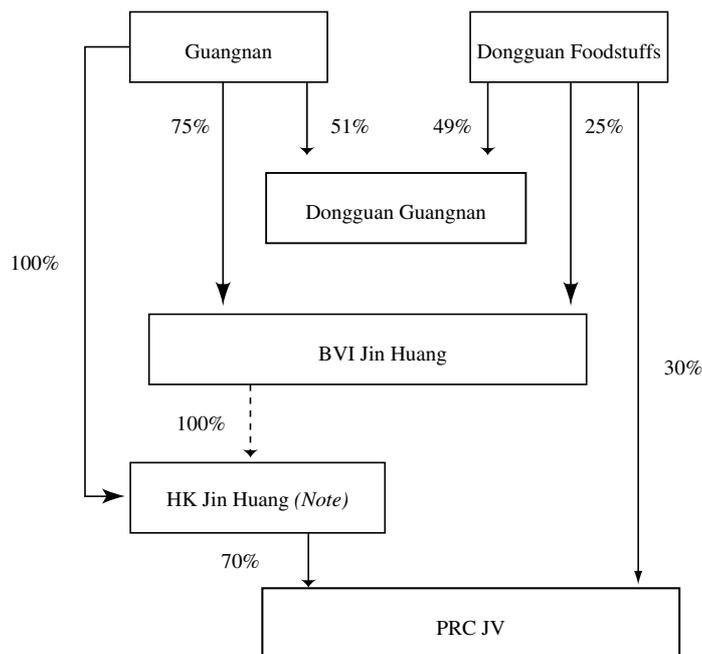
5. Business:

The PRC JV is a company incorporated in the PRC on 6th October, 1997 with limited liability. The PRC JV was set up to engage in pig rearing and distribution of livestock in the PRC.

6. Working capital commitment requirement:

Under the JV Agreement, the total investment was RMB200 million which was the same as the registered capital. HK Jin Huang agreed to contribute capital of RMB140 million whereas Dongguan Foodstuffs agreed to inject fixed assets and pig farms amounted to RMB60 million. Both parties had to contribute at least 30% within six months, 50% within one year and the whole amount of registered capital within two years after the obtaining of business license on 6th October, 1997 respectively.

The shareholding and group structure of Guangnan as at the time of establishing the PRC JV were set out below:—



- Note: 1. HK Jin Huang was a 100% owned subsidiary of Guangnan on 28th May, 1997 being the date of signing the JV Agreement to set up the PRC JV.*
- 2. HK Jin Huang became a 100% owned subsidiary of BVI Jin Huang on 27th June, 1997.*

Dongguan Foodstuffs is a substantial shareholder with a 49% interest in Dongguan Guangnan and therefore a connected person of Guangnan under the Listing Rules.

SUPPLEMENTAL AGREEMENT

On 28th August, 1998, HK Jin Huang and Dongguan Foodstuffs agreed to reduce the total investment in PRC JV from RMB200 million to RMB150 million and the registered capital from RMB200 million to RMB60 million because a local environmental protection authority did not approve of the establishment of one of the pig farms, thus resulting in the cancellation of such establishment and a reduction in investment. There was no change in the respective shareholdings of the PRC JV held by HK Jin Huang and Dongguan Foodstuffs although the capital contribution was revised to HK\$52 million in cash by HK Jin Huang and RMB22,189,801 worth of land use rights by Dongguan Foodstuffs.

SUBSEQUENT DEVELOPMENT OF THE PRC JV

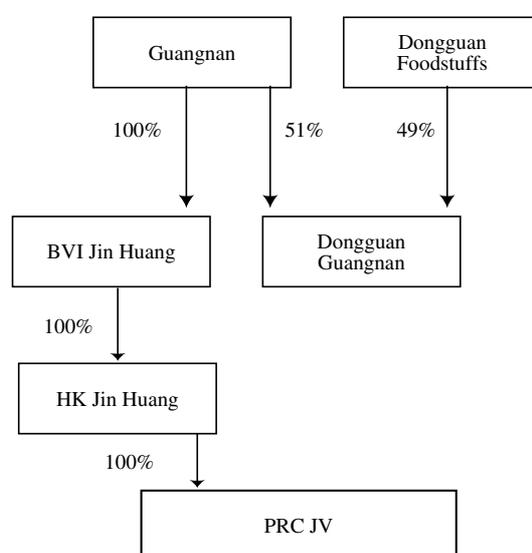
HK Jin Huang has contributed an aggregate of approximately HK\$52 million in cash in January, May, August and December 1997 and January, March and June 1998 and Dongguan Foodstuffs has agreed to contribute the land use rights of certain lands situated in 謝崗鎮大厚管理區 (Xiegang Town Dahou Management Region) and 橫瀝鎮村頭管理區 (Hengli Town Cuntou Management Region) of Dongguan, the PRC valued at approximately RMB22.19 million to the capital of the PRC JV for carrying out the business of pig rearing. However, the legal title of such land use rights was not transferred. After the Group’s corporate reorganization, which was completed in December 2000, the Company began to review the investments made in the past. As Dongguan Foodstuffs, not HK Jin Huang, was responsible for the day-to-day operation of the PRC JV, the Company did not realize that the land use rights had not been transferred and it

