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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 further value-added applications, such as to be manufactured into spherical graphite and used as anode material in lithium-ion batteries for electronic devices and NEVs. As by-products of processing our spherical graphite, we sell micro graphite powder and high purity graphite powder, and as a by-product of our mining operations, we also sell unprocessed marble. For each year during the Track Record Period, 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 years, our revenue generated from the sale of flake graphite concentrate amounted to approximately RMB57.4 million, RMB85.7 million and RMB97.7 million, whilst the revenue generated from the sale of spherical graphite and its by-products were approximately RMB66.4 million, RMB76.2 million and RMB98.5 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. 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. The obtaining such mining rights of our Beishan Mine has allowed us access to a secured and stable resource of unprocessed graphite and to benefit from the synergies of a vertical integration such as better control of our inventory and more effective cost control. 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, respectively, from our Beishan Mine, at an extraction cost (which include those for petrol, blasting, machinery, repairs and salary) of approximately RMB3.0 million, RMB3.8 million and RMB4.1 million, respectively, thus approximately RMB11.5 per tonne, RMB17.8 per tonne and RMB15.8 per tonne, respectively. In comparison, 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, thus at a unit cost of approximately RMB63 per tonne, RMB75 per tonne and RMB75 per tonne, respectively. According to the F&S Report, we were one of the graphite companies in Luobei County, Heilongjiang Province, with a vertically integrated supply chain linking a graphite processing operation to a graphite mine in 2019.

Our Directors are of the view that the acquisition of our Beishan Mine resulted in the enrichment of our product mix to have unprocessed marble for sales and provision of an additional and stable source of supply of unprocessed graphite, which in turn resulted in the enhancement of our profitability and costs structure. For the risk factors and regulatory requirements in relation to our Beishan Mine, please refer to the sections headed “Risk Factor” and “Regulatory Overview and JORC Code”, respectively.

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For such 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. Despite our Group generated net profits 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

We have been selling flake graphite concentrate, under Yixiang Graphite, since 2006 and had maintained sustainable production volume and business growth. For the three years ended December 31, 2019, 2020 and 2021, we sold approximately 18,400 tonnes, 34,100 tonnes and 37,300 tonnes of flake graphite concentrate, respectively, most of which have a carbon content between 94% and 96.8%, generating a revenue of approximately RMB57.4 million, RMB85.7 million and RMB97.7 million, respectively. Furthermore, among many of our technical capabilities in beneficiation, our recently updated rolling mill results in high carbon content flake graphite concentrate without damaging graphite crystals.

Under Yixiang New Energy, since 2012, we have been selling spherical graphite suitable for various applications, including anode materials and batteries to be used in consumer electronic products and electric vehicles. For the three years ended December 31, 2019, 2020 and 2021, we sold approximately 8,300 tonnes, 10,400 tonnes and 13,800 tonnes of spherical graphite and its by-products, respectively, generating a revenue of approximately RMB66.4 million, RMB76.2 million and RMB98.5 million, respectively.

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. Moreover, influenced by the continuous policy incentives in manufacturing NEVs, the sales volume of electronic vehicle increased from approximately 0.5 million units in 2016 to approximately 1.4 million units in 2020, with a CAGR of approximately 26.8%, which paves the way for the market growth of spherical graphite. According to F&S Report, the electric vehicle market in the PRC, driven by the inclination to be carbon neutral and to use green energy, is expected to grow in the next few years and the sales volume of electric vehicle is expected to reach approximately 11.4 million in 2025. 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%. Taking into account our market share of approximately 4.2% in the flake graphite concentrate industry and approximately 3.5% in the spherical graphite industry in 2020 in terms of sales revenue, we believe that we are well-positioned to benefit from such up-and-coming market growth opportunities. Our Directors believe that a testament of this would be the promising growth we already had experienced

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during the Track Record Period, partially due to increased orders from our largest customer group, which is considered to be one of the major suppliers of anode material in the PRC. For the three years ended December 31, 2019, 2020 and 2021, purchases from such customer group accounted for approximately 37.9%, 37.9% and 20.1% of our total revenue, respectively. We had also benefitted from a series of favorable measures implemented by the local government authorities in Luobei County, including (i) improvement of transportation and communication infrastructure; (ii) financial subsidies; (iii) comparable electricity prices against other regions. This further allowed us to divert more resources into research and development to maintain our competitive advantage.

Our sales volume and revenue had experienced moderate growth during the Track Record Period, primarily due to, as our Directors believe, our ability to set a competitive selling price being lower than the dominant market price for flake graphite concentrate and spherical graphite. We believe that this was a result of our vertical integration by extracting from our Beishan Mine for raw materials, and that our research and development outcomes led to more cost effective production methods that allowed us to sell our graphite products at a more competitive price whilst maintaining a profit margin.

Our senior management team consists of experienced personnel with the requisite vision, industry expertise, management experience and research and development capabilities

Our senior management team has experience in various aspects of the graphite products industry, including but not limited to, corporate management, accounting and financial management and human resources. In addition, most members of our senior management team generally have more than 10 years of experience in the graphite products industry. Before founding Yixiang Graphite, Mr. Zhao started his career as deputy general manager of Jixi Yixiang Graphite Company Limited* (雞西市溢祥石墨有限公司) in 2002. Later in 2006, he founded Jixi Lishu Yixiang Graphite Factory* (雞西市梨樹區溢祥石墨廠) and served as the deputy general manager, which was dissolved in 2015. Mr. Wu Enming, with over 14 years of industry experience, worked in our Group with a focus on the overall management of the production since May 2007. For further biographical details of our Directors and members of our senior management, please see the section headed “Directors and Senior Management” in this document. Such industry background, knowledge and expertise in the flake graphite concentrate and spherical graphite market among our Directors and senior management, allowed our Group to dedicate resources to our research and development efforts and enhance the processes in the production of spherical graphite at higher efficiencies and lower costs.

Our Directors believe that since specifications of spherical graphite products have been constantly evolving, such as those requiring longer shelf-life for battery in NEVs, resulting in new graphite products being launched in the market every year, we have to enhance our research and development capabilities to face such ever-changing market demands. By focusing some of research and development efforts or production processes, we will be able to compete with other market players at both price and quality, and improve all overall revenue generation portfolio. For each year during the Track Record Period, we had incurred research and development expenses of approximately RMB4.8 million, RMB5.8 million and RMB8.1 million, respectively. Examples of such research and development initiatives led by our Directors include a method in processing high tap density spherical graphite smaller than 10 μ m thus achieving higher charging and energy density when used in lithium-ion batteries, which we believe is highly favored among our customers. We have also developed a demagnetization method which would lead to the existence of low-magnetic substances at 0.1 parts per million, which allowed us to create spherical graphite of a higher quality, fewer impurities, and lower magnetic content, which is more

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useful in the manufacturing of anode materials. According to the F&S Report, we are capable of producing spherical graphite with a size smaller than 10 μ m when the most available spherical graphite in the market ranged between 14 and 25 μ m, which accounted for over 50% of the total market, whereas spherical graphite with smaller size (including SG-10) may achieve higher charging and energy density when used in lithium-ion batteries. As at the Latest Practicable Date, we were the registered owner of 83 patents in the PRC and we also applied for the registration of 14 patents in the PRC.

We believe that, as a result of their accumulated years of experience, our senior management team possess profound technical knowledge in the graphite products industry, as well as a combination of strong analytical, observation, communication and management skills, our management is capable of seizing market opportunities, formulating and implementing sound business strategies and managing risks adequately, which as a whole would enable our Group to achieve sustainable business growth.

