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

DISCLOSEABLE TRANSACTION IN RELATION TO SUBSCRIPTION OF REGISTERED CAPITAL AND CAPITAL INCREASE IN THE TARGET COMPANY

THE SUBSCRIPTION AND CAPITAL INCREASE

The Company is pleased to announce that on 6 November 2023 (after trading hours), the Subscriber (being a wholly-owned subsidiary of the Company) entered into the Agreement with the Target Company, the Original Shareholder and the Warrantors, pursuant to which (i) the Subscriber has conditionally agreed to subscribe for 51% of the enlarged registered capital of the Target Company for the consideration of RMB3,278,600 (equivalent to approximately HK$3,572,000); and (ii) the Subscriber and the Original Shareholder have conditionally agreed to inject the amount of RMB40,800,000 (equivalent to approximately HK$44,452,000) and RMB39,200,000 (equivalent to approximately HK$42,708,000), respectively, to the capital of the Target Company after the Subscription Completion. Upon completion of the Subscription and Capital Increase, the Target Company will be owned as to 51% and 49% by the Subscriber and the Original Shareholder, respectively.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the Subscription and Capital Increase (on an aggregate basis) exceeds 5% but is less than 25% as determined in accordance with Rule 14.07 of the Listing Rules, the Subscription and the Capital Increase constitute a discloseable transaction for the purpose of Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Company is pleased to announce that on 6 November 2023 (after trading hours), the Subscriber (being a wholly-owned subsidiary of the Company) entered into the Agreement with the Target Company, the Original Shareholder and the Warrantors, pursuant to which (i) the Subscriber has conditionally agreed to subscribe for 51% of the enlarged registered capital of the Target Company for the consideration of RMB3,278,600; and (ii) the Subscriber and the Original Shareholder have conditionally agreed to inject the amount of RMB40,800,000 and RMB39,200,000, respectively, to the capital of the Target Company after the Subscription Completion. Upon completion of the Subscription and Capital Increase, the Target Company will be owned as to 51% and 49% by the Subscriber and the Original Shareholder, respectively.

THE AGREEMENT

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

Date

6 November 2023

Parties

(i) The Subscriber (a wholly-owned subsidiary of the Company);

(ii) The Target Company;

(iii) The Original Shareholder; and

(iv) The Warrantors (being Mr. Yang and Mr. Zou)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, each of the Target Company, the Original Shareholder and the Warrantors and their ultimate beneficial owner(s) (as applicable) is an Independent Third Party.

A. The Subscription

As at the date of this announcement, the Target Company is wholly-owned by the Original Shareholder, with a registered capital of RMB5,000,000 and paid-up capital of RMB700,000. Pursuant to the Agreement, the Subscriber has conditionally agreed to subscribe for 51% of the enlarged registered capital of the Target Company (being RMB5,204,100 of the total enlarged registered capital of RMB10,204,100) for the consideration of RMB3,278,600 ("**Subscription Consideration**"), of which (i) RMB728,600 will be contributed to the paid-up capital in the Target Company; and (ii) RMB2,550,000 will form part of the capital reserve of the Target Company.

Upon Subscription Completion, the Target Company will be owned as to 51% and 49% by the Subscriber and the Original Shareholder, respectively. Accordingly, the Target Company will become a non-wholly owned subsidiary of the Company and its financial results shall be consolidated into the Group's consolidated financial statements.

Please refer to the section headed "INFORMATION ON THE TARGET COMPANY" in this announcement for details of the Target Company.

