**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**



**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).

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**粵海廣南(集團)有限公司**

**GDH GUANGNAN (HOLDINGS) LIMITED**

*(Incorporated in the Hong Kong with limited liability)*

**(Stock Code: 01203)**

# MAJOR TRANSACTION

# ACQUISITION OF THE ENTIRE EQUITY INTEREST IN TARGET COMPANY

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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 7 to 25 of this circular.

The Company has obtained written approval for the Equity Transfer 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 Equity Transfer Agreement pursuant to Rule 14.44 of the Listing Rules. This circular is being despatched to the Shareholders for information only.

23 December 2022

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

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| "Acquisition" | the acquisition of the Equity Interest by the Purchaser from the Vendor pursuant to the terms and conditions of the Equity Transfer Agreement; |
| "Baojin Company" | 廣東省紫金縣寶金畜牧有限公司 (Guangdong Zijin Baojin Livestock Co., Ltd.*), a limited liability company established in the PRC; |
| "Board" | the board of Directors; |
| "CASs" | China Accounting Standards; |
| "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 VIII to this circular; |
| "Completion" | completion of the Acquisition in accordance with the terms and conditions of the Equity Transfer Agreement; |
| "Completion Date" | the date of the Completion; |
| "Conditions Precedent" | the conditions precedent to payment of the Consideration and Acquisition pursuant to the Equity Transfer Agreement; |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules; |
| "Consideration" | the consideration for the Acquisition, which is RMB186,120,000 (equivalent to approximately HK$202,592,000); |
| "Director(s)" | the director(s) of the Company; |
| "Enlarged Group" | the Group as enlarged by the proposed Acquisition immediately after Completion; |
| "Equity Interest" | the entire equity interest in the Target Company held by the Vendor as of the Latest Practicable Date and to be acquired by the Purchaser pursuant to the Equity Transfer Agreement; |

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| "Equity Transfer Agreement" | the equity transfer agreement dated 5 December 2022 entered into between the Purchaser as purchaser, the Vendor as vendor, the Target Company, Zhuhai Dezhirun, Zhuhai Kaibo, Ms. Yan and Mr. Ma in relation to the Acquisition; |
| "Financial Adviser" or "GF Capital" | GF Capital (Hong Kong) Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO; |
| "First Instalment" | has the meaning ascribed to it under the section headed "B. The Equity Transfer Agreement — Consideration and payment terms" in the Letter from the Board contained in this circular; |
| "GDH" | GDH Limited, a company incorporated in Hong Kong; |
| "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, a company incorporated in Hong Kong and a direct wholly-owned subsidiary of the Company; |
| "GDH Guangnan Hong Investment" | GDH Guangnan Hong Investment Company Limited, a limited company incorporated in Hong Kong and is indirectly wholly owned by the Company; |
| "Group" | the Company and its subsidiaries; |
| "Guangdong Foodstuffs" | 廣東省食品進出口集團有限公司 (Guangdong Foodstuffs Imp.& Exp. (Group) Corporation*), a wholly state-owned limited company established in the PRC; |
| "Guangdong Holdings" | 廣東粵海控股集團有限公司 (Guangdong Holdings Limited*), a company established in the PRC; |
| "Guangzhou Jiusheng" | 廣州市久盛農業科技有限公司 (Guangzhou Jiusheng Agricultural Technology Co., Ltd.*), a limited company established in the PRC; |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong; |
| "HKFRSs" | all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC; |

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| "Independent Third Party(ies)" | third party(ies) independent of and not connected with the Company or its connected persons (as defined in the Listing Rules); |
| "Latest Practicable Date" | 22 December 2022, 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; |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules; |
| "Mr. Ma" | Mr. Ma Xifeng (馬西峰先生); |
| "Mr. Ngan" | Mr. Ngan Yik Kuen (顏驛權先生); |
| "Ms. Yan" | Ms. Yan Dandan (顏丹丹女士); |
| "Nanhai Holding" | 廣東南海安全科技投資控股有限公司 Guangdong Nanhai Safety Technology Investment Holding Co., Ltd.* (formerly known as 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; |
| "POSCO" | POSCO Holdings Inc. (formerly known as POSCO Co., Ltd.), a company incorporated in Korea, the shares of which are listed and traded on the Korea Stock Exchange, the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange; |
| "POSCO-China" | 浦項(中國)投資有限公司 (POSCO-China Holding Corporation*), a company established in the PRC and a wholly-owned subsidiary of POSCO; |
| "PRC" | the People's Republic of China; |
| "Purchaser" | 廣東粵海廣南投資有限公司 (GDH Guangnan Investment Company Limited*), a company established in the PRC with limited liability and a direct wholly-owned subsidiary of the Company; |
| "Registration Procedures" | the relevant registration procedures with the relevant industrial and commercial registration authority in the PRC in respect of the transfer of the Equity Interest; |

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| "Reporting Accountants" or "KPMG" | KPMG, Certified Public Accountants, Hong Kong; |
| "Restructuring" | has the meaning ascribed to it under the section headed "E. Information on the Target Group — Zhuhai Dezhirun" in the Letter from the Board contained in this circular; |
| "RMB" | Renminbi, the lawful currency of the PRC; |
| "Second Instalment" | has the meaning ascribed to it under the section headed "B. The Equity Transfer Agreement — Consideration and payment terms" in the Letter from the Board contained in this circular; |
| "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 the Share(s); |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "subsidiary(ies)" | has the meaning ascribed thereto in the Listing Rules; |
| "Target Company" | 珠海粵廣豐投資有限公司 (Zhuhai Yue Guang Feng Investment Company Limited*), a company established in the PRC with limited liability, the entire equity interest of which was held by the Vendor as of the Latest Practicable Date; |
| "Target Group" | collectively, the Target Company, Zhuhai Dezhirun, Zhuhai Runhehe, Zhongshan Shenwan, Zhongzhu Agricultural, Zhongzhu Minyuan, Zhongzhu Lizhiyuan, Zhongzhu Lichang, Zhongzhu Xinrun, Zhongshan Muqing, Zhongzhu Yuexian and Zhuhai Ruziyuan; and each a "**Target Group Company**"; |
| "Valuation Report" | the valuation report dated 21 November 2022 prepared by the Valuer in the entire shareholders' equity interest of the Target Company; |
| "Valuer" or "Guangdong Caixing" | 廣東財興資產評估土地房地產估價有限公司 (GuangDong Caixing Assets & Real Estate Appraisal Co., Ltd.), an independent valuer appointed by the Company; |
| "Vendor" | 湖南夢雄運輸服務有限責任公司 (Hunan Mengxiong Transportation Service Company Limited*), a company established in the PRC with limited liability; |

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| "Working Day(s)" | a day other than Saturday, Sunday or a public holiday in the PRC; |
| "Zhongshan Muqing" | 中山市牧清食品有限公司 (Zhongshan Muqing Food Company Limited*), a company established in the PRC with limited liability; |
| "Zhongshan Shenwan" | 中山市神灣鎮龍發食品有限公司 (Zhongshan Shenwan Longfa Food Company Limited*), a company established in the PRC with limited liability; |
| "Zhongzhu Agricultural" | 珠海中珠農貿有限公司 (Zhuhai Zhongzhu Agricultural Trading Company Limited*), a company established in the PRC with limited liability; |
| "Zhongzhu Lichang" | 珠海中珠利昌食品有限公司 (Zhuhai Zhongzhu Lichang Food Company Limited*), a company established in the PRC with limited liability; |
| "Zhongzhu Lizhiyuan" | 珠海中珠利之源農產品有限公司 (Zhuhai Zhongzhu Lizhiyuan Agricultural Products Company Limited*), a company established in the PRC with limited liability; |
| "Zhongzhu Minyuan" | 珠海中珠民源食品有限公司 (Zhuhai Zhongzhu Minyuan Food Company Limited*), a company established in the PRC with limited liability; |
| "Zhongzhu Xinrun" | 珠海中珠鑫潤食品有限公司 (Zhuhai Zhongzhu Xinrun Food Company Limited*), a company established in the PRC with limited liability; |
| "Zhongzhu Yuexian" | 珠海中珠粵鮮食品有限公司 (Zhuhai Zhongzhu Yuexian Food Company Limited*), a company established in the PRC with limited liability; |
| "Zhuhai Bo Yuan Xin" | 珠海市博元鑫商貿有限公司 (Zhuhai Bo Yuan Xin Trading Company Limited*), a company established in the PRC with limited liability; |
| "Zhuhai Dezhirun" | 珠海德之潤實業有限公司 (Zhuhai Dezhirun Industrial Company Limited*), a company established in the PRC with limited liability; |
| "Zhuhai Dezhirun Group" | has the meaning ascribed to it under the section headed "E. Information on the Target Group — Restructuring" in the Letter from the Board contained in this circular; |

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| "Zhuhai Food" | 珠海市食品有限公司 (Zhuhai Food Company Limited*), a company established in the PRC with limited liability; |
| "Zhuhai Hongruiming" | 珠海虹瑞銘企業管理有限公司 (Zhuhai Hongruiming Enterprises Management Company Limited*), a company established in the PRC with limited liability; |
| "Zhuhai Kaibo" | 珠海市凱博農牧有限公司 (Zhuhai Kaibo Farming Company Limited*), a company established in the PRC with limited liability; |
| "Zhuhai Kaiqi" | 珠海凱奇農牧有限公司 (Zhuhai Kaiqi Farming Company Limited*), a company established in the PRC with limited liability; |
| "Zhuhai Runhehe" | 珠海市潤和合食品有限公司 (Zhuhai Runhehe Food Company Limited*), a company established in the PRC with limited liability; |
| "Zhuhai Ruziyuan" | 珠海市儒子源食品有限公司 (Zhuhai Ruziyuan Food Company Limited*), a company established in the PRC with limited liability; and |
| "%" | per cent. |

*For the purpose of this circular, unless otherwise indicated, the exchange rate of RMB1.00 = HK$1.0885 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.*

**粵海廣南(集團)有限公司**
**GDH GUANGNAN (HOLDINGS) LIMITED**
*(Incorporated in the Hong Kong with limited liability)*
**(Stock Code: 01203)**

*Board of Directors:*

*Executive Directors:*
CHEN Benguang *(Chairman)*
YANG Zhe *(General Manager)*
CHAU Wang Kei *(Chief Financial Officer)*

*Non-Executive Director:*
WANG Longhai

*Independent Non-Executive Directors:*
Gerard Joseph McMAHON
LI Kar Keung, Caspar
WONG Yau Kar, David

*Registered Office:*
Units 2905–08, 29th Floor
Shui On Centre
6–8 Harbour Road,
Wanchai
Hong Kong

23 December 2022

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION**

**ACQUISITION OF THE ENTIRE EQUITY INTERESTS IN TARGET COMPANY**

## A. INTRODUCTION

Reference is made to the announcement of the Company dated 5 December 2022 in relation to the Equity Transfer Agreement which disclosed that on 5 December 2022, the Purchaser (being a direct wholly-owned subsidiary of the Company) as purchaser entered into the Equity Transfer Agreement with the Vendor as vendor, the Target Company, Zhuhai Dezhirun, Zhuhai Kaibo, Ms. Yan and Mr. Ma, pursuant to which, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell the Equity Interest for a total consideration of RMB186,120,000 (equivalent to approximately HK$202,592,000) as more particularly set out below.

The purpose of this circular is to provide Shareholders with, *inter alia*, further details of the Equity Transfer Agreement.

## B. THE EQUITY TRANSFER AGREEMENT

**Date**

5 December 2022

**Parties**

(i) The Purchaser

(ii) The Vendor

(iii) Target Company

(iv) Zhuhai Dezhirun

(v) Zhuhai Kaibo

(vi) Ms. Yan; and

(vii) Mr. Ma

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Vendor, the Target Company, Zhuhai Dezhirun, Zhuhai Kaibo, Ms. Yan and Mr. Ma and its respective ultimate beneficial owners (if applicable) are Independent Third Parties.

**Asset to be acquired**

Pursuant to the Equity Transfer Agreement, the Purchaser has conditionally agreed to acquire the entire equity interest in the Target Company (being the Equity Interest) from the Vendor in accordance with the terms and conditions of the Equity Transfer Agreement. Please refer to the section headed "E. Information on the Target Group" in this Letter from the Board for details of the Target Group.

**Consideration and payment terms**

The Consideration for the Acquisition is RMB186,120,000 (equivalent to approximately HK$202,592,000).

The Consideration shall be paid by the Purchaser in cash from the Group's internal resources in the following manner:

(a) the first instalment in the amount of RMB55,836,000 (being 30% of the Consideration, the "**First Instalment**") shall be paid to a bank account designated by the Vendor after the Equity Transfer Agreement becoming effective and the fulfillment (or where applicable, waiver) of all Condition Precedents, and within five (5) Working Days after the provision of the relevant supporting documents and payment application by the Vendor and reviewed and confirmed by the Purchaser;

(b) the second instalment of the Consideration in the amount of RMB109,884,000 (being approximately 59% of the Consideration, the "**Second Instalment**") shall be paid to bank accounts designated by the Vendor within ten (10) Working Days from the date of the completion of the Registration Procedures; and

(c) the balance of the Consideration in the amount of RMB20,400,000 (being approximately 11% of the Consideration) shall be paid to a bank account designated by the Vendor within twenty (20) Working Days after the payment of the Second Instalment.

The net asset value of the Target Group attributable to the shareholder of the Target Company as at the Completion Date based on the consolidated completion accounts of the Target Group to be audited by the accountants appointed by the Purchaser in accordance with CASs and issued within twenty (20) days from the Completion Date shall be no less than an agreed amount of RMB83,500,000 (determined with reference to the net asset value of the Target Group attributable to the shareholder of the Target Company as at 31 October 2022 based on the audited consolidated accounts of the Target Group prepared in accordance with CASs). In the event of any shortfall, the Vendor shall make up such shortfall in cash to the Target Company within ten (10) days from the issue of such completion accounts.

**Basis of the Consideration**

The Consideration was agreed between the Vendor and the Purchaser after arm's length negotiations after considering various factors, including:

(i) the appraised value of the entire interest of the Target Company as at 31 October 2022 in the amount of RMB190,217,000 (equivalent to approximately HK$207,051,000) according to the Valuation Report;

(ii) the future business prospects of the Target Group, in particular, the construction of the new slaughterhouse in Doumen, Zhuhai, is expected to be completed in the second half year of 2023; and

(iii) other factors and benefits to the Group as more particularly set out in the section headed "F. Reasons for and benefits of the Acquisition" in this Letter from the Board below.

Taking into account that the Target Group will continue to run its existing business and the said new slaughterhouse, it is considered that the adoption of the appraised value of the entire interest of the Target Company in the Valuation Report as a basis for determining the Consideration (instead of its net asset value) is appropriate as it better reflects the intrinsic value of the Target Company.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

**Summary of the Valuation Report**

The Target Company was incorporated on 26 September 2022 which is principally engaged in investment holding with no cash generating activity incurred. The entire equity interest of the Target Company was valued by asset-based approach. The appraised value of the entire equity interest of the Target Company was RMB190,217,000 (equivalent to approximately HK$207,051,000) as at 31 October 2022 as per the Valuation Report.

As at the valuation date, the Target Company, directly or indirectly, held eleven (11) subsidiaries, among which, Zhuhai Runhehe, Zhongshan Shenwan, Zhongzhu Minyuan, Zhongshan Muqing, Zhongzhu Lizhiyuan, Zhongzhu Yuexian, Zhuhai Ruziyuan, Zhongzhu Lichang and Zhongzhu Xinrun were income generating companies and held by the Target Company as long-term equity investments. The appraised value of these subsidiaries was arrived by using income approach by the Valuer, through the use of the discounted cash flow method, given that the expected future return and expected profit period are predictable. As a result, such valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules. The principal assumptions are set out as follows:

**General assumptions**

1. All assets and liabilities in the valuation are based on the scope of the statement of financial position of the appraised entity, and the valuation is conducted based thereon.

2. The valuation does not consider the impact of possible additional costs and expenses that may be required under special trading methods on the appraised value, nor does it consider the impact of occasional natural forces and other force majeure on the appraised value.

3. The result of the valuation is based on the authenticity, accuracy, completeness, and objectivity of all documents provided by the Vendor.

4. Based on the assumptions and the purpose of the valuation, the prevailing market value methodology is used for the valuation. All price standards used in the valuation are valid price standards and valuation systems on the valuation date.

5. Transaction assumption: it is assumed that the appraised objects are in the transaction process and the Valuer conducts the valuation based on comparable market, such as the trading conditions of the appraised objects. The result of the valuation is the estimate of the most achievable transaction price of the appraised objects.

6. Open market assumption: it is assumed that the assets involved in the valuation target are being traded in the open market, the buyers and sellers are equal in the market with opportunities and time to acquire adequate market information, and transactions of both the buyers and sellers are carried out voluntarily, rationally and under non-mandatory conditions.

7. It is assumed that after the economic behaviour of the valuation purpose has been realised, the assets involved in the appraised objects would continue to be used in situ in accordance with their use and usage method at the valuation date.

**Special assumptions**

1. It is assumed that there will be no significant changes in the industry and region in which the appraised entity operates and social and economic environment in the PRC, and there will be no significant changes in the prevailing national laws, regulations and social, political and economic policies.

2. Enterprise ongoing concern assumption: firstly, it is assumed that the appraised assets are being used, which includes assets being used and reserved assets; secondly, based on relevant data and information, it is assumed that the assets being used will continuously be used. The assumption of sustainable use explains what market conditions or environment the appraised assets are subject to, and explains the subsisting status of the assets. The principle of continuing to be used as existing usage is adopted for this valuation, which refers to the case when the appraised asset will continue to be used in accordance with the existing usage and form after the ownership is changed or asset business occurs.

3. The prevailing corporate income tax rate for appraised entity is 25% (the corporate income tax rate for certain subsidiaries is 15%). It is assumed that the interest rate, exchange rate, tax base and tax rate, and policy collection fees related to the appraised entity will not undergo major changes except for the known changes and fluctuations on the date of issuance of the report.

4. It is assumed that the operator of the appraised entity is responsible and the management has the capability to take on their duties and responsibilities.

5. It is assumed that the appraised entity fully complies with all the relevant prevailing laws and regulations.

6. It is assumed that there will be no other force majeure and unforeseeable factors that have a material adverse effect on the appraised entity.

7. It is assumed that the accounting policies to be adopted by the appraised entity in the future will be fundamentally consistent in all material aspects with those adopted at the valuation date.

8. Enterprise business model stability assumption, where the operating products and services of the enterprise basically remain unchanged, enables the enterprise to maintain similar business relationships with all major customers and suppliers in recent years, or the changes can be anticipated and may be realised.

9. It is assumed that the cash inflow of the appraised entity is the average inflow, and the cash outflow is the average outflow after the valuation date.

The Valuer is of the view that the assumptions above are present as at the valuation date based on the requirements of the income approach for valuation of partly long term equity investments of the Target Company and reached the conclusion of the valuation based on these assumptions. The result of the valuation will change significantly if there is material change in the future economic environment after the valuation date or if other assumptions become invalid.

**Review by Reporting Accountants and Financial Adviser**

The Reporting Accountants have been engaged to report on the calculation of the discounted cash flows used in the Valuation Report prepared by the Valuer. The Reporting Accountants have reported that so far as the calculations are concerned, the discounted cash flows have been properly compiled in all material aspects in accordance with the bases and assumptions as set out in the Valuation Report.

The Financial Adviser confirmed that the valuation of the entire equity interest of the Target Company in the Valuation Report, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, has been made after due and careful enquiry by the Directors.

The full text of the report issued by the Reporting Accountants in relation to the calculations of the discounted cash flows is set out in Appendix VI to this circular for the purpose under Rule 14.62(2) of the Listing Rules and the letter from the Financial Adviser in compliance with Rule 14.62(3) of the Listing Rules is set out in Appendix VII to this circular.

**Effectiveness of the Equity Transfer Agreement**

The Equity Transfer Agreement shall become effective upon the satisfaction of the following conditions:

(a) approval by the Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder having been obtained by the Company; and

(b) the clearance by the Stock Exchange of the circular of the Company in relation to the Acquisition.

**Conditions Precedent**

Pursuant to the Equity Transfer Agreement, the payment of the Consideration and Acquisition are conditional upon the fulfillment or, where applicable, waiver in writing by the Purchaser of the following Conditions Precedent:

(a) the Vendor or other related parties of the Target Group having confirmed the related current balance with the Target Group as at 31 October 2022;

(b) the audit of the financial statements of the Target Group having been completed by an auditor with relevant qualifications approved by the Purchaser;

(c) the legal, financial and business due diligence on the Target Group having been completed to the satisfaction of the Purchaser;

(d) each of the parties to the Equity Transfer Agreement having obtained approval of all internal decision-making procedures and other necessary approvals, permits, consents and filings (if any) from external parties (including without limitation, governmental authorities, creditors or other third parties) required for the execution of the Equity Transfer Agreement;

(e) within five (5) Working Days from the date of the Equity Transfer Agreement becoming effective, the Target Company and Zhuhai Dezhirun having provided the Purchaser with the original documents such as the directors' resolutions and shareholders' resolutions in relation to the Acquisition or corporate governance adjustments (as the case may be), amended articles of association or resolutions of such amendments and the register of shareholders of the Target Company made in accordance with the Equity Transfer Agreement, and the relevant documents and contents having been approved in writing by the Purchaser;

(f) the amended articles of association of Zhuhai Dezhirun, the updated register of shareholders and the application documents required for the Registration Procedures having been duly signed by the Purchaser, the Target Company, the Vendor, Zhuhai Dezhirun or other relevant parties;

(g) each of the Target Group and the Vendor having complied with the relevant laws, regulations, rules and other normative legal documents, and no investigations or penalties having been imposed on any of them by the competent authorities;

(h) except for the changes agreed in the Equity Transfer Agreement, according to the reasonable judgment of the Purchaser, there having been (i) no material adverse change on the asset structure and status of any Target Group Company; (ii) no events that may have a material adverse impact on the financial position, prospects, assets or obligations of any Target Group Company; (iii) no circumstances that may cause any Target Group Company to cease operation; (iv) no mortgages, pledges, seizes, freezes or any other encumbrances on or third-party claims against the equity interest in any Target Group Company; (v) no other material adverse change in the Target Group and the Vendor; and (vi) no other circumstances that have caused or may cause any material adverse impacts on the Acquisition;

(i) each of the Vendor, the Target Company, Zhuhai Dezhirun, Zhuhai Kaibo, Ms. Yan and Mr. Ma having complied with the obligations as set out in the Equity Transfer Agreement, and each of the representations and warranties under the Equity Transfer Agreement being true, complete and accurate in all material respects;

(j) as of any payment date under the Equity Transfer Agreement, there having been no act or proceeding by any governmental authority that restricts, restrains, prohibits, nullifies or otherwise prevents or seeks to prevent the completion of the Acquisition; and

(k) any other conditions as may be reasonably required by the Purchaser prior to any payment date.

The Vendor shall use its best endeavours to procure the fulfilment of all of the Conditions Precedent under the Equity Transfer Agreement within three months from the date of the Equity Transfer Agreement. The Vendor shall give written notice to Purchaser within five (5) days after the fulfillment of all Conditions Precedent under the Equity Transfer Agreement and shall at the same time provide the Purchaser with supporting documents evidencing that all such Conditions Precedent have been fulfilled.

As at the latest practicable date, Conditions Precedent under paragraphs (a) to (e) had been fulfilled.

**Completion**

Within five (5) Working Days from the date of payment of the First Instalment, the Vendor and the Target Company shall complete the Registration Procedures and provide to the Purchaser the notice of approval of registration issued by the relevant industrial and commercial registration authority in the PRC and the new business license of the Target Company. Completion shall occur on the date of completion of the Registration Procedures.

**Termination of the Equity Transfer Agreement**

The Equity Transfer Agreement shall be terminated if:

(a) the Vendor, the Target Company, Zhuhai Dezhirun, Zhuhai Kaibo, Ms. Yan or Mr. Ma violates any of the Conditions Precedent or if there is any material adverse change in the assets and liabilities, business operation or financial position of the Target Group prior to the Completion Date;

(b) agreed in writing by the parties to the Equity Transfer Agreement;

(c) the Equity Transfer Agreement cannot be performed due to force majeure;

(d) the non-defaulting party to the Equity Transfer Agreement terminates the Equity Transfer Agreement in accordance with the terms of the Equity Transfer Agreement when the other party(ies) to the Equity Transfer Agreement is/are in default;

(e) the Target Company, Zhuhai Dezhirun or any of the Target Group Companies is dissolved, declared bankrupt by the court, or has its business license revoked by the competent company registration authority or is otherwise disqualified from operating prior to the Completion Date;

(f) the Equity Transfer Agreement is determined to be invalid or rescinded by a court in accordance with law; or

(g) there are other reasons as provided for by other laws or regulations or in accordance with the terms of the Equity Transfer Agreement.