Our Beishan Mine has abundant resources and reserves for future development

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 (within the licensed limits of 274m to 150m ASL). Whilst many of the mines that supply to our competitors had already been in operation for some years, according to the Independent Technical Report, our Beishan Mine had an estimated life of 20 years as at December 31, 2021. Obtaining the mining rights of our Beishan Mine from Heilongjiang Provincial Department of Natural Resources allows us access to benefit from the synergies of a vertical integration, to better control and stabilize supply and to have more effective cost control on unprocessed graphite. It also allows us to have an additional revenue stream from the sales of unprocessed marble. Although our current mining license on Beishan Mine will expire in April 2024, our Directors believe that such mining license is able to be renewed. As advised by our PRC Legal Advisers, (i) according to the Measures for Registration Administration of Mineral Resources Exploitation (2014 Revision) (礦產資源開採登記管理辦法(2014修訂)) which was issued by the State Council and effective on July 29, 2014, where there is a need to continue mining activities upon the expiration of the period of validity of the mining license, the holder of the mining rights shall, not less than 30 days prior to such expiration, complete the procedures for extension of registration with the registration authority; (ii) according to the Notice of Ministry of Land and Resources on Further Regulating the Mineral Right Application Documents (國土資源部關於進一步規範礦業權申請資料的通知) which was issued by the Ministry of Land and Resources of the PRC and effective on March 18, 2018 and a notice on extension of registration of mining right on the official website of the Natural Resources Department in Heilongjiang Provincial Government Service Center, the applicant is required to submit the following application documents for the extension of mining right: (a) the application registration for the extension of mining right; (b) the duplicate of the applicant's enterprise business license; (c) the original script and duplicate of the original mining license; (d) the verification opinions of the municipal (local) competent department of natural resources; (e) the development and utilization plan of mineral resources and expert reviews; (f) mineral resources reserve report upon appraisal and determination by competent department of natural resources, and registration form thereof; and (g) supporting evidence for payment of income (price) for granting mining rights or paid disposal; (iii) the registration administrative authority shall complete the registration process within 40 working days from the date of application; and (iv) we obtained confirmation letters from the Natural Resource Bureau of Luobei County confirming that we have completed and obtained all the required approval, review, filing, registration and license for our Beishan Mine project, and there has been no administrative investigation or punishment imposed on us

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for violating the relevant national mineral resources administration laws and regulations, and that Yixiang New Energy has fulfilled the main obligations as the mining right holder and has not been subject to administrative punishment for violating national mineral resources administration laws and regulations. Therefore, if Yixiang New Energy is able to maintain its current legal and compliant operation status and complete the procedures for extension of registration not less than 30 days prior to the expiration of the mining license, and there are residual resources in the mine upon such expiration after taking into account the reserves, our PRC Legal Advisers are of the view that there is no material legal impediment for Yixiang New Energy to renew the mining license for our Beishan Mine.

Furthermore, should we submit an application for the permission to extract below the licensed limit of 150m ASL and that such application be 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 the permission to extract below the licensed limit of 150m ASL. To the best knowledge of our Directors, our graphite ore mining capacity in 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. As advised by our PRC Legal Advisers, according to the Opinions of the Ministry of Natural Resources on Several Matters Concerning Promoting the Reform of Mineral Resources Administration (for Trial Implementation) (自然資源部關於推進礦產資源管理改革若干事項的意見(試行)) issued by the Ministry of Natural Resources and effective on May 1, 2020, considering work safety in mines and reasonable development and utilization of resources, where it is necessary to further explore and exploit mineral resources by utilizing the original production system with respect to the same type of minerals in the deeper or upper part of a mining area under an existing mining right (the categories are specified in the Detailed Classification List of Mineral Resources, except for minerals in the category of sand, stone and soil for general construction use), the exploration right and the mining right may be assigned to the original mining rights holder by entering into new agreement. Such policy is also generally adopted in the Implementation Opinion of Natural Resource Bureau of Heilongjiang Province on Several Matters Concerning Promoting the Reform of Mineral Resources Administration (for Trial Implementation) (黑龍江省自然資源廳關於貫徹落實《自然資源部關於推進礦產資源管理改革若干事項的意見(試行)》的實施意見(試行)) which is issued by the Natural Resource Bureau of Heilongjiang Province and effective on August 17, 2020.

Based on the above regulation and after carrying out the additional agreement transfer procedures in accordance with the applicable legal requirements and obtaining the approval for expanding the mining area and appraisal on the mineral resources reserve (if applicable), our PRC Legal Advisers are of the view that there is no material legal impediment for us to obtain the necessary approval for an increase in mining scope (i.e. to extract below the licensed limit of 150m ASL) of its existing mining right. Our Directors believe that, considering the above, there is immense potential to an abundance of resources in our Beishan Mine to support our current operations and future growth.

According to the Independent Technical Consultant, the carbon content of the unprocessed graphite in our Beishan Mine is estimated to be of an average of 9.7%. A supply of unprocessed graphite with a lower carbon content, in general, may result in uncertain production costs, varying qualities, unstable delivery and more costly beneficiation processes. We consider that such difficulties were alleviated once we have integrated our supply chain in graphite extraction, beneficiation and processing. According to the F&S Report, we were one of the graphite companies in the PRC, and one of the companies in the PRC, with a vertically integrated supply chain linking a graphite processing operation to a graphite mine in 2019. Moreover, since obtaining the mining rights to our Beishan Mine, with an integrated supply

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chain, we had the advantage of a secure and stable supply of raw materials at a lower cost. For the three years ended December 31, 2019, 2020 and 2021, we extracted unprocessed graphite from our Beishan Mine at a unit cost of approximately RMB11.5 per tonne, RMB17.8 per tonne and RMB15.8 per tonne, respectively. In comparison, for the three years ended December 31, 2019, 2020 and 2021, we purchased unprocessed graphite from our suppliers at a unit cost of approximately RMB63 per tonne, RMB75 per tonne and RMB75 per tonne, respectively.

Considering the above, our Directors are of the view that, with a secure and stable supply of raw materials for a relatively new mine, with such potential for further extraction and an overall higher ore grade, which allowed us the benefits of a stable control of a quality supply at a relatively low cost, our Beishan Mine constitutes as a competitive advantage that would enhance our Group’s growth potential in the future.

In any event that the mining license for our Beishan Mine cannot be renewed, it is our plan to purchase unprocessed graphite ore from third party suppliers situated in regions of “Shuang Yashan” (雙鴨山) in Heilongjiang Province, the PRC which is approximately 240 km from our Beishan Mine. Should we fail to renew the mining license for our Beishan Mine after April 2024, our Directors believe there will be an overall decrease in our profitability, considering (i) the cost of unprocessed graphite per tonne would possibly experience an overall increase as we no longer be able to extract such from our Beishan Mine; and we might need to purchase more unprocessed graphite ore from suppliers at a higher costs per tonne, thereby increasing overall procurement costs; and (ii) there would be no more revenue generated from the sales of unprocessed marble, while our extraction cost would be lowered due to non-operation of our Beishan Mine. To the best knowledge of our Directors, our overall gross profit margin is expected to decrease, attributable to the increase on costs of raw materials and consumables as we are no longer able to extract unprocessed graphite from our Beishan Mine, which would be offset by the decrease of extraction costs, direct labor costs and such other costs possibly incurred.

Our open-pit mining method is more cost-effective, environmental-friendly and safer as compared to underground mining methods

According to the Independent Technical Consultant, since the open-pit mining method generally does not require the extensive use of explosive material or hazardous chemicals, workplace safety and environmental pollution concerns are significantly reduced. We adopt the open-pit mining method at our Beishan Mine and do not require the extensive use of explosive materials or hazardous chemicals in our mining operations. Therefore, we can dispense with the use of machinery, equipment or supporting structures that specially cater for underground mining. Such mining method has resulted in lower costs and improved efficiency as compared to underground mining methods, which would also lead to supplying unprocessed graphite to support our core operations at lower costs, resulting in higher profitability. In addition, our open-pit mining method also reduces the risk of workplace accidents caused by collapsed mine roofs, mine floods and leakage of harmful gases.

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OUR BUSINESS STRATEGIES

Our aim is to strengthen our 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

According to our mining licence, the permitted graphite extraction volume at our Beishan Mine is set at 500,000 tonnes per year. In comparison, our latest graphite extraction volume was at approximately 258,300 tonnes as at December 31, 2021. In order to maximize the value and benefits of a vertically integrated supply chain, we will invest further to increase our ramp-up speed to reach such permitted graphite extraction volume to 500,000 tonnes per year by the end of 2023. In addition to continuing our current extraction efforts, we plan to invest approximately RMB0.8 million to purchase an extra front-end loader to assist with our extraction efforts, thus increasing the number of loaders we have from one to two. Such expense will be paid for by our internal resources or via external financing. Our Directors believe that it is in the long-term benefit of purchasing an additional front-end loader in order to increase our extraction volume, and it had been difficult for us to locate front-end loader rental companies which can be readily available in the region.

The following table summarizes our target ramp up speed with such investment made:

	Annual graphite extraction volume (Tonnes/year)
Year ended December 31, 2020 (actual volume)	211,200
Year ending December 31, 2021 (actual volume)	258,300
Year ending December 31, 2022 (target)	400,000
Year ending December 31, 2023 (target)	500,000

Our Directors believe that this expansion strategy is necessary, given that (i) it would be commercially unwise to not fully utilize the licensed extraction limit under the current mining rights obtained; and (ii) this strategy will be implemented in conjunction with another expansion strategy to increase our beneficiation capacity, thus will require an increased extraction volume of extracted unprocessed graphite for beneficiation, which are detailed below. Nevertheless, we will continue to explore the possibilities in increasing our extraction volume under any new licenses in the future in order to further assist our core operations in graphite beneficiation and processing.