Shareholding structure of the Target Company immediately prior to and after the Subscription Completion

The registered capital of the Target Company and the respective portions owned by the shareholders thereof as at the date of this announcement and upon the Subscription Completion are set out below:

Shareholder	**Registered capital as at the date of this announcement** *(RMB)*	**Paid-up capital as at the date of this announcement** *(RMB)*	**Percentage** *(%)*	**Registered capital upon Subscription Completion** *(RMB)*	**Paid-up capital upon Subscription Completion** *(RMB)*	**Percentage** *(%)*
Original Shareholder	5,000,000	700,000	100	5,000,000	700,000	49
Subscriber	—	—	—	5,204,100	728,600	51
Total	**5,000,000**	**700,000**	**100**	**10,204,100**	**1,428,600**	**100**

Subscription Consideration and basis of determination of the Subscription Consideration

The Subscription Consideration in the amount of RMB3,278,600 was determined after arm's length negotiations between the Subscriber and the Original Shareholder with reference to, among others, (i) the valuation of the entire equity interest of the Target Company as at 31 March 2023 in the amount of approximately RMB3,151,000 according to the Valuation Report; and (ii) the Target Company's existing fresh food distribution business and its prospects and development of group meal distribution, wholesale trade, retail store operation and distribution business.

Taking into account that the Target Company continues to operate the fresh food distribution business, 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 Subscription 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 Subscription Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The injection of Subscription Consideration by the Subscriber is subject to the following conditions precedent:

(i) The Target Company shall complete the change of industrial and commercial and relevant filing and registrations in respect of the Subscription within seven Business Days from the signing date of the Agreement ("**Subscription Completion**");

(ii) The distribution business of the Original Shareholder as referred to in the appendix of the Agreement has been transferred to the Target Company. That is, the relevant contracts have been signed and actual business has commenced at the Target Company;

(iii) The net asset value of the Target Company as shown in the latest financial statements of the Target Company within three Business Days from the signing date of the Agreement shall be not less than RMB700,000. The Target Company has provided the financial statements stamped with the official seal of the Target Company and signed by the legal representative and the related bank statements of the Target Company to the Subscriber; and

(iv) The Subscriber and the Original Shareholder have signed the share pledge agreement and the registration of the said share pledge has been completed.

Save for the Subscriber, no party has the right to be waive the above conditions precedent.

Within ten Business Days from the date when all of the above conditions are fulfilled or waived (as applicable), the Subscriber shall pay the amount of the Subscription Consideration in cash to an account designated by the Target Company.

Summary of the Valuation Report

According to the Valuation Report, the valuation of the entire equity interest in the Target Company as at 31 March 2023 is approximately RMB3,151,000, which was determined by the Valuer by using the income approach (which involves the use of discounted cash flow method). Accordingly, such valuation constitutes a profit forecast in accordance with Rule 14.61 of the Listing Rules. The key assumptions are set out below:

Premise assumptions

(i) Transaction assumption: It is assumed that the valuation subject is in the process of a transaction, the Valuer simulates the market to conduct valuation based the valuation subject's transaction conditions, etc., and the valuation result is an estimation of the most likely transaction price of the valuation subject.

(ii) Open market assumption: It is assumed that the assets involved in the valuation subject are traded in an open market where buyers and sellers are on an equal footing, where each has access to sufficient market information and time to obtain it, and where the transactional behaviour of buyers and sellers is carried out voluntarily, rationally and under non-coercive conditions.

(iii) Enterprise going concern assumption: It is assumed that the business operations of the valuated entity are legal, that the business licence can be renewed after the expiry of the operating period and that there will be no unforeseeable factors that would render it unable to continue its business operations, and that the assets of the valuated entity will remain unchanged for their existing purposes and will continue to be used in situ.

Key assumptions

(i) The scope of the audited balance sheet of the valuated entity is taken as the scope of each asset in this valuation, and the valuation is conducted on this basis.

(ii) The valuation does not take into account the impact on the appraised value of the additional costs and expenses that may be incurred as a result of the particular transaction method, or the impact on the appraised value of natural disasters and other force majeure.

(iii) The valuation results are based on the truthfulness, accuracy, completeness and objectivity of all documents provided by the principal and the valuated entity, and represent the market value of the valuation subject as at the valuation reference date specified by the principal.

(iv) Under the assumptions of the valuation and based on the purpose of the valuation, the type of value for the valuation is determined to be the market value. All pricing criteria in the valuation are the market price criteria and value system as at the valuation reference date.

