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粵海廣南(集團)有限公司

GDH GUANGNAN (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 01203)

DISCLOSEABLE TRANSACTION ACQUISITION OF THE TARGET COMPANY

SALE AND PURCHASE AGREEMENT

The Board is pleased to announce that on 30 September 2022 (after trading hours), the Purchaser (a direct wholly-owned subsidiary of the Company), the Vendor and the Guarantor entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company at an aggregate Consideration of HK\$50,000,000 (subject to adjustment, if any). The Consideration shall be satisfied in cash by the Purchaser upon Completion.

Upon the First Completion, the Target Company will be indirectly owned as to 70% by the Company and will become an indirect subsidiary of the Company. Upon the Second Completion, the Target Company will be indirectly owned as to 100% by the Company and will become an indirect wholly-owned subsidiary of the Company. The financial statements of the Target Company will be consolidated into the financial statements of the Company.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements but are exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Completion is subject to fulfillment or waiver (as the case may be) of the Conditions Precedent set out in the Sale and Purchase Agreement and therefore the Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that on 30 September 2022 (after trading hours), the Purchaser (a direct wholly-owned subsidiary of the Company), the Vendor and the Guarantor entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company at an aggregate Consideration of HK\$50,000,000 (subject to adjustment, if any). The Consideration shall be satisfied in cash by the Purchaser upon Completion.

SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are set out below:

Date:

30 September 2022

Parties:

- (1) the Purchaser, a direct wholly-owned subsidiary of the Company;
- (2) the Vendor, an Independent Third Party; and
- (3) the Guarantor, an Independent Third Party.

Assets to be acquired of

Pursuant to the Sale and Purchase Agreement, the Vendor as legal and beneficial owner has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company, subject to the terms and conditions set out in the Sale and Purchase Agreement.

Consideration

The total Consideration payable for the sale and purchase of the Sale Shares is HK\$50,000,000 (subject to adjustment, if any), of which HK\$35,000,000 being the Consideration I and HK\$15,000,000 being the Consideration II.

The Consideration will be settled by the Purchaser in cash in the following manner: -

- (a) a refundable Deposit of HK\$5,000,000, being part of the Consideration I payable upon signing of the Sale and Purchase Agreement;
- (b) HK\$30,000,000 (subject to adjustment, if any), being the balance of the Consideration I payable upon the First Completion; and
- (c) HK\$15,000,000, being the Consideration II payable upon the Second Completion.

The Consideration will be satisfied in cash from the internal resources of the Group.

Pursuant to the Sale and Purchase Agreement, if the net asset value of the Target Company as shown in the Completion Account is less than HK\$17,500,000, the shortfall amount shall be deducted from the Consideration I on a dollar-for-dollar basis. For the avoidance of doubt, if the net asset value of the Target Company as shown in the Completion Account exceeds HK\$17,500,000, the amount of the Consideration I shall remain unchanged.

The Consideration was agreed after arm's length negotiations among the parties to the Sale and Purchase Agreement on normal commercial terms taking into account, among others: (a) the valuation of the Target Company of approximately HK\$63,535,000 as at 31 May 2022 as shown in the valuation report prepared by an independent valuer appointed by the Purchaser based on market approach; (b) the Guaranteed Profit of HK\$23,000,000 for the Guaranteed Period provided by the Vendor and the Guarantor; (c) the right which may be exercised by the Purchaser to require the Vendor to repurchase the Sale Shares I in the event that the Target Company fails to meet the agreed Guaranteed Profit; and (d) the reasons set out in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" below.

Conditions precedent

Conditions Precedent I

Completion of the sale and purchase of the Sale Shares I is conditional upon the satisfaction or waiver (if applicable) of the following Conditions Precedent I: -

- (a) the Vendor having caused the Target Company to complete capitalisation of the outstanding balances due to the Guarantor under its current account provided, however, that the Vendor shall remain the sole shareholder of the Target Company after completion of the capitalisation;
- (b) the representations, warranties and undertakings given by the Vendor under the Sale and Purchase Agreement shall be true, accurate and complete in all respects on and as of the First Completion Date by reference to the facts and circumstances subsisting as at the First Completion Date;
- (c) there shall have been no material adverse change in and there shall not have occurred any events which materially and adversely affect the business, prospects, operations or position, financial or otherwise, of the Target Company since the date of the Sale and Purchase Agreement;
- (d) any and all authorizations, approvals, consents or permits of any competent authority (including but not limited to the Stock Exchange) or of any third party that are required to be obtained before the First Completion Date in connection with the transactions contemplated by the Sale and Purchase Agreement shall have been duly obtained;
- (e) the Target Company having obtained all the licences necessary for its business and operation and such licences are still valid and effective as at the First Completion Date; and

(f) the Completion Accounts having been completed.

