

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all of the information which may be important to you and is qualified in its entirety, and should be read in conjunction with the full text of this document. You should read the whole document including the appendices hereto, which constitutes an integral part of this document, before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks of investing in the [REDACTED] are summarized in the sections headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED]. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary” in this document.

BUSINESS OVERVIEW

We are engaged in the sale of flake graphite concentrate and spherical graphite, in the PRC and principally engaged in the processing of unprocessed graphite to flake graphite concentrate and spherical graphite. Our origins trace back to 2006 when we began our operations with Yixiang Graphite in the beneficiation and sale of flake graphite concentrate (primarily with a carbon content between 94% and 96.8%) and we expanded with Yixiang New Energy in the processing and sale of spherical graphite (primarily with a carbon content above 99%) in 2012.

Due to the high carbon content of our flake graphite concentrate, which we believe was attributable to our beneficiation capabilities, they are suitable to be used as heat resistant materials as well as to be manufactured into spherical graphite and used as anode materials in lithium-ion batteries for electronic devices and NEVs. As by-products of processing our spherical graphite, we also sell micro graphite powder and high purity graphite powder. For the three years ended December 31, 2019, 2020 and 2021, we had sold (i) approximately 18,400 tonnes, 34,100 tonnes and 37,300 tonnes of flake graphite concentrate; and (ii) approximately 8,300 tonnes, 10,400 tonnes and 13,800 tonnes of spherical graphite and its by-products, respectively. During such periods, our revenue generated from the sale of spherical graphite and its by-products amounted to approximately RMB66.4 million, RMB76.2 million and RMB98.5 million, whilst the revenue generated from the sales of flake graphite concentrate were approximately RMB57.4 million, RMB85.7 million and RMB97.7 million, respectively.

In 2019, we obtained the mining rights to our Beishan Mine as an ancillary to our Group’s core operations. Since then, the unprocessed graphite in our Beishan Mine has been extracted only for our Group’s own use, in order to supplement our procurement of unprocessed graphite from third-party suppliers. According to the Independent Technical Report, our Beishan Mine comprised approximately 14,000 kilo tonnes of Indicated Resource and approximately 1,000 kilo tonnes of Inferred Resource in relation to our graphite resources, and had an estimated life of mine of approximately 20 years as at December 31, 2021. Obtaining such mining rights has allowed us access to a secure and stable source of unprocessed graphite and to benefit from the synergies of a vertical integration such as better control of our raw materials, stable supply and more effective cost control. According to the F&S Report, we are one of the companies in Luobei County, and one of the companies in the PRC, with a vertically integrated supply chain linking a graphite processing operation to a graphite mine.

For the three years ended December 31, 2019, 2020 and 2021, we extracted approximately 255,500 tonnes, 211,200 tonnes and 258,300 tonnes of unprocessed graphite, from our Beishan Mine, at an extraction cost of approximately RMB3.0 million, RMB3.8 million and RMB4.1 million, thus approximately RMB11.5 per tonne, RMB17.8 per tonne and RMB15.8 per tonne, accounting for approximately 4.7%, 4.4% and 3.9% of our total cost of sales, respectively. Whilst we continue to source unprocessed graphite from third parties, for the three years ended December 31, 2019, 2020 and 2021, unprocessed graphite extracted from our Beishan Mine represented approximately 60.0%, 52.7% and 50.4% of our total unprocessed graphite supply.

We also began the sale of unprocessed marble as a by-product of our extraction operations in our Beishan Mine in 2020. For the two years ended December 31, 2020 and 2021, we sold approximately 675,200 tonnes and 341,700 tonnes of unprocessed marble at extraction costs of approximately RMB4.1 million and RMB2.3 million accounting for approximately 4.8% and 2.2% of our total cost of sales of the year, respectively. Our revenue generated from the sales of unprocessed marble amounted to approximately RMB6.9 million and RMB2.2 million for the years ended December 31, 2020 and 2021, respectively.

SUMMARY

As disclosed in the sub-section headed “Our Beneficiation and Processing Operations” in this section, our revenue has been generated primarily from the sales of flake graphite concentrate and the sales of spherical graphite and its by-products throughout the Track Record Period. Our Group’s gross profit has been enhanced during each year of the Track Report Period, benefitting from an effective cost structure through a vertically integrated supply chain via the acquisition of our Beishan Mine. Our gross profit increased from approximately RMB59.4 million for the year ended December 31, 2019 (corresponding gross profit margin: approximately 48.0%), to approximately RMB83.2 million for the year ended December 31, 2020 (corresponding gross profit margin: approximately 49.3%) and further to RMB93.0 million for the year ended December 31, 2021 (corresponding gross profit margin: approximately 46.9%). Moreover, our Directors are of the view that obtaining the mining rights to our Beishan Mine is ancillary to our Group’s core operations, supplementing our supply chain of unprocessed graphite and reducing the need for our procurement of unprocessed graphite from third-party suppliers. Other than sales of unprocessed marble, our Directors confirm that we did not sell other unprocessed graphite from extraction in our Beishan Mine.

Leveraging on our beneficiation and processing capabilities; our effective cost control as a result of the synergies benefitting from vertical integration; and our proven track record performance, we believe that we are well-positioned to capture the up-and-coming growth opportunities in the PRC graphite products industry. In particular, according to the F&S Report, the sales revenue of flake graphite concentrate is expected to increase from approximately RMB2,197.2 million in 2021 to approximately RMB2,972.3 million in 2025, illustrating a CAGR of approximately 7.8% from 2021. The sales revenue of spherical graphite in the PRC increased from approximately RMB1,045.5 million in 2016 to approximately RMB1,948.8 million in 2020 at a CAGR of approximately 16.8%, and is expected to grow from approximately RMB2,207.2 million in 2021 to approximately RMB3,958.5 million in 2025 at a CAGR of approximately 15.7%. We had also benefitting from a series of favorable measures implemented by the local government authorities in Luobei County, Heilongjiang Province to support our operations and industry competitiveness, including (i) improvement of transportation and communication infrastructure; (ii) financial subsidies; and (iii) comparable electricity prices against other regions.