Valuation underlying assumptions

(i) It is assumed that the operators of the valuated entity are responsible and that its management is capable of assuming their positions and fulfilling their duties.

(ii) It is assumed that the valuated entity fully complies with all relevant laws and regulations in force.

(iii) It is assumed that the accounting policies to be adopted by the valuated entity in the future are substantially the same in all material respects as those adopted at the valuation reference date.

(iv) It is assumed that there will be no major changes in the industry, region and socio-economic environment of the PRC in which the valuated entity is located, and that there will be no significant changes in the current national laws, regulations and systems and socio-political and economic policies followed from the current time.

(v) Changes in interest rates on deposits and loans after the valuation reference date have not been taken into account in the valuation.

(vi) It is assumed that there are no other force majeure and unforeseen factors that have a material adverse effect on the valuated entity.

(vii) Assets continuing in use assumption: It assumes that the valuated assets, including assets in use and standby assets, are in a state of use. Based on relevant data and information, it infers that those assets in use will continue to be used. The valuation adopts the principle of continuity of use, which means that the valuated assets in use will continue to be used for the same purpose and in the same manner as those for which they are currently being used after a change in ownership or the occurrence of business with the assets.

(viii) It is assumed that the business operations of the enterprise are stable and that the operation and services of the enterprise remain essentially unchanged or that changes in them can be anticipated and are likely to be realized.

(ix) The current corporate income tax rate of the valuated entity is 25%, and the valuation assumes that the valuated entity will continue to maintain the original tax items and rates, without considering changes in additional tax items and rates in the future, or changes in the discount extraction rate.

Assumptions about the valuation subject

(i) It is assumed that the process of purchasing and acquiring the assets involved in the valuation subject comply with requirements of the relevant national laws and regulations.

(ii) Save for the knowledge of the Valuer, it is assumed the assets involved in the valuation subject are free from defects in rights, liabilities and restrictions affecting their value.

(iii) The valuation has not taken into account any change in the current or established use, purpose and manner of use, scale, frequency and environment of the assets entrusted for valuation.

(iv) Unless otherwise stated in the Valuation Report, it is assumed that the valuation subject will not be affected by factors such as mortgages and security matters that already exist or may be assumed in the future, as well as special trading methods, etc. on its value.

(v) The valuation has been made on the basis of the shareholding structure as at the valuation reference date as a framework and on the assumption that all the business and customer resources of the Original Shareholder have been transferred to the valuated entity, without taking into account the impact of change in shareholding, reorganization or new investors (if any), occurring after the valuation reference date.

The Valuer valued the entire equity interest in the Target Company in accordance with the requirements of the income approach and considered that the above assumptions existed at the valuation reference date and deduced the corresponding valuation conclusions based on these assumptions. The valuation results may change very significantly if there are significant changes in the future economic environment after the valuation reference date or if other assumptions are not valid.

Assumptions about the assessment of key specifications

(i) The income approach model: The adoption of the income approach in the valuation is due to the fact that the income approach provides a fuller and more complete reflection of the overall value of the enterprise. The basic idea of this valuation is to estimate the value of the enterprise's total shareholders' equity (net assets) based on the enterprise's audited financial statements, adopting the equity cash flow model, that is, the value of the enterprise's shareholders' equity is obtained by first estimating the value of the enterprise's operating assets by the income path using the discounted cash flow calculation, plus the value of its other non-operating or surplus assets at the valuation reference date.

(ii) Assumptions about income growth: The valuation is forecasted based on the combination of existing distribution customers in accordance with the period of the co-operation with customers, customer loyalty and other relevant factors, with reference to the historical data.

(iii) Assumptions about gross margin: The forecasted annual operating costs are analyzed with reference to the historical composition of operating costs, with due consideration to the factors affecting the future changes in business costs of the enterprise, and forecasts were also made in conjunction with factors such as the gross profit margins of listed companies in the same industry in recent years and the fact that the valuated entity is an unlisted company.

