

# ALTUS CAPITAL LIMITED

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20 May 2022

*To the Independent Board Committee and the Independent Shareholders*

## **GDH GUANGNAN (HOLDINGS) LIMITED**

Units 2905-08, 29th Floor

Shui On Centre, 6-8 Harbour Road

Wanchai, Hong Kong

Dear Sirs and Madams,

## **CONTINUING CONNECTED TRANSACTION PURCHASE OF ELECTRICITY NEW ELECTRICITY TRANSACTION AGREEMENT**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the New Electricity Transaction Agreement and the transactions contemplated thereunder (including the New Cap) (the “**Transaction**”), details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 20 May 2022 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the circular of the Company dated 24 May 2021 and the announcements of the Company dated 30 December 2021 and 29 April 2022.

On 30 April 2021, GDH Zhongyue entered into the supplemental agreement (the “**Supplemental Agreement**”) to the electricity transaction agreement dated 2 December 2020 (the “**Previous Electricity Transaction Agreement**”) with GDH Energy Service to revise the maximum volume of electricity to be consumed by GDH Zhongyue to 85,000,000 kWh per year, where the corresponding annual caps were set at RMB36,000,000 for each of the years ending 31 December 2021, 2022 and 2023 respectively.

On 30 December 2021, due to the guidelines issued by the relevant authorities in the PRC in late 2021 to companies which have entered into electricity supply agreements, GDH Zhongyue and GDH Energy Service entered into the Original Electricity Transaction Agreement to revise certain terms under the Previous Electricity Transaction Agreement. As a result, the Previous Electricity Transaction Agreement as supplemented by the Supplemental Agreement was being superseded by the Original Electricity Transaction Agreement and no longer effective since then. Pursuant to the Original Electricity Transaction Agreement, GDH Zhongyue agreed to purchase, and GDH Energy Service agreed to supply, electricity during the term from 1 January 2022 to 30 June 2022. In order to continue with such arrangement, on 29 April 2022, GDH Zhongyue and GDH Energy Service entered into the New Electricity Transaction Agreement, pursuant to which GDH Zhongyue agreed to purchase, and GDH Energy Service agreed to supply, electricity during the term from 1 July 2022 to 31 December 2022.

As at the Latest Practicable Date, GDH is holding approximately 59.19% and 56.49% of the total number of shares in issue of the Company and GDI respectively. By virtue of the above shareholding interests, GDI (being a subsidiary and thus an associate of GDH (being a substantial shareholder and connected person of the Company) as defined in the Listing Rules) is a connected person of the Company. As at the Latest Practicable Date, GDH Energy Service was indirectly held as to 71.25% by GDI and, accordingly, is also a connected person of the Company. Therefore, the Transaction constitutes a continuing connected transaction of the Company under the Listing Rules.

Based on the estimated amount to be paid by GDH Zhongyue to GDI Group under the Original Electricity Transaction Agreement and the New Electricity Transaction Agreement, the New Cap (on an aggregate basis) for the year ending 31 December 2022 is set at RMB45,000,000 (equivalent to approximately HK\$55,485,000).

Since one of the applicable percentage ratios for the purpose of Chapter 14A of the Listing Rules in respect of the New Cap (on an aggregate basis) exceed 5%, the Transaction constitutes a non-exempt continuing connected transaction of the Company and the New Electricity Transaction Agreement and proposed New Cap will be subject to the reporting and announcement requirements, the annual review requirements, and the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

## **THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Gerard Joseph McMAHON, Mr. LI Kar Keung, Caspar and Dr. WONG Yau Kar, David, has been established to advise the Independent Shareholders as to (i) whether the New Electricity Transaction Agreement and the Transaction are conducted in the Group's ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the New Electricity Transaction Agreement and the Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the New Cap is fair and reasonable; and (iv) how to vote in respect of the ordinary resolution to be proposed at the EGM approving the New Electricity Transaction Agreement, the Transaction and the New Cap (the "**Resolution**"), taking into account the recommendation of the Independent Financial Adviser.

## **THE INDEPENDENT FINANCIAL ADVISER**

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the New Electricity Transaction Agreement and the Transaction are conducted in the Group's ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the New Electricity Transaction Agreement and the Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the New Cap is fair and reasonable; and (iv) how the Independent Shareholders should vote in respect of the Resolution.