For the reasons above, our Group experienced moderate business growth during the Track Record Period, generating a total revenue of approximately RMB123.7 million, RMB168.7 million and RMB198.4 million, with a net profit generated of approximately RMB24.5 million, RMB37.9 million and RMB53.3 million, for the three years ended December 31, 2019, 2020 and 2021, respectively. Although our Group has generated net profit during the Track Record Period, there is no assurance that the unprocessed graphite and unprocessed marble extracted from our Beishan Mine would ultimately be extracted at a profit in the future.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths distinguish us from our competitors:

- We are a company in the sale of flake graphite concentrate and spherical graphite in the PRC, with a proven operating track record, being well-positioned to benefit from the up-and-coming market growth opportunities;
- Our senior management team consists of experienced personnel with the requisite vision, industry expertise, management experience, and research and development capabilities;
- Our Beishan Mine has abundant resources and reserves for future development; and
- Our open-pit mining method is more cost-effective, environmental-friendly and safer as compared to underground mining methods.

SUMMARY

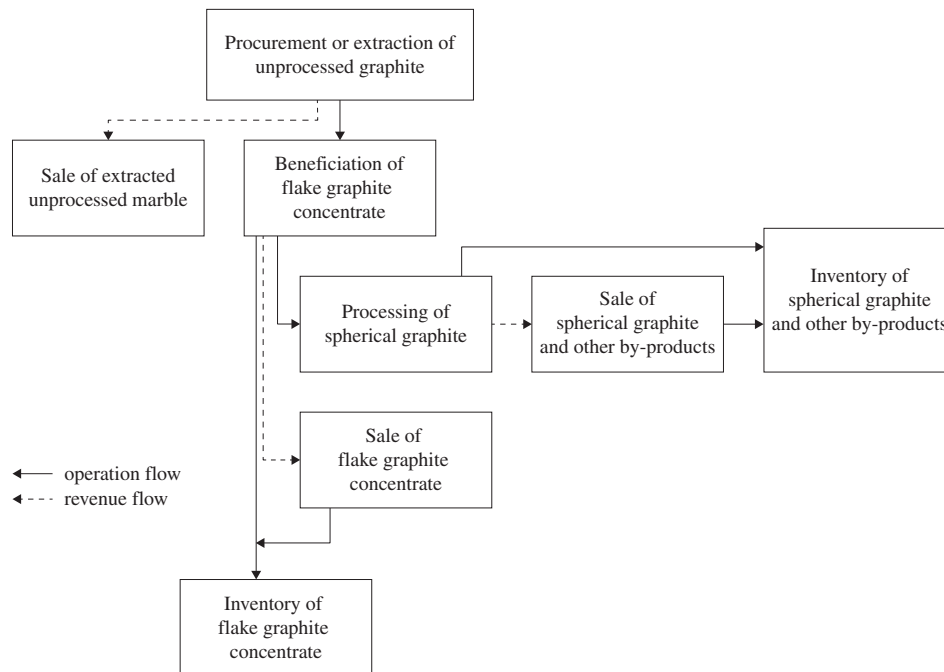
OUR BUSINESS STRATEGIES

Our aim is to strengthen our market position in the PRC. In order to achieve this objective, we intend to pursue the following strategies:

- We will increase our ramp-up speed to reach the maximum graphite extraction volume permitted at our Beishan Mine;
- We will increase our capacity in the beneficiation of flake graphite concentrate;
- We will increase our spherical graphite processing capacity; and
- We will expand our customer base and reach out to more markets.

OUR BUSINESS MODEL

Our principal business primarily consists of the sale of flake graphite concentrate and spherical graphite processed at our plants. The production of our principal products, i.e. flake graphite concentrate and spherical graphite, in our beneficiation and processing plants currently relies on the supply of unprocessed graphite extracted from our Beishan Mine and those purchased from third-party suppliers. As a by-product of our extraction operations, we also sell unprocessed marble. The following sets forth a flowchart illustrating the movement of graphite material from procurement and extraction, to beneficiation and processing, and to inventories and sales:



EXTRACTION OF UNPROCESSED GRAPHITE FROM OUR BEISHAN MINE

Our Beishan Mine is an open-pit graphite ore mine with a permitted mining area of approximately 0.3 km². It is located approximately 28 km northwest of Luobei County in Heilongjiang Province, and approximately 10 km west of our beneficiation and processing plants. The connecting road between such plants and our Beishan Mine consists of approximately 10 km of paved road, which is considered adequate to support the operation. Our Directors confirm that we did not experience any material interruption in transportation and logistics for our graphite products. The estimated life of our Beishan Mine was approximately 20 years as at December 31, 2021. The current mining license of our Beishan Mine will expire in April 2024. For further details of the material terms of the mining license, please see “Business — Our Business Model — Extraction of unprocessed graphite from our Beishan Mine”.