(iv) Assumptions about period expenses forecast: Based on the actual expenses incurred as a percentage of income for each item over the years, it is expected to maintain a reasonable estimate of the expenses based on the forecast of future operating income, taking into account the average percentage of expenses incurred during the historical years.

(v) Assumptions about capital expenditures: Based on the actual situation of the valuated enterprise, the forecast takes into account maintenance and renovation expenditures on fixed assets in the capital expenditures, as well as an appropriate increase in the capital expenditures required to maintain the current scale of operations. Future capital expenditure mainly includes expenses incurred for the procurement of equipment in the ordinary course of business.

(vi) Method of determining the discount rate: It is based on the principle of consistency between the amount of income and the calibre of the discount rate. The valuation adopts the cost of equity capital to determine the discount rate (R).

The formula is: $R = Rf + \beta \times ERP + Rc$. Where Rf: risk-free interest rate, β: equity systematic risk coefficient, ERP: market risk premium, Rc: enterprise-specific risk adjustment coefficient.

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.

GF Capital, acting as the Company's Financial Adviser for purposes of Rule 14.62(3) of the Listing Rules, confirmed that they are satisfied 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 text of the report issued by the Reporting Accountants in relation to the calculations of the discounted cash flows is set out in Appendix I to this announcement 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 included in Appendix II to this announcement.

Experts and consents

The qualification of the experts who have given opinion or advice in this announcement is as follows:

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 professional valuer

As at the date of this announcement, each of the above experts does 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. To the best of the Directors' knowledge, information and belief, each of the above experts is an Independent Third Party. Each of the above experts has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its report and all references to its name in the form and context in which they respectively appear.

B. Capital Increase

Pursuant to the Agreement, the registered capital of the Target Company shall be increased to RMB81,428,600 with injection of capital by the Subscriber and Original Shareholder in proportion to their respective shareholding in the Target Company after the Subscription Completion, as follows:

(i) First Capital Increase

Within three months after the Subscription Completion, the Original Shareholder shall inject RMB19,600,000 to the capital of the Target Company. Within five Business Days of the completion of the said injection by the Original Shareholder, the Subscriber shall inject the amount of RMB20,400,000 to the capital of the Target Company ("**First Capital Increase**"). If the Original Shareholder fails to fulfill its capital increase obligation 15 days after the agreed time limit, the Subscriber may complete the First Capital Increase at its discretion.

(ii) Second Capital Increase

The Original Shareholder shall further inject into the capital of the Target Company in the amount of RMB19,600,000 before 30 June 2024. Within five Business Days of the completion of the said injection by the Original Shareholder, the Subscriber shall further inject the amount of RMB20,400,000 to the capital of the Target Company ("**Second Capital Increase**"). If the Original Shareholder fails to fulfill its capital increase obligation 15 days after the agreed time limit, the Subscriber may complete the Second Capital Increase at its discretion.

The amount of the First Capital Increase and Second Capital Increase (collectively, the "**Capital Increase**") by the Subscriber in the aggregate amount of RMB40,800,000 was determined with reference to the working capital requirements of the Target Company for the development of its wholesale trade, group meal distribution, retail store operation and distribution business. The amount to be contributed by each of the Subscriber and Original Shareholder is calculated on a pro rata basis to its shareholding in the Target Company upon the Subscription Completion.

Upon completion of the Capital Increase, the paid-up capital of the Target Company will be increased from RMB1,428,600 (upon Subscription Completion) to RMB81,428,600, with the proportion of shareholding in the Target Company remaining unchanged and the equity interest of the Subscriber in the Target Company will remain at 51%.