**Post-Completion undertaking**

The Vendor, Zhuhai Kaibo, Ms. Yan and Mr. Ma undertake that they shall procure and ensure Zhuhai Runhehe to obtain the qualification for fixed-point slaughtering of pigs, cattle and sheep, animal epidemic prevention conditions permit, food business license, sewage permit and all other qualifications and permits necessary for carrying out slaughtering and meat processing and related business within thirty (30) Working Days after the completion of examination of the new slaughterhouse of the Target Group to be constructed in Doumen, Zhuhai. In the event that the said permits and qualifications cannot be obtained within sixty (60) Working Days after the completion of the aforesaid examination, the Vendor and Ms. Yan shall pay an amount of RMB76,000,000 to the Purchaser within ten (10) Working Days, provided that if such qualifications are obtained within sixty (60) Working Days thereafter, the Purchaser shall return such amount (after deduction of the relevant costs and loss) without interest to the Vendor.

The financial funds for the construction of the new slaughterhouse of the Target Group in Doumen, Zhuhai after Completion shall be satisfied by shareholders' loan and/or third party financing. Subject to further negotiation between the shareholders of the Target Company after Completion, if further funding for the Target Group after Completion is required to be satisfied by shareholders' loan, it is intended that the Purchaser shall provide the shareholders' loan on a pro rata basis.

**Corporate Governance of Zhuhai Dezhirun**

Zhuhai Dezhirun shall have a board of directors comprising three (3) directors. The Target Company is entitled to appoint two (2) directors while Zhuhai Kaibo is entitled to appoint one (1) director. The chairman of the board of directors of Zhuhai Dezhirun shall be served by the director appointed by the Target Company. Zhuhai Dezhirun shall have one (1) general manager to be appointed by the Target Company and several deputy general managers, among which Zhuhai Kaibo is entitled to appoint one (1) deputy general manager while the Target Company is entitled to appoint the rest of the deputy general managers. The Target Company is also entitled to appoint the chief financial officer and other senior management of Zhuhai Dezhirun.

The Target Company is entitled to appoint two (2) supervisors of Zhuhai Dezhirun.

Resolutions passed at any meeting of the board of directors of Zhuhai Dezhirun shall be decided by a simple majority of votes, save that certain reserved matters concerning the increase or reduction of the registered capital of Zhuhai Dezhirun, amendments to the articles of association of Zhuhai Dezhirun, and merger, demerger, change of corporate form, dissolution or winding up of Zhuhai Dezhirun shall be passed by the vote of more than two-third (2/3) of the directors.

Resolutions passed at any general meeting of Zhuhai Dezhirun shall be decided by a simple majority of votes, save that certain reserved matters concerning the increase or reduction of the registered capital of Zhuhai Dezhirun, amendments to the articles of association of Zhuhai Dezhirun, and merger, demerger, change of corporate form or dissolution of Zhuhai Dezhirun shall be passed by the vote of more than two-third (2/3) of the shareholders.

**Share pledge over certain equity interest in Zhuhai Dezhirun**

Pursuant to the Equity Transfer Agreement and the respective equity pledge agreements dated 5 December 2022, each of Zhuhai Kaibo, Ms. Yan and Mr. Ma has agreed to pledge its respective equity interest in an aggregate of 34% in Zhuhai Dezhirun in favour of the Purchaser to secure the payment obligations of the Vendor, Zhuhai Kaibo, Ms. Yan and Mr. Ma under the Equity Transfer Agreement. The registration of the said equity pledges shall be completed within five (5) Working Days from the date of the Equity Transfer Agreement becoming effective.

## C. INFORMATION ON THE GROUP AND THE PURCHASER

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.

The Purchaser is a direct wholly-owned subsidiary of the Company and is principally engaged in investment holding.

## D. INFORMATION ON THE VENDOR AND OTHER PARTIES

The Company understands that the Vendor is a company established on 11 March 2020 in the PRC with limited liability and is principally engaged in general cargo transportation, warehousing services, logistics intermediary services, loading and unloading. The Company understands that as at the Latest Practicable Date, 60% and 40% of the equity interests in the Vendor were registered in the name of Wang Zhuokang and Zhang Pengju, respectively, and held on behalf of Ms. Yan as beneficial owner.

As at the Latest Practicable Date, the Target Company was the holding company of Zhuhai Dezhirun, which was the principal holding company in the Target Group. For details, please refer to the section headed "E. Information on the Target Group" in this Letter from the Board below.

Zhuhai Kaibo is a company established in the PRC with limited liability and is principally engaged in investment holding. It was the owner of approximately 17.33% equity interest in Zhuhai Dezhirun as at the Latest Practicable Date. The Company understands that, as at the Latest Practicable Date, the equity interest in Zhuhai Kaibo was owned as to 50% by Zhuhai Kaiqi and 50% by Zhuhai Bo Yuan Xin. Zhuhai Kaiqi was principally engaged in the retail and wholesale of agricultural products, poultry slaughtering and breeding, and feed production and sales and its equity interest was registered in the name of Guo Zimin and Fan Ting as to 70% and 30%, respectively, and held on behalf of Ms. Yan as beneficial owner. Zhuhai Bo Yuan Xin was principally engaged in acquisition of livestock and agricultural products, and retail and wholesale of food and its equity interest was registered in the name of Ling Juan and Fu Chenglin as to 60% and 40%, respectively, and held on behalf of Ms. Yan as beneficial owner.

Ms. Yan was the owner of approximately 11.67% equity interest in Zhuhai Dezhirun as at the Latest Practicable Date.

Mr. Ma was the registered owner of 5% equity interest in Zhuhai Dezhirun who held such equity interest on behalf of Ms. Yan as beneficial owner as at the Latest Practicable Date.

In summary, the equity interest in the Target Company and Zhuhai Kaibo, and the equity interest held by Mr. Ma in Zhuhai Dezhirun are all ultimately beneficially owned by Ms. Yan.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, each of the Vendor, Zhuhai Kaibo, Ms. Yan, Mr. Ma, Wang Zhuokang, Zhang Pengju, Zhuhai Kaiqi, Zhuhai Bo Yuan Xin, Guo Zimin, Fan Ting, Ling Juan and Fu Chenglin and its respective ultimate beneficial owners (if applicable) were Independent Third Parties.

## E. INFORMATION ON THE TARGET GROUP

### Target Company

The Target Company is a company established in the PRC with limited liability on 26 September 2022 with a registered capital of RMB55,000,000 and a paid-up capital of RMB39,600,000. As at the Latest Practicable Date, the entire equity interest in the Target Company was held by the Vendor. It is principally engaged in investment holding.

**Zhuhai Dezhirun**

Zhuhai Dezhirun is a company established in the PRC with limited liability on 26 November 2019. As at the Latest Practicable Date, Zhuhai Dezhirun was owned as to 66% by the Target Company while the remaining approximately 17.33%, approximately 11.67% and 5% equity interests in Zhuhai Dezhirun were held by Zhuhai Kaibo (on behalf of Ms. Yan), Ms. Yan and Mr. Ma (on behalf of Ms. Yan), respectively. It is principally engaged in investment holding and through its subsidiaries, engaged in slaughterhouse operation, food processing, cold chain logistics and food product sales mainly in Zhuhai and Zhongshan, the PRC.

Zhuhai Dezhirun and its subsidiaries (the "**Zhuhai Dezhirun Group**") has undergone certain restructuring (the "**Restructuring**") in October 2022 including rationalising its capital structure in preparation for the Acquisition. The Restructuring includes the following steps:

1. Zhuhai Runhehe sold approximately 98.18% equity interest in Zhuhai Food at the consideration of RMB227,000,000 to an Independent Third Party and received dividend distribution of RMB69,210,000 from Zhuhai Food.

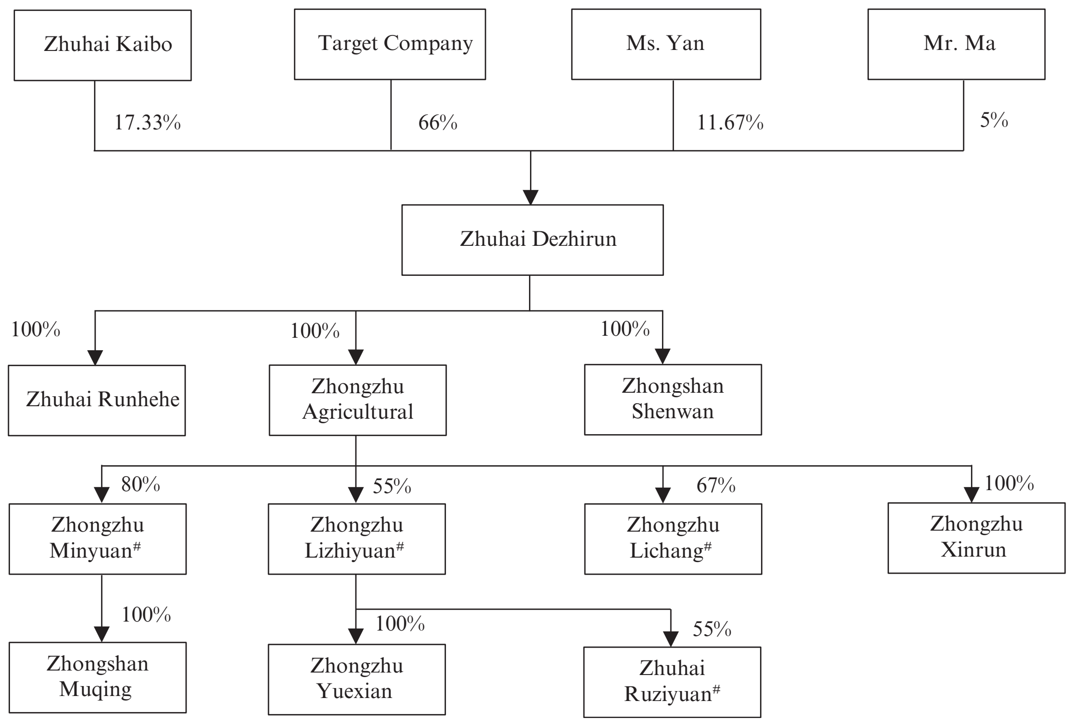
2. The Target Company subscribed for 66% of equity interest in Zhuhai Dezhirun at the consideration of RMB39,600,000 in October 2022, after which Zhuhai Dezhirun became a non-wholly owned subsidiary of the Target Company, and the remaining shareholders of Zhuhai Dezhirun injected capital in the aggregate amount of RMB20,400,000 into Zhuhai Dezhirun.

3. Zhuhai Dezhirun Group settled the debt in the amount of approximately RMB378,067,000 in order to scale down the debt level.

4. Zhuhai Dezhirun acquired 5% equity interest of Zhuhai Runhehe at the consideration of RMB5,000,000 from non-controlling shareholders of Zhuhai Runhehe (being Independent Third Parties), after which Zhuhai Runhehe became a wholly owned subsidiary of Zhuhai Dezhirun.

5. Zhongzhu Lizhiyuan sold 55% equity interest in 珠海潤悅食品有限公司(Zhuhai Runyue Food Co., Ltd.*) at the consideration of approximately RMB239,000 to an Independent Third Party.

The following diagram represents a simplified illustration of the corporate structure of the Target Group as at the Latest Practicable Date:




# *The remaining equity interests in such companies are held by Independent Third Party(ies).*

**Zhuhai Runhehe**

Zhuhai Runhehe is a company established in the PRC with limited liability. As at the Latest Practicable Date, Zhuhai Runhehe was a direct wholly-owned subsidiary of Zhuhai Dezhirun. It is principally engaged in the operation of a transfer station for live pigs supplied to Macau. It is contemplated that it will operate a new slaughterhouse in Doumen, Zhuhai which is currently under construction. Application for the slaughtering license will be made with no application cost after the expected completion of examination in the second half year of 2023. It is expected that the slaughtering license, when granted, will be for a permanent term.

**Zhongshan Shenwan**

Zhongshan Shenwan is a company established in the PRC with limited liability and was a direct wholly-owned subsidiary of Zhuhai Dezhirun as at the Latest Practicable Date. It is principally engaged in pig slaughtering, pigpen leasing, fresh meat wholesale counter leasing and plant and office building leasing. It operates a slaughterhouse possessing a permanent fixed-point slaughtering licence in Zhongshan (Southern Area).

**Zhongzhu Agricultural**

Zhongzhu Agricultural is a company established in the PRC with limited liability and was a direct wholly-owned subsidiary of Zhuhai Dezhirun as at the Latest Practicable Date. It is principally engaged in investment holding.

**Zhongzhu Minyuan**

Zhongzhu Minyuan is a company established in the PRC with limited liability. As at the Latest Practicable Date, Zhongzhu Minyuan was owned as to 80% and 20% respectively by Zhongzhu Agricultural and 珠海華川農產品有限公司 (Zhuhai Huachuan Agricultural Products Company Limited*) (an Independent Third Party), which in turn was owned by Peng Lihui and Peng Dongya (both being Independent Third Parties) as to 40% and 60%, respectively. Zhongzhu Minyuan is principally engaged in the wholesale of live pigs, pork sorting and distribution to supermarkets and self-operated stores, and provision of management service to the fresh meat wholesale center.

**Zhongzhu Lizhiyuan**

Zhongzhu Lizhiyuan is a company established in the PRC with limited liability. As at the Latest Practicable Date, Zhongzhu Lizhiyuan was owned as to 55% by Zhongzhu Agricultural while the aggregate of the remaining 45% equity interest in Zhongzhu Lizhiyuan is held by two Independent Third Parties, namely, 珠海利之人諮詢服務有限公司 (Zhuhai Lizhiren Consulting Service Company Limited*) (which in turn was owned by Zheng Lihua, Zhou Jun and Shen Jiao (all being Independent Third Parties) as to 57.15%, 14.27% and 28.58%, respectively) and 珠海市利源農畜產品有限公司 (Zhuhai Liyuan Agricultural and Livestock Products Company Limited*) (which in turn was owned by Wang Zhengci and Wang Haipeng (both being Independent Third Parties) as to 89% and 11%, respectively) as to 35% and 10%, respectively. Zhongzhu Lizhiyuan is principally engaged in the sales of beef and beef-related products.

**Zhongzhu Lichang**

Zhongzhu Lichang is a company established in the PRC with limited liability. As at the Latest Practicable Date, Zhongzhu Lichang was owned as to 67% and 33% respectively by Zhongzhu Agricultural and 珠海市仁德食品有限公司 (Zhuhai Rende Food Company Limited*) (an Independent Third Party), which in turn was owned by Huang Dongmei and Li Jian (both being Independent Third Parties) as to approximately 33.01% and approximately 20.00%, respectively, while the remaining approximately 46.99% was dispersedly owned by eleven (11) employees of the Target Group (all being Independent Third Parties). Zhongzhu Lichang is principally engaged in the operation of the online sales platform.

**Zhongzhu Xinrun**

Zhongzhu Xinrun is a company established in the PRC with limited liability and a direct wholly-owned subsidiary of Zhongzhu Agricultural as at the Latest Practicable Date. It is principally engaged in cold chain logistics transportation business.

**Zhongshan Muqing**

Zhongshan Muqing is a company established in the PRC with limited liability and was a direct wholly-owned subsidiary of Zhongzhu Minyuan as at the Latest Practicable Date. It is principally engaged in food production and operation, including, without limitation, modified atmosphere packaging of fresh meat.

**Zhongzhu Yuexian**

Zhongzhu Yuexian is a company established in the PRC with limited liability and was a direct wholly-owned subsidiary of Zhongzhu Lizhiyuan as at the Latest Practicable Date. It is principally engaged in beef sorting and sales.

**Zhuhai Ruziyuan**

Zhuhai Ruziyuan is a company established in the PRC with limited liability. As at the Latest Practicable Date, Zhuhai Ruziyuan was owned as to 55% and 45% respectively by Zhongzhu Lizhiyuan and 中山市儒子牛餐飲管理有限公司 (Zhongshan Ruziniu Catering Management Company Limited*) (an Independent Third Party), which in turn was owned by Chen Wenru and Zheng Xiaomin (both being Independent Third Parties) as to 85% and 15%, respectively. Zhuhai Ruziyuan is principally engaged in the production and sale of prefabricated dishes.

The shareholding of Zhuhai Dezhirun and its subsidiaries above shall remain the same upon Completion.

**Financial information of the Target Group**

Since the Target Company was established only on 26 September 2022, set out below is a summary of the combined financial information of the Target Group, which includes the principal subsidiaries (including Zhuhai Runhehe, Zhongzhu Agricultural and Zhongshan Shenwan) for the two financial years ended 31 December 2020 and 2021 prepared in accordance with HKFRSs as extracted from the accountants' report of the Target Group set forth in Appendix II of this circular.

| | **For the year ended 31 December** | |
|---|---|---|
| | **2020** | **2021** |
| | *RMB'000* | *RMB'000* |
| Profit/(loss) before taxation | 8,443 | (3,810) |
| Profit/(loss) after taxation | 7,993 | (2,613) |

The net asset value of the Target Group as at 30 June 2022 was approximately RMB12,771,000 on the basis of the combined financial information of the Target Group prepared in accordance with HKFRSs as extracted from the accountants' report of the Target Group set forth in Appendix II to this circular.

## F. REASONS 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, the manufacturing and sales of tinplate products and property leasing. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company. The Board considers that the Acquisition represents a strategic deployment of the Group in the slaughtering business by expanding its business map in Guangdong Province. The Acquisition would better facilitate the implementation of the strategies and grasping the development opportunities of the food processing industry in the Guangdong-Hong Kong-Macao Greater Bay Area for the following reasons:

### *1. Core values of Zhuhai Dezhirun*

The Zhuhai Dezhirun Group has been engaging in pig slaughtering and food processing business. The core values it possesses are beneficial to the Group's development in the upstream and downstream slaughtering businesses, namely, the resources, regional markets and sales network for implementing fixed-point slaughtering, a certain cluster scale of self-operated business; and the wholesale and retail centre in Zhuhai and Zhongshan, which will pave way for the future expansion of the incremental market in the new slaughterhouse in Doumen, Zhuhai.

### *2. Merits of fixed-point slaughtering license*

With continuous development of fixed-point slaughtering policy in China, fixed-point slaughtering licences have become scarce resources as only a limited number of licences would be issued in each city, and no slaughterhouse can be operated without such a licence under the relevant PRC laws and regulations. In the long run, the Group's position in the slaughtering industry will be strengthened with the ownership of more fixed-point slaughtering licenses in the cities of the Greater Bay Area. It is expected that through the Acquisition, the Group would obtain fixed-point slaughtering licenses for two cities, namely, Zhongshan (Southern Area), Zhuhai (Doumen) and, together with the license currently owned by the Group in Foshan (Nanhai), the Group would possess fixed-point slaughtering licenses in three cities in the Greater Bay Area.

### *3. Increase in market share of slaughtering business in western regions of the Greater Bay Area*

The Company believes that through the Acquisition, the Group would benefit from the expansion of market share in view of the enlarged business scale of the Group, with the Group's existing slaughterhouse in Foshan, and the acquisition of the Zhongshan slaughterhouse and the new slaughterhouse in Doumen, Zhuhai. By deploying its business in the western regions of the Greater Bay Area, it is expected that the Group would enhance its influence in this area with a relatively loyal customer base, which would also be conducive to stabilizing the Group's slaughtering business and increasing its market share in the industry.

The Board (including the independent non-executive Directors) considers that the terms and conditions of the Acquisition are fair and reasonable and the entering into of the Equity Transfer 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 Equity Transfer Agreement by the Purchaser.

## G. FINANCIAL EFFECTS OF THE ACQUISITION

As a result of the Acquisition, the Target Company will become a wholly-owned subsidiary of the Company, and its financial statements will be consolidated into the financial statements of the Group.

**Assets and Liabilities**

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, assuming the Acquisition had taken place at 30 June 2022, the Group's total assets would increase from approximately HK$4,245 million to approximately HK$4,412 million and total liabilities would increase from approximately HK$1,480 million to approximately HK$1,566 million, resulting in an overall increase in total consolidated net assets from approximately HK$2,765 million as at 30 June 2022 to approximately HK$2,847 million upon Completion.

**Earnings**

For the year ended 31 December 2021, the consolidated net profit of the Group was approximately HK$71.5 million. Upon the Completion, the results of the Target Group would be consolidated with the Company. As set out in the accountants' report of the Target Company for the six months ended 30 June 2022 in Appendix II to this circular, the Target Group recorded a net loss after tax of approximately RMB1.2 million. However, based on the prospect of the Target Group and after the completion of the construction of the slaughterhouse in Doumen, Zhuhai, the financial performance of the Target Group is expected to turn around. The Directors are of the opinion that the Acquisition will have a positive impact on the Enlarged Group's long-term financial performance.

***Gearing and liquidity***

As set out in this Letter from the Board, the Consideration is approximately RMB186.1 million (equivalent to approximately HK$202.6 million) will be settled by the internal resources of the Group. According to the Company's 2022 Interim Report, the Group's cash and cash equivalent is approximately HK$756.6 million as at 30 June 2022. It is expected that the Group's cash and cash equivalent would be reduced as a result of the Acquisition.

As set out in the unaudited pro forma financial information of the Enlarged Group in Appendix IV to this circular, the cash and cash equivalent of the Enlarged Group will be reduced from HK$756.6 million to HK$530.3 million. Accordingly, the Enlarged Group's net current assets would decrease from approximately HK$1,102.1 million to approximately HK$883.9 million. The current ratio (being current assets over current liabilities) would also drop from approximately 1.8 times to approximately 1.7 times. Overall, although the Enlarged Group's liquidity will be affected, its overall liquidity is expected to remain healthy.

Before the Acquisition, the Group's net cash (being pledged deposits and cash and cash equivalents less borrowings) was HK$397.2 million. Upon the Completion, after consolidating the financial position of the Target Group, the Group's net cash will be decreased to HK$162.0 million. As the Group is in a net cash position before and after the Acquisition, no gearing ratio is presented.

## H. LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the Acquisition exceeds 25% but all of them are less than 100%, the Acquisition constitutes a major transaction of the Company and is therefore subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Since no Shareholder is required to abstain from voting if the Company were to convene an extraordinary general meeting for the approval of the Equity Transfer Agreement and the transactions contemplated thereunder, and the Company has obtained a written approval for the Equity Transfer 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 Latest Practicable Date), an extraordinary general meeting of the Company to approve the Equity Transfer Agreement and the transactions contemplated thereunder is not required pursuant to Rule 14.44 of the Listing Rules and will not be convened.

## I. 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 2019, 31 December 2020 and 31 December 2021 respectively, and the unaudited consolidated financial information of the Group for the six months ended 30 June 2022, 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 2019 published on 23 April 2020 (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042301442.pdf) (pages 33 to 120);

— 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 32 to 117);

— the Company's annual report for the year ended 31 December 2021 published on 26 April 2022 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0426/2022042600583.pdf) (pages 33 to 119); and

— the Company's interim report for the six months ended 30 June 2022 published on 19 September 2022 (https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0919/2022091900929.pdf) (pages 10 to 36).

## 2. INDEBTEDNESS STATEMENT

As at the close of business on 31 October 2022, 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 Enlarged Group had total outstanding borrowings of approximately HK$1,089.4 million, comprising unsecured and unguaranteed bills payable of approximately HK$151.0 million, unsecured and unguaranteed bank loan of approximately HK$699.3 million, secured and unguaranteed bank loan of approximately HK$167.6 million, unsecured and guaranteed bank loan of approximately HK$4.4 million and unsecured and unguaranteed loan from a fellow subsidiary of the Company of approximately HK$67.1 million. The aforesaid secured bank loan were secured by the Enlarged Group's certain land and buildings with an aggregate book value amounting to approximately HK$395.0 million as at 31 October 2022.

As at 31 October 2022, the Enlarged Group had lease liabilities of approximately HK$12.8 million.

Save as disclosed above and apart from intra-group liabilities and normal trade and bills payables in the ordinary course of business, the Enlarged Group did not, at the close of business on 31 October 2022, 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 October 2022.