SUMMARY

The following map and image illustrates the geographical location of our mine, our beneficiation plants and our processing plants:



Exploration on our Beishan Mine was first carried out in 2015, which included geological mapping and a very low frequency electromagnetic geophysical survey. The identified targets were tested by trenching and diamond drilling at a nominal 100 m by 50 m spacing. The 2-year exploration program totalled approximately 6,000 m (36 holes) of diamond drilling and 10,000 m³ of trench excavation. In mid-2017, we engaged an environmental technology company to conduct an environmental impact assessment and submitted its report to Heilongjiang Forestry and Grassland Administration for review and certification in 2018; and a safety plan was prepared and submitted to Heilongjiang Emergency Management Office and we revised our safety plan in compliance with updated notices issued by the relevant authority, details of which are set out in the “Business — Our Business Model — Extraction of unprocessed graphite from our Beishan Mine” section of this document. In 2018, we applied to Yunshan Forestry of Luobei Country and the Heilongjiang Province to change the land use of the mine from “forest” to “commercial” use which was approved in January 2019. In 2020, the Independent Technical Consultant conducted a review of the previous exploration work and recommended a verification

SUMMARY

program. The work program comprised a topographical survey, geological mapping, trenching and 1,647 m (11 holes) of diamond drilling. For further details of the exploration on our Beishan Mine, please see the section headed “Appendix III — Independent Technical Report” in this document.

According to the Independent Technical Report, the graphite and marble Mineral Resources in our Beishan Mine within the elevation limits of our mining license as at December 31, 2021, being reported in accordance with the JORC Code (2012) via classification as Indicated and Inferred, are approximately as follows:

Graphite Mineral Reserve Statement within the approved mining license elevation limits as at December 31, 2021			
Domain	Mineral Resource Category	Tonnage (kt)	TGC (%)
V1	Indicated	1,740	7.86
	Inferred	138	12.62
V2	Indicated	229	7.71
	Inferred	48	7.97
V3	Indicated	3,333	10.99
	Inferred	656	11.81
V5	Indicated	2,440	11.86
V6	Indicated	1,348	8.37
	Inferred	107	8.87
V7	Indicated	2,123	8.14
	Inferred	29	4.98
V8	Indicated	2,539	8.83
	Inferred	20	12.59
	Indicated	13,753	9.59
	Inferred	997	11.24
	Total	14,750	9.70

Marble Mineral Resource Statement within mining license elevation limits as at December 31, 2021		Tonnage (kt)
Mineral Resource Category		
Indicated		1,541
Inferred		582
Total		2,123

According to the Independent Technical Report, the graphite and marble ore Reserves in our Beishan Mine within the elevation limits of our mining license as at December 31, 2021, being reported in accordance with the JORC Code (2012), are approximately as follows:

Graphite Ore Reserve Statement within mining license elevation limits as at December 31, 2021			
Type	Ore Reserve Category	Tonnage (kt)	TGC (%)
Graphite	Probable	9,549	10.15

Marble Ore Reserve Statement within the mining license elevation limits as at December 31, 2021		
Type	Ore Reserve Category	Tonnage (kt)
Marble	Probable	1,152

For further details on the estimation, grades and qualities of the Resources and Reserves in our Beishan Mine, please see “Appendix III — Independent Technical Report”.

The unprocessed graphite extracted from our Beishan Mine is only for our Group’s own use and for supplementing our procurement of unprocessed graphite from third-party suppliers. The unprocessed graphite extracted from our Beishan Mine are beneficiated into flake graphite concentrate, which are then processed into spherical graphite. The main steps involved in open-pit mining include drilling, blasting, loading, and hauling. For details of the mining method of our Beishan Mine, please see the section headed “Business — Our Business Model — Extraction of unprocessed graphite from our Beishan Mine — Our mining operations” in this document. Our Directors confirm that our Beishan Mine is expected to continue being our only self-owned graphite mine in the near future, upon which we

SUMMARY

partially depend on for the supply of unprocessed graphite required for the production of our principal products, namely flake graphite concentrate and spherical graphite. The current mining elevations allowed is 274–150 masl. If we submit an application for the permission to extract below the licensed limit of 150m ASL and if such application is approved by relevant authority, there would be an additional Indicated and Inferred Resources of approximately 20,900 kilo tonnes and 8,400 kilo tonnes, respectively. If we believe there is a need in future, we may consider to apply for permission to extract below the licensed limit of 150m ASL. To the best knowledge of our Directors, the graphite ore mining capacity of our Beishan Mine is expected to increase from 500,000 tonnes per year to 1,000,000 tonnes per year upon the expansion in mining limit. For details of the cash operating and production costs of the unprocessed graphite extracted from our Beishan Mine, please see the section headed “Financial Information — Estimated Capital Costs and Operating Costs — Operating costs”. In addition, if the Company’s capital expenditure for future land acquisition and construction is ultimately significantly more than our internally generated funds and borrowings from financial institutions, our business, financial position and results of operations may be adversely affected in the future. Please see the section headed “Risk Factors — We may not have adequate financing to fund our future expansion plans, and such capital resources may not be available on commercially reasonable terms or at all” in this document. Our Directors confirm that as at the Latest Practicable Date, our mining rights in our Beishan Mine are not pledged to secure any of our banking facilities.

OUR BENEFICIATION AND PROCESSING OPERATIONS

Our beneficiation and processing plants are located 10 km from our Beishan Mine. For the three years ended December 31, 2019, 2020 and 2021, we were engaged in the beneficiation of flake graphite concentrate (with a production volume of approximately 31,100 tonnes, 38,500 tonnes and 48,200 tonnes of flake graphite concentrate, respectively) and the processing of spherical graphite (with a production volume of approximately 3,300 tonnes, 2,700 tonnes and 4,000 tonnes, respectively). For the three years ended December 31, 2019, 2020 and 2021, our beneficiation plant operated at a utilization rate of approximately 78%, 96% and 93%, and our processing plant operated at a utilization rate of approximately 78%, 51% and 77%, respectively. Please see the section headed “Business — Our business model — Our beneficiation and processing operations” in this document.