If all the Conditions Precedent I have not been satisfied or waived (other than the condition precedent set out in paragraph (d) which cannot be waived) on or before the First Long Stop Date, the Sale and Purchase Agreement shall cease to be effective thereafter and the Vendor shall forthwith refund the Deposit (without interest) to the Purchaser and neither party shall have any obligations and liabilities towards each other under the Sale and Purchase Agreement save for any antecedent breaches of the terms thereof.

As at the date of this announcement, none of the Condition Precedent I has been satisfied.

Conditions Precedent II

Completion of the sale and purchase of the Sale Shares II is conditional upon the satisfaction or waiver (if applicable) of the following Conditions Precedent II: -

- (a) the Guaranteed Profit having been met as shown in the audited financial statements of the Target Company for the Guaranteed Period to be prepared by the auditors appointed by the Purchaser in accordance with HKFRSs;
- (b) there shall have been no material adverse change in and there shall not have occurred any events which materially and adversely affect the business, prospects, operations or position, financial or otherwise, of the Target Company since the First Completion; and
- (c) the Target Company having obtained all the licences necessary for its business and operation and such licences are still valid and effective as at the Second Completion Date.

If all the Conditions Precedent II have not been satisfied or waived on or before the Second Long Stop Date, the Sale and Purchase Agreement shall cease to be effective thereafter and neither party shall have any obligations and liabilities towards each other under the Sale and Purchase Agreement save for any antecedent breaches of the terms thereof.

As at the date of this announcement, none of the Condition Precedent II has been satisfied.

Profit Guarantee

The Vendor and the Guarantor, jointly and severally, irrevocably and unconditionally warrant and guarantee to the Purchaser that the profit before tax and deduction of employee bonuses of the Target Company during the period of three years after the First Completion Date (the “**Guaranteed Period**”) as shown in its audited financial statements for the Guaranteed Period to be prepared by the auditors appointed by the Purchaser in accordance with HKFRSs shall not in aggregate be less than HK\$23,000,000 (the “**Guaranteed Profit**”).

The amount of the Guaranteed Profit was determined after arm’s length negotiations between the Purchaser and the Vendor with reference to, among other things, (a) the prospects and development potential of the Target Company; and (b) the current economic environment.

If the Guaranteed Profit cannot be met, the Purchaser shall have the right to demand, and the Vendor shall repurchase all the Sale Shares I at the purchase price of HK\$35,000,000, subject to compliance with all regulatory requirements. The Purchaser is entitled to exercise such right within one month after the expiry of the Guaranteed Period unless the Purchaser has unreasonably interfered with the Guarantor's decision-making on the Target company in its daily business operations (except for major matters involving appointment and dismissal of senior personnel, project investment, and use of large sum of money) during the Guaranteed Period. The Purchaser may exercise such right by serving the Vendor with a notice in writing setting out: (a) the purchase price; (b) the date of completion of the repurchase of the Sale Shares I; and (c) the place where completion of the repurchase of the Sale Shares I takes place.

If the Purchaser does not exercise its right to demand the Vendor to repurchase all the Sale Shares I within one month after the expiry of the Guaranteed Period, the Vendor shall have the right to demand, and the Purchaser shall sell to the Vendor all the Sale Shares I at the purchase price of HK\$35,000,000, subject to compliance with all regulatory requirements..

Completion

The First Completion shall take place on the First Completion Date or such later date as may be agreed in writing between the Purchaser and the Vendor.

Upon the First Completion, the Target Company will be indirectly owned as to 70% by the Company and as to 30% by the Vendor. The Target Company will become an indirect subsidiary of the Company. The financial statements of the Target Company will be consolidated into the financial statements of the Company.

The Vendor will nominate the Guarantor in place of himself as a director of the Target Company and the Purchaser shall have the right to appoint and nominate two individuals to act as directors of the Target Company upon the First Completion.

The Second Completion shall take place on the Second Completion Date or such later date as may be agreed in writing between the Purchaser and the Vendor. The Second Completion may take place before the Second Long Stop Date if the Guaranteed Profit has been met.

Upon the Second Completion, the Target Company will be indirectly owned as to 100% by the Company. The Target Company will become an indirect wholly-owned subsidiary of the Company. The financial statements of the Target Company will be consolidated into the financial statements of the Company.