## 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 Enlarged Group, including the internally generated funds, cash flows from operation and currently available facilities, the Enlarged 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.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

## 4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The international environment was featured with increasing and severe uncertainties in 2022. With the unpredictable evolvement of crisis in Ukraine, the slowdown of worldwide economic growth caused by the frequent interest rate rises by the Federal Reserve and other unexpected factors such as the impact of reoccurrence of COVID-19 pandemic in China, Chinese economy encountered increasing stress on economic downturn. Against the backdrop of a host of uncertainties in both domestic and foreign economies as well as the recession risk of global economy, the Group will face some challenges in its operation.

As for the fresh and live foodstuffs business, the Group will, standing on a new development stage to implement new development philosophy, accelerate the optimisation and restructuring of its capital deployment to continuously improve the quality and efficiency of its capital resources allocation, in bid to strengthen, enhance and expand the fresh and live foodstuffs business. Moreover, the Group will further consolidate the development foundation of the wholesale and retail trade business and focus on grasping the development opportunities of modern agriculture. Focusing on the "vegetable basket" market in the Guangdong-Hong Kong-Macao Greater Bay Area, the Group will invest in the construction of an integrated industrial chain operation platform of "livestock and poultry breeding — slaughter and processing — cold chain distribution — fresh marketing", cultivate new profit growth points, establish a multi-level sales channel system, and explore new business models such as e-commerce and new retail, so as to achieve leapfrog development in the entire chain of fresh products. Guided by market demand and supported by scientific and technological innovation, the Group will accelerate the transformation of the development mode of the fresh and live foodstuffs industry, optimise the structural layout of the fresh and live foodstuffs industry and enhance the comprehensive production and service capabilities and core competitiveness of the fresh and live foodstuffs industry.

As for butchery and processing and cold chain logistics, the Group will develop the upstream breeding industry and downstream retail business. It will establish a platform for the whole agri-food industry chain and expand incremental business of modern agriculture and fresh and live food services, in an effort to continuously provide consumers with assured, high-quality and safe fresh or processed products. After the Acquisition, the Group can speed up the development of strategic layout of the Group's slaughtering business in the Greater Bay Area.

In respect of the tinplating business, the Group adheres to the customer-oriented, innovation-driven development strategy, continues to improve the core competitiveness of the Group's product quality, craftsmanship and technology, and builds itself into the most reliable tinplate supply chain service provider for customers. By understanding the operation of customers, expanding the development of new customers, and fully satisfying customer needs, the Group ensures the full utilisation of production capacity and further enhances corporate competitiveness. Adhering to the profit-oriented marketing strategy, the Group optimises product structures and strengthens the information exchange among marketing teams.

In the face of the ongoing COVID-19 pandemic, the downward pressure on the global economy, and the risks and challenges faced by the fresh and live foodstuffs and tinplating business, the Group will continue to strengthen risk prevention and control in business operations, adjust business strategies in a timely manner, and ensure the sustainable development of its business. Leveraging on its sound financial strategy and abundant cash flows, the Group will seize every development opportunity in the Guangdong-Hong Kong-Macao Greater Bay Area with an aim to enhance its scale of corporate revenue and profitability, thereby maximizing 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 2021, being the date to which the latest published audited consolidated financial statements of the Company were made up.

*The following is the text of a report set out on pages II-1 to II-58 received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.*

KPMG

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF ZHUHAI YUE GUANG FENG INVESTMENT COMPANY LIMITED TO THE DIRECTORS OF GDH GUANGNAN (HOLDINGS) LIMITED**

**Introduction**

We report on the historical financial information of Zhuhai Yue Guang Feng Investment Company Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-58, which comprises the combined statements of financial position of the Target Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 and the combined income statements and statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements, for the period from 26 November 2019 (date of incorporation) to 31 December 2019, each of the years ended 31 December 2020 and 2021 and the six months ended 30 June 2022 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-58 forms an integral part of this report, which has been prepared for inclusion in the circular of GDH Guangnan (Holdings) Limited (the "**Company**") dated 23 December 2022 (the "**Circular**") in connection with the proposed acquisition of the entire equity interest in the Target Company by a subsidiary of the Company.

**Directors' responsibility for Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Group as defined on page II-4, on which the Historical Financial Information is based, were prepared by the director of the Target Company. The director of the Target Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and for such internal control as the director of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2019, 2020 and 2021 and 30 June 2022 and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Review of stub period corresponding financial information**

We have reviewed the stub period corresponding financial information of the Target Group which comprises the combined income statement and statement of other comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months ended 30 June 2021 and other explanatory information (the "**Stub Period Corresponding Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

***Adjustments***

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

**KPMG**
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23 December 2022

## HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

## COMBINED INCOME STATEMENTS AND STATEMENTS OF COMPREHENSIVE INCOME

*(Expressed in Renminbi Yuan)*

| | | Period from 26 November (date of incorporation) to 31 December | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| **Revenue** | 4 | — | 325,140 | 431,167 | 195,863 | 185,607 |
| Cost of sales | | — | (306,906) | (417,019) | (190,040) | (174,559) |
| **Gross profit** | | — | 18,234 | 14,148 | 5,823 | 11,048 |
| Other revenue | 5 | 4 | 2,621 | 603 | 229 | 648 |
| Other net loss | 5 | — | (77) | (100) | — | (51) |
| Selling and distribution costs | | — | (6,801) | (9,001) | (4,117) | (5,160) |
| Administrative expenses | | (127) | (5,366) | (8,836) | (3,765) | (8,361) |
| **(Loss)/profit from operations** | | (123) | 8,611 | (3,186) | (1,830) | (1,876) |
| Finance costs | 6(a) | — | (168) | (624) | (298) | (547) |
| **(Loss)/profit before taxation** | 6 | (123) | 8,443 | (3,810) | (2,128) | (2,423) |
| Income tax | 7(a) | — | (450) | 1,197 | 711 | 1,240 |
| **(Loss)/profit and total comprehensive income for the year/period** | | (123) | 7,993 | (2,613) | (1,417) | (1,183) |
| **Attributable to:** | | | | | | |
| Equity shareholders of the Target Company | | (117) | 3,702 | (2,081) | (1,224) | (1,213) |
| Non-controlling interests ("**NCI**") | | (6) | 4,291 | (532) | (193) | 30 |
| | | (123) | 7,993 | (2,613) | (1,417) | (1,183) |

The accompanying notes form part of the Historical Financial Information.

## COMBINED STATEMENTS OF FINANCIAL POSITION

*(Expressed in Renminbi Yuan)*

| | | As at 31 December | | | As at 30 June |
|---|---|---|---|---|---|
| | | 2019 | 2020 | 2021 | 2022 |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 8 | — | 34,630 | 126,953 | 159,816 |
| Intangible assets | | — | 101 | 85 | 94 |
| Goodwill | 10 | — | 595 | 595 | 595 |
| Deferred tax assets | 12(c) | — | 619 | 1,913 | 3,224 |
| | | — | 35,945 | 129,546 | 163,729 |
| **Current assets** | | | | | |
| Inventories | 13 | — | 2,277 | 2,040 | 1,798 |
| Trade and other receivables, deposits and prepayments | 14 | 2,070 | 40,229 | 59,464 | 44,993 |
| Cash and cash equivalents | 15 | 20,037 | 5,875 | 3,806 | 9,431 |
| | | 22,107 | 48,381 | 65,310 | 56,222 |
| **Current liabilities** | | | | | |
| Trade and other payables | 16 | 17,230 | 62,184 | 160,292 | 185,566 |
| Borrowings | 17 | — | 570 | 2,208 | 5,000 |
| Lease liabilities | 18 | — | 250 | 593 | 636 |
| Current tax payable | 12(a) | — | 673 | 260 | 359 |
| | | 17,230 | 63,677 | 163,353 | 191,561 |
| **Net current assets/ (liabilities)** | | 4,877 | (15,296) | (98,043) | (135,339) |
| **Total assets less current liabilities** | | 4,877 | 20,649 | 31,503 | 28,390 |

The accompanying notes form part of the Historical Financial Information.

**COMBINED STATEMENTS OF FINANCIAL POSITION (Continued)**
*(Expressed in Renminbi Yuan)*

| | | As at 31 December | | | As at 30 June |
|---|---|---|---|---|---|
| | | 2019 | 2020 | 2021 | 2022 |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current liabilities** | | | | | |
| Borrowings | 17 | — | 208 | 3,750 | 3,250 |
| Lease liabilities | 18 | — | 366 | 1,650 | 1,468 |
| Deferred tax liabilities | 12(c) | — | — | 11,048 | 10,901 |
| | | — | 574 | 16,448 | 15,619 |
| **NET ASSETS** | | 4,877 | 20,075 | 15,055 | 12,771 |
| **CAPITAL AND RESERVES** | | | | | |
| Paid-in capital | 19(b) | — | — | — | — |
| Reserves | | (117) | 3,609 | 1,178 | (35) |
| **Total equity attributable to equity shareholders of the Target Company** | | (117) | 3,609 | 1,178 | (35) |
| **Non-controlling interests** | | 4,994 | 16,466 | 13,877 | 12,806 |
| **TOTAL EQUITY** | | 4,877 | 20,075 | 15,055 | 12,771 |

The accompanying notes form part of the Historical Financial Information.

## COMBINED STATEMENTS OF CHANGES IN EQUITY

*(Expressed in Renminbi Yuan)*

| | | Attributable to equity shareholders of the Target Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Paid-in capital | Statutory reserve | Other reserves | Accumulated losses | Total | Non-controlling interests | Total equity |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance at 26 November 2019** | | — | — | — | — | — | — | — |
| **Changes in equity:** | | | | | | | | |
| Loss for the period | | — | — | — | (117) | (117) | (6) | (123) |
| **Total comprehensive income** | | — | — | — | (117) | (117) | (6) | (123) |
| Capital injection from NCI | 19(d) | — | — | — | — | — | 5,000 | 5,000 |
| **Balance at 31 December 2019** | | — | — | — | (117) | (117) | 4,994 | 4,877 |

The accompanying notes form part of the Historical Financial Information.

## COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

*(Expressed in Renminbi Yuan)*

| | | Attributable to equity shareholders of the Target Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Note* | Paid-in capital *RMB'000* | Statutory reserve *RMB'000* | Other reserves *RMB'000* | (Accumulated losses)/ retained profits *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| **Balance at 1 January 2020** | | — | — | — | (117) | (117) | 4,994 | 4,877 |
| **Changes in equity:** | | | | | | | | |
| Profit for the year | | — | — | — | 3,702 | 3,702 | 4,291 | 7,993 |
| **Total comprehensive income** | | — | — | — | 3,702 | 3,702 | 4,291 | 7,993 |
| Acquisition of subsidiaries | 11 | — | — | — | — | — | 3,705 | 3,705 |
| Acquisition of NCI | | — | — | 24 | — | 24 | (24) | — |
| Capital injection from NCI | 19(d) | — | — | — | — | — | 4,500 | 4,500 |
| Dividends distributed to NCI | | — | — | — | — | — | (1,000) | (1,000) |
| Transfer to statutory reserves | 19(c)(i) | — | 947 | — | (947) | — | — | — |
| **Balance at 31 December 2020** | | — | 947 | 24 | 2,638 | 3,609 | 16,466 | 20,075 |

The accompanying notes form part of the Historical Financial Information.

## COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)

*(Expressed in Renminbi Yuan)*

| | | Attributable to equity shareholders of the Target Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Note* | Paid-in capital *RMB'000* | Statutory reserve *RMB'000* | Other reserves *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| **Balance at 1 January 2021** | | — | 947 | 24 | 2,638 | 3,609 | 16,466 | 20,075 |
| **Changes in equity:** | | | | | | | | |
| Loss for the year | | — | — | — | (2,081) | (2,081) | (532) | (2,613) |
| **Total comprehensive income** | | — | — | — | (2,081) | (2,081) | (532) | (2,613) |
| Acquisition of NCI | | — | — | (24) | (326) | (350) | (1,390) | (1,740) |
| Capital injection from NCI | 19(d) | — | — | — | — | — | 450 | 450 |
| Dividends distributed to NCI | | — | — | — | — | — | (1,117) | (1,117) |
| Transfer to statutory reserves | 19(c)(i) | — | 218 | — | (218) | — | — | — |
| **Balance at 31 December 2021** | | — | 1,165 | — | 13 | 1,178 | 13,877 | 15,055 |

The accompanying notes form part of the Historical Financial Information.

## COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)
*(Expressed in Renminbi Yuan)*

| (Unaudited) | Attributable to equity shareholders of the Target Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital *RMB'000* | Statutory reserve *RMB'000* | Other reserves *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| **Balance at 1 January 2021** | — | 947 | 24 | 2,638 | 3,609 | 16,466 | 20,075 |
| **Changes in equity:** | | | | | | | |
| Loss for the period | — | — | — | (1,224) | (1,224) | (193) | (1,417) |
| **Total comprehensive income** | — | — | — | (1,224) | (1,224) | (193) | (1,417) |
| **Balance at 30 June 2021** | — | 947 | 24 | 1,414 | 2,385 | 16,273 | 18,658 |

The accompanying notes form part of the Historical Financial Information.

## COMBINED STATEMENTS OF CHANGES IN EQUITY (Continued)
*(Expressed in Renminbi Yuan)*

| | Attributable to equity shareholders of the Target Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital *RMB'000* | Statutory reserve *RMB'000* | Other reserves *RMB'000* | Retained profits/ (accumulated losses) *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| **Balance at 1 January 2022** | — | 1,165 | — | 13 | 1,178 | 13,877 | 15,055 |
| **Changes in equity:** | | | | | | | |
| Loss for the period | — | — | — | (1,213) | (1,213) | 30 | (1,183) |
| **Total comprehensive income** | — | — | — | (1,213) | (1,213) | 30 | (1,183) |
| Dividends distributed to NCI | — | — | — | — | — | (1,101) | (1,101) |
| **Balance at 30 June 2022** | — | 1,165 | — | (1,200) | (35) | 12,806 | 12,771 |

The accompanying notes form part of the Historical Financial Information.

## COMBINED CASH FLOW STATEMENTS

*(Expressed in Renminbi Yuan)*

| | Note | Period from 26 November (date of incorporation) to 31 December 2019 RMB'000 | Year ended 31 December 2020 RMB'000 | Year ended 31 December 2021 RMB'000 | Six months ended 30 June 2021 RMB'000 (unaudited) | Six months ended 30 June 2022 RMB'000 |
|---|---|---|---|---|---|---|
| **Operating activities** | | | | | | |
| (Loss)/profit before taxation | | (123) | 8,443 | (3,810) | (2,128) | (2,423) |
| Adjustments for: | | | | | | |
| Depreciation of property, plant and equipment | 6(c) | — | 1,226 | 2,785 | 1,013 | 3,238 |
| Provision/(reversal) of impairment losses on trade and other receivables | 6(c) | — | — | 205 | 125 | (3) |
| Amortisation of intangible assets | 6(c) | — | 17 | 53 | 26 | 35 |
| Net loss on disposal of property, plant and equipment | 5 | — | 77 | 100 | — | 51 |
| Interest expense | 6(a) | — | 168 | 624 | 298 | 547 |
| **Operating profit/(loss) before changes in working capital** | | — | 9,931 | (43) | (666) | 1,445 |
| (Increase)/decrease in inventories | | — | (1,414) | 237 | (657) | 242 |
| (Increase)/decrease in trade and other receivables, deposits and prepayments | | (70) | (20,315) | (4,569) | 1,380 | 2,233 |
| Increase/(decrease) in trade and other payables | | 14 | 7,894 | 4,676 | (554) | 2,183 |
| **Cash (used in)/generated from operations** | | (179) | (3,904) | 301 | (497) | 6,103 |

The accompanying notes form part of the Historical Financial Information.

## COMBINED CASH FLOW STATEMENTS (Continued)

*(Expressed in Renminbi Yuan)*

| | Note | Period from 26 November (date of incorporation) to 31 December | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2019 | 2020 | 2021 | 2021 | 2022 |
| | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| **Cash (used in)/generated from operations** | | (179) | (3,904) | 301 | (497) | 6,103 |
| PRC income tax paid | | — | (48) | (506) | (491) | (119) |
| **Net cash (used in)/generated from operating activities** | | (179) | (3,952) | (205) | (988) | 5,984 |
| **Investing activities** | | | | | | |
| Net cash outflows arising from acquisition of subsidiaries | 11 | — | (615) | (39,649) | — | — |
| (Increase)/decrease in amount due from related parties and guarantee deposits paid for a related party | | (2,000) | 20,514 | (12,494) | (18,268) | 12,241 |
| Payment for the purchase of property, plant and equipment | | — | (32,671) | (7,615) | (176) | (8,061) |
| Payment for the purchase of intangible assets | | — | (118) | (37) | (34) | (44) |
| Proceeds from disposal of property, plant and equipment | | — | 71 | 54 | — | 73 |
| **Net cash (used in)/generated from investing activities** | | (2,000) | (12,819) | (59,741) | (18,478) | 4,209 |

The accompanying notes form part of the Historical Financial Information.

## COMBINED CASH FLOW STATEMENTS (Continued)

*(Expressed in Renminbi Yuan)*

| | Note | Period from 26 November (date of incorporation) to 31 December 2019 *RMB'000* | Year ended 31 December 2020 *RMB'000* | Year ended 31 December 2021 *RMB'000* | Six months ended 30 June 2021 *RMB'000* (unaudited) | Six months ended 30 June 2022 *RMB'000* |
|---|---|---|---|---|---|---|
| **Financing activities** | | | | | | |
| Capital element of lease rentals paid | 15(b) | — | (210) | (293) | (122) | (303) |
| Interest element of lease rentals paid | 15(b) | — | (37) | (73) | (16) | (66) |
| Proceeds from borrowings | 15(b) | — | — | 8,000 | 3,000 | 4,000 |
| Repayments of borrowings | 15(b) | — | (458) | (2,820) | (1,275) | (1,708) |
| Interests paid | 15(b) | — | (131) | (551) | (282) | (481) |
| Increase/(decrease) in amounts due to related parties | 15(b) | 17,216 | (55) | 54,281 | 17,772 | (4,909) |
| Distribution to NCI | | — | (1,000) | (1,117) | — | (1,101) |
| Capital injection from NCI | 19(d) | 5,000 | 4,500 | 450 | — | — |
| **Net cash generated from/(used in) financing activities** | | 22,216 | 2,609 | 57,877 | 19,077 | (4,568) |
| **Net increase/(decrease) in cash and cash equivalents** | | 20,037 | (14,162) | (2,069) | (389) | 5,625 |
| **Cash and cash equivalents at the beginning of the period/year** | | — | 20,037 | 5,875 | 5,875 | 3,806 |
| **Cash and cash equivalents at the end of the period/year** | 15(a) | 20,037 | 5,875 | 3,806 | 5,486 | 9,431 |

The accompanying notes form part of the Historical Financial Information.

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

*(Expressed in Renminbi Yuan unless otherwise indicated)*

### 1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Zhuhai Yue Guang Feng Investment Company Limited (the "**Target Company**") was established in the People's Republic of China (the "**PRC**") on 26 September 2022. The Target Company is an investment holding company. The Target Company and its subsidiaries (together, the "**Target Group**") are principally engaged in the distribution and trading of fresh and live foodstuffs in Zhuhai and Zhongshan, Guangdong Province the PRC, and operation of a slaughterhouse in Zhongshan (the "**Relevant Business**").

Pursuant to the equity transfer agreement (the "**Acquisition Agreement**") dated 5 December 2022, GDH Guangnan Investment Company Limited (the "**Purchaser**"), a direct wholly-owned subsidiary of GDH Guangnan (Holdings) Limited (the "**Company**"), agreed to conditionally acquire the entire issued share capital of the Target Company from Hunan Meng Xiong Transportation Service Company Limited (the "**Vendor**"), an independent third party from the Company, subject to the terms and conditions of the Acquisition Agreement.

Prior to the incorporation of the Target Company, the abovementioned Relevant Business were carried out through Zhuhai Dezhirun Industrial Company Limited ("**Zhuhai Dezhirun**"), a company established in the PRC on 26 November 2019, and its subsidiaries. To facilitate the Purchaser's proposed acquisition of the Target Company, the Target Group underwent a reorganisation (the "**Reorganisation**") as disclosed in the section headed "Letter from the Board — Information on the Target Group" in the Circular. Upon completion of the Reorganisation, Zhuhai Dezhirun became a 66% partially owned subsidiary of the Target Company and the Target Company became the holding company of the Target Group.

As Zhuhai Dezhirun was ultimately controlled by the owner of the Vendor before and after the Reorganisation and the Reorganisation only involved inserting a newly formed entity with no substantive operations as the new holding company of Zhuhai Dezhirun, there were no changes in the economic substance of the ownership and the business of the Target Group. As such, the Historical Financial Information has been prepared and presented as a continuation of the financial statements of Zhuhai Dezhirun with the assets and liabilities of Zhuhai Dezhirun recognised and measured at their historical carrying amounts prior to the Reorganisation.

During the Relevant Periods, an entity within the Target Group was engaged in operating a slaughterhouse in Zhuhai, which was delineated from the abovementioned Relevant Business (the "**Carve-Out Entity**"). Pursuant to the Acquisition Agreement, the Carve-Out Entity will not be acquired by the Company and it has been disposed on 27 October 2022 from the Target Group as part of the Reorganisation. The Carve-Out Entity has maintained separate management personnel and accounting records throughout the Relevant Periods. For the purpose of this report, the Historical Financial Information excludes the assets, liabilities and results of operations of the Carve-Out Entity whose business is, in the opinion of the directors of the Company, clearly delineated from the business of the Target Group to be acquired and whose assets, liabilities, revenues and expenditures are clearly identifiable.

Intra-group balances, transactions and unrealised gains/losses on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

As at the date of this report, no statutory financial statements have been prepared for the Target Company. The financial statements of the subsidiaries of the Target Group for which there are statutory requirements were prepared in accordance with the relevant rules and regulations applicable to entities in the relevant jurisdictions. The statutory auditor of all subsidiaries of the Target Group is Zhuhai Yeqin Limited Liability Partnership.

As of the date of this report, the Target Company had direct or indirect interests in the following subsidiaries, all of which are private companies:

| Name of subsidiary | Place of incorporation or establishment/ place of operations | Particulars of paid-in capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by | | Principal activities |
|---|---|---|---|---|---|
| | | | *held by the Target Company* | *held by a subsidiary* | |
| | | *RMB'000* | | | |
| 珠海德之潤實業有限公司 Zhuhai Dezhirun Industrial Company Limited ("**Zhuhai Dezhirun**")* | Zhuhai, the PRC | 0/10,000 | 66% | 0% | Investment holding |
| 珠海市潤和合食品有限公司 Zhuhai Runhehe Food Co., Ltd. ("**Zhuhai Runhehe**")* | Zhuhai, the PRC | 100,000/ 100,000 | 0% | 100% | Operation of a transfer station for live pigs |
| 中山市神灣鎮龍發食品有限公司 Zhongshan Shenwan Longfa Food Co., Ltd. ("**Zhongshan Shenwan**")* | Zhongshan, the PRC | 8,600/8,600 | 0% | 100% | Provision of slaughter business |
| 珠海中珠農貿有限公司 Zhuhai Zhongzhu Agricultural Trading Co., Ltd. ("**Zhongzhu Agricultural**")* | Zhuhai, the PRC | 5,000/5,000 | 0% | 100% | Investment holding |
| 珠海中珠利昌食品有限公司 Zhuhai Zhongzhu Lichang Food Co., Ltd. ("**Zhongzhu Lichang**")* | Zhuhai, the PRC | 1,000/1,000 | 0% | 67% | E-commerce |
| 珠海中珠鑫潤食品有限公司 Zhuhai Zhongzhu Xinrun Food Co., Ltd. ("**Zhongzhu Xinrun**")* | Zhuhai, the PRC | 10,000/10,000 | 0% | 100% | Logistics |
| 珠海中珠利之源農產品有限公司 Zhuhai Zhongzhu Lizhiyuan Agricultural Products Co., Ltd. ("**Zhongzhu Lizhiyuan**")* | Zhuhai, the PRC | 10,000/10,000 | 0% | 55% | Distribution and sales of fresh foodstuffs |
| 珠海中珠粵鮮食品有限公司 Zhuhai Zhongzhu Yuexian Food Co., Ltd. ("**Zhongzhu Yuexian**")* | Zhuhai, the PRC | 2,000/2,000 | 0% | 55% | Fresh foodstuff trading |
| 珠海市儒子源食品有限公司 Zhuhai Ruziyuan Food Co., Ltd.* | Zhuhai, the PRC | 1,000/1,000 | 0% | 55% | Manufacturing of delicatessen |
| 珠海中珠民源食品有限公司 Zhuhai Zhongzhu Minyuan Food Co., Ltd. ("**Zhongzhu Minyuan**")* | Zhuhai, the PRC | 10,000/10,000 | 0% | 80% | Distribution and sales of fresh and live foodstuffs |
| 中山市牧清食品有限公司 Zhongshan Muqing Food Co., Ltd.* | Zhongshan, the PRC | 2,000/2,000 | 0% | 80% | Distribution and sales of fresh foodstuffs |

* *The English translation of the companies' names is for reference only. The official names of these companies are in Chinese.*

Zhuhai Runyue Food Co., Ltd. ("**Zhuhai Runyue**"), which is principally engaged in trading of foodstuffs, was a subsidiary of Zhuhai Dezhirun until it was disposed in October 2022. As a result, the assets, liabilities and results of operations of Zhuhai Runyue have been combined in the Target Group's Historical Financial Information during the Relevant Periods.