We acted as the independent financial adviser for the Company with regards to the continuing connected transaction in relation to the revision of annual caps for the purchase of electricity, details of which were set out in a circular of the Company dated 24 May 2021. Save for the aforesaid transaction, we have not acted as independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the New Electricity Transaction Agreement, the Transaction and the New Cap is at market level and not conditional upon successful passing of the Resolution, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

## **BASIS OF OUR ADVICE**

In formulating our opinion, we have reviewed, amongst others (i) the New Electricity Transaction Agreement; (ii) the Original Electricity Transaction Agreement; (iii) the Previous Electricity Transaction Agreement as supplemented by the Supplemental Agreement; (iv) the annual report of the Company for the year ended 31 December 2021 (the “**2021 Annual Report**”); (v) the announcement of the Company dated 30 December 2021 in relation to the continuing connected transaction on the purchase of electricity; and (vi) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the date of EGM. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any such statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group. The Company will notify the Shareholders of any material change after the Latest Practicable Date and after the despatch of the Circular.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

### **1. Background**

#### ***1.1 Principal businesses of the Group and connected persons***

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

GDH Zhongyue, a wholly-owned subsidiary of the Company, is principally engaged in the production and sales of tinplate products and property leasing.

The principal businesses of GDI Group include water resources, property investment and development, department store operation, hotel ownership, operation and management, investments in energy projects and road and bridge operation.

GDH Energy Service is principally engaged in the sale of electricity and is indirectly held as to 71.25% by GDI, and as to 28.75% by 中山興中集團有限公司 (Zhongshan Xingzhong Group Co., Ltd.\*, which in turn is wholly-owned by the State-owned Assets Supervision and Administration Commission of Zhongshan Municipal Government). The principal business of GDH Energy is power plant operation providing electricity and steam supply. Both GDH Energy and GDH Energy Service are non-wholly owned subsidiaries of GDI.

Given that electricity is the major source of power for the production lines of GDH Zhongyue, it is within its ordinary and normal course of business to purchase electricity for operational use.

### ***1.2 The previous electricity transaction agreements***

To enable GDH Zhongyue to secure stable electricity supply for its normal business operations at a fair, reasonable and competitive price, GDH Zhongyue entered into electricity transaction agreements with GDH Energy Service since 2018 with consecutive renewals.

In view of the guidelines issued by the relevant authorities in the PRC in late 2021, GDH Zhongyue and GDH Energy Service entered into the Original Electricity Transaction Agreement on 30 December 2021 to supersede the Previous Electricity Transaction Agreement as supplemented by the Supplemental Agreement. For further details, please refer to the paragraph headed “Introduction” above.

## **2. The New Electricity Transaction Agreement**

To assess the fairness and reasonableness of the terms of the New Electricity Transaction Agreement, we have considered the followings.

### ***2.1 Key terms of the New Electricity Transaction Agreement***

For details of the terms of the New Electricity Transaction Agreement, please refer to the “Letter from the Board” of the Circular.

- (i) The amount of electricity transacted shall be the actual volume of electricity consumed by GDH Zhongyue and in any event not exceeding 45,000,000 kWh for the six months ending 31 December 2022.

We have performed random sample checks as further elaborated in the paragraph headed “2.2 Internal controls” below and noted that the amount of electricity is being charged according to GDH Zhongyue’s actual volume of electricity consumed. Taking into account the actual electricity consumption for the year ended 31 December 2021 and the three months ended 31 March 2022 as elaborated in the paragraph headed “2.4 (i) Historical caps” and the potential business growth, the maximum volume of electricity to be consumed by GDH Zhongyue for the six months ending 31 December 2022 provides an assurance to GDH Zhongyue on the continued supply of electricity, which is a key power supply for its operations. In addition, there is no obligation for GDH Zhongyue to use up the maximum volume of electricity as stipulated in the New Electricity Transaction Agreement.

- (ii) Unit price of electricity transacted shall be calculated (i) as for 90% of the monthly consumption, at a price based on the standard monthly base tariff (being RMB0.463 per kWh) as announced by the Guangdong Electricity Exchange Centre monthly plus a margin of not more than RMB0.02 per kWh, multiplied by a coefficient which is determined on the basis of consumption during the peak, normal or low period; and (ii) as for the remaining 10% of the monthly consumption, at a price based on the then applicable monthly base tariff (currently RMB0.463 per kWh) with a plus/minus fluctuation within 20% (the maximum being RMB0.554 per kWh and the minimum being RMB0.372 per kWh, currently) as announced by the Guangdong Electricity Exchange Centre monthly, multiplied by a coefficient which is determined on the basis of consumption during the peak, normal or low period. Such unit price has been determined after arm’s length negotiation and in compliance with government guidelines.