Shareholding structure of the Target Company immediately prior to and after the Capital Increase

The registered capital of the Target Company and the respective portions owned by the shareholders thereof upon completion of the First Capital Increase and Second Capital Increase are set out below:

Shareholder	Registered capital upon completion of First Capital Increase *(RMB)*	Paid-up capital upon completion of First Capital Increase *(RMB)*	Percentage *(%)*	Registered capital upon completion of Second Capital Increase *(RMB)*	Paid-up capital upon completion of Second Capital Increase *(RMB)*	Percentage *(%)*
Original Shareholder	39,900,000	20,300,000	49	39,900,000	39,900,000	49
Subscriber	41,528,600	21,128,600	51	41,528,600	41,528,600	51
Total	**81,428,600**	**41,428,600**	**100**	**81,428,600**	**81,428,600**	**100**

The Subscription and the Capital Increase shall be funded by the Group's internal resources. Further financial funds required for the development of the business of the Target Company shall be satisfied by third party financing.

The Agreement became effective upon execution on 6 November 2023.

Other terms and conditions

Profit guarantee

Pursuant to the Agreement, the Original Shareholder and the Warrantors guarantee to the Subscriber that (i) the guaranteed net profit ("**Guaranteed Net Profit**") of the Target Company based on the audited financial statements of the Target Company (with unqualified audit opinions prepared in accordance with the PRC GAAP) issued by an accounting firm approved by the Subscriber for the period from the date of Subscription Completion to 31 December 2024, and each of the years ending 31 December 2025 and 31 December 2026 ("**Guaranteed Periods**") shall be not less than RMB120,000, RMB4,050,000 and RMB5,630,000, respectively; (ii) for the period from the date of Subscription Completion to 31 December 2024 and the year ending 31 December 2025, the actual net profit of the Target Company for the period/year should be at least 80% of the Guaranteed Net Profit for the relevant period/year; and (iii) the cumulative actual net profit of the Target Company for the Guaranteed Periods shall be not less than RMB9,800,000.

If the Target Company fails to achieve the Guaranteed Net Profit, the Original Shareholder and the Warrantors undertake to the Subscriber that they will pay cash compensation to the Subscriber in the following manner:

(1) For the period from the date of Subscription Completion to 31 December 2024 and the year ending 31 December 2025

If the actual net profit of the Target Company for the relevant period/year exceeds 80% of the relevant Guaranteed Net Profit, the Original Shareholder and the Warrantors shall not make any compensation temporarily.

If the actual net profit of the Target Company for the relevant period/year is less than 80% of the relevant Guaranteed Net Profit, the Original Shareholder and the Warrantors shall pay the Subscriber compensation in cash based on the following formula:

(the relevant Guaranteed Net Profit – the actual net profit of the Target Company for the relevant period/year) x 80% of the proportion of the Subscriber's shareholding in the Target Company as at the date of the relevant audited financial statements

The remaining 20% of the compensation shall be paid by the Original Shareholder and the Warrantors in 2026.

The Original Shareholder and the Warrantors shall pay such compensation (if any) to the Subscriber within 30 days of the receipt of the notice from the Subscriber.

(2) For the year ending 31 December 2026

If the cumulative actual net profit of the Target Company for the Guaranteed Periods is less than RMB9,800,000, the Warrantors shall pay the Subscriber compensation in cash based on the following formula:

(RMB9,800,000 – the cumulative actual net profit of the Target Company for the Guaranteed Periods) x the proportion of the Subscriber's shareholding in the Target Company as at the date of the relevant audited financial statements – compensation already paid to the Subscriber (if any)

The Original Shareholder and the Warrantors shall pay the said compensation (if any) to the Subscriber within 30 days of the receipt of the notice from the Subscriber.

If the cumulative actual net profit of the Target Company for the Guaranteed Periods exceeds RMB9,800,000 and the Subscriber has received compensation from the Warrantors, any excess amount will be refunded to the Original Shareholder.

If the cumulative actual net profit of the Target Company for the Guaranteed Periods is less than RMB9,800,000 and cash compensation is not paid in accordance with the Agreement, liquidated damages at the rate of 0.5% per day of the overdue amount shall be payable to the Subscriber and the Subscriber has the right to demand the Warrantors to make payment in cash or require the Original Shareholder to compensate with the corresponding value of the equity interest of the Target Company or physical assets. The value of the equity interest of the Target Company will be based on the valuation report issued by a valuer approved by the Original Shareholder and the Subscriber.