Sale of flake graphite concentrate

Accredited to its molecular structure, flake graphite is a solid-state lubricant, a non-metal conductor and can sustain high temperatures. Such characteristics, when used as a concentrate, led to wide applications mostly in industrial use. We have been selling flake graphite concentrate since the commencement of our business in 2006, with a focus on those with a carbon content between 94% and 96.8%. The following table summarizes the revenue generated, sales volume and average selling price of our flake graphite concentrate, highlighting the key types (i.e. “194”, indicating a carbon content of 94% or from 94% to less than 95%; “195”, indicating a carbon content of 95% or from 95% to less than 96%; and “196”, indicating a carbon content of 96% or from 96% to 96.8%) during the Track Record Period:

Type	For the year ended December 31,								
	2019			2020			2021		
	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price
(RMB'000)	(Tonnes)	(RMB/tonne)	(RMB'000)	(Tonnes)	(RMB/tonne)	(RMB'000)	(Tonnes)	(RMB/tonne)	
194	26,479	8,396	3,154	28,288	11,132	2,541	47,254	18,094	2,612
195	14,139	4,007	3,529	35,525	13,837	2,567	41,806	15,803	2,645
196	7,968	2,002	3,980	10,218	3,671	2,783	3,889	1,339	2,904
Others ⁽¹⁾	8,788	3,996	2,199	11,678	5,494	2,126	4,723	2,022	2,336
Total	57,374	18,401		85,709	34,134		97,672	37,258	

Note:

(1) Others primarily include flake graphite concentrate of other carbon content specifications.

SUMMARY

Our revenue generated from the sale of flake graphite concentrate is determined by our sales volume and average selling price, which is generally affected by factors such as production costs and product specifications required by our customers, for instance, there is a general increase in the average selling price of each of our flake graphite concentrate type by its carbon content. Leveraging on the cost-saving benefits from vertical integration by obtaining the mining rights of our Beishan Mine, we adopt a competitive pricing strategy to sell our flake graphite concentrate at a lower average selling price with a view to attracting more customers. We believe that our competitive advantage in the market with flake graphite concentrate primarily lies with effective cost control through a vertically integrated supply chain since 2019. This allowed us to effectively pursue a competitive pricing strategy, even during the COVID-19 outbreak in the year ended December 31, 2020.

Sale of spherical graphite

Owing to the technical specificity of each spherical graphite type (for instance, an SG-10 spherical graphite may have up to ten variances based on shape, density and purity), spherical graphite has wide applications in the field of NEVs or electronic appliances. During the Track Record Period, we had sold spherical graphite with a carbon content primarily above 99% and by-products including micro graphite powder and high-purity graphite powder. The following table summarizes the revenue generated, the sales volume and the average selling prices of our spherical graphite and its by-products during the Track Record Period:

	For the year ended December 31,								
	2019			2020			2021		
	Revenue generated (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)	Revenue generated (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)	Revenue generated (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)
Spherical graphite									
SG-10	47,122	2,343	20,112	63,926	3,479	18,375	47,842	3,059	15,638
Other models	9,998	645	15,501	5,237	444	11,795	42,443	3,002	14,138
Subtotal	57,120	2,988		69,163	3,923		90,285	6,061	
Micro graphite powder	7,103	5,049	1,407	6,284	6,296	998	8,043	7,733	1,040
High-purity graphite powder	2,139	282	7,585	712	134	5,313	181	48	3,771
Total	66,362	8,319		76,159	10,353		98,509	13,842	

The selling price of our spherical graphite is generally influenced by factors such as production costs and product specifications as our spherical graphite is often processed upon request by customers with designated specifications and tailored instructions, which leads to additional processing costs. During the Track Record Period, there was a decline in the average selling price of our spherical graphite products, which was attributable to the overall decrease in unit cost of unprocessed graphite extracted from our Beishan Mine as compared to the unit cost of unprocessed graphite procured from our third party suppliers since the commencement of our vertical integration. The selling price of our SG-10 model spherical graphite products experienced a decrease in general for the year ended December 31, 2021 as compared to the corresponding period in 2020, which was primarily attributable to decreased sales of a high-density version of the model during the period and the adoption of market competitive pricing strategy. The selling price of our other model experienced an increase for the year ended December 31, 2021 attributable to strong market demand and sales in our SG-9 model spherical graphite products from one of our top five customers in 2019 and 2021 customer.

Sale of unprocessed marble

We began selling unprocessed marble as a by-product of our extraction operations in the year ended December 31, 2020 and 2021, which we sold approximately 675,200 tonnes and 341,700 tonnes of unprocessed marble, generating a revenue of approximately RMB6.9 million and RMB2.2 million, accounting for approximately 4.1% and 1.1% of our revenue. The decrease of revenue was primarily due to our lowering of sales price to accelerate the marble sales in order to make available more working space for placing other extracted materials on our site, and our customers' demand on unprocessed marble decreased due to slowdown in the property building and construction industry in the PRC in the second half of 2021. Our Directors are of the view that our sales of unprocessed marble is influenced by

SUMMARY

factors such as supply and demand, and our extraction costs were approximately RMB4.1 million and RMB2.3 million, accounting for approximately 4.8% and 2.1% of our total cost of sales for the years ended December 31, 2020 and 2021.