All companies comprising the Target Group have adopted 31 December as their financial year end date.

As at 30 June 2022, the Target Group had net current liabilities of RMB135,339,000. In view of these circumstances, the director of the Target Company has given consideration to the future liquidity of the Target Group and its available sources of finance including banking facilities and shareholders' funding in assessing whether the Target Group will have sufficient financial resources to continue as a going concern. The Historical Financial Information has been prepared on a going concern basis, because the director of the Target Company is of the opinion that based on the Target Group's working capital forecast for the nineteen months ending 31 January 2024 prepared by the management, which considered the Target Group's future capital expenditure in respect of its non-cancellable capital commitments and the capital injection amounted to RMB60,000,000 from shareholders in October 2022, the Target Group would have adequate funds to meet its liabilities as and when they fall due for at least twelve months from 30 June 2022. Accordingly, the director of the Target Company consider it is appropriate to prepare the Historical Financial Information on a going concern basis.

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective terms includes all applicable individual HKFRSs, Hong Kong Accounting Standards and interpretations issued by the HKICPA. Further details of the significant accounting policies adopted are set out in Note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has consistently adopted all applicable new and revised HKFRSs that are effective during the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Periods. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in Note 24.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

The Historical Financial Information are presented in Renminbi ("**RMB**") rounded to the nearest thousand.

### (b) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

**(c) Basis of consolidation**

***(i) Business combinations***

The Target Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Target Group (see Note 2(c)(ii)).

In determining whether a particular set of activities and assets is a business, the Target Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs.

The Target Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 2(h)(ii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

***(ii) Subsidiaries and non-controlling interests***

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Company, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the combined statements of financial position within equity, separately from equity attributable to the equity shareholders of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the combined income statements and statements of other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year/period between non-controlling interests and the equity shareholders of the Target Company.

Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the combined statement of financial position in accordance with Notes 2(m) or 2(n) depending on the nature of the liability.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

**(d) Goodwill**

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Target Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(h)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(e) Property, plant and equipment**

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)):

— interests in leasehold land and buildings where the Target Group is the registered owner of the property interest (see Note 2(g));

— right-of-use assets arising from leases over leasehold properties where the Target Group is not the registered owner of the property interest; and

— items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(s)).

Construction in progress is stated at cost, which comprises construction expenditure, including interest costs on related borrowed funds, to the extent that they are regarded as an adjustment to interest costs during the construction period, and the cost of related equipment. Capitalisation of these costs ceases and the construction in progress is transferred to relevant categories of other property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the appropriate authorities. No depreciation is provided in respect of construction in progress.

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the buildings' estimated useful lives, being no more than 30 years after the date of completion.

| | | |
|---|---|---|
| — | Ownership interests in leasehold land held for own use and other properties leased for own use | Remaining term of lease |
| — | Leasehold improvements | Shorter of 3–5 years or remaining term of lease |
| — | Plant and machinery | 3–15 years |
| — | Motor vehicles | 3–10 years |
| — | Furniture, fixtures and equipment | 3 years |

Both the useful life of an asset and its residual value, if any, are reviewed annually.

**(f) Intangible assets (other than goodwill)**

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation and impairment losses (see Note 2(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | | |
|---|---|---|
| — | Computer software | 3 years |

Both the period and method of amortisation are reviewed annually.

**(g) Leased assets**

At inception of a contract, the Target Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

***As a lessee***

Where the contract contains lease component(s) and non-lease component(s), the Target Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Target Group enters into a lease in respect of a low-value asset, the Target Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(e) and 2(h)(ii).

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to financial assets measured at amortised cost (see Notes 2(r)(v) and 2(h)(i)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Target Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the combined statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

**(h) Credit losses and impairment of assets**

***(i) Credit losses from financial instruments***

The Target Group recognises a loss allowance for ECLs on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables, deposits and prepayments).

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables, deposits and prepayments: effective interest rate determined at initial recognition or an approximation thereof; and

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

In measuring ECLs, the Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

*Basis of calculation of interest income*

Interest income recognised in accordance with Note 2(r)(v) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

*Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

***(ii) Impairment of non-current assets***

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment, including right-of-use assets;

— intangible assets; and

— goodwill

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**(i) Inventories**

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(j) Contract liabilities**

A contract liability is recognised when the customer pays non-refundable consideration before the Target Group recognises the related revenue (see Note 2(r)).

**(k) Trade and other receivables, deposits and prepayments**

A receivable is recognised when the Target Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see Note 2(h)(i)).

**(l) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(h)(i).

**(m) Trade and other payables**

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

**(n) Borrowings**

Borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Target Group's accounting policy for borrowing costs (see Note 2(s)).

**(o) Employee benefits**

***(i) Short-term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

***(ii) Termination benefits***

Termination benefits are recognised at the earlier of when the Target Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

**(p) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- — in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- — in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - — the same taxable entity; or

  - — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

**(q) Provisions and contingent liabilities**

Provisions are recognised when the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

**(r) Revenue and other income**

Income is classified by the Target Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Target Group's assets under leases in the ordinary course of the Target Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Target Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax and is after deduction of any trade discounts.

Further details of the Target Group's revenue and other income recognition policies are as follows:

***(i) Sale of goods***

Revenue is recognised at a point in time when the customer takes possession of and accepts the products.

***(ii) Revenue from slaughtering business***

Revenue from slaughtering business is recognised over time when the relevant services are rendered.

***(iii) Management service income***

Management service income is recognised over time when the relevant services are rendered.

***(iv) Commission income***

Commission income is recognised over time when the relevant services are rendered.

***(v) Interest income***

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

*(vi) Government grants*

Government grants are recognised in the combined statements of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attached to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

**(s) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

**(t) Related parties**

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same Target Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Target Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in Note (a).

(vii) A person identified in Note (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

**Key source of estimation uncertainty**

The preparation of the Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The following is a summary of significant accounting judgements in applying the Target Group's accounting policies and sources of estimation uncertainty:

***(i) Impairments of assets***

In accordance with accounting policy as set out in Note 2(h)(ii), the Target Group reviews the carrying amounts of non-current assets at the end of each reporting period to determine whether there is objective evidence of impairment. When an indication of impairment is identified, management prepares discounted cash flow forecasts to assess the differences between the carrying amount and value in use or fair value less costs of disposal (if higher) and provides for any impairment losses. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease the provision for impairment losses and affect the net asset value of the Target Group.

An increase or decrease in the above impairment loss would affect the results of the Target Group in future years.

***(ii) Deferred tax assets***

Deferred tax assets in respect of tax losses carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the relevant assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting date. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

## 4 REVENUE

The principal activities of the Target Group are the sales of fresh and live foodstuffs and provision of slaughtering and other related services.

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

| | Period from 26 November (date of incorporation) to 31 December | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| ***Revenue from contracts with customers within the scope of HKFRS 15*** | | | | | |
| *Disaggregated by major products or service lines:* | | | | | |
| — Sales of foodstuffs | — | 318,340 | 421,374 | 192,098 | 176,275 |
| — Slaughtering service | — | — | 1,561 | — | 4,538 |
| — Management service | — | 6,511 | 7,206 | 3,357 | 3,536 |
| — Others | — | 289 | 1,026 | 408 | 1,258 |
| | — | 325,140 | 431,167 | 195,863 | 185,607 |
| ***Disaggregation of revenue from contracts with customers by timing of revenue recognition*** | | | | | |
| Point in time | — | 318,469 | 421,886 | 192,172 | 177,384 |
| Over time | — | 6,671 | 9,281 | 3,691 | 8,223 |
| Total | — | 325,140 | 431,167 | 195,863 | 185,607 |

## 5 OTHER REVENUE AND OTHER NET LOSS

| | Period from 26 November (date of incorporation) to 31 December | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| **Other revenue** | | | | | |
| Government grants *(i)* | — | 609 | 278 | 169 | 5 |
| Commission income | — | 1,100 | 69 | 34 | 290 |
| Interest income on bank deposits | 4 | 133 | 97 | 21 | 21 |
| Others | — | 779 | 159 | 5 | 332 |
| | 4 | 2,621 | 603 | 229 | 648 |

*Note:*

(i) Government grants represented unconditional cash awards granted by government authorities.

| | Period from 26 November (date of incorporation) to 31 December | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| **Other net loss** | | | | | |
| Net loss on disposal of property, plant and equipment | — | 77 | 100 | — | 51 |
| | — | 77 | 100 | — | 51 |

## 6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

| | Period from 26 November (date of incorporation) to 31 December 2019 | Year ended 31 December 2020 | Year ended 31 December 2021 | Six months ended 30 June 2021 | Six months ended 30 June 2022 |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| **(a) Finance costs** | | | | | |
| Interest on borrowings | — | 131 | 551 | 282 | 481 |
| Interest on lease liabilities *(Note 8(b))* | — | 37 | 73 | 16 | 66 |
| | — | 168 | 624 | 298 | 547 |
| **(b) Staff costs** | | | | | |
| Salaries, wages and other benefits | — | 9,790 | 12,732 | 5,761 | 10,291 |
| Contributions to defined contribution retirement plan | — | 98 | 1,618 | 737 | 1,325 |
| **(c) Other items** | | | | | |
| Cost of inventories sold | — | 302,402 | 410,673 | 187,370 | 168,887 |
| Auditors' remuneration | — | 49 | 10 | 10 | 53 |
| Depreciation | | | | | |
| — Owned property, plant and equipment | — | 900 | 1,668 | 576 | 2,297 |
| — Right-of-use assets | — | 326 | 1,117 | 437 | 941 |
| Amortisation of intangible assets | — | 17 | 53 | 26 | 35 |
| Provision/(reversal) of impairment losses on trade and other receivables | — | — | 205 | 125 | (3) |
| Expense relating to short-term leases *(Note 8(b))* | — | 1,171 | 1,005 | 459 | 578 |

The director believe the presentation of director's emolument and individual with highest emolument information is not meaningful for the purpose of this report.

## 7 INCOME TAX

### (a) Tax expenses represents:

| | Period from 26 November (date of incorporation) to 31 December 2019 RMB'000 | Year ended 31 December 2020 RMB'000 | Year ended 31 December 2021 RMB'000 | Six months ended 30 June 2021 RMB'000 (unaudited) | Six months ended 30 June 2022 RMB'000 |
|---|---|---|---|---|---|
| Current tax expense | | | | | |
| Current period/year | — | 721 | 93 | 75 | 218 |
| Deferred tax expense | | | | | |
| Origination of temporary differences *(Note 12(b))* | — | (271) | (1,290) | (786) | (1,458) |
| | — | 450 | (1,197) | (711) | (1,240) |

*Note:* Income tax in the PRC is calculated using the statutory tax rate of 25% that is expected to be applicable in the PRC, except for subsidiaries that are entitled to preferential tax rate as small enterprises.

### (b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

| | Period from 26 November (date of incorporation) to 31 December 2019 RMB'000 | Year ended 31 December 2020 RMB'000 | Year ended 31 December 2021 RMB'000 | Six months ended 30 June 2021 RMB'000 (unaudited) | Six months ended 30 June 2022 RMB'000 |
|---|---|---|---|---|---|
| **(Loss)/profit before taxation** | (123) | 8,443 | (3,810) | (2,128) | (2,423) |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable | (31) | 384 | (1,291) | (798) | (1,364) |
| Tax effect of non-deductible expenses | — | 37 | 94 | 79 | 89 |
| Effect of tax losses not recognised | 31 | 29 | — | 8 | 35 |
| | — | 450 | (1,197) | (711) | (1,240) |

## 8 PROPERTY, PLANT AND EQUIPMENT

### (a) Reconciliation of carrying amount

| | Ownership interests in leasehold land held for own use RMB'000 | Buildings held for own use RMB'000 | Other properties leased for own use RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Motor vehicles *(i)* RMB'000 | Furniture, fixtures and equipment RMB'000 | Construction in progress *(ii)* RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 26 November 2019, 31 December 2019 and 1 January 2020 | — | — | — | — | — | — | — | — | — |
| Additions | 31,732 | — | — | 243 | 696 | — | — | — | 32,671 |
| Acquisition through business combinations *(Note 11)* | — | — | 799 | — | 425 | 2,093 | 16 | — | 3,333 |
| Disposals | — | — | — | — | — | (204) | (3) | — | (207) |
| At 31 December 2020 | 31,732 | — | 799 | 243 | 1,121 | 1,889 | 13 | — | 35,797 |
| At 1 January 2021 | 31,732 | — | 799 | 243 | 1,121 | 1,889 | 13 | — | 35,797 |
| Additions | 3,000 | — | 1,813 | 1,077 | 1,890 | 42 | 152 | 1,454 | 9,428 |
| Acquisition through business combinations *(Note 11)* | 18,766 | 58,764 | 107 | 200 | 5,229 | 158 | 307 | 2,303 | 85,834 |
| Disposals | — | — | — | — | — | (158) | — | — | (158) |
| At 31 December 2021 | 53,498 | 58,764 | 2,719 | 1,520 | 8,240 | 1,931 | 472 | 3,757 | 130,901 |
| At 1 January 2022 | 53,498 | 58,764 | 2,719 | 1,520 | 8,240 | 1,931 | 472 | 3,757 | 130,901 |
| Additions | — | — | 164 | 88 | 213 | — | 51 | 35,709 | 36,225 |
| Transfer in from construction in progress | — | — | — | — | 2,302 | — | — | (2,302) | — |
| Disposals | — | — | — | — | (204) | (207) | (7) | — | (418) |
| At 30 June 2022 | 53,498 | 58,764 | 2,883 | 1,608 | 10,551 | 1,724 | 516 | 37,164 | 166,708 |

*Note:*

(i) As at 31 December 2020 and 31 December 2021, the aggregated net book value of motor vehicles pledged to secure borrowings was amounted to RMB1,346,000 and RMB837,000 respectively.

(ii) During the six months ended 30 June 2022, additions to construction in progress mainly related to the construction of slaughterhouse and related facilities in Zhuhai Doumen district, Guangdong Province of the PRC.

| | Ownership interests in leasehold land held for own use | Buildings held for own use | Other properties leased for own use | Leasehold improvements | Plant and machinery | Motor vehicles | Furniture, fixtures and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Accumulated depreciation** | | | | | | | | | |
| At 26 November 2019, 31 December 2019 and 1 January 2020 | — | — | — | — | — | — | — | — | — |
| Depreciation charge for the year | (106) | — | (220) | (93) | (239) | (555) | (13) | — | (1,226) |
| Disposals | — | — | — | — | — | 56 | 3 | — | 59 |
| At 31 December 2020 | (106) | — | (220) | (93) | (239) | (499) | (10) | — | (1,167) |
| At 1 January 2021 | (106) | — | (220) | (93) | (239) | (499) | (10) | — | (1,167) |
| Depreciation charge for the year | (723) | (356) | (394) | (199) | (506) | (554) | (53) | — | (2,785) |
| Disposals | — | — | — | — | — | 4 | — | — | 4 |
| At 31 December 2021 | (829) | (356) | (614) | (292) | (745) | (1,049) | (63) | — | (3,948) |
| At 1 January 2022 | (829) | (356) | (614) | (292) | (745) | (1,049) | (63) | — | (3,948) |
| Depreciation charge for the period | (592) | (1,036) | (349) | (180) | (719) | (243) | (119) | — | (3,238) |
| Disposals | — | — | — | — | 165 | 127 | 2 | — | 294 |
| At 30 June 2022 | (1,421) | (1,392) | (963) | (472) | (1,299) | (1,165) | (180) | — | (6,892) |
| **Carry amounts** | | | | | | | | | |
| At 31 December 2019 | — | — | — | — | — | — | — | — | — |
| At 31 December 2020 | 31,626 | — | 579 | 150 | 882 | 1,390 | 3 | — | 34,630 |
| At 31 December 2021 | 52,669 | 58,408 | 2,105 | 1,228 | 7,495 | 882 | 409 | 3,757 | 126,953 |
| At 30 June 2022 | 52,077 | 57,372 | 1,920 | 1,136 | 9,252 | 559 | 336 | 37,164 | 159,816 |

**(b) Right-of-use assets**

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

| | | As at 31 December | | | As at 30 June |
|---|---|---|---|---|---|
| | | **2019** | **2020** | **2021** | **2022** |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Ownership interests in leasehold land held for own use, carried at depreciated cost, with remaining lease term between 17 and 50 years | 8(a) | — | 31,626 | 52,699 | 52,077 |
| Other properties leased for own use, carried at depreciated cost | 8(a) | — | 579 | 2,105 | 1,920 |
| | | — | 32,205 | 54,804 | 53,997 |

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Depreciation charge of right-of-use assets by class of underlying asset: | | | | | |
| Ownership interests in leasehold land for own use | — | 106 | 723 | 317 | 592 |
| Other properties leased for own use | — | 220 | 394 | 120 | 349 |
| | — | 326 | 1,117 | 437 | 941 |
| Interest on lease liabilities *(Note 6(a))* | — | 37 | 73 | 16 | 66 |
| Expense relating to short-term leases *(Note 6(c))* | — | 1,171 | 1,005 | 459 | 578 |

During the years ended 31 December 2020 and 31 December 2021, additions to right-of-use assets were primarily related to the capitalised lease payments payable under new tenancy agreements and newly acquired leasehold lands.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 15(c) and 18, respectively.

*(i) Ownership interests in leasehold land held for own use*

The Target Group is the registered owner of the land on which industrial buildings for its slaughterhouse is located. Lump sum payments were made upfront to acquire these property interests from the relevant government authorities, and there are no ongoing payments to be made under the terms of the land lease.

*(ii) Other properties leased for own use*

The Target Group has obtained the right to use other properties as its office and processing centre through tenancy agreements. The leases typically run for an initial period of 3 to 5 years.

## 9 INTEREST IN SUBSIDIARIES

Details of the principal subsidiaries are set out in Note 1.

The following table lists out the information relating to subsidiaries of the Target Group which have a material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

| | Zhongzhu Minyuan | | |
|---|---|---|---|
| | As at 31 December | | As at 30 June |
| | 2020 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| NCI percentage | 30% | 20% | 20% |
| Current assets | 12,362 | 17,048 | 13,703 |
| Non-current assets | 495 | 2,996 | 3,514 |
| Current liabilities | 2,472 | 4,939 | 4,123 |
| Non-current liabilities | 111 | 4,390 | 3,907 |
| Net assets | 10,274 | 10,715 | 9,187 |
| Carrying amount of NCI | 3,082 | 2,143 | 1,837 |
| Revenue | 34,817 | 82,790 | 23,463 |
| Profit/(loss) for the year/period | 2,802 | 441 | (1,230) |
| Total comprehensive income | 2,802 | 441 | (1,230) |
| Profit/(loss) allocated to NCI | 841 | 150 | (246) |
| Dividends distributed | (2,451) | — | (298) |
| Dividends distributed to NCI | (735) | — | (60) |
| Capital reduced by NCI | — | (1,089) | — |
| Cash flows from operating activities | 3,211 | (3,044) | 1,516 |
| Cash flows from investing activities | — | (1,718) | (129) |
| Cash flows from financing activities | (2,539) | 3,603 | (947) |

| | Zhongzhu Lizhiyuan | | |
|---|---|---|---|
| | As at 31 December | | As at 30 June |
| | 2020 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| NCI percentage | 45% | 45% | 45% |
| Current assets | 22,469 | 25,518 | 32,375 |
| Non-current assets | 829 | 2,877 | 2,724 |
| Current liabilities | 7,421 | 14,753 | 22,627 |
| Non-current liabilities | 255 | 977 | 811 |
| Net assets | 15,622 | 12,665 | 11,661 |
| Carrying amount of NCI | 7,350 | 6,180 | 5,512 |
| Revenue | 282,067 | 336,200 | 151,551 |
| Profit/(loss) for the year/period | 6,444 | (926) | 1,310 |
| Total comprehensive income | 6,444 | (926) | 1,310 |
| Profit/(loss) allocated to NCI | 3,221 | (503) | 373 |
| Dividends distributed | — | (2,481) | (2,314) |
| Dividends distributed to NCI | — | (1,117) | (1,041) |
| Capital injected by NCI | 4,500 | 450 | — |
| Cash flows from operating activities | (4,451) | 2,563 | 4,329 |
| Cash flows from investing activities | (592) | (1,252) | (141) |
| Cash flows from financing activities | 4,341 | (2,250) | (2,499) |

## 10 GOODWILL

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Goodwill in connection with the acquisition of: | | | | |
| Zhongzhu Xinrun *(Note 11(a))* | — | 220 | 220 | 220 |
| Zhongzhu Lizhiyuan *(Note 11(a))* | — | 125 | 125 | 125 |
| Zhongzhu Minyuan *(Note 11(a))* | — | 250 | 250 | 250 |
| | — | 595 | 595 | 595 |
| **Carrying amount:** | | | | |
| At the end of the period/year | — | 595 | 595 | 595 |

**Goodwill in connection with the acquisition of Zhongzhu Agricultural**

In connection with the acquisition of Zhongzhu Agricultural, the Target Group recognised goodwill of RMB595,000 in total. For the purpose of impairment testing, goodwill has been allocated to the Target Group's cash-generating units (CGU) identified according to individual subsidiary.

The recoverable amounts of the CGU are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering an eight-year period. Cash flows beyond the eight-year period are assumed to keep stable. The cash flows are discounted using a discount rate of 9.6%–10.7%. The discount rates used are pre-tax and reflect specific risks relating to the CGUs.

The estimated recoverable amounts of the CGU exceeded their carrying amount as at the end of each reporting period. Based on the estimated recoverable amount, no impairment loss was recognised. However, as key assumptions on which management has made in respect of future cash projections are subject to change, an adverse change in the assumptions could cause the carrying amount to exceed its recoverable amount.

## 11 BUSINESS COMBINATION

### (a) Business combinations in 2020

***Acquisition of Zhongzhu Agricultural***

On 11 February 2020, the Target Group acquired 100% equity interests of Zhongzhu Agricultural for a total cash consideration of RMB5,000,000. Zhongzhu Agricultural holds four subsidiaries, Zhongzhu Xinrun, Zhongzhu Lizhiyuan, Zhongzhu Minyuan, whose principal activities are sales of live foodstuffs in Guangdong Province, and Zhongzhu Lichang, which did not carry out any business activity on date of acquisition.

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisition. The value of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values. The Target Group had elected to measure the non-controlling interests in Zhongzhu Agricultural at the non-controlling interests' proportionate share of the entity's identifiable net assets.

Since the acquisition date to 31 December 2020, Zhongzhu Agricultural contributed revenue of RMB324,980,000 and profit of RMB8,367,000 to the Target Group's results. If the acquisition had occurred on 1 January 2020, management estimates that combined revenue would have been increased by RMB23,953,000, and combined profit for the year would have been decreased by RMB132,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2020.

The fair value of the identifiable assets and liabilities of Zhongzhu Agricultural as at the date of acquisition are set out as follows:

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 3,333 |
| Deferred tax assets | 348 |
| Trade and other receivables | 38,358 |
| Inventories | 863 |
| Cash and cash equivalents | 4,385 |
| Trade and other payables | (37,115) |
| Borrowings | (1,236) |
| Lease liabilities | (826) |
| Total identifiable net assets at fair values | 8,110 |
| Less: Non-controlling interests, based on their proportionate interest in the recognised amounts of the identified assets acquired and liabilities assumed | (3,705) |
| Total identifiable net assets at fair values attributable to equity shareholders of the Target Company | 4,405 |
| Goodwill on acquisition *(Note 10)* | 595 |
| | 5,000 |

| | *RMB'000* |
|---|---|
| **Satisfied by:** | |
| Cash | 5,000 |
| An analysis of the cash flows in respect of the acquisition is as follows: | |
| Cash consideration | (5,000) |
| Cash and cash equivalents acquired | 4,385 |
| | (615) |

**(b) Business combinations in 2021**

***Acquisition of Zhongshan Shenwan***

On 25 October 2021, the Target Group acquired 100% equity interests of Zhongshan Shenwan for a total cash consideration of RMB40,500,000. The principal activity of Zhongshan Shenwan is operating a slaughterhouse in Zhongshan.