Corporate governance

The board of directors of the Target Company shall consist of three members and shall be elected at the general meeting. The Subscriber shall nominate two directors and the Original Shareholder shall nominate one director. The chairman of the board of directors shall be nominated by the Subscriber and the general manager shall be nominated by the Original Shareholder, and shall be appointed by the board of directors. The financial controller or person in charge of finance shall be appointed by the Subscriber. The Target Company shall not have a board of supervisors but shall have two supervisors. Each of the Subscriber and the Original Shareholder shall have the right to nominate one supervisor.

If the Original Shareholder fails to increase the registered capital of the Target Company while the Subscriber has increased the registered capital of the Target Company in accordance with the Agreement, which results in the Original Shareholder's shareholding in the Target Company to be less than 40% but higher than 34%, the Original Shareholder shall no longer have the right to nominate the general manager but shall have the right to nominate a deputy general manager. If the Original Shareholder's shareholding in the Target Company is less than 34%, the Original Shareholder shall no longer have any right to nominate senior management of the Target Company.

The number of directors to be nominated by the Original Shareholder is calculated by the number of board seats multiplied by the Original Shareholder's shareholding ratio in the Target Company. If the calculation result is less than 0.5, the Original Shareholder shall no longer have any right to nominate directors.

Resolutions passed at any meeting of the board of directors of the Target Company shall be decided by a majority of votes.

Undertakings

The Target Company shall complete the merger of the existing stores of the Subscriber by way of asset acquisition or leasing within three months from the Subscription Completion, at the consideration based on the valuation of the assets of the store or the existing rent of the store.

Subject to the compliance with the Listing Rules and the relevant laws (if applicable), the Subscriber and the Original Shareholder shall determine the stores of the Original Shareholder to be injected into the Target Company. For the stores of the Original Shareholder that are not injected into the Target Company, the Original Shareholder undertakes that, subject to the compliance with the Listing Rules and applicable laws (if applicable), the Target Company shall be the long-term product distributor of such stores.

Subject to the compliance with the relevant laws and regulations, as well as the procurement management policy of the Subscriber and its superiors, the Target Company shall be given priority to undertake the relevant business under the same conditions if the Subscriber's group (i.e. the Group) has group meal distribution business or group purchase (holiday benefits) business that matches the Target Company's business.

Termination

The Agreement may be terminated by the Subscriber (i) upon the breach of the Agreement by the Original Shareholder, the Target Company or the Warrantors, which cannot be remedied within the deadline required by the Subscriber; or (ii) if at any time before Subscription Completion there has been any material adverse change in the assets and liabilities, business operations or financial condition of the Target Company.

Share pledge

The Original Shareholder has agreed to pledge its 49% equity interest in the Target Company after the capital increase in favour of the Subscriber to secure the payment obligations of the Original Shareholder and Warrantors under the Agreement. The registration of the said share pledge agreement shall be completed by the Original Shareholder and the Target Company at the same time of the industrial and commercial and relevant filing and registration in respect of the Subscription.

INFORMATION ON THE GROUP

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

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

INFORMATION ON THE ORIGINAL SHAREHOLDER AND THE WARRANTORS

The Company understands that the Original Shareholder is principally engaged in the distribution, wholesale and retail of fresh food. As at the date of this announcement, the Target Company is wholly-owned by the Original Shareholder. The Company understands that the Original Shareholder is owned by Mr. Yang and Mr. Zou (each being natural persons) as to 49% and 51%, respectively.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in the PRC with limited liability. As at the date of this announcement, the Target Company has a registered capital of RMB5,000,000, of which the paid-up capital is RMB700,000 and is wholly-owned by the Original Shareholder. The Target Company is principally engaged in the fresh food distribution business. Its business ranges from procurement, warehousing, logistics and transportation to delivery of fresh food to retail store customers. After the transfer of the distribution business from the Original Shareholder to the Target Company, the Target Company will have approximately 40 distribution customers.