We understand the above pricing mechanism is being formulated in compliance with the guidelines issued by the relevant authorities in the PRC in late 2021. Further, we understand the Company has obtained three quotations from other electricity suppliers in the Guangdong Province, which are independent third parties. We have reviewed the quotations and noted the unit price offered by GDH Energy Service is no less favourable to the Group than those offered by independent third parties. Therefore, we consider the unit price is fair and reasonable.

- (iii) The fees for electricity payable by GDH Zhongyue shall be settled with Guangdong Power Grid (being a third party independent of and not connected with the Group) on a monthly basis, which shall in turn be payable by Guangdong Power Grid to the GDI Group after deduction of the Power Grid Fee charged by Guangdong Power Grid. The amount to be received by the GDI Group under the relevant New Electricity Transaction Agreement shall therefore be the remainder of the said fees for electricity after deduction of the Power Grid Fee charged by Guangdong Power Grid.

GDH Energy Service will source electricity from GDH Energy, which is also a subsidiary of GDI and the holding company of GDH Energy Service and is principally engaged in the operation of power plants and if necessary, from other independent electricity suppliers.

In light of the above, (i) the fees payable is based on the actual volume of electricity consumed by GDH Zhongyue; (ii) the maximum volume of electricity to be consumed by GDH Zhongyue for the six months ending 31 December 2022 provides an assurance to GDH Zhongyue on the continued supply of electricity, which is a key power supply for its operation; (iii) there is no obligation for GDH Zhongyue to use up the maximum volume of electricity; (iv) the unit price offered by GDH Energy Service is no less favourable to the Group than those offered by independent third parties; and (v) the fees are settled on a monthly basis first with Guangdong Power Grid, which is in line with the regulations issued by Guangdong Power Exchange Centre, we consider the terms of the New Electricity Transaction Agreement are on normal commercial terms and are fair and reasonable.

## **2.2 Internal controls**

We have obtained and reviewed the Group's internal control procedures and noted that the finance department of the Group will conduct monthly tracking, monitoring and verification of the progress of the Company's transactions in relation to the purchase of electricity from GDH Energy Service. In this regard, as mentioned in the paragraph headed "2.1 Key terms of the New Electricity Transaction Agreement" above, we have performed random sample checks on a total of ten monthly electricity bills of GDH Zhongyue, on the basis that three monthly electricity bills per year are randomly selected for the three years ended 31 December 2021 and one monthly electricity bill is randomly selected for the three months ended 31 March 2022 respectively. We have cross-checked the electricity usage as stipulated in the electricity bills with the monthly breakdown of electricity transacted with GDH Energy Service, which we understand from the Management that such data has been confirmed with GDH Energy Service on a monthly basis. We noted that the electricity usage data are in line and therefore, believe the amount of electricity is being charged according to GDH Zhongyue's actual volume of electricity consumed.

We also noted that the Group has internal control procedures to obtain quotation(s) from independent electricity supplier(s) prior to entering into the electricity purchase agreement with GDH Energy Service. In this regard, as discussed in the paragraph headed “2.1 Key terms of the New Electricity Transaction Agreement” above, we understand the Company has obtained three quotations from independent electricity suppliers. We have obtained and reviewed the quotations and noted that the unit price offered by GDH Energy Service is no less favourable to the Group than those offered by independent third parties. In addition, the audit committee of the Board will conduct review of the Transaction to ensure completeness and effectiveness of the internal control measures relating to the continuing connected transactions of the Group.

In view of the above, we concur with the Management’s view that the Group’s internal control measures in relation to the Transaction and the monitoring of the New Cap is effective and sufficient.

### ***2.3 Reasons for and benefits of the New Electricity Transaction Agreement***

With reference to the paragraph headed “1.1 Principal businesses of the Group and connected persons” above, GDH Zhongyue is principally engaged in the production and sales of tinplate products and property leasing. GDH Zhongyue has various production lines in Zhongshan City, Guangdong Province in the PRC.