We will increase our capacity in the beneficiation of flake graphite concentrate

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. Taking into account of our market share of approximately 4.2% in 2020 in terms of sales revenue of our flake graphite concentrate in the PRC, we consider such opportunities to be promising to support an expansion in our beneficiation capacity in order to allow future business growth, which is supported by the increase in sales of flake graphite concentrate during the Track Record Period. Furthermore, considering the utilization of our current

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beneficiation plant to be at approximately 93% for the year ended December 31, 2021, and that we had a surge of orders made for our graphite flakes concentrate that we nearly used up our inventory for sale, we believe that such an increase in capacity is needed to prepare us for the future market growth opportunities. We will implement such strategy in two main phases: (i) to upgrade the machinery in our current beneficiation plant; and (ii) to construct a new beneficiation plant. Our target overall beneficiation capacity is set at 100,000 tonnes of flake graphite concentrate per year.

Considering that (i) for the three years ended December 31, 2019, 2020 and 2021, we sold approximately 18,400 tonnes, 34,100 tonnes and 37,300 tonnes of flake graphite concentrate, representing an increase of approximately 85.3% and 9.4% year to year increment in terms of sales volume of our flake graphite concentrate for the years ended 31 December 2020 and 2021, respectively; (ii) 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%, indicating an increasing demand for graphite product from our customers, and that our production capacity is reaching its designed limit; (iii) the implementation of our competitive pricing strategy will enable us to further attract new customers and diversify our customer base, as evidenced by the increase in number of our customers for the three years ended December 31, 2019, 2020 and 2021 being 53, 59 and 88 and the increase in our revenue for the three years ended December 31, 2019, 2020 and 2021 being approximately RMB123.7 million, RMB168.7 million and RMB198.4 million; (iv) according to the F&S Report, it is not uncommon that companies engaged in the sales of flake graphite concentrate and spherical graphite do not enter into long-term sales agreement with their major customers in the PRC, notwithstanding that we have transacted with the companies that were our five largest customers during the Track Record Period for a period between one to 14 years; and (v) our Directors are of the view that, in general, the increase in industry demand for flake graphite concentrate and spherical graphite products will indicate corresponding increase in demand for our Group’s products and our historical track record that our revenue and thus the demand for our products continued to grow along with the increasing industry demand in the PRC. According to the F&S Report, the sales revenue of flake graphite concentrate in China 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. Furthermore, the sale revenue of spherical graphite in China 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%; (vi) our research and development efforts to process high tap density spherical graphite smaller than 10 μ m thus achieving higher charging and energy density when used in lithium-ion batteries as evidenced by our research and development expenses of approximately RMB4.8 million, RMB5.8 million and RMB8.1 million, respectively during the Track Record Period; and (vii) our revenue generated from BTR Group (please refer to note 1 in the sub-section headed — “Our Customers” in this section), being the largest customer during the Track Record Period, recorded an increasing trend during the Track Record Period, our Directors are of the view that the establishment of our new beneficiation plant and the upgrade of machinery for our existing beneficiation plant is supported by sufficient demand.

Taking into consideration that our graphite extraction volume is limited to a maximum of 500,000 tonnes of unprocessed graphite per year, we estimate that approximately half of our graphite procurement would rely on third-party suppliers in order to support the increased beneficiation capacity once both the current and new plants are in operation.

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Upgrading our machinery to increase our current beneficiation capacity

As at the Latest Practicable Date, our beneficiation capacity was at approximately 50,000 tonnes of flake graphite concentrate per year. Since 2020, we have been putting in place investments to purchase new equipment, and the installation works are completed. Our machinery in our beneficiation plant included run of mine, run of mine bin, crushing circuit, crushed ore storage, primary grinding circuit, flotation plant, concentrate dewatering circuit and concentrate storage shed, with average estimated remaining useful lives at between 18 and 68 months together with the newly installed 44 flotation machines, nine ultrafine mills, 14 vertical sand mills, one ball mill and one jaw crusher. Since 2020 up to the Latest Practicable Date, we have invested approximately RMB19.1 million for the purpose of purchasing and installing such machinery, along with any extra construction works needed to accommodate such machinery.

With such new equipment put in place, we reached an annual overall beneficiation capacity of 50,000 tonnes of flake graphite concentrate. Should there be an increase in the graphite extraction volume from our Beishan Mine, we would further benefit from the lowered unit cost when compared to purchasing unprocessed graphite from a third-party supplier.

Constructing a new beneficiation plant

Our aim is to increase our overall beneficiation capacity in order to capture the market opportunities as described above. To do so, in addition to upgrading our current machinery, we will be investing in the construction of a new beneficiation plant to be located adjacent to our Beishan Mine. Our target beneficiation capacity for this new plant is estimated to be 50,000 tonnes of flake graphite concentrate per year. Adding to the increased beneficiation capacity to 50,000 tonnes per year at our beneficiation plant, our overall beneficiation capacity will thus be expected to increase to 100,000 tonnes per year. By our estimate, the total costs of implementing this strategy will be about RMB108.0 million, with approximately RMB34.0 million on land acquisition, approximately RMB33.0 million for construction and approximately RMB39.0 million for purchasing and installing machinery and equipment and approximately RMB2.0 million for initial staff costs, in the following stages:

Stage 1: Preparation work and land acquisition

Our Directors estimate that the site area of the new plant will be approximately 185,000 m² (i.e., approximately 45,000 m² for the beneficiation plant and approximately 140,000 m² for a tails pond for tailings storage), to be located adjacent to our Beishan Mine, with an estimated consideration of approximately RMB34.0 million for land acquisition with reference to (i) estimated forest land acquisition fee of approximately RMB11.0 million calculated by multiplying estimated forest land acquisition fee of approximately RMB60 per m² and estimated site area of the new plant of approximately 185,000 m²; (ii) estimated forest land fees of approximately RMB5.0 million calculated by multiplying estimated forest land fees of approximately RMB165 per tree and estimated number of approximately 31,000 trees; and (iii) estimated fees for converting the purpose of the land from forest land to industrial of approximately RMB18.0 million calculated by multiplying estimated fees for such conversion of approximately RMB100 per m² and estimated site area of new plant of approximately 185,000 m². The site area of current tails pond amount to approximately 142,500 m². As at the Latest Practicable Date, we have identified a target land parcel which is located approximately 900 meters east from our Beishan Mine. As advised by our PRC Legal Advisers, based on our consultation with Luobei County Natural Resources Bureau, relevant documents were submitted to Luobei County Natural

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Resources Bureau relating to the application of the land acquisition and principally there will be no material legal obstacle to obtain the necessary regulatory approvals and permits. While we are still assessing the feasibility of acquiring that land parcel, our Directors are of the view that there remains available and suitable land for acquisition and construction of the new plant, and our Group may consider applying to such government authorities for the land acquisition procedures and plant construction procedures as required, and principally there will be no legal obstacle to obtain the necessary regulatory approvals and permits. In order to successfully acquire the land for the specific purpose of constructing a beneficiation plant, the following preliminary steps will need to be completed as a part of the acquisition and approval process:

Item	Estimated time required (days)	Target completion date
Planning and technical design	90	April 2022
Preparation of documents	90	April 2022
Obtaining approval of use of forestry land	20	June 2022
Obtaining approval of land use and conversion of farm land to construction land	14	June 2022
Obtaining national land use rights approval	30	July 2022
Registration of land use rights via offer-for-sale, auction or tender	5	July 2022
Environmental impact study and approval	60	August 2022
Paying the land acquisition consideration	N/A	August 2022
Obtaining construction pre-approval	20	August 2022
Obtaining construction planning permit	30	September 2022
Obtaining construction works permit	7	October 2022

According to our action plan, the amount of approximately RMB34.0 million for land acquisition will be paid by using the [REDACTED] from the [REDACTED], our internal resources and/or via external financing.