was not until April 2001 that the Company discovered that its capital contribution in the PRC JV had been used by Dongguan Foodstuffs for establishing the Pig Farm in Hengli Town. The land use rights in the Pig Farm was originally agreed to be injected into the PRC JV by Dongguan Foodstuffs. The Company's records showed that the capital contribution was made in 1997 and 1998 according to the JV Agreement. The present management and Directors do not know the specific intended use of the capital contribution at that time. The Company has been actively negotiating with Dongguan Foodstuffs for possible solutions to rectify the breach of the JV Agreement by Dongguan Foodstuffs since April 2001 which resulted in the Cessation Arrangement as mentioned below.

CESSATION ARRANGEMENT

As Dongguan Foodstuffs has not made the agreed capital contribution to the PRC JV, the Group and Dongguan Foodstuffs, after arm's length negotiations, signed agreements on 31st May, 2001 relating to the Cessation Arrangement.

The shareholding and group structure of Guangnan after the Cessation Arrangement:



Note:

BVI Jin Huang — *Investment holding company*

HK Jin Huang — *Investment holding company*

PRC JV — *No business operations before May 2001 and currently receives rental income for leasing out land and buildings*

PRC JV is the sole asset of HK Jin Huang and HK Jin Huang is the sole asset of BVI Jin Huang

Under the Cessation Arrangement, the Group and Dongguan Foodstuffs signed the Cessation Agreements pursuant to which they had mutually agreed to cease their co-operation respectively in BVI Jin Huang and the PRC JV. Dongguan Foodstuffs will transfer its 30% equity interest of the PRC JV at nil consideration to HK Jin Huang and its 25% equity interest of BVI Jin Huang at a nominal consideration of HK\$1.00 to the Company respectively. Thereafter, both BVI Jin Huang and the PRC JV will become wholly-owned subsidiaries of the Company. The Group also applied in June 2001 for the PRC JV to be converted from a sino-foreign equity joint venture into a wholly foreign-owned enterprise under the relevant laws of the PRC.

Through the Cessation Arrangement, the Company will be able to obtain all assets of the PRC JV, including the land and buildings of the Pig Farm. The Company believes that transferring the interest in the PRC JV and BVI Jin Huang from Dongguan Foodstuffs is the fastest way to secure all the assets of the PRC JV.

On 31st May, 2001, Dongguan Foodstuffs has successfully transferred the 25% equity interest held by it in BVI Jin Huang at a nominal consideration of HK\$1.00 to the Company and BVI Jin Huang is now a wholly-owned subsidiary of the Company.

Pending approval of the Cessation Arrangement from the government authorities in Dongguan, in order to protect the Group's interest, additional supplemental agreements based on the terms of the Cessation Agreements were signed by HK Jin Huang with Dongguan Foodstuffs. In these additional supplemental agreements, both parties recognized that the land use rights of 謝崗鎮大厚管理區 (Xiegang Town Dahou Management Region) and 橫瀝鎮村頭管理區 (Hengli Town Cuntou Management Region) had not been transferred to the PRC JV and further confirmed that all assets comprising the Pig Farm will be transferred to the PRC JV.

On 31st August, 2001, the Group obtained approval from the Foreign Economic and Trade Committee in Dongguan (東莞市對外經濟貿易委員會) for the transfer of 30% equity interest in the PRC JV and on 4th September, 2001, the Industrial and Commercial Administration Bureau in Dongguan (東莞市工商行政管理局) issued the business registration certificate for the conversion of the PRC JV from a sino-foreign equity joint venture into a wholly foreign-owned enterprise. The Directors and PRC legal opinion confirmed that there are no other approvals required for the transfer of the interest in the PRC JV.