Pre-acquisition carrying amounts were determined based on applicable HKFRSs immediately before the acquisitions. The value of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

Since the acquisition date to 31 December 2021, Zhongshan Shenwan contributed revenue of RMB1,921,000 and profit of RMB73,000 to the Target Group's results. If the acquisition had occurred on 1 January 2021, management estimates that combined revenue would have been increased by RMB7,174,000, and combined profit for the year would have been increased by RMB287,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

The fair value of the identifiable assets and liabilities of Zhongshan Shenwan as at the date of acquisition are set out as follows:

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 85,834 |
| Trade and other receivables | 4,117 |
| Cash and cash equivalents | 851 |
| Trade and other payables | (39,151) |
| Lease liabilities | (107) |
| Deferred tax liabilities | (11,044) |
| | 40,500 |
| **Satisfied by:** | |
| Cash | 40,500 |
| An analysis of the cash flows in respect of the acquisition is as follows: | |
| Cash consideration | (40,500) |
| Cash and cash equivalent acquired | 851 |
| | (39,649) |

## 12 INCOME TAX IN THE COMBINED STATEMENTS OF FINANCIAL POSITION

### (a) Current taxation in the combined statement of financial position represents:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Taxation in the PRC | — | 673 | 260 | 359 |
| **Representing:** | | | | |
| Current tax payable | — | 673 | 260 | 359 |

### (b) Movement of each component of deferred tax assets and liabilities

The components of deferred tax (assets)/liabilities recognised in the combined statement of financial position and the movements during the Relevant Periods are as follows:

| | Tax losses carry-forward | Credit loss allowance | Revaluation of acquired assets | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Deferred tax arising from:** | | | | |
| At 26 November 2019, 31 December 2019 and 1 January 2020 | — | — | — | — |
| Recognised in profit or loss *(Note 7)* | 271 | — | — | 271 |
| Acquisition through business combinations *(Note 11)* | 348 | — | — | 348 |
| **At 31 December 2020** | 619 | — | — | 619 |
| At 1 January 2021 | 619 | — | — | 619 |
| Recognised in profit or loss *(Note 7)* | 1,173 | 51 | 66 | 1,290 |
| Acquisition through business combinations *(Note 11)* | 113 | — | (11,157) | (11,044) |
| **At 31 December 2021** | 1,905 | 51 | (11,091) | (9,135) |
| At 1 January 2022 | 1,905 | 51 | (11,091) | (9,135) |
| Recognised in profit or loss *(Note 7)* | 1,268 | — | 190 | 1,458 |
| At 30 June 2022 | 3,173 | 51 | (11,091) | (7,677) |

### (c) Reconciliation to the combined statement of financial position

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred tax assets | — | 619 | 1,913 | 3,224 |
| Deferred tax liabilities | — | — | (11,048) | (10,901) |
| | — | 619 | (9,135) | (7,677) |

## 13 INVENTORIES

**(a) Inventories in the combined statement of financial position comprise:**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Finished goods | — | 2,034 | 1,602 | 1,581 |
| Goods in transit | — | 243 | 438 | 217 |
| | — | 2,277 | 2,040 | 1,798 |

**(b) An analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:**

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Carrying amount of inventories sold | — | 302,402 | 410,673 | 187,370 | 168,887 |

## 14 TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Trade debtors** | | | | |
| — Due from third parties | — | 10,233 | 20,116 | 17,692 |
| — Due from related parties | — | 4,758 | 1,431 | 2,406 |
| **Less: loss allowance** | — | — | (205) | (202) |
| **Other receivables** | | | | |
| — Amounts due from related parties *(Note (i))* | 2,000 | 19,844 | 22,338 | 10,097 |
| — Guarantee deposit *(Note (ii))* | — | — | 10,000 | 10,000 |
| — Other deposits | — | 697 | 1,330 | 1,421 |
| — Prepayments | — | 988 | 1,845 | 628 |
| — Others | 70 | 3,709 | 2,609 | 2,951 |
| | 2,070 | 40,229 | 59,464 | 44,993 |

*Notes:*

(i) Amounts due from related parties are non-trade in nature, unsecured, interest-free and repayable on demand.

(ii) On 21 June 2021, a subsidiary of the Target Group paid RMB10,000,000 to an asset management company as a guarantee in respect of credit facilities granted to a related party. The amount was subsequently repaid on 30 September 2022.

(iii) All of the trade and other receivables, deposits and prepayments of the Target Group are expected to be recovered or recognised as expense within one year.

**(a) Ageing analysis**

As of the end of the reporting period, the ageing analysis of trade debtors based on invoice date and net of loss allowance, is as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 month | — | 14,851 | 21,342 | 19,875 |
| Over 3 months | — | 140 | — | 21 |
| | — | 14,991 | 21,342 | 19,896 |

The Target Group maintains a defined policy with credit periods ranging from advance payment to not more than 30 days.

Further details on the Target Group's credit policy and credit risk arising from trade debtors are set out in Note 20(a).

**(b) Impairment of trade and other receivables**

The movement in the loss allowance for trade debtor and other receivables, including components measured individually and using the expected credit loss provision matrix, is as follows:

| | **2019** | **2020** | **2021** | **2022** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of the period/year | — | — | — | 205 |
| Impairment loss recognised/ (reversed) | — | — | 205 | (3) |
| At the end of the period/year | — | — | 205 | 202 |

**15 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION**

**(a) Cash and cash equivalents comprise:**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deposits with banks | 20,037 | 5,875 | 3,737 | 9,320 |
| Cash on hand | — | — | 69 | 111 |
| | 20,037 | 5,875 | 3,806 | 9,431 |

Cash and cash equivalents are all held by subsidiaries situated in Mainland China. Remittance of funds out of Mainland China is subject to relevant rules and regulations of foreign exchange control.

**(b) Reconciliation of liabilities arising from financing activities**

| | Borrowings *(Note 17)* *RMB'000* | Lease liabilities *(Note 18)* *RMB'000* | Amount due to related parties *(Note 16)* *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **At 1 January 2022** | 5,958 | 2,243 | 146,937 | 155,138 |
| **Changes from financing cash flows:** | | | | |
| Capital element of lease rentals paid | — | (303) | — | (303) |
| Interest element of lease rentals paid | — | (66) | — | (66) |
| Proceeds from borrowings | 4,000 | — | — | 4,000 |
| Repayments of borrowings | (1,708) | — | — | (1,708) |
| Interests paid | (481) | — | — | (481) |
| Net decrease in amounts due to related parties | — | — | (4,909) | (4,909) |
| Total changes from financing cash flows | 1,811 | (369) | (4,909) | (3,467) |
| **Other changes:** | | | | |
| Interest on borrowings | 481 | — | — | 481 |
| Interest on lease liabilities | — | 66 | — | 66 |
| Increase in lease liabilities from entering into new leases during the year | — | 164 | — | 164 |
| Total other changes | 481 | 230 | — | 711 |
| **At 30 June 2022** | 8,250 | 2,104 | 142,028 | 152,382 |

| (Unaudited) | Borrowings *(Note 17)* *RMB'000* | Lease liabilities *(Note 18)* *RMB'000* | Amount due to related parties *(Note 16)* *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **At 1 January 2021** | 778 | 616 | 54,276 | 55,670 |
| **Changes from financing cash flows:** | | | | |
| Capital element of lease rentals paid | — | (122) | — | (122) |
| Interest element of lease rentals paid | — | (16) | — | (16) |
| Proceeds from borrowings | 3,000 | — | — | 3,000 |
| Repayments of borrowings | (1,275) | — | — | (1,275) |
| Interests paid | (282) | — | — | (282) |
| Net increase in amounts due to related parties | — | — | 17,772 | 17,772 |
| Total changes from financing cash flows | 1,443 | (138) | 17,772 | 19,077 |
| Other changes: | | | | |
| Interest on borrowings | 282 | — | — | 282 |
| Interest on lease liabilities | — | 16 | — | 16 |
| Total other changes | 282 | 16 | — | 298 |
| **At 30 June 2021 (unaudited)** | 2,503 | 494 | 72,048 | 75,045 |
| **At 1 January 2021** | 778 | 616 | 54,276 | 55,670 |
| **Changes from financing cash flows:** | | | | |
| Capital element of lease rentals paid | — | (293) | — | (293) |
| Interest element of lease rentals paid | — | (73) | — | (73) |
| Proceeds from borrowings | 8,000 | — | — | 8,000 |
| Repayments of borrowings | (2,820) | — | — | (2,820) |
| Interests paid | (551) | — | — | (551) |
| Net increase in amounts due to related parties | — | — | 54,281 | 54,281 |
| Total changes from financing cash flows | 4,629 | (366) | 54,281 | 58,544 |

| (Unaudited) | Borrowings *(Note 17)* *RMB'000* | Lease liabilities *(Note 18)* *RMB'000* | Amount due to related parties *(Note 16)* *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **Other changes:** | | | | |
| Interest on borrowings | 551 | — | — | 551 |
| Interest on lease liabilities | — | 73 | — | 73 |
| Increase in lease liabilities from entering into new leases during the year | — | 1,813 | — | 1,813 |
| Acquisition of a subsidiary | — | 107 | — | 107 |
| Acquisition through business combinations | — | — | 38,380 | 38,380 |
| Total other changes | 551 | 1,993 | 38,380 | 40,924 |
| **At 31 December 2021** | 5,958 | 2,243 | 146,937 | 155,138 |

| | Borrowings *(Note 17)* *RMB'000* | Lease liabilities *(Note 18)* *RMB'000* | Amount due to related parties *(Note 16)* *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **At 1 January 2020** | — | — | 17,216 | 17,216 |
| **Changes from financing cash flows:** | | | | |
| Capital element of lease rentals paid | — | (210) | — | (210) |
| Interest element of lease rentals paid | — | (37) | — | (37) |
| Proceeds from borrowings | — | — | — | — |
| Repayments of borrowings | (458) | — | — | (458) |
| Interests paid | (131) | — | — | (131) |
| Net decrease in amounts due to related parties | — | — | (55) | (55) |
| Total changes from financing cash flows | (589) | (247) | (55) | (891) |
| **Other changes:** | | | | |
| Interest on borrowings | 131 | — | — | 131 |
| Interest on lease liabilities | — | 37 | — | 37 |
| Acquisition of a subsidiary | 1,236 | 826 | — | 2,062 |
| Acquisition through business combinations | — | — | 37,115 | 37,115 |
| Total other changes | 1,367 | 863 | 37,115 | 39,345 |
| **At 31 December 2020** | 778 | 616 | 54,276 | 55,670 |

| | Amount due to related parties *(Note 16)* *RMB'000* |
|---|---|
| **At 26 November 2019** | — |
| **Change from financing cash flows:** | |
| Net increase in amounts due to related parties | 17,216 |
| **At 31 December 2019** | 17,216 |

**(c) Total cash outflow for leases**

Amounts included in the cash flow statement for lease rentals paid comprise the following:

| | Period from 26 November (date of incorporation) to 31 December | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Within operating cash flows | — | 1,171 | 1,005 | 459 | 578 |
| Within investing cash flows | — | 31,732 | 3,000 | — | — |
| Within financing cash flows | — | 247 | 366 | 138 | 369 |
| | — | 33,150 | 4,371 | 597 | 947 |

**(d) Non-cash transaction**

During the year ended 31 December 2021, the consideration of acquisition of non-controlling interests amounting to RMB1,740,000 was settled through net off with the amounts due from non-controlling interests. Therefore, this transaction was recorded as a non-cash transaction in the combined cash flow statements.

## 16 TRADE AND OTHER PAYABLES

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade creditors | — | 1,116 | 3,636 | 5,502 |
| Contract liabilities *(Note (i))* | — | 303 | 480 | 469 |
| Payables for purchases of property, plant and equipment | — | — | — | 28,000 |
| Accrued payroll | — | 1,584 | 3,295 | 4,220 |
| Amounts due to related parties | 17,216 | 54,276 | 146,937 | 142,028 |
| Other payables and accrued charges | 14 | 4,905 | 5,944 | 5,347 |
| | 17,230 | 62,184 | 160,292 | 185,566 |

*Note:*

(i) Contract liabilities mainly represented advances from customers related to the online sales of food stuffs. The majority of related obligations were expected to be performed with corresponding revenue recognised within one year.

**Movements in contract liabilities**

| | **2019** | **2020** | **2021** | **2022** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At the beginning of the year/period | — | — | 303 | 480 |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | — | — | (303) | (480) |
| Increase in contract liabilities as a result of receiving deposits during the year | — | 303 | 480 | 469 |
| At the end of the year/period | — | 303 | 480 | 469 |

(ii) The amounts due to related parties are non-trade in nature, unsecured, interest-free and repayable on demand.

(iii) All of the Target Group's trade and other payables are expected to be settled or recognised as income within one year.

An ageing analysis of the trade payables as at the end of the Relevant Periods, based on the invoice date, is as follows:

| | **As at 31 December** | | | **As at 30 June** |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 month | — | 669 | 3,388 | 5,004 |
| After 1 month but within 3 months | — | 204 | — | 2 |
| After 3 months but within 1 year | — | 228 | 89 | 251 |
| After 1 year | — | 15 | 159 | 245 |
| | — | 1,116 | 3,636 | 5,502 |

## 17 BORROWINGS

**(a) The analysis of the repayment schedule of borrowings is as follows:**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year or on demand | — | 570 | 2,208 | 5,000 |
| After 1 year but within 2 years | — | 208 | 1,000 | 1,000 |
| After 2 years but within 5 years | — | — | 2,750 | 2,250 |
| | — | 208 | 3,750 | 3,250 |
| | — | 778 | 5,958 | 8,250 |

**(b) Assets pledged as security and covenants for borrowings:**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Borrowings | | | | |
| — secured | — | 778 | 208 | — |
| — unsecured | — | — | 5,750 | 8,250 |
| | — | 778 | 5,958 | 8,250 |

As at 31 December 2020 and 31 December 2021, borrowing of RMB778,000 and RMB208,000, respectively were secured by motor vehicles (Note 8).

## 18 LEASE LIABILITIES

The lease liabilities were repayable as follows:

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 1 year | — | 250 | 593 | 636 |
| After 1 year but within 2 years | — | 258 | 449 | 430 |
| After 2 years but within 5 years | — | 108 | 1,201 | 1,038 |
| | — | 616 | 2,243 | 2,104 |

## 19 CAPITAL AND RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Target Group's combined equity is set out in the combined statement of changes in equity.

### (b) Capital

The Target Company was incorporated in the PRC on 26 September 2022 and has become the holding company of the Target Group since 27 October 2022 as part of the Reorganisation.

For the purpose of the Historical Financial Information, the combined capital of the Target Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 represent the aggregate amount of the paid-in capital of all the entities comprising the Target Group at the respective dates, after elimination of investments in subsidiaries.

On 27 October 2022, the Target Company received capital injection amounting to RMB39,600,000 from the shareholders.

### (c) Nature and purpose of reserves

#### *(i) Statutory reserve*

As stipulated by regulations in the PRC, the Target Company's subsidiaries established and operated in the Mainland China are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of profits to parent companies.

The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

#### *(ii) Other reserves*

Other reserve comprises reserve on acquisition of non-controlling interests which is the difference between the consideration and the carrying amount of additional interests acquired from non-controlling interests.

### (d) Non-controlling interest

In 2019, RMB5,000,000 capital injection was made to Runhehe from non-controlling interests of the Target Group.

During the year ended 31 December 2020, RMB4,500,000 capital injection was made to Zhongzhu Lizhiyuan from non-controlling interests of the Target Group.

During the year ended 31 December 2021, RMB450,000 capital injection was made to Zhuhai Ruziyuan Food Co., Ltd. from non-controlling interests of the Target Group.

**(e) Capital management**

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with the advantages and security afforded by a sound capital position and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Target Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**20 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

Exposure to credit, liquidity and interest rate arises in the normal course of the Target Group's business. The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

**(a) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Group. The Target Group's credit risk is primarily attributable to trade debtors and trade balances due from related companies. The Target Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are major financial institutions in the PRC, for which the Target Group considers to have low credit risk.

Other receivables, other deposits and prepayments and amounts due from related parties are reviewed regularly by monitoring the operation and financial position of the counter parties, for which the Target Group considers to have low credit risk.

***Trade debtors***

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or geographic region in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. As at 30 June 2022, 31 December 2021 and 31 December 2020, 21.07%, 25.45% and 22.03% of the total trade receivables was due from the Target Group's largest debtor respectively, and 55.87%, 65.39% and 54.85% of the total trade receivables was due from the Target Group's five largest debtors respectively.

The Target Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Except for certain customers of the foodstuffs trading business with good creditworthy are provided with a credit term of 15 to 30 days, the other customers are required to pay in advance and no credit term will be granted.

The Target Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. Given the Target Group has not experienced any significant credit losses in the past, the allowance for expected credit losses is insignificant.

The following table provides information about the Target Group's exposure to credit risk and ageing analysis of trade debtors and trade balances due from related companies as at 31 December 2019, 2020 and 2021, and 30 June 2022:

| | Gross carrying amount | | | |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Current (not past due) | — | 14,704 | 21,342 | 19,752 |
| 1 to 3 months past due | — | 147 | — | 133 |
| More than 3 months but less than 12 months past due | — | 140 | 65 | 13 |
| More than 12 months past due | — | — | 140 | 200 |
| Amounts past due | — | 287 | 205 | 346 |
| | — | 14,991 | 21,547 | 20,098 |

**(b) Liquidity risk**

Liquidity risk is the risk that the Target Group is unable to meet its current obligations when they fall due. The Target Group's demand for cash is mainly due to the construction of slaughterhouse in Zhuhai Doumen district, purchase of property, plant and equipment and debt repayment. The operating cash flow needed is satisfied by cash received from business operation, borrowings and other related parties' debt financing.

The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and cash equivalents and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Target Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Target Group is required to pay.

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Contractual undiscounted cash outflow | | | | | |
| | **Within 1 year or on demand** | **More than 1 year but less than 2 years** | **More than 2 years but less than 5 years** | **More than 5 years** | **Total** | **Carrying amount at 30 June** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 185,097 | — | — | — | 185,097 | 185,097 |
| Borrowings | 5,620 | 1,175 | 2,286 | — | 9,081 | 8,250 |
| Lease liabilities | 764 | 509 | 1,107 | — | 2,380 | 2,104 |
| | 191,481 | 1,684 | 3,393 | — | 196,558 | 195,451 |

**2021**

| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount at 31 December |
|---|---|---|---|---|---|---|
| | **Contractual undiscounted cash outflow** | | | | | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 159,812 | — | — | — | 159,812 | 159,812 |
| Borrowings | 2,624 | 1,205 | 2,866 | — | 6,695 | 5,958 |
| Lease liabilities | 712 | 535 | 1,303 | — | 2,550 | 2,243 |
| | 163,148 | 1,740 | 4,169 | — | 169,057 | 168,013 |

**2020**

| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount at 31 December |
|---|---|---|---|---|---|---|
| | **Contractual undiscounted cash outflow** | | | | | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 61,881 | — | — | — | 61,881 | 61,881 |
| Borrowings | 642 | 214 | — | — | 856 | 778 |
| Lease liabilities | 279 | 272 | 110 | — | 661 | 616 |
| | 62,802 | 486 | 110 | — | 63,398 | 63,275 |

**2019**

| | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Total | Carrying amount at 31 December |
|---|---|---|---|---|---|---|
| | **Contractual undiscounted cash outflow** | | | | | |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 17,230 | — | — | — | 17,230 | 17,230 |

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's interest rate risk arises primarily from cash and cash equivalents and borrowings. Borrowings issued at variable rates expose the Target Group to cash flow interest rate risk. The Target Group has not used financial derivatives to hedge against the interest rate risk. The Target Group's interest rate profile as monitored by management is set out in (i) below.

*(i) Interest rate profile*

The following table details the interest rate profile of the Target Group's net borrowings (being interest-bearing borrowings less cash and cash equivalents) at the end of the reporting period.

| | As at 31 December | | | | | | As at 30 June | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2020 | | 2021 | | 2022 | |
| | *Effective interest rate per annum* | *RMB'000* | *Effective interest rate per annum* | *RMB'000* | *Effective interest rate per annum* | *RMB'000* | *Effective interest rate per annum* | *RMB'000* |
| **Fixed rate borrowings:** | | | | | | | | |
| Lease liabilities | — | — | 6.10% | 616 | 6.10% | 2,243 | 6.10% | 2,104 |
| Borrowings | — | — | 7.56% | 778 | 7.56% ~ 24.00% | 1,208 | 24.00% | 4,000 |
| **Variable rate borrowings:** | | | | | | | | |
| Borrowings | — | — | — | — | 6.00% | 4,750 | 6.00% | 4,250 |
| **Variable rate lendings:** | | | | | | | | |
| Cash at bank | 0.30% | (20,037) | 0.30% | (5,875) | 0.30% | (3,737) | 0.30% | (9,320) |
| Total net borrowings | | (20,037) | | (4,481) | | 4,464 | | 1,034 |

*(ii) Sensitivity analysis*

As at 31 December 2019, 2020 and 2021 and 30 June 2022, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Target Group's total equity and (loss)/profit and total comprehensive income for the period/year as follow and vice versa.

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| (Decrease)/increase of the total equity and (loss)/profit and total comprehensive income | (150) | (51) | 16 | (38) |

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Target Group at the end of the reporting period, the impact on the Target Group's (loss)/profit after taxation (and (accumulated losses)/retained profits) and other components of combined equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis during the Relevant Period.

**(d) Fair value measurement**

***Fair value of financial assets and liabilities carried at other than fair value***

The carrying amounts of the Target Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2019, 2020 and 2021 and 30 June 2022.

## 21 COMMITMENTS

Capital commitments outstanding at 31 December 2019, 2020 and 2021 and 30 June 2022 not provided for in the financial statements were as follows:

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Contracted for | — | 192 | 120,303 | 125,768 |
| Authorised but not contracted for | — | — | 91,202 | 49,461 |
| | — | 192 | 211,505 | 175,229 |

The capital commitments outstanding at 31 December 2021 and 30 June 2022 mainly are related to the construction of slaughterhouse in Zhuhai Doumen district.

## 22 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Target Group entered into the following material related party transactions.

### (a) Transactions with related parties

| | | Period from 26 November (date of incorporation) to 31 December | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|---|---|
| | | 2019 | 2020 | 2021 | 2021 | 2022 |
| | *Note* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| **Transactions with non-controlling interests** | | | | | | |
| Revenue from sales of foodstuffs | (i) | — | 16,054 | 24,480 | 10,036 | 11,227 |
| **Transactions with other related parties** | | | | | | |
| Purchases of slaughtering service | (i) | — | 4,676 | 6,656 | 3,031 | 3,812 |
| Rental of office and processing centre | (i) | — | 1,076 | 766 | 422 | 369 |
| Guarantee deposit provided | | — | — | 10,000 | 10,000 | — |

*Notes:*

(i) Transactions rendered to or by the related parties above are carried out according to the terms of the related agreements and in the ordinary and usual course of the Target Group's business.

(ii) The advances provided to or by related parties are unsecured, interest-free and repayable on demand.

**(b) Balances with related parties**

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade debtors | — | 4,758 | 1,431 | 2,406 |
| Guarantee deposit | — | — | 10,000 | 10,000 |
| Amounts due from related parties *(note)* | 2,000 | 19,844 | 22,338 | 10,097 |
| Amounts due to related parties *(note)* | 17,216 | 54,276 | 146,937 | 142,028 |

*Note:* The amounts due from or to related parties are non-trade in nature, unsecured, interest-free and repayable on demand.

**(c) Key management personnel remuneration**

| | Period from 26 November (date of incorporation) to 31 December | Year ended 31 December | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* |
| Short-term employee benefits | — | 796 | 1,076 | 382 | 1,146 |
| Post-employment benefits | — | — | 26 | 12 | 24 |
| | — | 796 | 1,102 | 394 | 1,170 |

Total remuneration is included in "staff costs" (see Note 6(b)).

## 23 SUBSEQUENT EVENTS

The Target Company, Zhuhai Yue Guang Feng Investment Company Limited, was established on 26 September 2022, with paid-in capital of RMB39,600,000.