Stage 2: Construction

Upon obtaining the permits and approvals as stated above, we plan to commence the construction of our new beneficiation plant in fourth quarter of 2022. Our estimated construction costs would be at approximately RMB33.0 million. The estimated consideration for the construction of approximately

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RMB33.0 million is based on market quotations obtained from our contractors. We will be relying on the [REDACTED] from the [REDACTED], our internal resources and/or via external financing, with the following detailed items breakdown:

Item	Basis of the construction cost (RMB'000)			
	Percentage of total floor space (%)	Cost (RMB'000)	Construction area (m ²)	Unit price (RMB/m ²)
Construction of factory space for beneficiation equipment				
— For rounding stations	8.0	1,500	1,000	1,500
— For flotation stations	20.0	3,750	2,500	1,500
— For air-drying stations	10.0	1,500	1,000	1,500
Sub-total	38.0	6,750	4,500	4,500
Construction of supporting facilities				
— Warehouses for finished goods		1,000	2,000	500
— Storage space for raw materials		200	400	500
— Weighbridge room		50	100	500
— Multi-purpose building (office, mess hall, etc.)		3,000	2,000	1,500
— Utilities, covering		1,450		
(i) electrical substation and switch room			1,000	300
(ii) roads paving			1,000	500
(iii) fire safety works such as pump room for water intake			100	500
(iv) combined room for production and fire safety, and			300	1,000
(v) drainage system of the factory and fire pipe network			1,000	300
Sub-total	62.0	5,700	6,900	5,600
Tailings storage facilities				
— Tailings pond	N/A	20,000	10,000	2,000
— Water pump room		100	200	500
Sub-total	N/A	20,100	10,200	2,500
Total	100.0	32,550	21,600	12,520

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After the completion of the construction, we will need to obtain the following major approvals before we commence our beneficiation operations:

Item	Estimated time required (days)	Target completion date
Fire safety inspection approval (after construction)	20	February 2024
Environmental protection acceptance (after construction)	30	February 2024
Pollution permit	20	February 2024
Construction completion inspection approval	5	February 2024

Stage 3: Purchasing and installation of machinery and equipment

Half-way through the construction progress, we will begin the purchase and installation of the necessary equipment for beneficiation in the new plant.

Considering that (i) leasing costs would be higher than the acquisition costs of such equipment; (ii) acquiring such equipment allows for an increase in our Group’s assets, thus benefiting our business developments in the long run; (iii) incurrence of leasing costs would have an adverse effect on the profitability of the Group; (iv) the gearing ratio of the Group would increase as a result of the incurrence of the leasing costs; and (v) subcontracting the beneficiation functions (as different to processing functions) of such equipment to third party services provider is not feasible, our Directors consider that acquiring such equipment, rather than leasing or subcontracting, would be the most cost effective and in the interest of our Group in the long run. The current estimated cost is at approximately RMB39.0 million, which will be paid by using the [REDACTED] from the [REDACTED], our internal resources and/or via external financing, with the following list of items:

Item	Cost (RMB’000)
Purchase of equipment and/or machinery	
— For the crushing, grinding and classification station	11,500
— For the roughing, scavenging and flotation station	14,500
— For the filtering and drying station	<u>5,000</u>
Sub-total	<u>31,000</u>
Installation costs	<u>8,000</u>
Total	<u><u>39,000</u></u>

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The details of the equipment and/or machinery to be acquired under each station are as follows:

For the crushing, grinding and classification station	Price	unit	Total
	<i>(RMB)/unit</i>		<i>(RMB)</i>
15-tonne electric double beam	270,000	1	270,000
Heavy plate feeder	1,366,000	1	1,366,000
Jaw crusher	1,488,000	1	1,488,000
Belt conveyor A	244,000	1	244,000
Suspended iron remover A	79,000	1	79,000
Bag filter (model no.: MC-200)	34,750	2	69,500
5-tonne electric single beam	80,000	2	160,000
Cone crusher A	2,760,000	1	2,760,000
Cone crusher B	3,180,000	1	3,180,000
Belt conveyor B	133,000	4	532,000
Suspended iron remover B	42,000	4	168,000
Linear vibrating screen	507,000	2	1,014,000
Bag filter (model no.: DMC)	53,450	1	53,450
Oil-injected screw compressor	21,000	1	<u>21,000</u>
Total (Approximately):			<u><u>11,405,000</u></u>

For the roughing, scavenging and flotation station	Price	unit	Total
	<i>(RMB)/unit</i>		<i>(RMB)</i>
Belt conveyor	48,000	1	48,000
Ball mill A	7,700,000	1	7,700,000
Spiral classifier	1,071,000	1	1,071,000
Mixing drum	52,000	1	52,000
Rough flotation machine	118,000	6	708,000
Sweeping flotation machine	105,000	1	105,000
Ball mill B	315,000	1	315,000
Fine flotation machine A	105,000	20	2,100,000
Fine flotation machine B	33,000	27	891,000
Stirring mill	93,000	7	651,000
50/10-tonne electric double beam	450,000	1	450,000
Slurry pump	73,490	6	<u>440,940</u>
Total (Approximately):			<u><u>14,532,000</u></u>

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For the filtering and drying station	Price/unit	unit	Total (RMB)
Automatic diaphragm filter press (model no.: XAZG 500/1500-U)	479,000	4	1,916,000
Belt conveyor	39,000	1	39,000
Tumble dryer	2,800,000	1	2,800,000
Electric single beam	270,000	1	<u>270,000</u>
Total (Approximately):			<u><u>5,025,000</u></u>

Stage 4: Recruiting and hiring new staff members

We expect to begin the recruitment process near the end of the construction works, based on the current size of our staff members, we plan to hire around 85 staff members for the new facility, with an estimated salary costs of approximately RMB6.8 million for the full year of operations in 2025, which will be paid by our internal resources and/or via external financing.

Our target is that by second quarter in 2024, we may gradually commence our beneficiation operations at the new plant, targeting to reach an annual beneficiation capacity of 50,000 tonnes (i.e. the licensed limit and also the full capacity) by the end of 2025. The following sets out the timeline of our investment in our new beneficiation plant:

	Investments to be made during each period indicated								Sub-total (RMB'000)
	2022Q3 (RMB'000)	2022Q4 (RMB'000)	2023Q1 (RMB'000)	2023Q2 (RMB'000)	2023Q3 (RMB'000)	2023Q4 (RMB'000)	2024Q1 (RMB'000)	2024Q2 (RMB'000)	
Land acquisition costs	34,000	—	—	—	—	—	—	—	34,000
Construction costs	—	5,500	5,500	5,500	5,500	5,500	5,500	—	33,000
Purchasing equipment and installation	—	—	—	12,300	11,270	9,130	6,300	—	39,000
Staff costs	—	—	—	—	—	—	—	2,030	<u>2,030</u>
Total investment									<u><u>108,030</u></u>

Our Directors believe that all of such machinery upgrades and the establishing of a new beneficiation plant will enhance our overall efficiency as well as allow us to have better control over our operating costs, and ultimately increase our production volume and profitability in order to capture the promising market opportunities for future growth. It is estimated that the utilization rate of flake graphite beneficiation production lines following our construction of new beneficiation plant will be approximately 90.0% for the year ending December 31, 2025; and the utilization rate to achieve breakeven position of our new beneficiation plant is expected to be approximately 31.1%. It is estimated that: (a) the breakeven period (being the period of time from the commencement of operation of the new beneficiation plant to the month when the annualized operating revenue is at least equal to the annualized total operating expenses including cost of materials, employee expenses, utilities, and other variable and fixed costs) will be approximately four months; and (b) the investment payback period (being the period of time from the commencement of operation of the production facility to the month in

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which the accumulated operating revenue is at least equal to its construction costs and operating costs including any incurred capital expenditures and accumulated ongoing cost and operating expenses) would be approximately 44 months. For reference and illustration purpose only, set out below are the key assumptions used in calculating the breakeven period and investment payback period in respect of the new beneficiation plant:

- a. The new beneficiation plant will commence commercial production in the second quarter of 2024 and become fully operational by third quarter of 2024.
- b. The total capital expenditure required for the development of the new beneficiation plant is estimated to be approximately RMB108.0 million. Please refer to the paragraph headed “Our Business Strategies — We will increase our capacity in the beneficiation of flake graphite concentrate — Constructing a new beneficiation plant” in this section in respect of the estimates used for the land costs, construction costs and costs of machineries and equipment of the new beneficiation plant.
- c. In respect of the new beneficiation plant, it is expected that we will allocate purchase orders to the new plant for production after it had come into operation. Starting from third quarter of 2024, we plan to allocate purchase orders for flake graphite concentrate received by us during 2024 to the new beneficiation plant. Furthermore, it is assumed that (i) the annual growth in sales volume of graphite concentrate for 2022 and 2023 will be approximately 42.3% with reference to the annualized growth of the sales volume from 2019 to 2021; (ii) the production and operating cost and expenses to be incurred by the new beneficiation plant are estimated with reference to the cost structure of our Group in 2021; (iii) the depreciation is calculated based on the total capital expenditure required for the new beneficiation plant with reference to the useful life of our existing lands, factories and machines; and (iv) the utilization rate of the new beneficiation plant would reach above 90.0% by the end of 2025 and maintain at such level thereafter on a prudent estimate basis. As our beneficiation plant had already been well-established, we could allocate sufficient purchase order to the new beneficiation plant and therefore it is expected that the new beneficiation plant would be able to achieve stable and sufficient revenue and to breakeven in four months and investment payback period in 44 months.

