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

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

Reference is made to the announcement of GDH Guangnan (Holdings) Limited (the "**Company**") dated 6 November 2023 in relation to the Subscription of registered capital and Capital Increase in the Target Company (the "**Announcement**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Announcement.

The Board wishes to provide the Shareholders and potential investors with additional information on the valuation assumptions of the Target Company in relation to the Subscription and Capital Increase as follows:

Valuation assumptions

1. Assumptions for income growth: The valuation is forecasted based on the combination of existing distribution customers of the Original Shareholder in accordance with the period of the co-operation with customers, customer loyalty and other relevant factors, with reference to the historical data. It is assumed that the stores would continue to be operated on an ongoing basic and are forecasted with reference to the growth rate of 8% for the development of distribution business. The forecast of Revenue and growth rate as below:

In RMB'000

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	36,111	39,005	42,113	45,360	48,742
Growth rate	-	8%	8%	8%	8%

2. Assumptions for gross profit margin: The forecasted annual operating costs are made with reference to the historical composition of operating costs, with due consideration to the factors affecting the future changes in operating costs of the Target Company. The forecast was also made in conjunction with factors such as the gross profit margins of listed companies in the similar industry and the fact that the Target Company is not a listed company has also been taken into account. The gross profit margin of the valuation is forecasted at approximately 14.5% throughout the forecast period.

3. Assumptions for expenses: Based on the actual expenses for each item incurred as a percentage of revenue generated over the years, it is expected that the Target Company shall maintain a reasonable amount of the expense based on the forecast of future revenue, taking into account the average amount of expense as a percentage of the revenue incurred during the historical years. Among which, the selling expenses is forecasted at 4% of the forecasted revenue while the administrative expenses is forecasted at 7-9% of the forecasted revenue.

4. Assumptions for profit before taxation and net profit: Set out below is the forecasted profit before taxation of the Target Company after deduction of expenses for the forecast period:

In RMB'000

	Year 1	Year 2	Year 3	Year 4	Year 5
Profit before taxation	544	735	1,080	1,395	1,656

Set out below is the forecasted net profit of the Target Company during the forecast period based on the current corporate income tax rate of 25%:

In RMB'000

	Year 1	Year 2	Year 3	Year 4	Year 5
Net Profit	408	551	810	1,046	1,242

5. Assumptions for capital expenditures: Based on the actual situation of the Target Company, the forecasted cash flow has regarded the maintenance and renovation expenses on fixed assets as the capital expenditures, and has considered the appropriate increment in the capital expenditures required to maintain the forecasted scale of operations. Future capital expenditure mainly includes expenses incurred for the procurement of equipment in the ordinary course of business. The capital expenditure of the Target Company for the forecast period is approximately of RMB70,000 per year.

6. Method of determining the discount rate: It is based on the principle that the discount rate should be consistent with the expected return. 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. The discount rate of the valuation is 12%.

Having considered the above and other factors as disclosed in the Announcement, 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.

This supplemental announcement is supplemental to and should be read in conjunction with the Announcement. All other information and content set out in the Announcement remain unchanged and shall continue to be valid for all purposes.

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

Hong Kong, 8 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.