However, shortly after obtaining the approvals from the aforesaid PRC authorities, HK Jin Huang discovered that the land use rights of the Pig Farm have been used as a collateral for the bank loans of Hengli Company, the registered owner of the Pig Farm, with an outstanding amount of approximately RMB13.5 million as at 31st May, 2003 and there is no indication from Hengli Company that it will fulfill its obligation. Hengli Company has only provided a letter of guarantee to the bank undertaking to use the land use rights as a collateral to secure its loan. The re-registration of the land use rights of the land and first registration of the buildings of the Pig Farm in the name of the PRC JV cannot be completed without the consent of the bank. The Company has been trying to pursue the re-registration of the legal title of the land and first registration of the buildings of the Pig Farm since the entering into the Cessation Agreements but the re-registration has not been successful. The Directors believe that Dongguan Foodstuffs breached the JV Agreement and the PRC JV, the only plaintiff, is taking legal action against Dongguan Foodstuffs. The Company's PRC lawyer opines that according to the Cessation Arrangement, HK Jin Huang and PRC JV can lease out the land and buildings of the Pig Farm. Depending upon the court judgment, the bank may or may not be entitled to the rental income from the leasing of land and building. For prudent sake, rental income will not be recognized as income of the PRC JV pending the outcome of the litigation.

Nevertheless, the Directors believe, as the Group had already made a full provision of HK\$52 million for this investment during the two financial years ended 31st December, 2000 and the land use rights of approximately RMB 22.19 million of two pieces of land which Dongguan Foodstuffs agreed to contribute to the PRC JV was fully written off for the year ended 31st December, 2001, there would not be any material financial impact even if the re-registration of the legal title of the land and first registration of the buildings of the Pig Farm could not be completed eventually. PRC JV sold part of its current assets including pigs, vaccines, office equipments and feeds for operating the Pig Farm and leased the land and buildings in May 2003 to a PRC individual person who is not connected with any of the directors, chief executive and substantial shareholders of the Company and its subsidiaries and any of their respective associates as defined under the Listing Rules. The sale of current assets and leasing of the land and buildings is a commercial decision made by the PRC JV. The PRC JV considered that leasing out the land and buildings should be more profitable than self-operating the Pig Farm. The only business of PRC JV now is the leasing of the land and buildings in the Pig Farm.

The Directors believe that the addition of the HK\$1.00 consideration in BVI Jin Huang would explicitly conform the Cessation Agreements with the legal formalities of creating a binding contract and the transfer of shareholdings in PRC JV and BVI Jin Huang was on normal commercial terms, as the value of the Cessation Agreements fall within the de-minimis thresholds of Rule 14.24(5) the Cessation Agreements are not subjected to any disclosure or shareholders approval requirement under the Listing Rules.

BREACH OF THE LISTING RULES

The setting up of the PRC JV and BVI Jin Huang constituted connected transactions of Guangnan and is required to be disclosed by way of an announcement. The aggregate value of such transactions exceeded the higher of HK\$10 million and 3.0% of the book value of the net tangible assets of the Group but independent Shareholders' approval had not been obtained prior to the entering into the transaction. As such, the Company has breached rule 14.26 of the Listing Rules. The breach of the Listing Rules was made by the previous management of Guangnan in 1997. Since 1997, there have been substantial changes in the Board and the management of the Company. The previous directors might have placed the Group's reorganization, which was completed in December 2000, on top priority and had not had the opportunity to discover the breach of the Listing Rules in 1997. As soon as the management of Guangnan discovered the breach of the JV Agreement in April 2001, inspection was made against the Company's records in relation thereto as well as the whole issue relating to the setting up of the PRC JV, the subsequent development of the PRC JV and the Cessation Arrangement. In view of the events that have transpired after the signing of the Cessation Agreements, the Directors consider it appropriate now to keep the Shareholders and the public informed of the matters. The existing Directors believe that the changes in the Board and the management of the Company coupled with high staff turnover have led to the delay in making the announcement of the breach in 1997. The existing management and the Board of the Company are cautious in complying with the Listing Rules and have taken certain actions, including the improvement of their internal control and reporting systems, alerting the management of the subsidiaries for strict compliance of disclosure requirement under the Listing Rules. Efforts have been made to promote better understanding and to heighten awareness among the subsidiaries and their management of the Listing Rules' requirements regarding notifiable transactions in general, and connected transactions in particular. These include issuing guidelines to and organising seminars for subsidiaries of the Company and their management on the subject by qualified experienced internal and external professionals, including legal, accounting and company secretarial professionals. The subsidiaries are required to lodge monthly reports to the Company on existing or contemplated connected transactions. Prior approval from the Company must be sought if the subsidiaries intend to enter into new notifiable transactions, to make new investment or to realize assets including transactions that may or may not have Listing Rules implications. The Directors, including the independent non-executive directors, believe that through the improvement in the internal control and reporting systems, future notifiable transactions or other transactions that have Listing Rules implications can be closely monitored. Whenever investment opportunity arises, the management and the Board of the Company will first consider and, if appropriate, seek professional advice as to whether it will constitute a notifiable transaction or other transactions that have Listing Rules implications in order to prevent any inadvertent breach of the Listing Rules in the future. The Stock Exchange reserves the right to take appropriate action as a result of the breach of the Listing Rules in 1997 by Guangnan.