Our gross profit and gross profit margin

For each year during the Track Record Period, our gross profit amounted to approximately RMB59.4 million, RMB83.2 million and RMB93.0 million, representing a gross profit margin of approximately 48.0%, 49.3% and 46.9%, respectively. The following table summarizes our gross profit and gross profit margin breakdown by business segment during the Track Record Period:

	2019			For the year ended December 31, 2020			2021		
	Gross profit (RMB'000)	Gross profit attributable (%)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit attributable (%)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit attributable (%)	Gross profit margin (%)
Sale of flake graphite concentrate	28,372	47.7	49.5	45,505	54.7	53.1	51,960	55.8	53.2
Sale of spherical graphite and its by-products	31,055	52.3	46.8	34,986	42.0	45.9	41,180	44.3	41.8
Sale of unprocessed marble	—	—	—	2,756	3.3	40.1	(97)	(0.1)	(4.4)
	<u>59,427</u>	<u>100.0</u>	<u>48.0</u>	<u>83,247</u>	<u>100.0</u>	<u>49.3</u>	<u>93,043</u>	<u>100.0</u>	<u>46.9</u>

Our gross profit margin from the sale of flake graphite concentrate increased from approximately 49.5% for the year ended December 31, 2019, to approximately 53.1% for the year ended December 31, 2020, primarily due to (i) the growth in sales; (ii) the benefits of economies of scale as our utilization rate of our beneficiation plant increased from 2019 to 2020. Despite the drop in average selling price and rise in unit extraction and procurement costs, our gross profit margin from the sale of flake graphite concentrate further increased from 49.5% for the year ended December 31, 2019 to approximately 53.1% for the year ended December 31, 2020 because the percentage increase in cost of sales was lower than the percentage increase in revenue in the corresponding year, which was attributable to the rapid increase in the sales volume of flake graphite concentrate. Our gross profit margin from the sale of flake graphite concentrate remained stable at approximately 53.2% for the year ended December 31, 2021.

Our gross profit margin from the sale of spherical graphite and its by-products dropped slightly from approximately 46.8% for the year ended December 31, 2019, to approximately 45.9% for the year ended December 31, 2020, as we lowered the average selling price of our products to increase our market share and maintain our relationship with customers. Our gross profit margin from the sale of spherical graphite and its by-products further decreased to approximately 41.8% for the year ended December 31, 2021, mainly due to the incurrence of subcontractor fees of approximately RMB6.5 million, payable to third-party service providers for purification processing service in 2021.

The gross profit margin from our sales of spherical graphite and its by-products was in the range of approximately 41.8% to approximately 46.8% during the Track Record Period, which is slightly lower than that of our sale of flake graphite concentrate in the range of approximately 49.5% to approximately 53.2% in the corresponding period. The increase of revenue generated from flake graphite concentrate is higher than that of spherical graphite, attributable to the rapid increase in the sales volume of flake graphite concentrate, and also due to additional costs incurred for the spherical graphite product segment resulting from the engagement of third-party service providers during the temporary suspension of our purification station from November 2020 to May 2021.

Our gross profit margin decreased from 49.3% in 2020 to 46.9% in 2021, which was primarily attributable to the engagement of third-party service providers for purification processing during the temporary suspension of our purification station from November 2020 to May 2021.

SUMMARY

OUR CUSTOMERS

For the three years ended December 31, 2019, 2020 and 2021, our major customers were primarily industrial manufacturers and retailers of heat-resistant materials. Our five largest customers accounted for approximately 62.9%, 59.0% and 55.7% of our Group’s total revenue, respectively. Sales to the largest customer group, BTR New Material Group Ltd. (貝特瑞新材料集團股份有限公司) and its certain subsidiaries, accounted for approximately 37.9%, 37.9% and 20.1% of our Group’s total revenue for the three years ended December 31, 2019, 2020 and 2021, respectively. Headquartered in Shenzhen, China, this customer group has been listed on the National Equities Exchange and Quotations since 2015, and has operated as a major supplier of anode material for lithium-ion batteries in the industry. Whilst it is considered as an advantage to have a stable customer base comprising major industry players, our Group aims to continue to broaden our customer base and product range which may eventually reduce any concentration and counter-party risk arising from both customers in future. Please refer to the section headed “Risk factors — Risks relating to our business and operations — We rely on a limited number of customers for a substantial portion of our revenue” in this document for details.

Sales and marketing

The graphite product market in the PRC is considered by our Directors to be niche and only with a finite number of industry players. During the Track Record Period, our sales and marketing team was responsible for harvesting new relationships with such industry players by physical site visits and regular communications to understand the needs of such potential customers. We had also engaged customer relationship services providers to provide assistance in maintaining relationships with our existing customers. Our sales and marketing approach also includes sponsoring industry or academic events such as forums, site studies or symposiums. Considering the niche nature and the limited number of industry players, we believe that such approach may be effective in increasing our exposure among industry players and potential customers and in building up a stable clique clientele.

OUR SUPPLIERS

During the Track Record Period, our major suppliers mainly included raw material suppliers, suppliers of utilities such as electricity. For the three years ended December 31, 2019, 2020 and 2021, purchases from our five largest suppliers accounted for approximately 69.2%, 63.8% and 57.0% of our total purchases for the same periods, respectively, and purchases from our top supplier accounted for approximately 36.1%, 34.7% and 27.5% of our total purchases for the same periods, respectively.

In terms of the supply of unprocessed graphite to support our core operations, for the three years ended December 31, 2019, 2020 and 2021, we purchased approximately 171,000 tonnes, 189,500 tonnes and 254,200 tonnes of unprocessed graphite from our suppliers, incurring a procurement cost of approximately RMB10.8 million, RMB14.2 million and RMB19.1 million, thus at a unit cost of approximately RMB63 per tonne, RMB75 per tonne and RMB75 per tonne, respectively. The increase in our unit procurement costs for the year ended December 31, 2020 was due to the increase in the average purchase price of unprocessed graphite purchased from our supplier, Luobei County Yunshan Graphite Mining Co., Ltd* (蘿北縣雲山石墨採礦有限責任公司).