After the completion of the Subscription and Capital Increase, the Target Company will be owned as to 51% by the Subscriber and 49% by the Original Shareholder. The Target Company intends to engage in four major businesses, namely, group meal distribution, wholesale trade, store expansion and distribution business in future.

Financial information of the Target Company

Set out below is certain audited financial information of the Target Company (prepared in accordance with the PRC GAAP) for the period from its incorporation on 10 October 2022 to 31 March 2023. There is no material difference between the PRC GAAP and the HKFRS in respect of the figures below:

	For the period from the date of incorporation to 31 March 2023 (audited)
Loss before taxation	RMB29,000
Loss after taxation	RMB29,000

The net asset value of the Target Company as at 31 March 2023 was approximately RMB671,000 based on the audited balance sheet of the Target Company as at 31 March 2023 prepared in accordance with the PRC GAAP.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND CAPITAL INCREASE

The Group is principally engaged in the distribution and trading of fresh and live foodstuffs, provision of slaughtering service, the manufacturing and sales of tinplate products and property leasing. Upon completion of the Subscription and Capital Increase, the Target Company will become an indirect subsidiary of the Company. The Board considers that the Subscription and Capital Increase represent a strategic deployment of the Group in fresh and live foodstuffs business, which will accelerate the expansion of the Group's industrial chain, strengthen the layout of core links in the industrial chain, and particularly promote the integrated development of "slaughter and processing — cold chain distribution — fresh food marketing".

After the Subscription Completion, the Target Company will have abundant customers and supplier resources, stable storage and distribution business, as well as the experienced management team and talents in the food retail industry. These core values are conducive to the development of the Group's new retailing business in the Guangdong-Hong Kong-Macau Greater Bay Area and will pave the way for the future expansion of fresh food retail stores and the construction of warehousing and distribution centres.

The Company believes that through the Subscription and Capital Increase, the Group will benefit from the Target Company's current integrated business model of procurement, distribution and sales and its solid operational capabilities. Coupled with the Group's years of management experience and brand reputation in the food industry, it is expected to create benefits with the Group's existing businesses and further enhance the market share and brand awareness of "GDH Food".

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

No Director has any material interest in the Subscription and Capital Increase and was required to abstain from voting on the Directors' resolutions approving the Subscription and Capital Increase and the entering into of the Agreement by the Company.

LISTING RULES IMPLICATIONS

As one of the applicable percentage ratios in respect of the Subscription and Capital Increase (on an aggregate basis) exceeds 5% but is less than 25% as determined in accordance with Rule 14.07 of the Listing Rules, the Subscription and Capital Increase constitute a discloseable transaction for the purpose of Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements but is exempt from the circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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

"Agreement"	the capital increase agreement dated 6 November 2023 entered into among the Subscriber, the Target Company, the Original Shareholder and the Warrantors in relation to the Subscription and Capital Increase
"Board"	the board of Directors
"Business Day(s)"	any day(s) other than Saturday, Sunday or a statutory holiday of the PRC
"Capital Increase"	has the meaning ascribed to it under the section headed "THE AGREEMENT — B. Capital Increase" in this announcement

"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
"Director(s)"	the directors of the Company
"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 Capital Increase"	has the meaning ascribed to it under the section headed "THE AGREEMENT — B. Capital Increase" in this announcement
"Group"	the Company and its subsidiaries
"Guaranteed Net Profit"	has the meaning ascribed to it under the section headed "THE AGREEMENT — Other terms and conditions — Profit guarantee" in this announcement
"Guaranteed Periods"	has the meaning ascribed to it under the section headed "THE AGREEMENT — Other terms and conditions — Profit guarantee" in this announcement
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	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
"Independent Third Party"	any person or company who is not a connected person of the Company and is a third party independent of the Company and its connected persons in accordance with the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Yang"	楊褘海 (Mr. Yang Yihai), a Warrantor
"Mr. Zou"	鄒裕榮 (Mr. Zou Yurong), a Warrantor