We will increase our spherical graphite processing capacity

According to the F&S Report, influenced by the continuous policy incentives in manufacturing NEVs, the sales volume of electronic vehicle increased from approximately 0.5 million units in 2016 to approximately 1.4 million units in 2020, with a CAGR of approximately 26.8%, which paves the way for the market growth of spherical graphite. According to F&S Report, the electric vehicle market in the PRC, driven by the inclination to be carbon neutral and to use green energy, is expected to grow in the next few years and the sales volume of electric vehicle is expected to reach approximately 11.4 million in 2025. 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%. Taking into account of our market share of approximately 4.2% in terms of sales revenue of our flake graphite concentrate in the PRC in 2020, we

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consider such opportunities to be promising to support an expansion in our processing capacity. Moreover, with our expected increase in capacity in the beneficiation of flake graphite concentrate as detailed above, it is effective for us to further penetrate into the spherical graphite market.

We will implement such a strategy in two main phases: (i) to expand, maintain and repair the machinery in our current processing plant wherever necessary in order to upgrade the current capacity to above 6,500 tonnes of spherical graphite per year; and (ii) to construct a new processing plant with a target processing capacity of 6,000 tonnes of spherical graphite per year.

Expanding our station to increase our current processing capacity

As at December 31, 2021, our processing capacity was at approximately 5,000 tonnes of spherical graphite per year. Since the fourth quarter of 2021, we have been putting in place investments to expand the station and machinery and such works are expected to complete by the second quarter of 2022. We added a new pulverizing and rounding production line for our spherical graphite production. This expansion primarily included installation of new crusher, turbine classifier, double cyclone separator, fan switcher, dust filter, low-voltage frequency converter and crane and electric hoist in our pulverizing and rounding process. We invested approximately RMB1.2 million in 2021 and we plan to invest out of our internal funding approximately RMB1.6 million in the first quarter of 2022 and approximately RMB1.6 million in the second quarter of 2022 to complete this expansion. This expansion is expected to be completed by May 2022 and in full operation by July 2022. Upon completion of the expansion and being fully operational, our processing capacity is expected to increase to above 6,500 tpa.

Constructing a new processing plant

We plan to locate the new processing plant to a location approximately 900 meters east from our Beishan Mine, with working hours comprising three eight-hour shifts per day, for 240 days a year, details of which are set out in the paragraph headed “Our Business Strategy — Constructing a new beneficiation plant — Stage 1: Preparation work and land acquisition” of this section. Wastage and tailings can be stored at the same tailings storage at the new beneficiation plant. We estimate that the total cost for implementing this strategy would be approximately RMB91.2 million, with a target capacity of processing 6,000 tonnes of spherical graphite and 9,200 tonnes of micro powder graphite per year. We target to start the construction in the second half of 2024 and to commence operations in 2nd quarter of 2025, because by then, our beneficiation capacity would have been increased to 100,000 tonnes a year, thus providing sufficient materials for processing our spherical graphite. Our Directors estimate that the increased capacity of beneficiation to 100,000 tonnes a year in total would be sufficient to support our spherical graphite processing operations and the sales of flake graphite concentrate. It is estimated that the utilization rate of processing spherical graphite following to our construction of new processing plant will be approximately 95.4% for the year ended December 31, 2026, and the utilization rate to achieve breakeven position of our new processing plant is expected to be of approximately 36.2%.

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The following table summarizes the costs breakdown estimate of constructing the new processing plant based on quotations obtained from our suppliers:

Items	Percentage of total floor space (%)	Cost (RMB'000)
Purchase and installation of equipment, and construction of factory space for such equipment		
— Rounding station	20.0	29,000
— Purification station	6.0	8,500
— Drying station	7.6	6,100
— Iron removal station	<u>6.0</u>	<u>8,500</u>
Sub-total	<u>34.0</u>	<u>52,100</u>
Supporting facilities, utilities and other expenses		
— Auxiliary facilities (including warehouse for finished goods and raw materials, testing facilities and other offices)		4,800
— Works and purchases in relation to utilities (including electricity, lighting, water, roads, fire safety and others)		14,180
— Other expenses (including land use fees, management fees, furniture, preliminary works, testing works, and inspection and approval expenses)		<u>20,020</u>
Sub-total	<u>61.0</u>	<u>39,000</u>
Total	<u>100.0</u>	<u>91,100</u>

By our Directors' estimate, such costs are expected to be paid by a combination our internal resources and/or via external financing such as bank borrowings or lease arrangements. The hiring of new staff members shall take place near the completion of the construction works, and our Directors estimate the initial costs in recruiting and hiring new staff members would be approximately RMB6.8 million for the first year of operation, which will be paid by our working capital. It is estimated that: (a) the breakeven period (being the period of time from the commencement of operation of the new processing plant to the month when the annualized operating revenue is at least equal to the annualized total operating expenses including cost of materials, employee expenses, utilities, and other variable and fixed costs) will be approximately four months; and (b) the investment payback period (being the period of time from the commencement of operation of the production facility to the month in which the accumulated operating revenue is at least equal to its construction costs and operating costs including any incurred capital expenditures and accumulated ongoing cost and operating expenses) would be

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approximately 52 months. For reference and illustration purpose only, set out below are the key assumptions used in calculating the breakeven and investment payback period in respect of the new processing plant:

- a. The new processing plant will commence commercial production in the 2nd quarter of 2025 and become fully operational by the end of 2025.
- b. The total capital expenditure required for the development of the new processing plant is estimated to be approximately RMB91.2 million. Please refer to the graph headed “Our Business Strategies — We will increase our spherical graphite processing capacity” in this section in respect of the estimates used for the construction costs, costs of machineries and equipment and other expenses of the new processing plant.
- c. In respect of the new processing plant, it is expected that we will allocate purchase orders to the new factory for production after it had come into operation. Starting from 2nd quarter of 2025, we plan to allocate purchase orders for spherical graphite received by us during 2025 to the new processing plant. Furthermore, it is assumed that (i) the annual growth in sales volume of graphite concentrate for 2022 and 2024 will be approximately 42.4% with reference to annualized growth from 2019 to 2021; (ii) the production and operating cost and expenses to be incurred by the new processing plant are estimated with reference to the cost structure of our Group in 2021; (iii) the depreciation is calculated based on the total capital expenditure required for the new processing plant with reference to the useful life of our existing lands, factories and machines; and (iv) the utilization rate of the new processing plant would reach above 90% by the end of 2026 and maintain at such level thereafter on a prudent estimate basis. As our processing plant had already been well-established, we could allocate sufficient purchase order to the new processing plant and therefore it is expected that the new processing plan would be able to achieve stable and sufficient revenue and to achieve breakeven in four months with investment payback period in 52 months.

The following timeline illustrates the implementation plan of the three strategies as mentioned above:

Strategy	2021	2022	Year ended December 31,		2025	2026
			2023	2024		
1. Increase our ramp up speed to reach our maximum extraction volume	Extraction graphite volume currently at approximately 258,300 tpa	Extraction graphite volume to be increased to 400,000 tpa. Investments will be made to purchase a new front-end loader at approximately RMB0.8 million.	Extraction graphite volume to be increased to 500,000 tpa	Extraction graphite volume target of 500,000 tpa to be reached	Extraction graphite volume maintaining at 500,000 tpa	Extraction graphite volume maintaining at 500,000 tpa

