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G&M Holdings Limited 信越控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6038)

Financial adviser to the Company



Diligent Capital Limited

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE DISCLOSEABLE TRANSACTION

References are made to the announcements (the “**Announcements**”) made by G & M Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 25 June 2023 and 12 July 2023 in relation to, among other things, the entering into of the exclusive right agreement (the “**Exclusive Right Agreement**”) between Azure Coal Mongol Mining LLC (“**Party A**”) and G & M Contracting Limited (“**Party B**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

In addition to the information provided in the Announcements, the Board would like to provide the following additional information regarding the disclosure with respect to the transactions contemplated under the Exclusive Right Agreement (the “**Transaction**”).

1. BASIS OF DETERMINATION OF THE CONSIDERATION

As disclosed in the Company’s announcement dated 25 June 2023, the consideration (the “**Consideration**”) for the acquisition of mining rights (the “**Mining Rights**”) under the Exclusive Right Agreement is RMB27,000,000.

The Consideration was determined after arm’s length negotiation between Party A and Party B with reference to, among other things, (i) the estimated proven coal resources and reserves of the “Bayantaliin uurhai” coal mine (the “**Mine**”) with reference to the mining reserve report issued by the Mineral Resources Authority of Mongolia; (ii) the benchmark mine gate price of the coal; and (iii) the expected financial return and operating cost budget of the Mine during the term of the Exclusive Right Agreement.

Based on the preliminary quantitative analysis, it is estimated that the Group could enjoy a payback period of approximately one year after the Group is qualified for exploration. Accordingly, the Consideration was determined between the parties to the Exclusive Right Agreement based on the above financial analysis results and arrived at RMB27 million. In light of this, the Board considered that the Consideration is fair and reasonable, subject to the fulfillment (or waiver) of the conditions precedent under the Exclusive Right Agreement which include but are not limited to the satisfaction of the valuation of the fair value of the Mining Rights (the “**Valuation**”).

The Profit Estimate constitutes a profit forecast under Rule 14.61 of the Listing Rules, thus, the requirements under Rule 14.62 of the Listing Rules are applicable.

Assumptions of the Profit Estimate

Pursuant to Rule 14.62(1) of the Listing Rules, details of the principal assumptions, including commercial assumptions, upon which the Profit Estimate has been based on are as follows:

- (i) the estimate period for the mining business is from 23 June 2023 to the end of the concession operation period, 23 June 2053;
- (ii) there is no material change in policies of national industries, financial and fiscal and tax;
- (iii) the estimated coal resources and reserves of the Mine is based on the mining reserve report issued by the Mineral Resources Authority of Mongolia; and
- (iv) the mine gate price of the coal is based on the benchmark mine gate price of the coal under the quality of 5,000 to 5,500 kcal referenced from public resources.

The Board has reviewed the above principal assumptions upon which the profit forecast has been based and is of the view that the profit forecast has been made after due and careful enquiry.

Elite Partners CPA Limited (“**Elite Partners**”) has been engaged by the Company to review on the arithmetical calculation and compilation of the Profit Estimate, which does not involve the adoption of accounting policies.

A letter from Elite Partners and a letter from the Board are included in the appendices to this announcement for the purposes of Rule 14.62 of the Listing Rules.

Expert and consent

The following are the qualifications of the expert who has given their opinion and advice in this announcement:

Name	Qualification
Elite Partners	Certified Public Accountants

Elite Partners has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its report/letter and all references to its name (including its qualification) in the form and context in which they are included.

To the best knowledge, information and belief of the Board and having made all reasonable enquiries, Elite Partners is a third party independent of the Group and is not a connected person of the Group. As at the date of this announcement, Elite Partners 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(s) to subscribe for securities in any member of the Group.

As at the date of this announcement, Elite Partners does not have any direct or indirect interests in any assets which have been, since 31 December 2022 (the date to which the latest published annual results of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group

2. BASIS AND ASSESSMENT ON THE TERMS OF THE EXCLUSIVE RIGHT AGREEMENT

The Directors have taken into consideration the following factors when assessing the Transaction:

- (i) having said that the completion of the Transaction will be subject to the satisfaction of certain conditions, which include but not limited to (a) the results of the Valuation which will be conducted by an independent professional valuer; and (b) the results of Mongolia legal opinion in relation to the legality of the Mine, the Group still has the discretion to proceed or terminate the Transaction;
- (ii) the estimated positive financial return of the mining operation of the Mine, which was preliminary assessed by the Group's management based on (a) the estimated coal reserves and resources; (b) the quality of the unwashed coal in nature (i.e. 5,531–7,312 kcal/kg with an average of 6,320 kcal/kg); (c) the benchmark mine gate price of the coal; and (d) the projected exploration and operating cost to be incurred;

- (iii) the anticipated increase in China's coal consumption and the demand for coal due to the shortage of local supply; and
- (iv) the business plan to operate the Mine as described below and the continuous support to be provided by Party A.