For the years ended December 31, 2019, 2020 and 2021, we extracted approximately 255,500 tonnes, 211,200 tonnes and 258,300 tonnes of unprocessed graphite from our Beishan Mine at an extraction cost of approximately RMB3.0 million, RMB3.8 million and RMB4.1 million thus approximately RMB11.5 per tonne, RMB17.8 per tonne and RMB15.8 per tonne, respectively. There was an increase in our unit extraction costs for the year ended December 31, 2020 as the total volume of material moved, including graphite ore, marble ore and waste extracted from Beishan Mine, increased in 2020. Our total extraction costs for the year ended December 31, 2021 decreased to approximately RMB6.4 million as compared to approximately RMB7.9 million in 2020, primarily attributable to the increase in portion capitalized in 2021 as a result of proportional increase of waste materials extracted in 2021. For details, please see the section headed “Business — Our suppliers” in this document.

SUMMARY

Third-party providers

During the Track Record Period, we engaged third-party providers for services that are auxiliary to our mining operations in our Beishan Mine, including the following:

- **Blasting services:** At our Beishan Mine, we engaged third-party services providers for certain tasks such as surveying, explosive transportation, charging, and blasting works. For the three years ended December 31, 2019, 2020 and 2021, we had incurred approximately RMB1.6 million, RMB2.3 million and RMB2.5 million, respectively for such services.
- **Graphite product processing services:** We engaged processing services provider to assist with (i) handling orders made during the off-season months of January to March when our operations were put on hold due to severe cold weather; and (ii) purification of our unfinished products between November 2020 and May 2021 as the purification station of our spherical graphite processing plant was undergoing enhancement and repair. For the two years ended December 31, 2020 and 2021, we incurred outsourced processing costs of approximately RMB0.2 million and RMB6.5 million, respectively.
- **Logistics and transportation:** We engaged logistics services platform providers to transport unprocessed graphite from our suppliers to our production site and finished graphite goods to our customers. During the Track Record Period, we incurred a total of approximately RMB7.3 million, RMB9.1 million and RMB12.5 million for transportation costs (which fall under our cost of sales and transportation fees).
- **Leasing of equipment and machinery:** We leased certain equipment and machineries from third-party service providers to assist with the mining operation. For the three years ended December 31, 2019, 2020 and 2021, we incurred a total cost of approximately nil, RMB0.6 million and RMB1.9 million for leasing of equipment and machineries.

We incurred a total third-party service provider fees of approximately RMB8.8 million, RMB12.1 million and RMB23.4 million for the three years ended December 31, 2019, 2020 and 2021.

MARKET AND COMPETITION

Most of the graphite supply in the PRC are sourced from Shandong and Heilongjiang provinces. In the case of Shandong, it is home to most of China’s graphite processing plants. However, many of the mines in Shandong are typically deep and, consequently, water inflows are a problem. Furthermore, the average carbon content is low at between two per cent and three per cent. The graphite is associated with clays and processing is costly and environmentally damaging because mines use acids in the process. So far as Heilongjiang Province is concerned, many mine owners there transport their ore about 2,000 km to the processing plants in Shandong. In addition to rising costs of production, the Chinese graphite industry faces an additional economic impost due to the winter closures: having to buy before the ice takes control ramps up warehousing and insurance costs. Considering the rise in global demand for lithium-ion batteries, and the market move that much of Heilongjiang’s graphite were actually processed in Shandong, we believe that our business model in operating an integrated graphite production company in Heilongjiang remains a strong advantage.

SUMMARY

SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

Summary of our results of operations

The following table sets forth the consolidated statements of comprehensive income for the years indicated of our Group, prepared on the basis set up in the Accountant’s Report in Appendix I to this Document:

	Year ended December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	123,736	168,749	198,365
Cost of sales	<u>(64,309)</u>	<u>(85,502)</u>	<u>(105,322)</u>
Gross profit	59,427	83,247	93,043
Other income and other gains, net	663	300	8,033
Selling and distribution expenses	(14,299)	(9,393)	(10,138)
General and administrative expenses	(9,019)	(18,770)	(19,738)
Research and development expenses	(4,820)	(5,830)	(8,118)
Reversal of/(provision for) impairment of financial assets	194	(349)	(1,463)
Operating profit	32,146	49,205	61,619
Finance income	12	18	54
Finance costs	<u>(435)</u>	<u>(778)</u>	<u>(834)</u>
Finance costs, net	<u>(423)</u>	<u>(760)</u>	<u>(780)</u>
Profit before income tax	31,723	48,445	60,839
Income tax expense	<u>(7,174)</u>	<u>(10,586)</u>	<u>(7,514)</u>
Profit for the year	<u>24,549</u>	<u>37,859</u>	<u>53,325</u>

Non-HKFRSs information

Our adjusted profit for the year is derived by excluding the [REDACTED] expenses. The term of adjusted profit is not defined under HKFRSs. The adjusted profit for the year was presented because our Directors believe that it is a useful supplement to the consolidated statements of comprehensive income as it reflects our profitability from our operations without taking into consideration of the non-recurring [REDACTED] expenses. However, the adjusted profit for the year should not be considered in isolation or construed as an alternative to gross profit or profit for the year prepared in accordance with HKFRSs, or an alternative to cash flows as a measurement of liquidity and shall be used for illustrative purpose only. Potential [REDACTED] should be aware that the adjusted profit for the year presented in this document may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

	Year ended December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Net profit for the financial year	24,549	37,859	53,325
Add: [REDACTED] expenses	<u>—</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>
Adjusted profit for the financial year	<u>24,549</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

SUMMARY

The following table illustrates the extraction costs (including the capitalized amount) incurred for the two years ended December 31, 2019, 2020, and 2021:

	For the year ended December 31,		
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Depreciation	1,778	3,552	1,607
Blasting services	1,590	2,287	2,460
Fuel costs	1,911	1,668	1,805
Employees salaries and benefits	1,130	830	1,145
Machinery expenses	1,173	661	1,198
Raw materials	250	242	1,043
Repairs and maintenance	338	19	85
Mining project management and administrative expenses	1,102	—	—
Others ⁽¹⁾	718	291	529
Total	9,990	9,550	9,872
Portion capitalized	7,040	1,656	3,504
Portion accounted for as cost of sales for the extraction of graphite ⁽²⁾	2,950	3,769	4,087
Portion accounted for as cost of sales for the extraction of marble ⁽²⁾	—	4,125	2,281
Total	9,990	9,550	9,872

Note:

- Others include workplace safety expenses, insurance on mining equipment, consumables and delivery of the dump truck.
- The cost of sales for the extraction of graphite and marble were allocated on the basis of the respective portions of graphite and marble extracted as measured in volume and were apportioned accordingly.