According to the 2021 Annual Report, the annual production capacity of GDH Zhongyue is 290,000 tonnes of tinplate products and 140,000 tonnes of blackplates. GDH Zhongyue contributes approximately 59.2% and 100% of the Group’s production capacity for tinplate products and blackplates respectively. Sales of tinplate and related products accounted for approximately 64.3% of the total revenue of the Group for the year ended 31 December 2021. Accordingly, by securing the supply of electricity at a fair, reasonable and competitive price will help to control the operating cost of the manufacturing units and to maintain and support the business operations of GDH Zhongyue, in particular, the production of tinplate products and blackplates, is a vital and integral part to the Group’s business operations and financial performance.

In view of the above, we concur with the Management’s view that the entering into of the New Electricity Transaction Agreement is in the interests of the Company and the Shareholders as a whole.



## 2.4 The New Cap

In general, the New Cap in relation to the purchase of electricity by GDH Zhongyue from GDH Energy Service is determined, principally, with reference to the estimated annual maximum electricity consumption of GDH Zhongyue (in terms of kWh). Such maximum electricity consumption amount is included in the Original Electricity Transaction Agreement and the New Electricity Transaction Agreement entered into between GDH Zhongyue and GDH Energy Service.

### (i) Historical caps

Below is a table setting out (i) the historical transaction amounts; (ii) the historical annual caps; (iii) the corresponding maximum usage in electricity; and (iv) the actual usage in electricity under the Previous Electricity Transaction Agreement as supplemented by the Supplemental Agreement and the Original Electricity Transaction Agreement in respect of the purchase of electricity by GDH Zhongyue from GDH Energy Service for the year ended 31 December 2021 and the three months ended 31 March 2022 respectively.

	<b>For the year ended 31 December 2021</b>	<b>For the three months ended 31 March 2022</b>
<b>Purchase of electricity</b>		
Historical transaction amount (RMB'000)	29,621	8,651
Historical annual cap (RMB'000)	36,000	22,000 (for the six months ending 30 June 2022)
<b>Utilisation rate</b>	<b>82.3%</b>	<b>78.6%</b> <i>Note 1</i>
	<b>For the year ended 31 December 2021</b>	<b>For the three months ended 31 March 2022</b>
Actual usage of electricity (kWh)	73,500,000	17,798,000
Max. usage of electricity (kWh)	85,000,000	40,000,000 (for the six months ending 30 June 2022)
<b>Utilisation rate</b>	<b>86.5%</b>	<b>89.0%</b> <i>Note 2</i>

*Notes:*

1. The utilisation rate for the three months ended 31 March 2022 is calculated based on (i) historical transaction amount for the three months ended 31 March 2022; and divided by (ii) historical annual cap calculated on a pro-rate basis.
2. The utilisation rate for the three months ended 31 March 2022 is calculated based on (i) actual usage of electricity (kWh) for the three months ended 31 March 2022; and divided by (ii) max. usage of electricity (kWh) calculated on a pro-rate basis.

As shown in the above table, the utilisation rates of historical annual caps were relatively high at approximately 82.3% and 78.6% for the year ended 31 December 2021 and the three months ended 31 March 2022 respectively, while the underlying electricity consumption reached approximately 86.5% and 89.0% of the corresponding maximum limit respectively.

According to the 2021 Annual Report, the revenue generated from the tinplating segment (being the production and sales of tinplate and related products) increased significantly by approximately 47.6% to approximately HK\$3,123 million in 2021 from approximately HK\$2,116 million in 2020. We understand from the Management that in 2021, with the increased domestic demand for tinplate products, the Group produced 319,865 tonnes of tinplate products, representing an increase of approximately 4.0% as compared to that in 2020, which in turn, increased the electricity consumption by GDH Zhongyue.

*(ii) New Cap*

	<b>For the year ending 31 December 2022</b>
Original Electricity Transaction Agreement ( <i>RMB</i> )	22,000,000 (equivalent to approximately HK\$27,126,000)
New Electricity Transaction Agreement ( <i>RMB</i> )	23,000,000 (equivalent to approximately <u>HK\$28,359,000</u> )
<b>Aggregate annual cap (<i>RMB</i>)</b>	<b>45,000,000</b> <b>(equivalent to</b> <b>approximately</b> <b><u>HK\$55,485,000</u>)</b>
Max. usage of electricity ( <i>kWh</i> )	85,000,000 <sup>Note 1</sup>

*Note:*

1. The maximum usage of electricity for the year ending 31 December 2022 is calculated based on the sum of (i) the maximum usage of electricity for the six months ending 30 June 2022 of 40,000,000 kWh according to the Original Electricity Transaction Agreement; and (ii) the maximum usage of electricity for the six months ending 31 December 2022 of 45,000,000 kWh according to the New Electricity Transaction Agreement.