The Directors are of the view that the terms of the Exclusive Right Agreement are on normal commercial terms and are fair and reasonable.

3. BUSINESS PLAN TO OPERATE THE NEW COAL MINING BUSINESS

As disclosed in the Announcements, pursuant to the terms and conditions of the Exclusive Right Agreement, the Group will be the sole and exclusive mining contractor to perform key aspects of the Mine operations. In other words, after completion of the Transaction, the Group will be principally engaged in the exploration, mining and sale of coal and related products.

Below is the detail information about the Mine and summary of the Group's business plan over the new coal mine business.

Mine location, coal resources and reserves

Based on the information gathered after conducting the due diligence by the Company, the Mine is located in Bayantal Soum, Govisumber Province, and Bayan Soum, Tuv Province, Mongolia. As at the date of the Exclusive Right Agreement, Party A (Azure Coal Mongol Mining LLC) hold the exploration license XV-020176 and mining license MV-022409, with the licensed mining area covering 1,802.10 hectares. Based on the mining reserve report issued by the Mineral Resources Authority of Mongolia, the Mine had proven reserves of 33,961.60 thousand metric tons and probable reserves of 20,658.6 thousand metric tons as of 2016. Party A warrants that no material changes have occurred in the Mine's coal resources and reserves since 2016.

Coal products

The Mine is currently under the stage of exploration for unwashed coal, it is considered as a high-quality coal which can be readily used by manufacturers in their coking operations both in China and abroad. The following table sets out the testing parameters of the coal produced by the Mine:

Quality attribute

Ash %	7.23–23.55
Volatile Matter %	32 -42
Total Sulphur	0.26–1.18
Humidity	2.9–16.0

Mining operations

It is the initial plan of the Group to cooperate and sign a contract with a reputable mining sub-contractor (the “**Sub-contractor**”) and work closely with it in all aspects of the coal mining operations. Actual mining activities will be monitored by the Group’s employees who shall be working with the Sub-contractor. Further, substantially most of the principal mining equipment used in the Mine will be equipped and provided by the Sub-contractor. Certain equipment for the mine’s exploration and safety will be bore by the Group and the details will be subject to the negotiation among the Group and the Sub-Contractor.

In addition, the Sub-contractor will provide the Group with consulting and support services, which include full technical review of any mining proposal from any stage of development, pre-feasibility and budget mining studies, mine design, mine planning and budgeting. To ensure the mining operation is in the best interest of the Group, an independent mining expert shall be engaged to review and comment on the mining proposal of the Sub-contractor. As the Transaction has not yet been completed, the Group is still in the stage of negotiation and no agreement is entered into with the potential Sub-contractor. However, the Group received the preliminary proposal from the Sub-contractor that it will (i) work with the Group to build out its coal production capacity up to 1.2 million tonnes per annum; and (ii) procure the necessary amount of equipment and services to the Group to support the target production capacity.

Sales and logistics

The Group primarily generates revenues from producing and selling the unwashed coal at the mine mouth without logistic services. Based on the Group’s understanding, all unwashed coal produced from the Mine will truck into China, typically along the unsealed road from the coal mines to the Mongolia side of the border, where it will be unloaded at a stockpile facility. The buyer will truck the raw coal directly from the stockpile to end users. Based on the Group’s understanding, the said logistic cost of the coal from the Mine mouth to the Mongolia-China border is approximately RMB66 per tonne.

At the current stage, the Group targets to sell the coal principally to the China coal traders, and there is believed sufficient demand for the coal of the Mine. As of the date hereof, the Group has been in the process of negotiating the commercial terms of coal supply contracts with numerous of customers which are expected to be materialised after the completion of the Transaction and the relevant exploration license granted to Party B. As mentioned above, it is expected that the Group will be able to distribute at least 1.2 million tons of raw coal per year.

As of the date hereof, Party A is in the process of applying for the aforementioned exploration license, and based on normal situations, it has to take approximately two months to obtain the necessary exploration license.

Coal pricing

The Group will sell the coal at the mine mouth price, which refer to the sales price of coal in the producing mines and, marking price, which is subject to periodic review. As of the date hereof, the spot mine mouth coal selling price for the unwashed coal is approximately RMB550 per ton.