"Original Shareholder"	廣州鄉下生鮮貿易有限公司 (Guangzhou Rural Fresh Trading Co., Ltd.*), a company established in the PRC and an Independent Third Party
"PRC"	the People's Republic of China
"PRC GAAP"	the PRC Accounting Standards for Business Enterprises as promulgated and, from time to time, amended or supplemented by the Ministry of Finance of the PRC
"Reporting Accountants"	KPMG, Certified Public Accountants, Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"Second Capital Increase"	has the meaning ascribed to it under the section headed "THE AGREEMENT — B. Capital Increase" in this announcement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	the share(s) of the Company
"Shareholder(s)"	the holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	廣東粵海廣南投資有限公司 (GDH Guangnan Investment Company Limited*), a company established in the PRC and a direct wholly-owned subsidiary of the Company
"Subscription"	subscription of the registered capital of the Target Company by the Subscriber pursuant to the Agreement
"Subscription Completion"	has the meaning ascribed to it under the section headed "THE AGREEMENT — A. The Subscription" in this announcement
"Subscription Consideration"	has the meaning ascribed to it under the section headed "THE AGREEMENT — A. The Subscription" in this announcement
"subsidiary(ies)"	has the meaning ascribed thereto in the Listing Rules
"Target Company"	廣州鄉下生鮮農業科技有限公司 (Guangzhou Rural Fresh Agricultural Technology Co., Ltd.*), a company established in the PRC and an Independent Third Party

"Valuation Report"	the valuation report dated 2 June 2023 prepared by the Valuer in relation to the entire 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
"Warrantor(s)"	Mr. Yang and Mr. Zou; and Warrantor shall mean any one of them
"%"	per cent

For the purpose of this announcement, unless otherwise indicated, the exchange rate of RMB1.00 = HK$1.0895 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 announcement is prepared for identification purpose only. In the event of any inconsistency, the Chinese name shall prevail.*

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

Hong Kong, 6 November 2023

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

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

KPMG

REPORT ON THE CALCULATION OF DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE VALUATION OF GUANGZHOU RURAL FRESH AGRICULTURAL TECHNOLOGY CO., LTD.*

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

We refer to the discounted future cash flows on which the valuation (the "**Valuation**") dated 2 June 2023 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.*) in respect of the appraisal of the fair value of Guangzhou Rural Fresh Agricultural Technology Co., Ltd.* (the "**Target Company**") as at 31 March 2023 is based. The Valuation is prepared based 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 Management

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 Management (HKSQM) 1 "Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements" which requires the firm to design, implement and operate a system of quality management including policies or 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 the 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

6 November 2023

As the Valuation Report is based on discounted cash flow 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 announcement.

廣發融資(香港)有限公司
GF CAPITAL (HONG KONG) LIMITED

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

6 November 2023

Dear Sirs/Madams,

We refer to the valuation report dated 2 June 2023 (the "**Valuation Report**") in respect of the valuation of the entire equity interest in 廣州鄉下生鮮農業科技有限公司 (Guangzhou Rural Fresh Agricultural Technology Co., Ltd.*, the "**Target Company**") as at 31 March 2023, 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 "**Valuer**"). The Target Company is principally engaged in the fresh food distribution business. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as defined in the announcement of GDH Guangnan (Holdings) Limited (the "**Company**") dated 6 November 2023 in connection with, among others, discloseable transaction in relation to subscription of registered capital and capital increase in the Target Company (the "**Announcement**").

We understand that the Valuation Report has been provided to you and we note that the Valuation Report has been prepared 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 Valuer and are satisfied that reliance could fairly be placed on the Valuer's work.

We have reviewed the Forecast included in the Valuation Report, for which you as the Directors are solely responsible. We have discussed with the Company and the Valuer, where the qualifications, bases and assumptions upon which the Forecast have been prepared by the Valuer. We have also considered the report addressed solely to and for the sole benefit of the Directors from KPMG dated 6 November 2023, the text of which is set out in Appendix I to the Announcement regarding the calculation of 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 Company 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 Valuer, for which the 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.