Selected consolidated statements of financial position

	As at December 31,		
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Non-current assets	92,515	107,563	125,090
Current assets	151,096	201,428	208,986
Current liabilities	127,934	155,566	127,430
Net current assets	23,162	45,862	81,556
Non-current liabilities	4,886	4,752	4,648
Net assets	110,791	148,673	201,998

Selected consolidated statements of cash flows

	Year ended December 31,		
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Net cash generated from operating activities	11,244	24,544	75,698
Net cash used in investing activities	(27,646)	(20,717)	(29,122)
Net cash generated from/(used in) financing activities	13,129	4,319	(22,649)
Net (decrease)/increase in cash and cash equivalents	(3,273)	8,146	23,927
Cash and cash equivalents at the beginning of the year	5,134	1,861	10,007
Cash and cash equivalents at end of the year	1,861	10,007	33,934

SUMMARY

Key financial ratios

	Year ended December 31,		
	2019	2020	2021
Net profit margin	19.8%	22.4%	26.9%
Return on equity	22.2%	24.8%	26.4%
Return on assets	10.1%	11.9%	16.0%
Interest coverage (<i>times</i>)	73.9	63.3	73.9
	As at December 31,		
	2019	2020	2021
Current ratio (<i>times</i>)	1.2	1.3	1.6
Quick ratio (<i>times</i>)	0.9	1.1	1.5
Debt-to-equity ratio	83.0%	61.4%	24.4%
Gearing ratio	84.7%	68.1%	41.2%

Please see the section headed “Financial Information” in this document for details of our financial performance during the Track Record Period.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Mr. Zhao, one of our founders, chairperson of the Board, executive Director and chief executive officer, through his wholly-owned offshore holding company, Sandy Mining Limited, directly held 1 Share, representing the entire issued share capital of our Company. Immediately upon completion of the [REDACTED], the Loan Consideration Capitalization and the [REDACTED] (assuming that the [REDACTED] is not exercised), Sandy Mining Limited will directly hold [REDACTED] Shares, representing [REDACTED]% of the total issued share capital of our Company. Thus, Sandy Mining Limited will continue to control more than 30% of the voting power at general meetings of our Company immediately following completion of the [REDACTED], the Loan Consideration Capitalization and [REDACTED] (assuming that the [REDACTED] is not exercised). Therefore, each of Sandy Mining Limited and Mr. Zhao will be our Controlling Shareholders for the purpose of the Listing Rules.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information — D. Other information — 1. Share Option Scheme” in Appendix VI to this document.

WAIVER APPLICATION

In preparation for the [REDACTED], our Company has sought the waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. For details, please see the section headed “Waiver from Strict Compliance with the Listing Rules” in this document.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

As advised by our PRC Legal Advisers and as confirmed by our Directors, during the Track Record Period and as at the Latest Practicable Date, save as disclosed in the section headed “Business — Legal Proceedings and Regulatory Compliance” in this document, we had (i) obtained all the material approvals, consents, certificates, licenses and permits to conduct our operations in the PRC; and (ii) complied with all applicable laws and regulations in the PRC in all material aspects. To the best knowledge of our Directors, as at the Latest Practicable Date, save as disclosed below, no member of our Group was a party to any litigation, arbitration or administrative proceedings, and our Directors were not aware of any pending or threatened litigation, arbitration or administrative proceedings against our Group that would have a material adverse effect on our results of operations and financial conditions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Board acknowledges its collective and overall responsibilities in relation to ESG. The Board is committed to maintaining good communications with our senior management and making decisions on important ESG issues, supported by regular reporting of annual ESG updates by senior management, in order to gain a timely understanding of the ESG performance of the Group’s business. The Group will continue to identify and manage ESG and climate related issues and risks in order to achieve its business objectives and ensure its stable development. Please refer to the section headed “Business — Environmental, Social and Governance” for details.

SUMMARY

[REDACTED] EXPENSES

Our Directors are of the view that the financial results of our Group for the year ending December 31, 2022 are expected to be adversely affected by, among others, our [REDACTED] expenses, the nature of which is non-recurring. Our total [REDACTED] expenses, primarily consisting of fees paid or payable to professional parties and [REDACTED] and commission, are estimated to be approximately RMB[REDACTED] (or approximately HK\$[REDACTED]), based on the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] per [REDACTED] and [REDACTED] and assuming the [REDACTED] is not exercised). Among the estimated aggregate amount of our [REDACTED] expenses, (i) approximately RMB[REDACTED] is expected to be accounted for as a deduction from equity upon the [REDACTED]; and (ii) approximately RMB[REDACTED] has been and is expected to be recognized as expenses in our consolidated statements of comprehensive income, of which approximately RMB[REDACTED] and RMB[REDACTED] has been recognized for the two years ended December 31, 2020 and 2021, respectively, and the remaining of approximately RMB[REDACTED] is expected to be recognized by our Group for the year ending December 31, 2022. The total estimated amount of [REDACTED] expenses (including [REDACTED]) accounted for approximately [REDACTED]% of our [REDACTED] from the [REDACTED] assuming the [REDACTED] is fixed at HK\$[REDACTED] per Share (being the mid-point of the indicative [REDACTED] range stated in this document and assuming that the [REDACTED] is not exercised).