Development of the Group's own distribution network

Through the sales of the Mine's coal to China, the Group plans to establish its coal distribution network through suppliers to end-user customers. Therefore, even in the sales through coal traders, the Group will priorities identify end-use customers and will endeavour to contract with them directly.

During the initial stage of the coal mine business, the Group will rely on Party A and the newly employed mining consultants for referral of end-customers and/or coal traders to contribute revenue. The Group will also establish a sales team for sales of mining products and dealing with customers.

The Group strongly believes the demand for coal from China is vast, and it is important for the Group to build up its own customer base and distribution network to enhance the competitiveness of the Group's coal products. Considering the anticipated sufficient coal demand and the limited number of industry players, the Group believes that the sales approach will be effective by increasing its exposure among industry players and potential customers and building up a stable clique clientele.

Overview of the coal demand

After comprehensive research conducted by the Group's management, the Board noticed that the largest increase in coal demand is expected in China, mainly led by stronger power sector use. China is the world's largest consumer of coal, with coal accounting for approximately 56.2% of China's total electricity capacity in 2022, according to data from the China's National Bureau of Statistics (國家統計局).

Based on the data from the China's National Bureau of Statistics, China's coal consumption increased by 4.6% in 2022 to a new all-time high of 4.5 billion metric tons. According to the coal analysis and forecast conducted by International Energy Agency, it is anticipated that coal consumption in China will rise at a rate of 0.7% annually and it will reach a new high of 4,337 million tonnes by 2025. Growth will be driven mainly by the power sector, despite intense efforts to expand nuclear and renewable energy capacity.

Considering the above, it is anticipated that there would be sufficient demand for coal in China, together with the Group's sales approach as mentioned above, it is believed that the Group could benefit from the thriving coal market and large potential customer base in China.

Management experience and expertise in coal mining and the relevant business

In order to commence the coal mining business, the Group has recently engaged two mining consultants (the "**Consultants**") to oversee the development of the Group's coal mining business. Each of the Consultants has extensive experience in the China mining industry and he is closely involved in several mining projects with exposure to different development stages of mining. The Consultants will be responsible for the overall management of the Group's new coal mine business. Specifically, one will be the key on-site person-in-charge of the daily operation of the Mine and will be primarily responsible for formulation of mining and production plan, coordinating with the Sub-contractor, management of mining production team and overseeing mining matters, the other one will be responsible for strategic planning and overall operation of the mining business, including day to day coal business management, overseeing sales and marketing matters, procuring mining equipment, recruitment, as well as managing the external relationship with business partners. It is believed that the recruitment of the Consultants enable the Group to acquire the knowledge and experience necessary to operate a coal mine.

Furthermore, the Directors have considered the human resources planning in both short run and long term. In the short run, the Group will partner with the Sub-contractor, who shall assist the Group in mine planning, training of mining personal supervising mining activity. In the long run, in order to effectively manage the growth of the coal mine business, the Group will continue to hire and train more employees at the mine operations and management levels in order to ensure its growth is supported by sufficient human resources. Further, the Group would like to build up its own marketing and customer service team to maintain all principal customer relationships.

4. REASONS FOR ENTERING INTO THE EXCLUSIVE RIGHT AGREEMENT

As disclosed in the annual report of the Company for the year ended 31 December 2022, the Group continued to experience a challenging operating environment in view of the impact from the COVID-19 pandemic, such as increased raw material costs and reduced productivity. These factors in aggregate led to a certain extent of impact on the overall business environment in which the Group operates. Therefore, in order to diversify the Group's business risk, the Group's management has been considering and exploring opportunities for suitable investment projects that are favourable to the Group.

During the year 2023, the Company has been considering opportunities to strategically acquire resources in the coal industry supply chain. The Board is selectively pursuing coal exploration opportunities that are close to the Mongolia-China boarder because Mongolia has vast coal resources with significant potential.

During, the first quarter of 2023, Mr. Lee Chi Hung (“**Mr. Lee**”), who is the executive Director, was acquainted with Mr. Ke Zhaojian (“**Mr. Ke**”), who has developed a network in the mining sector, in a business occasion. During the conversation, Mr. Ke explained that it is an excellent time to make an investment in the coal mining industry as the cost of investment and potential rate of return are favorable for the post-COVID-19 period, whereby Mr. Lee expressed his interest in light of the potential growth and bright prospects. After that, Mr. Ke introduced Party A to Mr. Lee and presented the Mine which may be able to meet the Group's needs. Based on the results of the due diligence exercise conducted by Mr. Lee, including but not limited to a site visit, management interview, documents review, feasibility studies, and financial assessment, Mr. Lee considered that the Mine possesses a large resource reserve volume with high-grade coal resources, which is expected to bring promising returns to the Company.