The Reorganisation was completed on 31 October 2022, which includes following equity transactions of the companies now comprising the Target Group:

— In October 2022, Zhuhai Dezhirun received capital from its shareholders amounting to RMB60,000,000, among which RMB39,600,000 was injected by the Target Company. And the Target Company then held 66% of equity interest of Zhuhai Dezhirun after the above capital injection.

— On 31 October 2022, Zhuhai Dezhirun acquired the remaining 5% equity interest of Runhehe from non-controlling interests at a consideration of RMB5,000,000.

— On 31 October 2022, all the equity interest of Zhuhai Runyue Food Co., Ltd., was disposed, with a consideration of RMB239,000.

### 24 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Up to the date of this report, the HKICPA has issued a number of new or amended standards, which are not yet effective for the Relevant Periods and which have not been adopted in these Historical Financial Information. These developments include the following which may be relevant to the Target Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 17, *Insurance contracts* | 1 January 2023 |
| Amendments to HKAS 1, *Presentation of financial statements* and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies* | 1 January 2023 |
| Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates* | 1 January 2023 |
| Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction* | 1 January 2023 |
| Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current* | 1 January 2024 |
| Amendments to HKAS 1, *Non-current Liabilities with Covenants* | 1 January 2024 |
| Amendments to HKFRS 16, *Lease Liability in a Sale and Leaseback* | 1 January 2024 |

The Target Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

## SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 June 2022.

*Set out below is the management discussion and analysis on the Target Group for the period from 26 November 2019 (date of incorporation) to 31 December 2019, for the years ended 31 December 2020 and 31 December 2021 and for the six months ended 30 June 2022, which is prepared based on the financial information of the Target Group as set out in Appendix II to this circular.*

**Operating Results**

***Revenue***

For the period from 26 November 2019 (date of incorporation) to 31 December 2019, for each of the years ended 31 December 2020 and 31 December 2021, respectively, and each of the six months ended 30 June 2021 and 2022, respectively, the income of the Target Group was RMB0, RMB325,140,000 and RMB431,167,000, RMB195,863,000 and RMB185,607,000, respectively, which was mainly generated from fresh meat sales business and slaughtering business. Zhuhai Dezhirun was established in November 2019 and thus had zero income as the business has not yet been developed. The income in 2021 has increased by RMB106,027,000 from 2020, with an increment of 33%, mainly attributable to the gradual development of business by the Target Group and the acquisition of Zhongzhu Agricultural and its subsidiaries in February 2020. The income has decreased by 5% for the six months ended 30 June 2022 as compared to the correspondence period last year, mainly attributable to the fluctuation of the swine price.

***Cost of sales***

For the period from 26 November 2019 (date of incorporation) to 31 December 2019, for each of the years ended 31 December 2020 and 31 December 2021, respectively, the cost of sales of the Target Group was RMB0, RMB306,906,000 and RMB417,019,000, respectively, which increased in accordance with the development of business. For each of the six months ended 30 June 2021 and 2022, respectively, the cost of sales of the Target Group was RMB190,040,000 and RMB174,559,000, respectively, which decreased mainly attributable to the fluctuation of the swine price.

***Gross profit and gross profit margin***

As the result of the aforesaid reason, for the period from 26 November 2019 (date of incorporation) to 31 December 2019, for each of the years ended 31 December 2020 and 31 December 2021, respectively, and each of the six months ended 30 June 2021 and 2022, respectively, the Target Group had recorded a gross profit of RMB0, RMB18,234,000, RMB14,148,000, RMB5,823,000 and RMB11,048,000, respectively. The gross profit margin for the same period was 0%, 5.6%, 3.3%, 3.0% and 6.0%, respectively.

***Administrative expenses***

For the period from 26 November 2019 (date of incorporation) to 31 December 2019, for each of the years ended 31 December 2020 and 31 December 2021, respectively, and each of the six months ended 30 June 2020 and 2021, respectively, the Target Group had incurred administrative expenses of RMB127,000, RMB5,366,000, RMB8,836,000, RMB3,765,000 and RMB8,361,000, respectively. The administrative expenses of the Target Group have increased year-on-year due to the development of its business.

***Other revenue***

For the period from 26 November 2019 (date of incorporation) to 31 December 2019, for each of the years ended 31 December 2020 and 31 December 2021, respectively, and each of the six months ended 30 June 2020 and 2021, respectively, other revenue of the Target Group was RMB4,000, RMB2,621,000, RMB603,000, RMB229,000 and RMB648,000, respectively. Other revenue was mainly composed of government subsidies, commission income, and interest income from bank deposits.

***Loss/profit from operations***

In combination of the above reasons, for the period from 26 November 2019 (date of incorporation) to 31 December 2019, for each of the years ended 31 December 2020 and 31 December 2021, respectively, Target Group had recorded an operating loss of RMB123,000, an operating profit of RMB8,611,000 and an operating loss of RMB3,186,000. For each of the six months ended 30 June 2021 and 2022, respectively, Target Group had recorded an operating loss of RMB1,830,000 and RMB1,876,000, respectively.

***Finance costs***

Finance costs are mainly comprised of interest on borrowings and interests on lease liabilities. For the period from 26 November 2019 (date of incorporation) to 31 December 2019, for each of the years ended 31 December 2020 and 31 December 2021, respectively, and for each of the six months ended 30 June 2021 and 2022, respectively, the finance costs of Target Group were RMB0, RMB168,000, RMB624,000, RMB298,000 and RMB547,000, respectively. The increase of the finance costs is due to the expansion of business in Zhongshan Muqing and increased amount of borrowings.

***Loss/profit for the year/period***

As the result of the aforesaid reason, for the period from 26 November 2019 (date of incorporation) to 31 December 2019 and for the year ended 31 December 2021, the Target Group had recorded a loss for the year of RMB123,000 and RMB2,613,000, respectively. The Target Group had recorded a profit for the year ended 31 December 2020 of RMB7,993,000. For each the six months ended 30 June 2021 and 2022, respectively, the Target Group had recorded a loss for the period of RMB1,417,000 and RMB1,183,000, respectively.

**Working capital and financial resources**

As at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively, the net assets value of the Target Group was RMB4,877,000, RMB20,075,000, RMB15,055,000 and RMB12,771,000, respectively. As at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively, the cash and cash equivalents of the Target Group were RMB20,037,000, RMB5,875,000, RMB3,806,000 and RMB9,431,000, respectively.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively, the net cash of the Target Group, being cash and cash equivalents less borrowings, was RMB20,037,000, RMB5,097,000, -RMB2,152,000 and RMB1,181,000, respectively. As the Target Group was in a net cash position as at 31 December 2019 and 2020 and 30 June 2022, no gearing ratio could be presented, and the gearing ratio on 31 December 2021 was 183%.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively, borrowings of the Target Group bear interests, are set out below.

| | As at 31 December | | | As at 30 June |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Within one year or on demand | — | 570 | 2,208 | 5,000 |
| After 1 year but within 2 years | — | 208 | 1,000 | 1,000 |
| After 2 years but within 5 years | — | — | 2,750 | 2,250 |
| | — | 208 | 3,750 | 3,250 |
| | — | 778 | 5,958 | 8,250 |

The above borrowings were in Renminbi. As at 31 December 2020 and 2021 and 30 June 2022, respectively, the amount of RMB778,000, RMB1,208,000 and RMB4,000,000 were bearing fixed interest rate. All the borrowings were utilised as working capital.

The Target Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and cash equivalents and adequate funding from financial institutions or loan from third parties to meet its liquidity requirements.

**Foreign exchange and other exposures**

During the reporting period, as the majority of business transactions, assets and liabilities of the Target Group are denominated in RMB, it has no significant exposure to foreign currency risk. Accordingly, during the reporting period, the Target Group did not have any formal hedging policies and no financial instrument was used for hedging purposes.

**Contingent liabilities**

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Target Group did not have any contingent liabilities.

**Capital commitments**

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the capital commitments of the Target Group were RMB0, RMB192,000, RMB211,505,000 and RMB175,229,000, respectively, mainly for the construction of slaughtering house in Doumen, Zhuhai.

**Pledged assets**

As at 31 December 2020 and 2021, the loan of the Target Group with the amount of RMB778,000 and RMB208,000 were pledged by motor vehicles with a net book value of RMB1,346,000 and RMB837,000, respectively.

**Significant investments, material acquisitions and disposals**

On 11 February 2020, the Target Group acquired 100% equity interests of Zhongzhu Agricultural for a total cash consideration of RMB5,000,000. Zhongzhu Agricultural holds four subsidiaries, Zhongzhu Xinrun, Zhongzhu Lizhiyuan, Zhongzhu Minyuan and Zhongzhu Lichang, whose principal activities are sales of live foodstuffs in Guangdong Province. Among which, Zhongzhu Lichang did not carry out any business activity on date of acquisition.

Since the aforesaid acquisition date to 31 December 2020, Zhongzhu Agricultural contributed revenue of RMB324,980,000 and profit of RMB8,367,000 to the Target Group's results. The sales network of Zhongzhu Agricultural had developed in the Greater Bay Area, including Guangzhou, Shenzhen, Zhongshan and Macau via supermarkets, restaurants as well as wholesale markets. In view of the population growth and the economic development in the Greater Bay Area, the business of Zhongzhu Agricultural will contribute stable revenue and earnings to the Target Group.

On 25 October 2021, the Target Group acquired 100% equity interests of Zhongshan Shenwan for a total cash consideration of RMB40,500,000. The principal activity of Zhongshan Shenwan is operating a slaughterhouse in Zhongshan.

Since the aforesaid acquisition date to 31 December 2021, Zhongshan Shenwan contributed revenue of RMB1,921,000 and profit of RMB73,000 to the Target Group's results. With a fixed-point slaughtering licence in Zhongshan (Southern Area), Zhongshan Shenwan will continue to contribute a stable revenue and earnings to the Target Group.

Except for the abovementioned matter, the Target Group did not have any other significant investments, material acquisitions and disposals during the period from 26 November 2019 (date of incorporation) to 31 December 2019, for the years ended 31 December 2020 and 31 December 2021 and the six months ended 30 June 2022.

**Employees and remuneration policies**

As at 31 December 2019, 2020 and 2021 and 30 June 2022, Zhuhai Dezhirun Group had a total of 0, 90, 156 and 174 employees, respectively. For the period from 26 November 2019 (date of incorporation) to 31 December 2019, for the years ended 31 December 2020 and 31 December 2021 and for the six months ended 30 June 2022, respectively, the staff costs of Zhuhai Dezhirun Group were RMB0, RMB9,790,000, RMB12,732,000, RMB5,761,000 and RMB10,291,000, respectively, and no equity-settled share-based compensation was provided to employees during such periods. Zhuhai Dezhirun Group remunerates its employees based on salaries, wages and other benefits.

**Restructuring After Reporting Period**

Zhuhai Dezhirun and its subsidiaries has undergone certain Restructuring in October 2022 including rationalising its capital structure in preparation for the Acquisition. The Restructuring includes the following steps:

1. Zhuhai Runhehe sold approximately 98.18% equity interest in Zhuhai Food at the consideration of RMB227,000,000 to an Independent Third Party and received dividend distribution of RMB69,210,000 from Zhuhai Food.

2. The Target Company subscribed for 66% of equity interest in Zhuhai Dezhirun at the consideration of RMB39,600,000 in October 2022, after which Zhuhai Dezhirun became a non-wholly owned subsidiary of the Target Company, and the remaining shareholders of Zhuhai Dezhirun injected capital in the aggregate amount of RMB20,400,000 into Zhuhai Dezhirun.

3. Zhuhai Dezhirun Group settled the debt in the amount of approximately RMB378,067,000 in order to scale down the debt level.

4. Zhuhai Dezhirun acquired 5% equity interest of Zhuhai Runhehe at the consideration of RMB5,000,000 from non-controlling shareholders of Zhuhai Runhehe (being Independent Third Parties), after which Zhuhai Runhehe became a wholly owned subsidiary of Zhuhai Dezhirun.

5. Zhongzhu Lizhiyuan sold 55% equity interest in 珠海潤悦食品有限公司 (Zhuhai Runyue Food Co., Ltd.*) at the consideration of approximately RMB239,000 to an Independent Third Party.

*The information set forth in this appendix does not form part of the accountants' report received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix II to this circular, and is included herein for illustrative purposes only.*

*The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group set forth in Appendix I and the accountants' report set forth in Appendix II to this circular.*

## A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is the unaudited pro forma financial information of the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") following the completion of the Acquisition of the Target Group by the Group. The Unaudited Pro Forma Financial Information comprises the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group, which have been prepared to illustrate the effect of the Acquisition on the Group's financial position as at 30 June 2022 as if the Acquisition had taken place and had been completed on 30 June 2022. Details of the Acquisition are set out in the section headed "Letter from the Board" contained in this circular.

The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of illustrating the effects of the Acquisition on the Group for inclusion in this circular only. The Unaudited Pro Forma Financial Information was prepared based on a number of assumptions, estimates and uncertainties and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed as at 30 June 2022 or any future date.

The Unaudited Pro Forma Financial Information has been prepared based on the unaudited consolidated statement of financial position of the Group as at 30 June 2022, which has been extracted from the published 2022 interim report of the Company, after giving effect to the unaudited pro forma adjustments that are (i) directly attributable to the Acquisition and not relating to other future events or decisions and (ii) factually supportable, as described in the accompanying notes.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group set out in the Company's interim report for the six months ended 30 June 2022, and other financial information included elsewhere in this circular.

## UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

| | The Group as at 30 June 2022 | Pro Forma Adjustments | | | | | The Enlarged Group as at 30 June 2022 |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | *Note 1* | *Note 2* | *Note 3* | *Note 4* | *Note 5* | *Note 6* | |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 1,247,921 | 173,960 | — | — | 110,538 | — | 1,532,419 |
| Investment properties | 283,384 | — | — | — | — | — | 283,384 |
| | 1,531,305 | 173,960 | — | — | 110,538 | — | 1,815,803 |
| Goodwill | 1,415 | 648 | — | — | 54,696 | — | 56,759 |
| Interest in associates | 296,764 | — | — | — | — | — | 296,764 |
| Intangible assets | — | 102 | — | — | 1,133 | — | 1,235 |
| Deferred tax assets | — | 3,509 | — | — | — | — | 3,509 |
| | 1,829,484 | 178,219 | — | — | 166,367 | — | 2,174,070 |
| **Current assets** | | | | | | | |
| Inventories | 575,813 | 1,957 | — | — | — | — | 577,770 |
| Trade and other receivables, deposits and prepayments | 1,073,311 | 48,975 | (2,193) | — | — | — | 1,120,093 |
| Pledged deposits | 10,199 | — | — | — | — | — | 10,199 |
| Cash and cash equivalents | 756,550 | 10,266 | (30,786) | (202,592) | — | (3,113) | 530,325 |
| | 2,415,873 | 61,198 | (32,979) | (202,592) | — | (3,113) | 2,238,387 |
| **Current liabilities** | | | | | | | |
| Trade and other payables | (1,037,906) | (201,988) | 167,698 | — | — | — | (1,072,196) |
| Borrowings | (256,653) | (5,443) | — | — | — | — | (262,096) |
| Lease liabilities | (4,076) | (692) | — | — | — | — | (4,768) |
| Current tax payable | (15,080) | (391) | — | — | — | — | (15,471) |
| | (1,313,715) | (208,514) | 167,698 | — | — | — | (1,354,531) |
| **Net current assets** | 1,102,158 | (147,316) | 134,719 | (202,592) | — | (3,113) | 883,856 |
| **Total assets less current liabilities** | 2,931,642 | 30,903 | 134,719 | (202,592) | 166,367 | (3,113) | 3,057,926 |
| **Non-current liabilities** | | | | | | | |
| Borrowings | (112,847) | (3,538) | — | — | — | — | (116,385) |
| Deferred revenue | (10,254) | — | — | — | — | — | (10,254) |
| Lease liabilities | (8,949) | (1,598) | — | — | — | — | (10,547) |
| Deferred tax liabilities | (34,415) | (11,866) | — | — | (27,918) | — | (74,199) |
| | (166,465) | (17,002) | — | — | (27,918) | — | (211,385) |
| **NET ASSETS** | 2,765,177 | 13,901 | 134,719 | (202,592) | 138,449 | (3,113) | 2,846,541 |

**Notes to the Unaudited Pro Forma Financial Information**

1. The amounts are extracted from the consolidated statement of financial position of the Group as at 30 June 2022 as set out in the interim report of the Company for the six months ended 30 June 2022.

2. The amounts are translated from those extracted from the Accountants' Report on the Target Group as set out in Appendix II to this circular.

3. The adjustments represent the Restructuring (as detailed in the section headed "E. Information on the Target Group" in the Letter from the Board in this circular) carried out by the Target Group to facilitate the Acquisition subsequent to 30 June 2022, which includes:

    a. Zhuhai Runhehe sold approximately 98.18% equity interest in Zhuhai Food at the consideration of RMB227,000,000 to an Independent Third Party and received dividend distribution of RMB69,210,000 from Zhuhai Food.

    b. The Target Company subscribed for 66% of equity interest in Zhuhai Dezhirun at the consideration of RMB39,600,000 in October 2022, after which Zhuhai Dezhirun became a non-wholly owned subsidiary of the Target Company, and the remaining shareholders of Zhuhai Dezhirun injected capital in the aggregate amount of RMB20,400,000 into Zhuhai Dezhirun.

    c. Zhuhai Dezhirun Group settled the debt in the amount of approximately RMB378,067,000 in order to scale down the debt level.

    d. Zhuhai Dezhirun acquired 5% equity interest of Zhuhai Runhehe at the consideration of RMB5,000,000 from non-controlling shareholders of Zhuhai Runhehe (being Independent Third Parties), after which Zhuhai Runhehe became a wholly owned subsidiary of Zhuhai Dezhirun.

    e. Zhongzhu Lizhiyuan sold 55% equity interest in 珠海潤悦食品有限公司 (Zhuhai Runyue Food Co., Ltd.*) at the consideration of approximately RMB239,000 to an Independent Third Party.

4. The adjustment represents the cash consideration of RMB186,120,000 (equivalent to approximately HK$202,592,000) conditionally agreed under the Equity Transfer Agreement.

5. Upon completion of the Acquisition, the Target Company will be wholly owned by a subsidiary of the Company and the identifiable assets and liabilities of the Target Group will be accounted for in the consolidated financial statements of the Enlarged Group at the fair values under acquisition accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) *Business Combinations* ("**HKFRS 3**") issued by the Hong Kong Institute of Certified Public Accountants, with the difference between the consideration and estimated fair value of the identifiable assets and liabilities of the Target Group to be recognised as goodwill.

   The adjustments represent the fair value adjustments of identifiable assets and liabilities and the goodwill arising from the Acquisition as if it had been completed as at 30 June 2022 as follows:

| | |
|---|---|
| | *HK$'000* |
| **Cash consideration** *(Note 4)* | 202,592 |
| **Less: fair value of identified assets acquired and liabilities assumed** | |
| — adjusted net assets of the Target Group as at 30 June 2022 *(i)* | 148,620 |
| — fair value adjustments on property, plant and equipment *(ii)* | 110,538 |
| — fair value adjustments on intangible assets *(ii)* | 1,133 |
| — deferred tax liabilities at 25% related to the fair value adjustment | (27,918) |
| **Add: non-controlling interest in the Target Group** | 84,477 |
| **Goodwill on acquisition** *(iii)* | 54,696 |

(i) As discussed in Note 3, a Restructuring was carried out by the Target Group to facilitate the Acquisition subsequent to 30 June 2022, a number of which would have impacted the Target Group's net assets had the Acquisition been completed on 30 June 2022. For the purpose of the Unaudited Pro Forma Financial Information, the adjusted net assets of the Target Group as at 30 June 2022 after adjusting for the Restructuring is estimated to be approximately HK$148,620,000.

| | |
|---|---|
| | *HK$'000* |
| Net assets of the Target Group as at 30 June 2022 *(Note 2)* | 13,901 |
| • adjustments for Restructuring *(Note 3)* | 134,719 |
| **Adjusted net assets of the Target Group as at 30 June 2022** | **148,620** |

(ii) For the purpose of the Unaudited Pro Forma Financial Information, the Directors have estimated the fair values of the identified assets acquired and liabilities with reference to the valuation report dated 21 November 2022 prepared by 廣東財興資產評估土地房地產估價有限公司, an independent valuer.

(iii) For the purpose of preparing the Pro Forma Financial Information, the Directors made preliminary assessment, with reference to Hong Kong Accounting Standard 36, Impairment of Assets, issued by the HKICPA, as to whether or not, based on the above information, there is any indicator of impairment on goodwill arising from the Acquisition. Based on such assessment, the Directors did not identify any impairment indicator in respect of the goodwill arising from the Acquisition.

The Directors will follow the Group's accounting policy in respect of assets impairment assessment, including the assessment of the impairment of goodwill arising from the Acquisition when preparing the Company's consolidated financial statements covering the period in which the Acquisition is completed. The Company's consolidated financial statements will be subject to the annual audit by the Company's auditors in accordance with Hong Kong Standards of Auditing.

The amounts of goodwill and fair values of the identifiable assets and liabilities of the Target Group are subject to change upon the completion of the valuation of the fair values of the identifiable assets and liabilities of the Target Group on the date of completion of the Acquisition. Consequently, the resulting goodwill, the actual allocation of the purchase price at the date of completion will likely result in different amounts than those stated in the Unaudited Pro Forma Financial Information.

6. For the purpose of the Unaudited Pro Forma Financial Information, the transaction costs, such as professional services fees, that are directly attributable to the Acquisition, are estimated by the Directors to be HK$3,113,000 and are settled by cash as if the Acquisition had been completed on 30 June 2022.

7. For the purposes of this Unaudited Pro Forma Financial Information, amounts in RMB are translated into HK$ using an exchange rate of RMB1.00 to HK$1.0885. No representation is made that RMB denominated amounts have been, could have been or could be converted to HK$, or vice versa, at the rates applied or at any other rates or at all.

8. No adjustment has been made to reflect any trading results or other transactions of the Company and the Target Group entered into subsequent to 30 June 2022, save from the Restructuring (see Note 3).

## B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of this circular.*

KPMG

## INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

## TO THE DIRECTORS OF GDH GUNAGNAN (HOLDINGS) LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of GDH Guangnan (Holdings) Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2022 and related notes as set out in Part A of Appendix IV to the circular dated 23 December 2022 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix IV to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisition of Zhuhai Yue Guang Feng Investment Company Limited (the "**Proposed Acquisition**") on the Group's assets and liabilities as at 30 June 2022 as if the Proposed Acquisition had taken place at 30 June 2022. As part of this process, information about the Group's financial position as at 30 June 2022 has been extracted by the Directors from the interim report of the Group for the period ended 30 June 2022, on which a review report has been published.

### Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 30 June 2022 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**KPMG**
*Certified Public Accountants*
Hong Kong
23 December 2022

The following is the content summary of the Asset Valuation Report on the value of the entire shareholders' equity interest of the Target Company issued by 廣東財興資產評估土地房地產估價有限公司 (GuangDong Caixing Assets & Real Estate Appraisal Co., Ltd.*) (Guangdong Caixing).

The Asset Valuation Report and the content summary are prepared in Chinese, and the English summary is translated from the Chinese version. In the event of any inconsistency, the Chinese version shall prevail.

## 1. ECONOMIC BEHAVIOURS

廣東粵海廣南投資有限公司 (GDH Guangnan Investment Company Limited*) (Guangnan Investment), a subsidiary of GDH Guangnan (Holdings) Limited 粵海廣南(集團)有限公司, is contemplated to acquire the entire equity interest of 珠海粵廣豐投資有限公司 (Zhuhai Yue Guang Feng Investment Company Limited*) (Zhuhai Yue Guang Feng) (Target Company), a subsidiary of 湖南夢雄運輸服務有限責任公司 (Hunan Mengxiong Transportation Service Company Limited*).

## 2. PURPOSE OF VALUATION

Guangnan Investment is contemplated to acquire the entire equity interest of the Target Company. For this purpose, a valuation of the entire shareholders' equity interest of the Target Company is required in order to provide a reference of value for the aforementioned economic behaviours.

## 3. TARGET AND SCOPE OF VALUATION

### (i) Valuation Target

The valuation object is the entire shareholders' equity interest of the Target Company.

### (ii) Valuation Scope

The scope of valuation is all assets, which include current assets and long-term equity interest investments, etc., and all liabilities, which include current liabilities, of the Target Company.