INFORMATION ON THE GROUP

The Group is principally engaged in the distribution and trading of fresh and live foodstuffs and provision of slaughtering service, manufacturing and sales of tinplate products and property leasing.

INFORMATION ON THE PURCHASER

The Purchaser is a wholly-owned subsidiary of the Company and is principally engaged in distribution and sales of fresh and live foodstuffs and foodstuffs trading.

INFORMATION ON THE VENDOR AND GUARANTOR

The Vendor is the sole shareholder and director of the Target Company.

The Guarantor is the father of the Vendor and the founder of the Target Company.

The Guarantor irrevocably and unconditionally guarantees to the Purchaser the due performance by the Vendor of all his obligations under the Sale and Purchase Agreement and undertakes to indemnify the Purchaser immediately on demand against all costs, losses or liabilities suffered by the Purchaser as a result of the Vendor's willful acts or omissions or breach of any of his obligations under the Sale and Purchase Agreement.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Vendor and the Guarantor is an Independent Third Party.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in Hong Kong since 1996 and is legally and beneficially owned by the Vendor as at the date of this announcement. The Target Company had completed restructuring on 1 April 2022, whereby the 4 retail stores operated under the business names of "BRILLIANT FOOD" and "BRILLIANT FOOD SUPERMARKET" and the wholesale business operated by the Guarantor under his sole proprietorship, one cold storage and a food processing plant of about 6,000 square feet and frozen meat wholesale business (collectively the "**Transferred Business**") were transferred to the Target Company (the "**Restructuring**"). After completion of the Restructuring, the Target Company is primarily engaged in wholesale and retail sales of fresh and frozen food in Hong Kong under the business names of "BRILLIANT FOOD" and "BRILLIANT FOOD SUPERMARKET". Prior to the Restructuring, the Target Company is primarily engaged in providing management services and leasing services.

The financial information of the Target Company for the two financial years ended 31 March 2022 and 31 March 2021 based on the audited financial statements of the Target Company prepared in accordance with the HKSME-FRS prior to the Restructuring are set out below:

	Year ended 31 March 2022 (HKD)	Year ended 31 March 2021 (HKD)
Revenue	415,000	3,978,000
Net profit / (loss) before tax	(168,000)	2,171,000
Net profit / (loss) after tax	(168,000)	1,949,000

The net asset value of the Target Company as at 31 March 2022 based on the audited financial statements of the Target Company prepared in accordance with the HKSME-FRS prior to the Restructuring was approximately HK\$1,928,000.

The sum of the revenue, net profit before tax and net profit after tax of the Target Company and the Transferred Business for the two financial years ended 31 March 2022 and 31 March 2021 are set out below:

	Year ended 31 March 2022 (HKD)	Year ended 31 March 2021 (HKD)
Revenue	115,541,000	119,396,000
Net profit before tax	12,371,000	8,929,000
Net profit after tax	10,840,000	8,006,000

The unaudited sum of net asset value of the Target Company and the Transferred Business as at 31 March 2022 was approximately HK\$17,748,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the distribution and trading of fresh and live foodstuffs and provision of slaughtering service, manufacturing and sales of tinsplate products and property leasing. Upon the First Completion, the Target Company will become an indirect subsidiary of the Company. The Board considers that the Acquisition represents a strategic deployment of the Group in food business sector and provides an opportunity for the Purchaser to expand its existing business from distribution and sales of fresh and live foodstuffs to comprehensive food retail and wholesale business. The Acquisition will also provide an opportunity for the Group to own self-operated retail stores which will create synergies with its existing food trading business and provide a better operational blueprint and business model for its market-oriented operations.

Having considered the above, the Directors, including the independent non-executive Directors, therefore consider that the Acquisition is conducted through arm's length negotiation between the parties on normal commercial terms, and the terms of the Sale and Purchase Agreement are fair and reasonable, and the entering into of the Sale and Purchase Agreement is in the interests of the Company and the Shareholders as a whole.