Apart from the factors disclosed in the Announcements and above, the Directors considered that the current market price of coal is stable and which made it a good time for acquisition under a reasonable amount of investment. Meanwhile, the resources and reserves of the Mine's operation scale is large and ready for production, and the quality of the coal from the Mines, the Directors believe that the Transaction represents a valuable opportunity for the Company to acquire profit generating mines as well as projects with immense development potential to drive future revenue and profit.

Finally, the Directors are of the view that the Transaction presents a good opportunity for the Group to diversify its existing business and to establish a presence in the coal mining sector which will in turn allow it to capitalise on the favourable coal industry dynamics. Accordingly, the Directors concluded that entering into the Exclusive Right Agreement is in the interest of the Company and its shareholders as a whole.

5. IDENTITY AND BACKGROUND OF THE ULTIMATE BENEFICIAL OWNER OF PARTY A

Based on the information provided by Party A, the ultimate beneficial owner of Party A is Soninbayar (сонинбаяр) Munkhbat (мөнхбат). To the best of the Director's knowledge, information and belief having made all reasonable enquiries, Soninbayar (сонинбаяр) Munkhbat (мөнхбат) is a businessman and is an Independent Third Party.

This announcement is supplemental to and should be read in conjunction with the Announcements. Save as specified herein, the above supplemental information does not affect other information and contents set out in the Announcements.

By order of the Board
G & M Holdings Limited
Lee Chi Hung
Chairman and Executive Director

Hong Kong, 12 September 2023

As at the date of this announcement, the Board comprises Mr. Lee Chi Hung and Ms. Lam Suk Yee, Patricia as executive Directors; Mr. Leung Ping Kwan as non-executive Director; and Professor Wong Roderick Sue Cheun, Mr. Tai Kwok Leung Alexander and Mr. Kwan Cheuk Kui as independent non-executive Directors.

APPENDIX 1 – LETTER FROM ELITE PARTNERS

12 September 2023

The Board of Directors of
G & M Holdings Limited
11/F., Magnet Place Tower I,
77–81 Container Port Road,
Kwai Chung, New Territories,
Hong Kong

Dear Sir or Madam,

We have been engaged to report on the arithmetical accuracy of the calculations of the financial analysis (the “**Profit Estimate**”) prepared by the directors of the Company (the “**Directors**”) in respect of the acquisition of the mining rights (the “**Mining Rights**”) under the exclusive right agreement entered into between Azure Coal Mongol Mining LLC and G & M Contracting Limited dated 25 June 2023 is based. The Profit Estimated is set out in the announcement of G & M Holdings Limited (the “**Company**”) dated 12 September 2023 (the “**Announcement**”). The Profit Estimated is regarded by The Stock Exchange of Hong Kong Limited 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 are solely responsible for the Profit Estimate. The Profit Estimate has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors.

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 behavior.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and 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 express an opinion on the arithmetical accuracy of the calculations of the Profit Estimate based on our work. The Profit Estimate does not involve the adoption of accounting policies.

We conducted our engagement in accordance with 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 arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Profit Estimate in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Profit Estimate prepared based on the Assumptions made 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.

We are not reporting on the appropriateness and validity of the Assumptions on which the Profit Estimate are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Mining Rights. The Assumptions used in the preparation of the Profit Estimate include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Profit Estimate and the variation 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 our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Profit Estimate is concerned, the Profit Estimate has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong

APPENDIX II – LETTER FROM THE BOARD

12 September 2023

The Listing Division
Hong Kong Exchanges and Clearing Limited
12/F, Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

Dear Sir or Madam,

We refer to the announcement of G & M Holdings Limited (the “**Company**”) dated 12 September 2023 in relation to the acquisition of the mining rights (the “**Mining Rights**”) under the exclusive right agreement entered into between Azure Coal Mongol Mining LLC and G & M Contracting Limited dated 25 June 2023 (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We have reviewed and discussed the Profit Estimate, which forms one of the basis for determining the Consideration. We note that the methodology applied in deriving the Profit Estimate is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Pursuant to Rule 14.62 of the Listing Rules, we have engaged Elite Partners CPA Limited, acting as the Company’s auditors, to examine the arithmetical accuracy of the calculation of the Profit Estimate in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the Hong Kong Institute of Certified Public Accountants.

On the basis of the above, we confirm that the Profit Estimate has been made after due and careful enquiry.

For and on behalf of the Board
G & M Holdings Limited

Lee Chi Hung
Chairman and Executive Director