DEFINITIONS

“JV Agreement”	Agreement made between HK Jin Huang and Dongguan Foodstuffs on 28th May, 1997 in relation to the establishment of a joint venture for the pig rearing and distribution of livestock in the PRC
“BVI Jin Huang”	金皇食品投資有限公司 (Jin Huang Food Industry Investment Limited), a company incorporated in the British Virgin Islands on 25th March, 1997, which is formerly held as to 75% and 25% by Guangnan and Dongguan Foodstuffs respectively, now a 100% owned subsidiary of Guangnan after the Cessation Arrangement
“Board”	The board of Directors
“Cessation Agreements”	Agreements made on 31st May, 2001 between HK Jin Huang and Dongguan Foodstuffs in relation to the transfer of 30% interest in the PRC JV and between the Company and Dongguan Foodstuffs in relation to the transfer of 25% interest in BVI Jin Huang
“Cessation Arrangement”	Arrangement made between HK Jin Huang and Dongguan Foodstuffs in relation to the cessation of co-operation in the PRC JV and between Guangnan and Dongguan Foodstuffs in relation to the cessation of co-operation in the BVI Jin Huang
“connected person(s)”	has the same meaning as ascribed in the Listing Rules
“Director(s)”	The director(s) of Guangnan
“Dongguan Foodstuffs”	廣東省東莞食品進出口公司 (Dongguan Foodstuffs Imp. & Exp. Co. of Guangdong), a substantial shareholder with a 49% interest in Dongguan Guangnan and with a 100% interest in Hengli Company
“Dongguan Guangnan”	Dongguan Guangnan Stock Development Co., Ltd., a 51% owned subsidiary of Guangnan
“Group”	Guangnan and its subsidiaries
“Guangnan” or “Company”	Guangnan (Holdings) Limited, a company incorporated in Hong Kong and whose Shares are listed on main board of Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hengli Company”	廣東省東莞食品進出口公司橫瀝豬場 (Hengli Pig Farm of Dongguan Foodstuffs Imp. & Exp. Co. of Guangdong), a wholly-owned subsidiary company of Dongguan Foodstuffs and the registered owner of the Pig Farm
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“HK Jin Huang”	金皇食品投資有限公司 (Jin Huang Food Industry Investment Ltd.), a company incorporated in Hong Kong on 30th December 1996, formerly a 100% owned subsidiary of the Company, which became a 100% owned subsidiary of BVI Jin Huang on 27th June, 1997

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Pig Farm”	橫瀝豬場, a pig farm occupying an area of 42,000 square meters and comprising both the land and buildings/structures, which is located at 東莞市橫瀝鎮田坑村 (Dongguan City Hengli Town Tiankeng Cun), in the PRC
“PRC”	The People’s Republic of China
“PRC JV”	東莞金皇食品有限公司 (Dongguan Jinhuang Food Co., Ltd.), an equity joint venture company established in the PRC by HK Jin Huang and Dongguan Foodstuffs, and subsequently became a wholly foreign owned enterprise of HK Jin Huang after the Cessation Arrangement
“Share(s)”	share(s) of HK\$0.10 each in the share capital of Guangnan
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board
Guangnan (Holdings) Limited
Liang Jiang
Chairman

Hong Kong, 1st September, 2003

Please also refer to the published version of this announcement in The Standard.