No Director has any material interest in the Acquisition and was required to abstain from voting on the Directors' resolutions approving the Acquisition and the entering into of the Sale and Purchase Agreement by the Purchaser.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratio(s) calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction for the Company and is subject to the reporting and announcement requirements but are exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Completion is subject to fulfillment or waiver (as the case may be) of the Conditions Precedent set out in the Sale and Purchase Agreement and therefore the Acquisition may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Shares by the Purchaser from the Vendor under the Sale and Purchase Agreement;
“Board”	the board of Directors;
“Business Day”	a day (other than a Saturday, Sunday and public holiday in Hong Kong) on which licensed banks in Hong Kong generally are open for business;
“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 (stock code: 01203);
“Completion”	the First Completion and/or the Second Completion, as the case may be;
“Completion Accounts”	the unaudited financial statements of the Target Company made up to three (3) days prior to the First Completion Date prepared by the accountant appointed by the Vendor in accordance with the HKSME-FRS;
“Conditions Precedent”	the Conditions Precedent I and/or the Conditions Precedent II, as the case may be;
“Conditions Precedent I”	the conditions precedent to the First Completion;
“Conditions Precedent II”	the conditions precedent to the Second Completion;
“Consideration”	HK\$50,000,000 (subject to adjustment, if any), being the aggregate of Consideration I and Consideration II and total consideration payable by the Purchaser to the Vendor for the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement;
“Consideration I”	HK\$35,000,000 (subject to adjustment, if any), being the total consideration payable by the Purchaser to the Vendor for the sale and purchase of the Sale Shares I pursuant to the Sale and Purchase Agreement;

“Consideration II”	HK\$15,000,000, being the total consideration payable by the Purchaser to the Vendor for the sale and purchase of the Sale Shares II pursuant to the Sale and Purchase Agreement;
“Deposit”	a refundable deposit of HK\$5,000,000, being part of the Consideration I payable by the Purchaser to the Vendor upon signing of the Sale and Purchase Agreement;
“Director(s)”	the director(s) of the Company;
“First Completion”	completion of the sale and purchase of the Sale Shares I by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement;
“First Completion Date”	the fifth Business Days after satisfaction or waiver, if applicable, of the Conditions Precedent I to Completion as set out in the Sale and Purchase Agreement;
“First Long Stop Date”	10 October 2022 or such later date to be agreed between the Purchaser and the Vendor;
“Group”	the Company and its subsidiaries;
“Guaranteed Period”	has the meaning ascribed to it under the section headed “Profit Guarantee” in this announcement;
“Guaranteed Profit”	has the meaning ascribed to it under the section headed “Profit Guarantee” in this announcement;
“Guarantor”	Mr. Ngan Wai Yan, an Independent Third Party;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;
“HK SME-FRS”	Small and Medium-sized Entity Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants;
“Independent Third Party(ies)”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons in accordance with the Listing Rules;

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time;
“percentage ratios”	has the same meaning as ascribed to it under the Listing Rules;
“PRC”	the People’s Republic of China;
“Purchaser”	GDH Guangnan Hong Company Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong with limited liability;
“Restructuring”	has the meaning ascribed to it under the section headed “INFORMATION ON THE TARGET COMPANY” in this announcement;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 30 September 2022 entered into among the Vendor, the Purchaser and the Guarantor in relation to the sale and purchase of the Sale Shares;
“Sale Shares”	collectively the Sale Shares I and the Sale Shares II;
“Sale Shares I”	such number of shares representing 70% of the entire issued share capital of the Target Company held by the Vendor and to be acquired by the Purchaser under the Sale and Purchase Agreement;
“Sale Shares II”	such number of shares representing 30% of the entire issued share capital of the Target Company held by the Vendor and to be acquired by the Purchaser under the Sale and Purchase Agreement;
“Second Completion”	completion of the sale and purchase of the Sale Shares II by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement;
“Second Completion Date”	the fifth Business Days after satisfaction or waiver, if applicable, of the Conditions Precedent II to Completion as set out in the Sale and Purchase Agreement;
“Second Long Stop Date”	the date falling the third anniversary after the First Completion Date or such later date to be agreed between the Purchaser and the Vendor;
“Shareholders”	holders of the Shares;
“Shares”	shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Target Company”	BRILLIANT FOOD PRODUCTS LIMITED, a company incorporated in Hong Kong with limited liability and legally and beneficially owned by the Vendor as at the date of this announcement;
“Transferred Business”	has the meaning ascribed to it under the section headed “INFORMATION ON THE TARGET COMPANY” in this announcement;
“Vendor”	Mr. Ngan Yik Kuen, an Independent Third Party; and
“%”	per cent.

By order of the Board
GDH Guangnan (Holdings) Limited
Chen Benguang
Chairman

Hong Kong, 30 September 2022

As at the date of this announcement, the Board is composed of three Executive Directors, namely Mr. Chen Benguang, Mr. Yang Zhe and Mr. Chau Wang Kei; one Non-Executive Director, namely Mr. Wang Longhai; and three Independent Non-Executive Directors, namely Mr. Gerard Joseph McMahon, Mr. Li Kar Keung, Caspar and Dr. Wong Yau Kar, David.

In the case of any inconsistency, the English text of this announcement shall prevail over the Chinese text.