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Strategy	Year ended December 31,					
	2021	2022	2023	2024	2025	2026
2. Increase our beneficiation capacity						
— <i>To upgrade our current machinery</i>	Beneficiation capacity currently at approximately 50,000 tpa.	Beneficiation capacity maintaining at 50,000 tpa at the current plant	Beneficiation capacity maintaining at 50,000 tpa at the current plant	Beneficiation capacity maintaining at 50,000 tpa at the current plant	Beneficiation capacity maintaining at 50,000 tpa at the current plant	Beneficiation capacity maintaining at 50,000 tpa at the current plant
	Investments had been made to upgrade the equipment in the current beneficiation plant, with installations being completed in September 2021.					
— <i>To construct a new beneficiation plant</i>	—	To commence preparation work in relation to the acquisition of land for the construction of a new beneficiation plant adjacent to our Beishan Mine. Preparation work includes applying for all necessary permits.	—	Completion of factory construction alongside with the purchasing and installation of all necessary machinery and equipment. Such equipment costs are estimated at approximately RMB39.0 million.	Beneficiation capacity target of 50,000 tpa to be reached by the end of the year and maintained thereafter	Beneficiation capacity maintaining at 50,000 tpa
		Investment of approximately RMB34.0 million for land acquisition to be made for the second half of the year, with construction of the factory to commence by the end of the fourth quarter. Total construction cost is estimated at RMB33.0 million		Commence operations of the new beneficiation.		
3. Increase our processing capacity						
— <i>Expanding and maintaining our current processing plant</i>	Spherical graphite processing capacity currently above 5,000 tpa	Spherical graphite processing capacity being expanded to above 6,500 tpa	Spherical graphite processing capacity maintaining at above 6,500 tpa at the current plant	Spherical graphite processing capacity maintaining at above 6,500 tpa at the current plant	Spherical graphite processing capacity maintaining at above 6,500 tpa at the current plant	Spherical graphite processing capacity maintaining at above 6,500 tpa at the current plant
— <i>To construct a new processing plant</i>	—	—	Preparation work to commence in the first half of the year in relation to the acquisition of land for the construction of a new processing plant adjacent to our Beishan Mine.	Investment for land acquisition to be made for the first half of the year. Commencement of the construction of the factory in the second half of the year, with the purchasing and installation of all necessary machinery and equipment later on.	Commence operations, with a spherical graphite processing capacity target of 6,000 tpa to be reached by the end of the year.	Maintaining full operation of 6,000 tpa

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Our Directors believe that the increase in processing capacity (i.e. 150% for spherical graphite) will be supported by sufficient market demand as:

- a. According to the F&S Report, spherical graphite is manufactured from flake graphite concentrate and can be used in the production of lithium-ion batteries (being one of the key raw materials). Influenced by the continuous policy incentives in electronic vehicle manufacturing and electronic information industry, the sales volume of electronic vehicle increased from approximately 0.5 million units in 2016 to approximately 1.4 million units in 2020, with a CAGR of approximately 26.8%. The booming development of electronic vehicle industry promoted the growing demand of lithium-ion batteries in previous years, which paves the way for the market growth of spherical graphite. According to F&S Report, the electric vehicle market in the PRC, driven by the inclination to be carbon neutral and to use green energy, is expected to grow in the next few years and the sales volume of electric vehicle is expected to reach approximately 11.4 million in 2025. The domestic production volume of spherical graphite increases at a CAGR of approximately 18.6% from approximately 83.0 thousand tonnes in 2016 to approximately 164.0 thousand tonnes in 2020. Along with potential technology improvement, domestic production will increase steadily from approximately 186.0 thousand tonnes in 2021 to approximately 299.0 thousand tonnes in 2025, illustrating a CAGR of approximately 12.6%.
- b. The sales volume of spherical graphite in the PRC grew from approximately 51.0 thousand tonnes in 2016 to an estimated amount of approximately 112.0 thousand tonnes in 2020, illustrating a fast CAGR of approximately 21.7%. Likewise, the sales revenue also benefited from the huge market demand, which increased from approximately RMB1,045.5 million in 2016 to approximately RMB1,948.8 million in 2020 at a CAGR of approximately 16.8% during the same period. The PRC possesses the vast majority of processing and consumption of battery-grade spherical graphite in the world. The fining and processing technology of spherical graphite are expected to improve continuously in the near future in response to huge demand from downstream market. The incentives of NEVs, especially the “Notice on Further Improving the Policy for the Promotion and Application of Financial Subsidy for New Energy Vehicles” (關於進一步完善新能源汽車推廣應用財政補貼政策的通知) issued by the Ministry of Finance, Ministry of Industry and Information Technology, Ministry of Science and Technology and National Development and Reform Commission in December 2020, will further promote the production of NEVs as well as the demand for lithium-ion batteries. The sales volume of spherical graphite in the PRC is estimated to surge from approximately 124.0 thousand tonnes in 2021 to approximately 203.0 thousand tonnes in 2025, representing a CAGR of approximately 13.1%. The sales revenue 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%.
- c. We had discussed with major customers on their expected demand for spherical graphite. We would continue to maintain our relationship with our existing customers in order to ensure future orders for our spherical graphite products. In addition, we have been actively exploring potential new customer for our spherical graphite products. Our Directors believe that the sale of spherical graphite would increase in a steady pace upon the completion of the establishment of the new processing plant.

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Considering the estimated market demand on spherical graphite in future and the increasing trend of our sales volume of spherical graphite products during the Track Record Period, we believe that there are sufficient market demand to support the increase in our process capacity for spherical graphite.

In summary, assuming all of three strategies can be implemented and that the current beneficiation and processing yields (that our beneficiation yield being at around 10% and our processing yield being at around 35%) remain constant, our Directors estimate that, with an extraction volume of 500,000 tonnes of unprocessed graphite at our Beishan Mine, combined with 500,000 tonnes of unprocessed graphite procured by third-parties, we may beneficiate a maximum of 100,000 tonnes of flake graphite concentrate per year, of which 70,000 tonnes of such can be sold to customers to generate revenue and 30,000 tonnes may be used to process into 10,000 tonnes of spherical graphite for sale. Nevertheless, we can also explore the possibilities of applying for the approval of further mining rights in the future.

The table below summarizes the general outstanding costs breakdown of such three strategies:

	To be paid with the [REDACTED] of the [REDACTED] (RMB'000)	To be financed by internal resources and/or by external financing (RMB'000)
<i>Extraction:</i>		
Ramp-up our extraction capacity	—	800
<i>Beneficiation:</i>		
Land acquisition for our new beneficiation plant	[REDACTED]	9,900
Construction of our new beneficiation plant	[REDACTED]	9,400
Purchasing and installing new equipment for our new beneficiation plant	[REDACTED]	12,100
Other operating costs	—	2,030
<i>Processing:</i>		
Expansion of existing processing plant ⁽¹⁾	—	3,100
New processing plant	—	91,200
Other operating costs	—	2,040
Total	<u>[REDACTED]</u>	<u>130,570</u>

Notes:

(1) The total costs for expansion of existing processing plant are approximately RMB4.3 million, of which approximately RMB1.2 million was incurred out of our internal funding in 2021.

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Feasibility of our expansion plan

Our Directors believe that we will be well-positioned to capitalise on the growing graphite concentrate and spherical graphite products demand in the PRC market, taking into consideration of our positive operation and financial results during the Track Record Period and our management’s experience. Subsequent to our expansion, our Directors believe that our capital need will increase due to the implementation of our business strategies and operation scale of our business, which our Directors are of the view that the expansion plan is feasible where:

- a. The utilization of the costs of approximately RMB130.6 million financed by internal resources and external financing will be spread at different time intervals from 2022 to 2025 as follows:

	Utilization of costs			
	2022	2023	2024	2025
		<i>(RMB’000)</i>		
Ramp-up our extraction capacity	800			
Land acquisition for our new beneficiation plant	9,900			
Construction of our new beneficiation plant		3,900	5,500	
Purchasing and installing new equipment for our new beneficiation plant		5,800	6,300	
Other operation cost of the beneficiation plant			2,030	
Expansion of existing processing machinery	3,100			
Construction of our new processing plant			57,810	33,390
Other operation cost of the processing plant				2,040
Total	13,800	9,700	71,640	35,430

As shown above, approximately RMB13.8 million will be paid from our internal source in 2022, approximately RMB9.7 million will be paid from our internal source in 2023, approximately RMB71.6 million will be paid from our internal (and external source if needed) in 2024 and approximately RMB35.4 million will be paid from our internal source in 2025.

- b. Revenue: For the year ended December 31, 2021, our Group generated revenue of approximately RMB198.4 million (as compared to approximately RMB168.7 million for the year ended December 31, 2020). The average selling price of flake graphite concentrate and spherical graphite per tonne was approximately RMB2,600 and RMB14,900 for the year ended December 31, 2021, and it is expected the average selling price of flake graphite

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concentrate to remain stable. When the new plants are completed, the estimated increase in production capacity of beneficiation and processing will be approximately 100,000 tonnes and 12,500 tonnes per annum, respectively. As a result of our expansion plan, we expect our revenue will continue to increase.

- c. Cash and cash equivalent: As at December 31, 2021, our Group had cash and cash equivalent of RMB33.9 million.
- d. Net cash generated from operating activities: For the year ended December 31, 2021, our Group generated net cash from operating activities of approximately RMB75.7 million (as compared to approximately RMB24.5 million for the year ended December 31, 2020), which is more than the proportional expected costs to be incurred for the expansion plan from 2022 to 2025.
- e. Net profit: For the year ended December 31, 2021, our Group recorded a net profit of approximately RMB53.3 million. Considering the historical financial records of the Group, the net profit of our Group indicated an increasing trend during the Track Record Period, based on which our Directors are of the view that the profit for our Group is expected to continue to increase for the period from 2022 to 2025, which will result in cash flow generated from operating activities to also increase in line with the profit increase.
- f. Banking facility: The Group would also consider to seek further banking facilities if needed. As at the Latest Practicable Date, our Group had a RMB20.0 million unutilized banking facility.
- g. Operating costs: Our Directors are of the view that control be implemented to our operating costs in similar way as our existing factories level and our Group does not expect a material change in our operating costs as a result of our expansion plan.