## 4. TYPE OF VALUE

Market value

## 5. VALUATION DATE

31 October 2022

## 6. BASIS OF VALUATION

### (i) Basis of Economic Behaviours

1) The resolution of the 2022 board meeting of GDH Guangnan Investment Company Limited (《廣東粵海廣南投資有限公司2022年董事會會議決議》)

2) The document of valuation behaviours: The Asset Valuation Engagement Contract (《資產評估委託合同》) entered into between Guangnan Investment and Guangdong Caixing.

### (ii) Basis of Laws and Regulations

1) The Civil Code of the People's Republic of China (《中華人民共和國民法典》) (Adopted at the 3rd meeting of the 13th Standing Committee of the National People's Congress on 28 May 2020, effective from 1 January 2021);

2) The Asset Valuation Law of the People's Republic of China (《中華人民共和國資產評估法》) (Adopted at the 21st meeting of the 12th Standing Committee of the National People's Congress on 2 July 2016, effective from 1 December 2016);

3) The Law on State-owned Assets of Enterprises of the People's Republic of China (《中華人民共和國企業國有資產法》) (Order No. 5 of the President of the People's Republic of China);

4) The Company Law of the People's Republic of China (《中華人民共和國公司法》) (The 4th Revision at the 6th Meeting of the 13th Standing Committee of the National People's Congress on 26 October 2018);

5) The Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) (Revised on 16 March 2007);

6) The Accounting Law of the People's Republic of China (《中華人民共和國會計法》) (Order No. 24 of the President of the People's Republic of China);

7) The Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》 (The 3rd Revision of the 12th Meeting of the 13th Standing Committee of the National People's Congress on the Decision on Amending the Land Administration Law of the People's Republic of China and the Urban Real Estate Administration Law of the People's Republic of China (《關於修改〈中華人民共和國土地管理法〉、〈中華人民共和國城市房地產管理法〉的決定》), effective from 1 January 2020);

8) The Measures for the Administration of Valuation of State-owned Assets (《國有資產評估管理辦法》) (Order No. 91 of the State Council);

9) The Provisional Regulations on the Supervision and Administration of State-owned Assets of Enterprises (《企業國有資產監督管理暫行條例》) (Order No. 378 of the State Council);

10) The Measures for the Supervision and Administration of the Transactions of State-owned Assets of Enterprises (《企業國有資產交易監督管理辦法》) (Order No. 32 of the Ministry of Finance of the State-owned Assets Supervision and Administration Commission of the State Council);

11) The Provisional Measures for the Administration of Valuation of State-owned Assets of Enterprises (《企業國有資產評估管理暫行辦法》) (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

12) The Notice on Strengthening the Administration of Valuation of State-owned Assets of Enterprises (《關於加強企業國有資產評估管理工作有關問題的通知》) (Guo Zi Wei Chan Quan [2006] No. 274);

13) The Notice on Relevant Matters Concerning the Audit of Valuation Reports on State-owned Assets of Enterprises (《關於企業國有資產評估報告審核工作有關事項的通知》) (Guo Zi Chan Quan [2009] No. 941);

14) The Notice on the Guidelines on the Publication and Distribution of the Filing of State-owned Assets Valuation Projects for Enterprises (《關於印發〈企業國有資產評估項目備案工作指引〉》) (Guo Zi Fa Chan Quan [2013] No. 64);

15) The Regulations on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) (Adopted at the 197th executive meeting of the State Council on 28 November 2007);

16) The Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例》) (Adopted at the 34th executive meeting of the State Council on 5 November 2008 by the Order of the State Council No. 538);

17) The Notice on Adjusting the Value-added Tax Rates (《關於調整增值稅稅率的通知》) (Cai Shui [2018] No. 32);

18) The Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例實施細則》) (Order No. 50 of the Ministry of Finance and the State Administration of Taxation).

**(iii) Basis of Valuation Standards**

***1) Asset Valuation Basic Standards***

(1) Asset Valuation Basic Standards (《資產評估基本準則》) (Cai Zi No. 2017043).

***2) Asset Valuation Practicing Standards***

(1) Code of Ethics for Asset Valuation (《資產評估職業道德準則》) (Zhong Ping Xie (2017) No. 30);

(2) Asset Valuation Practicing Standards — Asset Valuation Procedures (《資產評估執業準則 — 資產評估程式》) (Zhong Ping Xie (2018) No. 36);

(3) Asset Valuation Practicing Standards — Asset Valuation Report (《資產評估執業準則 — 資產評估報告》) (Zhong Ping Xie (2018) No. 35);

(4) Asset Valuation Practicing Standards — Contract on Asset Valuation Entrustment (《資產評估執業準則 — 資產評估委託合同》) (Zhong Ping Xie (2017) No. 33);

(5) Asset Valuation Practicing Standards — Asset Valuation Files (《資產評估執業準則 — 資產評估檔案》) (Zhong Ping Xie (2018) No. 37);

(6) Asset Valuation Practicing Standards — Enterprise Value (《資產評估執業準則 — 企業價值》) (Zhong Ping Xie (2018) No. 38);

(7) Asset Valuation Practicing Standards — Asset Valuation Methods (《資產評估執業準則 — 資產評估方法》) (Zhong Ping Xie (2019) No. 35);

(8) Asset Valuation Practicing Standards — Immovable Property (《資產評估執業準則 — 不動產》) (Zhong Ping Xie (2017) No. 38);

(9) Asset Valuation Practicing Standards — Intangible Assets (《資產評估執業準則 — 無形資產》) (Zhong Ping Xie (2017) No. 37);

***3) Asset Valuation Guidance***

(1) Guidance on Value Type for Asset Valuation (《資產評估價數值型別指導意見》) (Zhong Ping Xie (2017) No. 47);

(2) Guidance on Legal Ownership of Asset Valuation Object (《資產評估物件法律權屬指導意見》) (Zhong Ping Xie (2017) No. 48);

***4) Asset Valuation Guidelines***

(1) Guidelines for the Enterprise State-owned Asset Valuation Report (《企業國有資產評估報告指南》) (Zhong Ping Xie (2017) No. 42);

(2) Guidelines for Business Quality Control of Valuation Institutions (《評估機構業務品質控制指南》) (Zhong Ping Xie (2017) No. 46);

*5) Basis of Other Industry Standards*

(1) The Accounting Standards (《會計準則》) and its application guidelines.

**(iv) Basis of Ownership**

1) The ad hoc audit reports provided by the appraised entity on 31 October 2022;

2) Business license, prospectus, capital verification report and financial information, etc., of the Target Company;

3) Certificates of ownership such as immovable property certificates;

4) Asset valuation list provided by the appraised entity;

5) Other data such as the reconciliation statement or documentation of accounting entries.

**(v) Basis of Other References**

1) Manual of Commonly Used Data and Parameters for Asset Valuation (《資產評估常用資料與參數手冊》);

2) Statistical information on such market in related websites;

3) Market research information of the valuer;

4) Other supporting information relevant to the commissioning of valuation assets;

5) Other information recognised as necessary by the valuer.

## 7. VALUATION APPROACHES

**(i) Basic Approaches to Asset Valuation**

In combination with the purpose of valuation, Guangdong Caixing analysed the applicability of three basic approaches, namely income approach, market approach and asset-based approach, in accordance with the circumstances of valuation object, type of value, collection of information, etc., and selected the approach of valuation.

Guangdong Caixing analysed the applicability of three basic approaches, namely income approach, market approach and asset-based approach, with the financial position, information on asset management, the current status of operation and the development plan of the Target Company, and selected the approach of valuation.

After analysing the financial position, information on asset management, the current status of operation and the development plan of the Target Company, as the Target Company is an investment holding company with no cash generating activities, Guangdong Caixing has adopted the asset-based approach to form a conclusion of valuation of the Target Company. The entire equity interest of the Target Company mainly consists of long term equity interest in Zhuhai Dezhirun, which primarily consists of long term equity interests in Zhuhai Dezhirun's subsidiaries. Among which, Zhuhai Runhehe, Zhongshan Shenwan, Zhongzhu Minyuan, Zhongshan Muqing, Zhongzhu Lizhiyuan, Zhongzhu Yuexian, Zhuhai Ruziyuan, Zhongzhu Lichang and Zhongzhu Xinrun were income generating companies and appraised by using the income approach at the entity level, through the use of the discounted cash flow method.

**(ii) Summary of Asset-based Approach**

An asset-based approach is a valuation approach for appraising the value of on-balance sheet and identifiable off-balance sheet assets and liabilities based on the balance sheet at the benchmark date of the valuation object. The major valuation approaches of assets and liabilities are as follows:

***1) Current assets***

Current assets mainly comprise monetary funds in the form of bank deposits. Bank statements and bank balance reconciliations would be checked for bank deposits. The monetary funds are recognised at their verified carrying value after reconciliation as the appraised value.

***2) Non-current assets***

Non-current assets mainly comprise long-term equity investments. The valuation of long-term equity investments is mainly to appraise the equity interest represented by long-term equity investments, in accordance with the detailed accounts of long-term equity investments, relevant investment agreements and information such as the business licences of corporate entities and articles of association of the investee would be collected for reconciliation of the contents listed in the asset valuation returns. Valuation staff would understand with the enterprise the reconciliation method of long-term equity investments and the operating status of the investee, particularly focusing on the de-facto control status of the investee. Based on each of the specific situations of long-term investment, an appropriate valuation approach has been adopted accordingly. After analysis, the asset-based approach and income approach have been adopted respectively for the valuation of long-term equity investments.

In determining the appraised value of long-term equity investments, professionals of valuation did not consider the premium generated or discount incurred by factors such as the acquisition of control or the lack of control.

*3) Current liabilities*

During the process of inspection, the balance sheet, general account, subsidiary ledger and details of the valuation list completed by the enterprise are checked by the valuation staff to review whether the amount, details, quantity and date match with the accounts, while sample inspection of certificates and contracts would be conducted for those in a larger amount, using verified book value as the appraised value for valuation.

**(iii) Summary of Income Approach used for the Valuation of Long-term Equity Investments**

The summary of the valuation method of income approach is as follows:

*1. Selection of revenue model*

The basic model of this valuation is:

$E = P + C - D$

In the formula: E: The capital value of shareholders' equity interests;

P: Operating assets value;

C: Surplus assets and non-operating assets and liabilities value;

D: Interest-bearing debts value;

Of which: Operating assets value P

$$P = \sum_{i=1}^{n} \frac{R_i}{(1+r)^i} + \frac{R_{n+1}}{r(1+r)^n}$$

In the formula: Ri: Corporate free cash flow for the coming $i^{th}$ year;

$R_{n+1}$: Corporate free cash flow for the coming $n+1^{th}$ year;

r: Discount rate;

For this valuation, free cash flow is used as the indicator of revenue for operating assets, the basic definition of which is:

R = net profit after tax + depreciation and amortisation + interest expenses (after tax) – capital expenditure – changes of net working capital

The estimation of the free cash flow during the forecast period is measured in accordance with the operating history of the enterprise and future market development, etc. Assuming that the enterprise would operate on a perpetual basis after the forecast period, the amount of free cash flow in the year after the forecast period will remain the same as those in the final year during the forecast period. Ultimately, both parts of the free cash flow would be discounted and sum up as the value of the operating assets of the enterprise.

*2. Determination of Discount Rate*

Discount rate is also known as the expected rate of return on investment, which is represented by the Weighted Average Cost of Capital (WACC) for this valuation, being the discount rate of net free cash flow for all capital of the valuation object.

The estimation formula of the Weighted Average Cost of Capital (WACC) is as follows:

$$WACC = \frac{E}{D+E} \times K_e + \frac{D}{D+E} \times (1-T) \times K_d$$

In the above formula: WACC: Weighted Average Cost of Capital;

D: Value of interest-bearing debts;

E: Value of equity interest assets;

$K_e$: Cost of equity interest capital;

$K_d$: Cost of debt capital;

D/E: Capital structure;

T: Corporate income tax rate.

Of which: Cost of equity interest capital $K_e$

The cost of equity interest capital $K_e$ is the expected rate of return of corporate shareholders, commonly calculated by the Capital Asset Pricing Model during practical operation, and the calculation formula of which is:

$$K_e = R_{f1} + \beta \times ERP \times R_c$$

In the above formula: $R_{f1}$: Risk-free interest rate

$\beta$: Equity system risk factor

ERP: Market risk premium

$R_c$: Corporate-specific risk adjustment factor

*3. Determination of Term of Revenue*

The value of assets is reflected in the profitability of future assets, which is directly related to the length of the future revenue period. In general, the whole period of revenue (benefit) of assets shall be covered. Starting from the whole benefit year, the uniform period of consolidation could be limited or unlimited. Under the going concern assumption, the recognition of revenue period in terms of an unlimited period (perpetual method) could be adopted.

The period of nine years, November 2022 to December 2030, would be taken as the forecast period, assuming the business of the appraised entity has basically entered a relatively more stable period. Accordingly, the growth of cash flow in year after the forecast period will no longer be considered, while the cash flow of the next tenth year, year 2031, would be taken as the cash flow of each year for the latter part of the perpetual period or limited term of period.

## 8. VALUATION CONCLUSION

The book value of total assets of the Target Company is RMB39,600,000, which mainly consisted of the long term equity interest in Zhuhai Dezhirun, and the appraised value is RMB190,217,000, representing an increase of RMB150,617,000, with an increment of 380.35%; the book value of total liabilities is RMB500, and the appraised value is RMB500, without appreciation or depreciation; the book value of net assets is RMB39,600,000, and the appraised value is RMB190,217,000, representing an increase of RMB150,617,000, with an increment of 380.35%.

The Target Company is an investment holding company with no cash generating activities. Its entire equity interest was appraised by using asset-based approach and mainly consists of long term equity interest in Zhuhai Dezhirun, which primarily consists of long term equity interests in Zhuhai Dezhirun's subsidiaries. Such equity interests were appraised partly by using the income approach at the entity level, through the use of the discounted cash flow method. The valuation results for the long-term equity investments of the Target Company are summarized as follows:

**(1) Appraised value of the long-term equity investments of the Target Company**

The long-term equity investments of the Target Company consist of 66% equity interest in Zhuhai Dezhirun, with the appraised value of RMB190,217,000.

**(2) Valuation on Zhuhai Dezhirun**

The entire equity interest of Zhuhai Dezhirun was appraised by using asset-based approach with the appraised value of RMB288,210,000. The valuation results are set out as follows:

*Unit: RMB10 thousand*

| **Item** | **Book value** | **Appraised value** | **Increase or decrease** | **Increase %** |
|---|---|---|---|---|
| | A | B | C = B–A | D = C/A × 100% |
| Current assets | 3,967 | 3,967 | — | — |
| Non-current assets | 14,550 | 30,899 | 16,349 | 112 |
| Of which: Long-term equity investments | 14,550 | 30,899 | 16,349 | 112 |
| **Total assets** | **18,518** | **34,867** | **16,349** | **88** |
| Current liabilities | 6,046 | 6,046 | — | — |
| Non-current liabilities | — | — | | |
| **Total liabilities** | **6,046** | **6,046** | **—** | **—** |
| **Net assets (Equity interest of owners)** | **12,472** | **28,821** | **16,349** | **131** |

The long-term equity investments of Zhuhai Dezhirun consist of 100% equity interest in Zhuhai Runhehe, 100% equity interest in Zhongshan Shenwan and 100% equity interest in Zhongzhu Agricultural. Zhuhai Runhehe and Zhongshan Shenwan were appraised mainly by using income approach. As such, the total appraised value of the long-term equity investments held by Zhuhai Dezhirun is RMB308,990,000. The valuation results are set out as follows:

*Unit: RMB10 thousand*

| | **Appraised value** | **% of shareholding** | **Appraised value held by Zhuhai Dezhirun** |
|---|---|---|---|
| Zhuhai Runhehe | 20,786 | 100% | 20,786 |
| Zhongshan Shenwan | 6,095 | 100% | 6,095 |
| Zhongzhu Agricultural | 4,018 | 100% | 4,018 |
| | | | 30,899 |

**(3) Valuation on Zhongzhu Agricultural**

The entire equity interest of Zhongzhu Agricultural was appraised by using asset-based approach with the appraised value of RMB40,180,000. The valuation results are set out as follows:

*Unit: RMB10 thousand*

| Item | Book value<br>A | Appraised value<br>B | Increase or decrease<br>C = B–A | Increase %<br>D = C/A × 100% |
|---|---|---|---|---|
| Current assets | 2 | 2 | — | — |
| Non-current assets | 2,425 | 5,169 | 2,744 | 113 |
| Of which: Long-term equity investments | 2,425 | 5,169 | 2,744 | 113 |
| **Total assets** | **2,427** | **5,171** | **2,744** | **113** |
| Current liabilities | 1,153 | 1,153 | — | — |
| Non-current liabilities | — | — | — | — |
| **Total liabilities** | **1,153** | **1,153** | **—** | **—** |
| **Net assets (Equity interest of owners)** | **1,274** | **4,018** | **2,744** | **215** |

The long-term equity investments of Zhongzhu Agricultural consist of 80% equity interest in Zhongzhu Minyuan, 55% equity interest in Zhongzhu Lizhiyuan, 67% equity interest in Zhongzhu Lichang and 100% equity interest in Zhongzhu Xinrun. All of the aforesaid subsidiaries of Zhongzhu Agricultural were appraised mainly by using income approach. As such, the total appraised value of the long-term equity investments held by Zhongzhu Agricultural is RMB51,690,000. The valuation results are set out as follows:

*Unit: RMB10 thousand*

| | Appraised value | % of shareholding | Appraised value held by Zhongzhu Agricultural |
|---|---|---|---|
| Zhongzhu Minyuan *(Note 1)* | 2,494 | 80% | 1,995 |
| Zhongzhu Lizhiyuan *(Note 2)* | 3,759 | 55% | 2,068 |
| Zhongzhu Lichang | 144 | 67% | 97 |
| Zhongzhu Xinrun | 1,009 | 100% | 1,009 |
| | | | 5,169 |

*Notes:*

(1) Appraised value of Zhongzhu Minyuan includes the value of equity interest of Zhongshan Muqing, which is wholly-owned by Zhongzhu Minyuan. Zhongshan Muqing was appraised by using income approach with the appraised value of RMB3,360,000. The appraised value of Zhongzhu Minyuan excluding its long term equity interest in Zhongshan Minqing is RMB21,580,000.

(2) Appraised value of Zhongzhu Lizhiyuan includes the value of equity interest of Zhongzhu Yuexian and Zhuhai Ruziyuan. Zhongzhu Yuexian is wholly-owned by Zhongzhu Lizhiyuan and Zhuhai Ruziyuan is owned as to 55% by Zhongzhu Lizhiyuan. Zhongzhu Yuexian and Zhuhai Ruziyuan were appraised by using income approach with the appraised value of RMB6,800,000 and RMB340,000, respectively. The appraised value of Zhongzhu Lizhiyuan excluding its long term equity interests in Zhongzhu Yuexian and Zhuhai Ruziyuan is RMB30,600,000.

## Analysis on the Valuation Using Income Approach for major subsidiaries of Zhuhai Dezhirun

***Extracted forecast data of major subsidiaries of Zhuhai Dezhirun is set out in the table below:***

### I. Zhuhai Runhehe

*Unit: RMB10 thousand*

| | For the period from Jan-Oct 2022 (Actual) | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 | Year 2028 | Year 2029 | Year 2030 | Year 2031 and beyond |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 92 | 2,646 | 13,372 | 22,328 | 23,963 | 29,684 | 38,757 | 44,595 | 44,544 | |
| Less: Cost of sales | 47 | 1,684 | 10,148 | 17,701 | 18,582 | 23,045 | 30,435 | 34,970 | 34,299 | |
| Tax and surcharge | 1 | 118 | 136 | 147 | 153 | 163 | 177 | 187 | 192 | |
| Selling expenses | — | 158 | 440 | 595 | 657 | 784 | 963 | 1,096 | 1,144 | |
| Administrative expenses | 119 | 974 | 1,987 | 2,047 | 2,158 | 2,276 | 2,400 | 2,531 | 2,669 | |
| Finance Costs | 59 | 423 | 745 | 686 | 627 | 522 | 362 | 152 | (66) | |
| Add: Investment gain *(Note 1)* | 7,420 | — | — | — | — | — | — | — | — | |
| Less: Other net loss | 27 | — | — | — | — | — | — | — | — | |
| Profit/(loss) before taxation | 7,259 | (711) | (84) | 1,152 | 1,786 | 2,894 | 4,420 | 5,659 | 6,306 | |
| Less: Income tax | — | — | (21) | 288 | 446 | 724 | 1,105 | 1,415 | 1,576 | |
| Net profit/(loss) | 7,259 | (711) | (63) | 864 | 1,340 | 2,170 | 3,315 | 4,244 | 4,730 | 4,730 |
| Add: Depreciation of fixed assets, amortisation of intangible assets | | 1,031 | 2,064 | 2,067 | 2,070 | 2,073 | 2,076 | 2,079 | 2,082 | — |
| Interest on debt (net of tax effect) | | 328 | 611 | 603 | 565 | 509 | 425 | 290 | 127 | 127 |
| Less: Capital expenditures | | 27,825 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | — |
| Additional working capital | | 274 | 1,073 | 896 | 163 | 572 | 907 | 584 | (5) | — |
| Free cash flows | | (27,451) | 1,509 | 2,608 | 3,782 | 4,150 | 4,879 | 5,999 | 6,914 | 4,857 |

*Note 1:* Investment gain included the dividend received from the subsidiary and gain on disposal of the subsidiary.

## II. Zhongshan Shenwan

*Unit: RMB10 thousand*

| | For the period from Jan-Oct 2022 (Actual) | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 | Year 2028 | Year 2029 | Year 2030 | Year 2031 and beyond |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 1,045 | 1,524 | 1,633 | 1,741 | 1,850 | 1,959 | 2,068 | 2,177 | 2,177 | |
| Less: Cost of sales | 578 | 995 | 1,048 | 1,118 | 1,231 | 1,333 | 1,413 | 1,488 | 1,450 | |
| Tax and surcharge | 8 | 23 | 24 | 25 | 25 | 26 | 26 | 27 | 28 | |
| Selling expenses | — | — | — | — | — | — | — | — | — | |
| Administrative expenses | 194 | 272 | 283 | 273 | 247 | 241 | 247 | 254 | 261 | |
| Finance costs | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Add: Other net gain | 310 | — | — | — | — | — | — | — | — | |
| Profit before taxation | 574 | 234 | 278 | 325 | 347 | 359 | 382 | 408 | 438 | |
| Less: Income tax | 1 | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 | |
| Net profit | 573 | 231 | 275 | 322 | 344 | 356 | 378 | 404 | 434 | 434 |
| Add: Depreciation of fixed assets, amortisation of intangible assets | | 240 | 249 | 214 | 145 | 116 | 115 | 115 | 114 | 114 |
| Less: Capital expenditure | | 10 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 114 |
| Additional working capital | | (71) | 3 | — | (14) | (13) | (7) | (5) | 16 | — |
| Free cash flows | | 532 | 516 | 531 | 498 | 480 | 495 | 519 | 527 | 434 |

## III. Zhongzhu Lizhiyuan

*Unit: RMB10 thousand*

| | For the period from Jan-Oct 2022 (Actual) | Year 2023 | Year 2024 | Year 2025 | Year 2026 | Year 2027 | Year 2028 | Year 2029 | Year 2030 | Year 2031 and beyond |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 24,841 | 30,406 | 31,632 | 32,906 | 34,233 | 35,612 | 36,864 | 38,160 | 39,501 | |
| Less: Cost of sales | 23,442 | 28,514 | 29,727 | 30,927 | 32,129 | 33,424 | 34,640 | 35,901 | 37,178 | |
| Tax and surcharge | 0 | 18 | 18 | 19 | 20 | 21 | 21 | 22 | 23 | |
| Selling expenses | 725 | 908 | 943 | 977 | 1,008 | 1,040 | 1,076 | 1,114 | 1,154 | |
| Administrative expenses | 377 | 475 | 497 | 518 | 535 | 553 | 575 | 598 | 623 | |
| Finance Costs | — | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | |
| Add: Other gain | 19 | — | — | — | — | — | — | — | — | |
| Investment gain *(Note 1)* | 84 | — | — | — | — | — | — | — | — | |
| Profit before taxation | 400 | 492 | 448 | 466 | 542 | 575 | 553 | 526 | 524 | |
| Less: Income tax | 12 | 123 | 112 | 117 | 135 | 144 | 138 | 131 | 131 | |
| Net profit | 388 | 369 | 336 | 349 | 407 | 431 | 415 | 395 | 393 | 393 |
| Add: Depreciation of fixed assets, amortisation of intangible assets | | 14 | 22 | 23 | 16 | 8 | 6 | 5 | 5 | 5 |
| Less: Capital expenditures | | 30 | 30 | 10 | 8 | 5 | 5 | 5 | 5 | 5 |
| Additional working capital | | 64 | 235 | 239 | 244 | 258 | 239 | 248 | 254 | — |
| Free cash flows | | 289 | 93 | 123 | 171 | 176 | 177 | 147 | 139 | 393 |

*Note 1:* Investment gain represents the dividend received from the subsidiary.