We understand from the Management that the New Cap of RMB45,000,000 for the year ending 31 December 2022 is derived based on (i) the estimated maximum volume of electricity of 85,000,000 kWh per year to be consumed by GDH Zhongyue, which such maximum level represents an increase of approximately 15.6% over the actual electricity consumption by GDH Zhongyue for the year ended 31 December 2021. Such increase is to provide an assurance to GDH Zhongyue in light of the potential tinplating business growth in respect of the increasing domestic demand as abovementioned. In addition, we understand from the Management that it is the Group's strategy to (a) enrich its tinplating product mix; and (b) increase its proportion of self-produced blackplate to support its production of tinplate products, which may in turn increase the electricity consumption. We also noted that such annual maximum level is the same as that under the Previous Electricity Transaction Agreement as supplemented by the Supplemental Agreement; and (ii) the pricing mechanism as elaborated in the paragraph headed "2.1 Key terms of the New Electricity Transaction Agreement" above, which we understand such pricing mechanism is being formulated in compliance with the guidelines issued by the relevant authorities in the PRC in late 2021. In this regard, we have obtained and reviewed the aforesaid guidelines and noted that the pricing mechanism adopted for calculating the New Cap is in line with that as stipulated in the guidelines. For key terms of the aforesaid guidelines, please refer to the paragraph headed "Basis and reasons for the New Cap and the Transaction" in the "Letter from the Board" of the Circular.

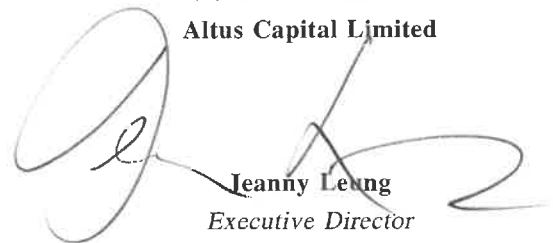
Taking into account of, amongst others, (i) the relatively high utilisation rates of historical annual caps for the year ended 31 December 2021 and the three months ended 31 March 2022; (ii) the estimated maximum volume of electricity of 85,000,000 kWh per year in deriving the New Cap is to provide assurance to GDH Zhongyue in light of the potential business growth and the Group's strategy as abovementioned; and (iii) the pricing mechanism adopted in deriving the New Cap is being formulated in compliance with the guidelines issued by the relevant authorities in the PRC in late 2021, we are of the view that the New Cap is derived at fairly and reasonably.

## RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the New Electricity Transaction Agreement and the Transaction are conducted in the Group's ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the New Electricity Transaction Agreement and the Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the New Cap has been fairly and reasonably arrived at.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the Resolution approving the New Electricity Transaction Agreement, the Transaction and the New Cap to be proposed at the EGM.

Yours faithfully,  
For and on behalf of  
**Altus Capital Limited**



**Jeanny Leung**  
Executive Director

*Ms. Jeanny Leung ("Ms. Leung") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial advisor or independent financial advisor in various corporate finance transactions.*

# ALTUS CAPITAL LIMITED

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20 May 2022

Board of Directors  
**GDH Guangnan (Holdings) limited**  
Units 2905-08, 29<sup>th</sup> Floor  
Shui On Centre, 6-8 Harbour Road  
Wanchai, Hong Kong

Dear Sirs and Madams,

**Company: GDH Guangnan (Holdings) Limited (the “Company”)**  
**Subject: Engagement as Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the New Electricity Transaction Agreement and the transactions contemplated thereunder (including the New Cap)**

We refer to the circular issued by the Company (together with its subsidiaries, the “**Group**”) dated 20 May 2022 (the “**Circular**”) relating to the above captioned matters. Capitalised terms used in this letter shall have the same meaning as those defined in the Circular, unless the context requires otherwise.

We hereby give our consent and confirm that we have not withdrawn our written consent to the issue of the Circular with the inclusion of our statement as set out in the Circular and references to our name in the form and context in which it appears in the Circular.

We confirm that as at the Latest Practicable Date, we:

- (a) did not have any shareholding in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (b) did not 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 Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

Yours faithfully,  
For and on behalf of  
**ALTUS CAPITAL LIMITED**

  
Jeanny Leung  
Executive Director