Considering the above, our Directors are of the view that: (a) there will be sufficient internal resources (and external financing if needed) to carry out the expansion plan; (b) the expansion plan would not have any significant adverse financial and operational impact on our business, (c) our Group will be able to maintain its net current assets position; and (d) the gearing ratio will not increase significantly as a consequence of the expansion plan.

We will expand our customer base and reach out to more markets

We believe that building up our customer base and enhancing the recognition of our products among the industry players on an on-going basis is crucial to our future development and success. We intend to broaden our customer base and increase the exposure of our products through the following means (i) collaborating with external institutions in the PRC specialized in lithium-ion batteries technology for the development of new technologies and new graphite products to cater for downstream markets; and (ii) resuming our sales and marketing activities, such as to continue the sponsoring of academic conferences and symposiums, and also expand to other regional markets. For the year ending December 31, 2022, we expect to increase the sales of our flake graphite concentrate, with targeted customers located in the regions of Shandong, Henan, and Liaoning, all being main manufacturing and transport hubs for graphite products, according to the F&S Report. By doing so, not only are we able to

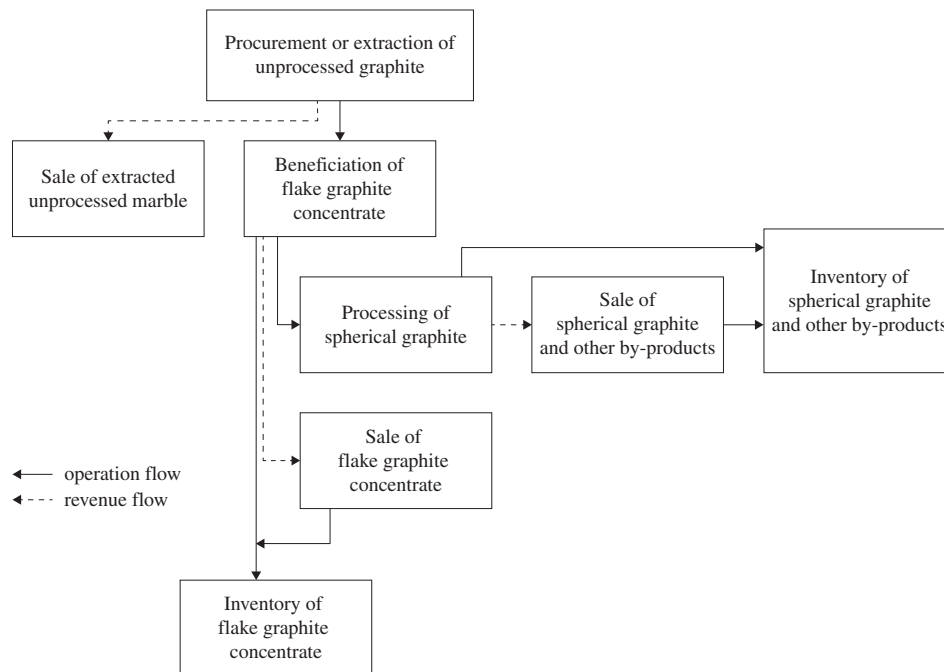
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broaden our customer base and product range, we are also able to keep abreast of industry trends which will further enhance our corporate profile as well as recognition of our products among industry players and customers.

OUR BUSINESS MODEL

Our principal business primarily consists of the sale of flake graphite concentrate and spherical graphite processed at our plants. In 2019, we obtained the mining rights of our Beishan Mine primarily for graphite extraction, which we believe has further strengthened our integrated supply chain to increase our competitiveness amongst industry players. The production of our principal products, namely 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 from our 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 located approximately 10 km to the northwest 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, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material interruption in transportation and logistics for our graphite products.

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



Our Beishan Mine is an open-pit graphite ore mine with a permitted mining area of approximately 0.3 km². The estimated life of our Beishan Mine was approximately 20 years as at December 31, 2021. The current mining license on Beishan Mine will expire in April 2024.

Background

The background leading to our acquisition of mining rights in our Beishan Mine traces back to 2014 when our Group participated in the tender held by Heilongjiang Provincial Department of Land and Resources for the prospecting rights in Luobei County, Hegang City, Heilongjiang Province, PRC, the

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area where our Beishan Mine is situated. As our Group was identifying the opportunity to secure and stabilize the supply of unprocessed graphite, Yixiang New Energy participated in and secured the tender, and entered into the prospecting right transfer agreement with Department of Land and Resources of Heilongjiang Province of the PRC on May 25, 2015, pursuant to which Department of Land and Resources of Heilongjiang Province of the PRC transferred the prospecting right to Yixiang New Energy at a consideration of approximately RMB5.1 million. On December 1, 2015, Yixiang New Energy further obtained the permit for mineral resources exploration issued by the Department of Land and Resources of Heilongjiang Province of the PRC with prospecting right over an exploration area of 6.06 square kilometers located in Luobei County, Hegang City, Heilongjiang Province, PRC.

Exploration, Resources and Reserves

Exploration on our Beishan Mine was first carried out in 2015, in order to explore the geological conditions, topographic conditions and resource reserves related to our Beishan Mine. Yixiang New Energy engaged Harbin Ruifa Mineral Exploration Company Limited, a qualified third-party exploration company, to conduct exploration work between 2015 and 2017 at a total consideration of approximately RMB4.8 million. In the course of exploration, it was discovered that in addition to graphite, there were also marble ores in the area. Yixiang New Energy paid to the Department of Land and Resources of Heilongjiang Province of the PRC a fee of approximately RMB3.1 million in 2018 for the mineral rights of marble ores in the mine. The first exploration work 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. Our Group devoted a considerable amount of time on safety and environmental preparatory work before extraction. In mid-2017, Yixiang New Energy engaged an environmental technology company for an assessment which was conducted by a qualified environmental impact assessment engineer on the environmental impact of the exploration at our Beishan Mine. Subsequent to the assessment and adopting policies recommended by the environmental technology company, an environmental impact assessment report was submitted to the Heilongjiang Forestry and Grassland Administration for review and certification in 2018. We prepared a safety plan and submitted it to Heilongjiang Emergency Management Office and revised the safety plan of our Beishan Mine in compliance with updated notices issued by the State Administration of Work Safety, including (i) adjusting the interception ditches and flood dikes; (ii) reconstructing the power system of the mining area to solar lighting system; and (iii) adjusting the layout of two connecting roads. In 2018, our Group applied to Yunshan Forestry of Luobei County and the Heilongjiang Province to change the land use of the mine from “forest” to “commercial” use which was approved in January 2019. In April 2019, our Group commenced the mining operation in our Beishan Mine.

In 2020, the Independent Technical Consultant conducted a review of the previous exploration work and recommended a verification 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 “Appendix III — Independent Technical Report”.

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According to the Independent Technical Report, the graphite and marble Mineral Resources in our Beishan Mine with 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 Resource 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

Mineral Resource Category	Tonnage (kt)
Indicated	1,541
Inferred	582
Total	<u><u>2,123</u></u>

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

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For further details on the estimation and grades and qualities of the Resources and Reserves in our Beishan Mine, please see “Appendix III — Independent Technical Report”. According to the Independent Technical Consultant, there had been no material change to the Resource estimates of our Beishan Mine since December 31, 2021, which is the date of the Independent Technical Report, and up to Latest Practicable Date.

Acquiring the mining license and material terms

In 2019, our Group obtained the mining rights of our Beishan Mine granted by the Heilongjiang Province Natural Resources Bureau, and the material terms of the acquisition of mining rights in our Beishan Mine are set out below:

Issuing authority:	Heilongjiang Province Natural Resources Bureau
Holder of mining license:	Yixiang New Energy
Name of mine:	Beishan Graphite Mine
License number:	C2300002018097110146712
Mining method allowed:	Open pit mining method
Production Volume allowed:	0.50 Mtpa
Area of mine allowed:	0.2615 km ² .
Mining elevations allowed:	274–150 masl
Period of validity granted:	8 April 2019 to 8 April 2024
Applicable natural resources:	Unprocessed graphite and marble
Renewal:	If it is necessary for the mining right holder to continue mining after the expiration of the license, it should complete procedures for an extension with the registration administration prior to the expiration date of the mining license. If the mining right holder fails to complete the extension procedures, the mining license should lapse automatically.
Restrictions:	The mining license should not be lent, transferred or traded. If a mining right holder suspends or shuts down the mining operation within the term of the mining license, it should comply with the cancellation procedures of the mining license in accordance with applicable laws and regulations.
Modification:	If the mining right holder alters the range of mining area, main types of mining mineral, mining method, company name, or transfers such license within the term of the mining license, it should apply for the modification in accordance with applicable regulations.