***(1) Revenue***

Revenue forecast is based on the overall operation deployment of the Target Group. The forecast is prepared based on, among other things, the prevailing national laws and regulations in the PRC, national macro policies, macro-economic conditions, industry status, the development plan and operation plan, advantages, disadvantages, opportunities and risks of the enterprises, in particular the market conditions and future development prospects and potential of the enterprises, as well as the financial forecast of the Target Group for the forecast period.

For the revenue forecast of the above mentioned major subsidiaries, among which, Zhuhai Runhehe and Zhongshan Shenwan are principally engaged in slaughtering business, while Zhongzhu Lizhiyuan is principally engaged in the sales of beef and beef-related products.

Revenue forecast for Zhuhai Runhehe and Zhongshan Shenwan are mainly made in accordance with the capacity of their existing slaughterhouse or slaughterhouse under construction, with reference to the existing historical data, production plan as well as the market size of the Greater Bay Area. For Zhuhai Runhehe, the construction of the slaughterhouse is expected to be completed in the second half year of 2023, the growth rate of revenue for year 2024 will be expected to have a substantial increase with the full year effect. With further utilisation of production capacity from 45% in year 2024 to 50% in year 2025 and the expansion of market share, it is expected that the revenue in year 2025 would increase by 67% from year 2024. Given that Zhuhai Runhehe is expected to have self-operated business in food production and operation based on its slaughtering capacity, under the influence of cyclical fluctuation of swine price with reference to relevant market research, different growth rates are expected for the expected revenue in year 2026 and years after. The capacity will be fully utilised in year 2029 and the growth rate will become stable. For Zhongshan Shenwan, as it is at full capacity stage, the revenue will be expected to increase at a steady growth rate between 5%–7% during the forecast period. The two entities have different slaughtering capacities for serving different regions and operation plans, which led to different growth rates in revenue.

Revenue forecast for Zhongzhu Lizhiyuan is made based on the future operation and business forecast provided by the appraised entity, taking into consideration of the change in historical annual income as well as reasonable adjustment on the operation model of industry peers and other similar companies within Zhuhai Dezhirun Group. The growth rate of Zhongzhu Lizhiyuan for the forecast period would be at a range between 3%–4%.

***(2) Cost of sales and gross profit margin***

Cost of sales forecast is analyzed with reference to historical operating cost structure with full consideration of factors which affect future business costs of the entities. Forecast is made with reference to the fluctuation of the historical annual income/cost ratio of each entity. For Zhuhai Runhehe and Zhongshan Shenwan, the gross profit margin for the forecast period will be approximately 20%–35% due to the different fixed costs incurred and the capacities among two slaughterhouses. For Zhongzhu Lizhiyuan, the gross profit margin for the forecast period will be approximately 6%. The forecast gross profit margin of Zhongshan Shenwan and Zhongzhu Lizhiyuan is made with reference to their historical data.

The construction of the slaughterhouse of Zhuhai Runhehe is expected to be completed in the second half year of 2023. As such, no historical data can be referenced. The valuer has therefore made reference to the gross profit margin of the below listed companies, which operate similar businesses including slaughtering and meat processing.

| **Listed company** | **Stock code** | **Average gross profit margin from year 2019 to year 2021** |
|---|---|---|
| 1. Henan Shuanghui Investment & Development Co., Ltd. | 000895.SZ | 17.1 |
| 2. Fortune Ng Fung Food (Hebei) Co., Ltd. | 6009650.SH | 33.0 |
| 3. Bazhong Bashan Livestock Husbandry Technology Co., Ltd. | 872245.NQ | 25.1 |
| | Average gross profit margin | 25.1 |

The valuer has made adjustments on the reference gross profit margin having taken into consideration the different assets scales, operation period and location between the above listed companies and Zhuhai Runhehe. The gross profit margin of Zhuhai Runhehe is approximately around 20%–24%.

***(3) Taxes and Surcharges***

Taxes and surcharges forecast is made based on the historical annual tax categories and tax rates enacted for each entity as well as the aforesaid operating income and cost forecast with reference to the relevant tax rates currently enacted.

***(4) Selling Expenses***

For selling expenses forecast, it mainly consists of salary and welfare as well as other costs. Forecast is made in accordance with the future operation policy of the appraised entities and the pre-determined future plan for the entities by management. Selling expense level for the forecast is analysed with factors such as the expansion of the production capacity and price surge during the forecast.

***(5) Administrative Expenses***

For administrative expenses forecast, administrative expense items principally consist of, among other things, salary and welfare, depreciation and amortization. Based on the future operation decision of the appraised entities and the pre-determined future plan for the entities by management, administrative expense level for the forecast is analyzed with factors such as the expansion of the production capacity and price surge during the forecast. In particular, the annual growth rate of salary cost is forecasted mainly based on the research on annual salary growth among entities in Zhuhai and Zhongshan as well as the prediction on the future cost and expenditure plan made by the management of the appraised entities.

***(6) Finance costs***

Finance costs mainly consist of interest expenses and others. Upon verification, apart from the interest-bearing debts of Zhuhai Runhehe in relation to the construction of the slaughterhouse in Zhuhai Doumen district, the remaining entities have no finance costs. As such, the interest expense component is forecasted based on the current repayment plan for interest-bearing debts and the related interest expenses are calculated. For other entities, forecast is made based on subsequent business development. Reasonable forecast is made on the finance expenses for future years upon communication and understanding with the management and finance department of the entities.

***(7) Net profit***

Zhuhai Runhehe: The slaughterhouse of Zhuhai Runhehe will complete construction and commence production in the second half year of 2023. With a relatively large market demand for hog slaughtering in its serving areas, it is expected that the business will gradually go on track in year 2024 and begin to generate profit in year 2025 with growth year-on-year until at full capacity.

Zhongshan Shenwan: Zhongshan Shenwan's net profit will remain relatively stable for the forecast period, which is mainly due to the gradual entry of stable phase of the entity upon years of operation. Since the slaughtering capacity has become full and saturated, the fluctuation of future net profit would not be significant. From year 2026 onward, it is expected that the net profit will record a mild increase year-on-year.

Zhongzhu Lizhiyuan: Zhongzhu Lizhiyuan has been focusing on quality beef and striving to offer consumers with safe and quality meat products. Since Zhongzhu Lizhiyuan has stable customer and sales channels, its business has gradually entered into a stable phase, hence the fluctuation of its net profit for the forecast will be relatively stable.

***(8) Capital expenditure***

Based on the actual situation of the appraised entity, during the forecast period, the valuer has considered the repair and modification expenses for fixed assets as well as the capital expenditure required for normal expansion and maintenance of the existing operation scale. Since the slaughterhouse of Zhuhai Runhehe is under construction, capital expenditure is required in accordance with the slaughterhouse construction progress prior to its expected completion in the second half year of 2023. Upon completion of the construction of the slaughterhouse, no substantial capital expenditure would be incurred subsequently, and most of the capital expenditure is expected to incur for renovation of the fixed assets. For Zhongshan Shenwan and Zhongzhu Lizhiyuan, no substantial capital expenditure is expected to incur in the forecast period.

***(9) Additional working capital***

The increase in working capital refers to the newly injected working capital required for maintaining normal operation of the entities with their prevailing business conditions remain unchanged. This includes the new fund required for maintaining the sustainable operation of the entities, such as cash held for ordinary operation, basic fund required for, among other things, advances on behalf of customers as well as other payables.

The change in working capital is a component of cash flow, which is mainly forecasted by analyzing the changes in historical current assets and current liabilities of the entities, the specific operation conditions of the entities and monetary funding gap.

***(10) Discount rate***

Discount rate is also known as the expected rate of return on investment, which is represented by the Weighted Average Cost of Capital (WACC) for this valuation, being the discount rate of net free cash flow for all capital of the valuation object.

Specific formular:

$$WACC = \frac{E}{D+E} \times K_e + \frac{D}{D+E} \times (1-T) \times K_d$$

In the above formula: WACC: Weighted Average Cost of Capital;

D: Value of interest-bearing debt;

E: Value of equity interest assets;

$K_e$: Cost of equity interest capital;

$K_d$: Cost of debt capital;

D/E: Capital structure;

T: Corporate income tax rate.

Of which: Cost of equity interest capital $K_e$

The cost of equity interest capital $K_e$ is the expected rate of return of corporate shareholders, commonly calculated by the Capital Asset Pricing Model during practical operation, the calculation formula of which is:

$$K_e = R_{f1} + \beta \times ERP \times R_c$$

In the above formula: $R_{f1}$ :Risk-free interest rate

$\beta$: Equity system risk factor

*ERP*: Market risk premium

$R_e$: Corporate-specific risk adjustment factor

Based on the above, the discount rates of Zhuhai Runhehe, Zhongshan Shenwan and Zhongzhu Lizhiyuan adopted in the valuation are 9.41%, 8.58% and 9.63%, respectively, in terms of their respective situation, development and performance.

## 9. PRINCIPAL ASSUMPTIONS IN VALUATION

***General assumptions***

1. All assets and liabilities in the valuation are based on the scope of the statement of financial position of the appraised entity, and the valuation is conducted based thereon.

2. The valuation does not consider the impact of possible additional costs and expenses that may be required under special trading methods on the appraised value, nor does it consider the impact of occasional natural forces and other force majeure on the appraised value.

3. The result of the valuation is based on the authenticity, accuracy, completeness, and objectivity of all documents provided by the Vendor.

4. Based on the assumptions and the purpose of the valuation, the prevailing market value methodology is used for the valuation. All price standards used in the valuation are valid price standards and valuation systems on the valuation date.

5. Transaction assumption: it is assumed that the appraised objects are in the transaction process and the Valuer conducts the valuation based on comparable market, such as the trading conditions of the appraised objects. The result of the valuation is the estimate of the most achievable transaction price of the appraised objects.

6. Open market assumption: it is assumed that the assets involved in the valuation target are being traded in the open market, the buyers and sellers are equal in the market with opportunities and time to acquire adequate market information, and transactions of both the buyers and sellers are carried out voluntarily, rationally and under non-mandatory conditions.

7. It is assumed that after the economic behaviour of the valuation purpose has been realised, the assets involved in the appraised objects would continue to be used in situ in accordance with their use and usage method at the valuation date.

***Special Assumptions***

1. It is assumed that there will be no significant changes in the industry and region in which the appraised entity operates and social and economic environment in the PRC, and there will be no significant changes in the prevailing national laws, regulations and social, political and economic policies.

2. Enterprise ongoing concern assumption: firstly, it is assumed that the appraised assets are being used, which includes assets being used and reserved assets; secondly, based on relevant data and information, it is assumed that the assets being used will continuously be used. The assumption of sustainable use explains what market conditions or environment the appraised assets are subject to, and explains the subsisting status of the assets. The principle of continuing to be used as existing usage is adopted for this valuation, which refers to the case when the appraised asset will continue to be used in accordance with the existing usage and form after the ownership is changed or asset business occurred.

3. The prevailing corporate income tax rate for appraised entity is 25% (the corporate income tax rate for certain subsidiaries is 15%). It is assumed that the interest rate, exchange rate, tax base and tax rate, and policy collection fees related to the appraised entity will not undergo major changes except for the known changes and fluctuations on the date of issuance of the report.

4. It is assumed that the operator of the appraised entity is responsible and the management has the capability to take on their duties and responsibilities.

5. It is assumed that the appraised entity fully complies with all the relevant prevailing laws and regulations.

6. It is assumed that there will be no other force majeure and unforeseeable factors that have a material adverse effect on the appraised entity.

7. It is assumed that the accounting policies to be adopted by the appraised entity in the future will be fundamentally consistent in all material aspects with those adopted at the valuation date.

8. Enterprise business model stability assumption, where the operating products and services of the enterprise basically remain unchanged, enables the enterprise to maintain similar business relationships with all major customers and suppliers in recent years, or the changes can be anticipated and may be realised.

9. It is assumed that the cash inflow of the appraised entity is the average inflow, and the cash outflow is the average outflow after the valuation date.

The Valuer is of the view that the assumptions above are present as at the valuation date based on the requirements of the income approach for valuation of partly long term equity investments of the Target Company and reached the conclusion of the valuation based on these assumptions. The result of the valuation will change significantly if there is material change in the future economic environment after the valuation date or if other assumptions become invalid.

*The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for reproduction in this circular.*

KPMG

**REPORT ON THE CALCULATION OF DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF ZHUHAI YUE GUANG FENG INVESTMENT COMPANY LIMITED**

**TO THE BOARD OF DIRECTORS OF GDH GUANGNAN (HOLDINGS) LIMITED**

We refer to the discounted future cash flows on which the business valuation ("**the Valuation**") dated 21 November 2022 prepared by 廣東財興資產評估土地房地產估價有限公司 in respect of the appraisal of the fair value of Zhuhai Yue Guang Feng Investment Company Limited ("**the Target Company**") as at 31 October 2022 is based. The Valuation is prepared based in part on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

**Directors' Responsibilities**

The directors of GDH Guangnan (Holdings) Limited (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control (HKSQC) 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

**Basis of Opinion**

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

**Opinion**

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

**Other matters**

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

**KPMG**

*Certified Public Accountants*
Hong Kong
5 December 2022

*As the Valuation Report is partly based on discounted cashflow method, it is deemed to be a profit forecast under the Listing Rules. The following is the full text of a letter from the Financial Adviser in relation to the Valuation Report, for the purpose of, among other things, incorporation into this circular.*

**GF Capital (Hong Kong) Limited**
29–30/F, Li Po Chun Chambers,
189 Des Voeux Road Central
Hong Kong

The Board of Directors
**GDH Guangnan (Holdings) Limited**
Units 2905–08, 29th Floor
Shui On Centre
6–8 Harbour Road,
Wanchai
Hong Kong

23 December 2022

Dear Sirs/Madams,

We refer to the valuation report dated 21 November 2022 (the "**Valuation Report**") in respect of the valuation of the entire equity interest in 珠海粵廣豐投資有限公司 (Zhuhai Yue Guang Feng Investment Company Limited*, the "**Target Company**") as at 31 October 2022, prepared by 廣東財興資產評估土地房地產估價有限公司 (GuangDong Caixing Assets & Real Estate Appraisal Co., Ltd., the "**Independent Valuer**"). The Target Company is principally engaged in investment holding and it is in control of 珠海德之潤實業有限公司 (Zhuhai Dezhirun Industrial Company Limited*) and its subsidiaries (collectively with the Target Company, the "**Target Group**"). The Target Group is principally engaged in slaughtering, food production and operation including pork and beef. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as defined in the circular of GDH Guangnan (Holdings) Limited (the "**Company**") dated 23 December 2022 in connection with, among others, major transaction in relation to acquisition of the entire equity interest in Target Company (the "**Circular**").

We understand that the Valuation Report has been provided to you and we note that the Valuation Report has been prepared partly based on, among other things, the income approach, an appraisal approach to identify the value of the target of evaluation by discounted cash flows, and is therefore regarded as profit forecast under Rule 14.61 of the Listing Rules (the "**Forecast**").

We are not reporting on the arithmetical calculations of the Forecast and the adoption of the accounting policies thereof, and our work does not constitute any valuation or fairness opinion of the entire equity interest in the Target Company. We have assumed, without independent verification, the accuracy of the parameters stated in the Valuation Report.

We have undertaken reasonableness checks to assess the relevant experience and expertise of the Independent Valuer and are satisfied that reliance could fairly be placed on the Independent Valuer's work.

We have reviewed the Forecast included in the Valuation Report, for which you as the Directors are solely responsible. We have attended discussions involving the management of the Target Group with the Company and Independent Valuer, where (i) the historical performance of the Target Group, (ii) the calculations of the Forecast, and (iii) the qualifications, bases and assumptions set out in the Valuation Report were discussed. We have also considered the report addressed solely to and for the sole benefit of the Directors from KPMG dated 5 December 2022, the text of which is set out in Appendix VI to the Circular regarding the calculations of the discounted future cash flows on which the Forecast is based. The Forecast is based on a number of bases and assumptions. As the relevant bases and assumptions are about future events which may or may not occur, the actual financial performance of the businesses of the Target Group may or may not achieve as expected and the variation may be material. Accordingly, we express no opinion as to how the actual cash flow will eventually correlate with the Forecast.

Based on the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by the Independent Valuer, for which the Independent Valuer and the Company are responsible, we are satisfied that the Forecast included in the Valuation Report, for which you as the Directors are solely responsible, has been made after due and careful enquiry by you.

The work undertaken by us in giving the above view has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work or this letter.

Yours faithfully,
For and on behalf of
**GF Capital (Hong Kong) Limited**
**Erica Law**
*Director, Responsible Officer*

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

## 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 in issue as at the Latest Practicable Date.

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 *(Note 1)* |
|---|---|---|---|
| Guangdong Holdings | 537,198,868 | Long position | 59.19% |
| GDH | 537,198,868 | Long position | 59.19% |

*Notes:*

1. The approximate percentage of interests held was calculated on the basis of 907,593,285 Shares in issue as at the Latest Practicable Date.

2. The attributable interest which Guangdong Holdings has in the Company is held through its 100% direct interest in GDH.

3. As at the Latest Practicable Date, none of the Directors held any position in Guangdong Holdings or GDH.

Save as disclosed below, as at the Latest Practicable Date, so far as was 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 position | Long/short position | Approximate percentage of interests held |
|---|---|---|---|
| Nanhai Holding | GDH Food Foshan | Long position | 35% |
| Skymax Trading Limited | GDH Guangnan Live Pigs Trading Limited | Long position | 49% |
| Mr. Ngan | Brilliant Food Products Limited | Long Position | 30% |

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 Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2021, 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 Enlarged Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Enlarged Group.

## 6. DIRECTORS' INTEREST IN COMPETING BUSINESS

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. QUALIFICATIONS AND CONSENTS OF THE EXPERTS

The following is the qualification of the experts which have given opinion or advice which is contained in this circular:

| Name | Qualification |
|---|---|
| KPMG | Certified Public Accountants |
| GF Capital | a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity as defined under the SFO |
| Guangdong Caixing | Independent valuer |

As at the Latest Practicable Date, each of the above experts did not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in any member of the Group, nor did it have any interest, direct or indirect, in any assets which had, since the date to which the latest published audited consolidated financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

Each of the above experts has given and has not withdrawn its written consent to the publication of this circular with inclusion of its report and all references to its name in the form and context in which they respectively appear. The report or letter from each of the above experts was given as of the date of this circular for incorporation in this circular.

## 9. MATERIAL CONTRACTS

The members of the Group and the Target 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, Nanhai Holding and GDH Food Foshan in relation to the subscriptions of the registered capital in GDH Food Foshan by GDH Guangnan Hong and Nanhai Holding 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 佛山市自然資源局 (Foshan Natural Resources Bureau*), a department of the Foshan City government, in relation to the acquisition of 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 (the "**Land**") by GDH Food Foshan for a total consideration of RMB60,000,000;

(iii) 《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 entered into between GDH Food Foshan and 中國化學工程第四建設有限公司 (China National Chemical Engineering Fourth Construction Co., Ltd.*) in respect of the construction of a slaughterhouse and related facilities and works on the Land for a total consideration of RMB252,201,091.23;

(iv) the facility agreement dated 27 May 2021 entered into by the Company with a bank whereby the bank agreed to make available to the Company a 360-day committed term loan facility in the principal amount of HK$200,000,000;

(v) the capital increase agreement dated 22 June 2021 entered into by GDH Guangnan Hong Investment, Guangdong Foodstuffs, Guangzhou Jiusheng and Baojin Company pursuant to which GDH Guangnan Hong Investment, Guangdong Foodstuffs and Guangzhou Jiusheng agreed to subscribe for the registered capital of Baojin Company for the consideration of RMB119,000,000, RMB157,500,000 and RMB73,500,000, respectively, on a pro rata basis to their then existing shareholding in Baojin Company;

(vi) 《珠港澳食品加工產業園項目建築安裝工程施工合同》(construction and installment contract for the meat processing project of Zhuhai-Hong Kong-Macao Food Processing Industrial Park*) dated 30 August 2021 entered into between Zhuhai Runhehe and 珠海德亮建築工程有限責任公司 (Zhuhai Deliang Construction Engineering Co., Ltd.*) for a total consideration of approximately RMB110,000,000;

(vii) the facility letter dated 20 May 2022 entered into by the Company with a bank whereby the bank agreed to make available to the Company a 360-day committed term loan facility in the principal amount of HK$200,000,000;

(viii) the equity transfer agreement dated 6 June 2022 entered into by the Purchaser with POSCO and POSCO-China, pursuant to which, the Purchaser as purchaser conditionally agreed to acquire, and POSCO and POSCO-China as vendors conditionally agreed to sell 34% of the equity interest in 粵海中粵(秦皇島)馬口鐵工業有限公司 (GDH Zhongyue (Qinhuangdao) Tinplate Industrial Co., Ltd.*) (formerly known as 粵海中粵浦項(秦皇島)馬口鐵工業有限公司 (GDH Zhongyue Posco (Qinhuangdao) Tinplate Industrial Co., Ltd.*)) for a total consideration of RMB85,000,000;

(ix) the facility letter dated 4 July 2022 entered into by the Company with a bank whereby the bank agreed to make available to the Company a 360-day committed term loan facility in the principal amount of HK$350,000,000;

(x) the sale and purchase agreement dated 30 September 2022 enter into between Mr. Ngan as vendor, GDH Guangnan Hong as purchaser and Mr. Ngan Wai Yan as guarantor pursuant to which Mr. Ngan conditionally agreed to sell and GDH Guangnan Hong conditionally agreed to purchase the entire issued share capital of Brilliant Food Products Limited at an aggregate consideration of HK$50,000,000;

(xi) the equity transfer agreement dated 13 October 2022 entered into between Zhuhai Runhehe and Zhuhai Hongruiming, pursuant to which, Zhuhai Runhehe sold approximately 98.18% equity interest in Zhuhai Food at the consideration of RMB227,000,000 to Zhuhai Hongruiming;

(xii) the provisional agreement for sale and purchase dated 10 November 2022 entered into between Courtza Investment Limited as vendor, GDH Guangnan Hong as purchaser and Golden Fortune Estate Co., as agent in relation to the acquisition of a property located at Unit 5, 2/F, Chai Wan Industrial City Phase II, No. 70 Wing Tai Road, Hong Kong by GDH Guangnan Hong from Courtza Investment Limited at a consideration of HK$52,800,000;

(xiii) the facility letter dated 21 November 2022 entered into by the Company with a bank whereby the bank agreed to make available to the Company a HK$100,000,000 committed term loan facility for a term of 360 days;

(xiv)《珠港澳食品加工產業園肉品加工項目生產設備採購及安裝工程合同》 (production equipment procurement and installation contract for the meat processing project of Zhuhai-Hong Kong-Macao Food Processing Industrial Park*) dated 22 November 2022 entered into between Zhuhai Runhehe and 湖南省興業肉類機械有限公司 (Hunan Xingye Meat Machinery Company Limited*) for a total consideration of RMB24,700,000; and

(xv) the Equity Transfer Agreement.

## 10. GENERAL

(i) The company secretary of the Company is Mr. Liu Wai Kin, an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

(ii) The registered office of the Company is situated at Units 2905–08, 29th Floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong.

## 11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.gdguangnan.com) for a period of 14 days from the date of this circular:

(i) the Equity Transfer Agreement;

(ii) the Letter from the Board, the text of which is set out in "*Letter from the Board*" in this circular;

(iii) the accountants' report on the Target Group, the text of which is set out in Appendix II to this circular;

(iv) the report on the unaudited pro forma financial information of the Enlarged Group issued by KPMG, the text of which is set out in Appendix IV to this circular;

(v) the Valuation Report issued by the Valuer, the text of which is set out in Appendix V to this circular;

(vi) the report from KPMG on the calculation of discounted cash flows used in connection with the Valuation Report, the text of which is set out in Appendix VI to this circular;

(vii) the letter issued by the Financial Adviser on the Valuation Report, the text of which is set out in Appendix VII to this circular;

(viii) the written consents as referred to in the section headed "8. Qualifications and consents of experts" in this Appendix; and

(ix) this circular.