USE OF [REDACTED]

We estimate that the [REDACTED] of the [REDACTED] which we will receive, assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range stated in this document), will be approximately HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]), after deduction of [REDACTED] and estimated expenses payable by us in connection with the [REDACTED] and assuming that the [REDACTED] is not exercised. We intend to use the entire [REDACTED] of the [REDACTED] for the construction of a new beneficiation plant. We intend to allocate:

- approximately [REDACTED] of the [REDACTED] from the [REDACTED], or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for land acquisition;
- approximately [REDACTED] of the [REDACTED] from the [REDACTED], or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) to for construction; and
- approximately [REDACTED] of the [REDACTED] from the [REDACTED], or HK\$[REDACTED] (equivalent to approximately RMB[REDACTED]) for purchasing and installing machinery and equipment.

DIVIDENDS

We did not declare any dividends during the Track Record Period. After completion of the [REDACTED], the declaration of dividends shall be subject to the discretion of our Directors. Any declaration of final dividend by our Company shall also be subject to the approval of our Shareholders in a Shareholders' meeting. Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents, PRC laws and the Cayman Companies Act. Under applicable PRC laws, our subsidiary in the PRC may only distribute after-tax profits after it has made allocations or allowances for recovery of accumulated losses and allocations of the statutory reserves. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Our Directors confirm that since December 31, 2021, being the date of the latest audited financial statements of our Company, and up to the date of this document, there has been no material adverse change in our financial or trading position or prospects. Our Directors also confirm that there has been no events since December 31, 2021 which would materially affect the information shown in the Accountant's Report as set out in Appendix I to this document.

SUMMARY

RESPONDING TO THE COVID-19 OUTBREAK

Since December 2019, there has been an outbreak of COVID-19 in the PRC, Hong Kong and other countries. As a result, there had been lockdowns at workplaces and places of commerce in Heilongjiang Province, including our Beishan Mine. However, the closure of our Beishan Mine and plants due to restrictions under the COVID-19 outbreak had coincided with our seasonal shutdown period (i.e. the months of January to March, due to severe cold weather). Our Directors confirm that our Beishan Mine and plants have resumed its normal operation since April 2020, thus the disruption caused by the COVID-19 outbreak to our operations were not considered by our Directors to be severe. Our Directors further confirm that as at the Latest Practicable Date, no employee of our Group had been infected with COVID-19. Our Directors also confirm that there was no cancellation of confirmed purchase orders nor was there any actual and/or expected loss of confirmed purchase orders during the Track Record Period and up to the Latest Practicable Date as a result of the COVID-19 outbreak and there was no other actual and/or expected loss. To the best knowledge, information and belief of our Directors, most of our suppliers and third-party services providers have resumed their operations since April 2020. Our Directors also confirm that there was no actual or foreseeable disruption to the supply of raw materials or utility supplies from our suppliers and services by our third-party services providers up to the Latest Practicable Date, therefore there had not been a material adverse financial or operational impact that was directly caused by the COVID-19 outbreak. Nevertheless, we have implemented measures aiming at preventing the spread of COVID-19 in our Beishan Mine and our facilities. In case any of our employees and/or employees of our third-party services providers contracted or is suspected to have contracted with COVID-19, we are required to report to the relevant PRC government authorities and such employee would be taken to hospital for treatment.

In the event that all our business operations have to be fully suspended due to the impact of the COVID-19 outbreak and assuming that (i) our available resources are only limited to cash and cash equivalent, of approximately RMB33.9 million as at December 31, 2021; (ii) no revenue would be generated and no respective direct cost would be incurred; (iii) all the staff would be retained; (iv) the administrative expenses would be incurred with reference to the average of the actual expenses for the year ended December 31, 2021; (v) the trade receivables and trade payables balance would be settled based on historical settlement pattern; and (vi) bank borrowings remains payable at each relevant repayment due date, our Directors are of the view that our Group would remain financially viable for at least 45 months from the Latest Practicable Date.

STATISTICS OF THE [REDACTED]

All statistics in this table are based on the assumption that the [REDACTED] is not exercised.

	Based on the low-end [REDACTED] of HK\$[REDACTED]	Based on the high- end [REDACTED] of HK\$[REDACTED]
Market capitalization	HK\$[REDACTED]	HK\$[REDACTED]
Unaudited [REDACTED] adjusted combined net tangible assets of our Group attributable to the owners of our Company per Share ⁽¹⁾		
— HK\$	[REDACTED]	[REDACTED]
— RMB	[REDACTED]	[REDACTED]

Note:

- Please refer to the section headed “Unaudited [REDACTED] financial information” in Appendix II to this document for details regarding the assumptions and calculation basis used.

SUMMARY

RISK FACTORS

The business operations of our Group are subject to certain risks and uncertainties. We believe that the following are some of the major risks that may have a material adverse effect on us:

- Our current business operation depends on the stable supply of unprocessed graphite from our suppliers and also our Beishan Mine;
- Fluctuations in the market prices of, and the supply and demand for graphite related products and our products could materially and adversely affect our business, financial condition and results of operations;
- Our business operations are exposed to workplace safety and occupational health risks and hazards associated with our operations;
- We are subject to credit risk in collecting the trade and bills receivable due from the customers;
- We rely on a limited number of customers for a substantial portion of our revenue;
- Our operations are subject to various risks as identified by our Independent Technical Consultant, which may disrupt our business operations; and
- Failure to obtain, retain and renew governmental approvals, permits and licenses required for our operations could materially and adversely affect our business, financial condition and results of operations.