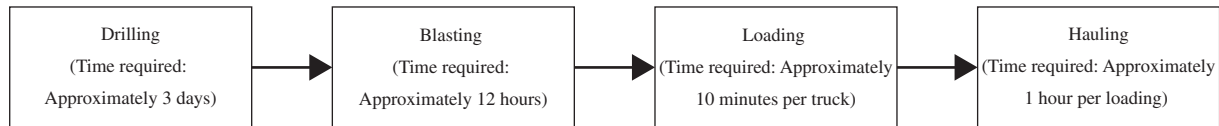
Our mining method and operations

According to the Independent Technical Consultant, a conventional open pit mining method is used, comprising drilling, blasting, loading and hauling. The blasting operations are conducted by a third-party service provider whilst others are mainly operated by us. Moreover, to facilitate the dust suppression and drilling, water from a 300 m³ water tank is used. Minimal electric power is needed for the day-to-day mining operations such as lighting, the air compressor and the dewatering pump. A 10kv/0.4 kv substation is located on the mining site to provide electricity from the national power grid. To the

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best knowledge of our Directors, the electricity and water supplies are generally stable and consistent since we commenced mining in our Beishan Mine. During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we did not experience any material disruptions as a result of shortages of utilities, including water and electricity.

The main steps involved in open-pit mining are illustrated in the below flow chart and further explained below:



- **Drilling** — One Model KGH6 down-the-hole (model K6H6) drills are used for drilling based on the physical characteristics of the orebody and the mine production rate, with bore diameters of 140 mm and vertical hole depths of 16.5 m, including sub-drilling of 1.5 m.
- **Blasting** — Blasting works are contracted to a third-party service provider. The service provider provides hole survey and explosive transportation, charging, and blasting works. Blasting holes are arranged in rectangular or quincunx shapes, with spacing of 5.5 m and burden of 4.5 m.
- **Loading** — Loading is carried out using 2.5 m³ hydraulic excavators (Model CAT345/349/Sany550) supported by a bulldozer and a front-end loader to clean and pile the working face.
- **Hauling** — The maximum acceptable lump size of the mined materials is 750 mm, and the oversize proportion is designed at 5%. Large waste rocks will be transported directly to the waste dump without re-crushing, while large lumps of mineralized materials will be stockpiled and re-crushed by hydraulic hammers. Broken ore and waste are loaded by the 2.5 m³ hydraulic excavators into 30 to 50 tonne dump trucks and hauled to the beneficiation plant.

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As at December 31, 2021, our mining equipment fleet consisted of the following:

Equipment	Quantity	Illustrative photo	Purpose	Estimated useful lives (Months)	Approximate average remaining useful lives (Months)
KGH6 down-the-hole drill with mobile air compressor	1		Drilling	120	90
Excavators (CAT349, CAT345, Sany550 ⁽¹⁾)	3		Mining	120	96
Dump trucks with a nameplate capacity of 30 to 50 tonnes ⁽¹⁾	20		Hauling	48	15
Hydraulic hammer equipped on a CAT340 excavator	1		Crushing rocks before stockpiling	120	99

Note:

(1) As Sany 550 excavator and ten dump trucks were leased by us from third party service providers, their useful life is not included in calculation for the purpose of this paragraph.

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Equipment	Quantity	Illustrative photo	Purpose	Estimated useful lives (Months)	Approximate average remaining useful lives (Months)
Modified watering tank truck	1		Cleaning	48	15
Front-end loader	1		Loading	120	89

According to the Independent Technical Consultant, such equipment is considered to be reasonable for mining operations in our Beishan Mine with a graphite ore mining capacity of 500,000 tonnes per year, and is in-line with commonly used open pit mining practices. However, as the life of our Beishan Mine will be 20 years, we will be replacing such equipment every seven to ten years as recommended.

Our Directors confirm that the key personnel involved in the operations of our Beishan Mine includes Mr. Zhao Liang (details of which are set out in the section “Directors and Senior Management”), one vice president of mining operations, one mining manager and one chief of safety production, wherein the vice president of mining operations and the mining manager oversee the overall planning and management and on-site production, and implement the mining operation of our Beishan Mine, while the chief of safety production is responsible for implementing safety measures in our Beishan Mine. All of them possess experience related to the mining industry. To our Directors’ best knowledge, our mining manager worked in Luobei County Yunshan Graphite Mining Co., Ltd.* (蘿北縣雲山石墨採礦有限責任公司), which has transferred its mining rights to Supplier B in 2019, while our chief of safety production graduated from Heilongjiang University of Science and Technology majoring in mine engineering, and possesses approximately four years mining experience at the time of joining our Group.

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 and approximately 199,600 tonnes, 673,800 tonnes and 342,200 tonnes of unprocessed marble, respectively. Our Directors confirm that the unprocessed graphite in our Beishan Mine was extracted only for our Group’s own use during the Track Record Period.

According to the Independent Technical Report, our Beishan Mine is located in an area where the climate is classified as a humid-continental climate with average minimum and maximum temperatures of -21°C and 21°C respectively, and an average temperature of 2°C, and that we generally have to close

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down mines for up to three months between January to March due to a severe drop in temperature. The table below sets out the total number of working days and days on which work was not carried out at our Beishan Mine for the relevant years of the Track Record Period:

Number of days	Year ended December 31,		
	2019 <i>(Days)</i>	2020 <i>(Days)</i>	2021 <i>(Days)</i>
On which extraction and any ancillary work was carried out	256	261	260
On which work was suspended due to unfavorable and unexpected weather conditions	13	8	8
Holidays or non-working days due to the seasonal suspension of work as winter months approached (for details, please see the subsection headed “— Seasonality” in this section).	<u>6</u>	<u>97</u>	<u>97</u>
Total	<u>275⁽¹⁾</u>	<u>366</u>	<u>365</u>

Note:

- As we had only obtained the mining rights to our Beishan Mine in April 2019, our days of operations of the year were only counted from April 2019 onwards.

Our Directors confirm that the mining work schedule of our Beishan Mine is generally prepared based on various factors, including but not limited to (i) historical consumption rate of graphite for processing; (ii) our extraction capacity; (iii) storage capacity of our warehouse; and (iv) weather conditions.

The table below sets out our designed capacity and our utilization rate of the extraction in our Beishan Mine for the relevant years of the Track Record Period:

	For the year ended December 31,		
	2019 <i>Tonne</i> <i>(’000)</i>	2020 <i>Tonne</i> <i>(’000)</i>	2021 <i>Tonne</i> <i>(’000)</i>
Total materials mined	1,020	1,650	1,550
— Unprocessed graphite	260	210	260
— Unprocessed marble	200	720	340
— Waste materials	560	720	950
Designed capacity ⁽¹⁾	1,220	1,900	2,050
Utilization rate ⁽²⁾	84% ⁽³⁾	87% ⁽³⁾	76% ⁽³⁾

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Notes:

- (1) For illustrative purposes only, the estimated maximum designed capacity is arrived at by multiplying: (a) the estimated number of hours for which the extraction in our Beishan Mine is in operation in a calendar year, assuming 15 hours and 260 working days of operation in 2019, 2020 and 2021, taking into account of: (i) sufficient labor is available at all times; (ii) machine downtime for maintenance, statutory holidays and suspension of mining operation from January to March due to severely cold weather for each year during the Track Record Period; (iii) two seven and a half hour shifts per working day; (iv) extraction capacity of approximately 4,600 tonnes per day in 2019 based on two excavators in operation, and 7,300 tonnes per day in 2020 based on three excavators operating for full year and one excavator operating for approximately three months before being redesigned as hydraulic hammer, and 7,900 tonnes per day in 2021 based on three excavators with a newer excavator model in operation; and (v) no major equipment breakdown, by (b) the estimated extraction volume (per tonne) per hour of the graphite ore extracted from our Beishan Mine.
- (2) The utilization rate for each of the years ended is calculated based on the actual extraction volume (based on the total material mined from our Beishan Mine) for the relevant year divided by the annual designed capacity.
- (3) The increase of utilization rate from 2019 to 2020 was due to the increase of number of excavator in operation from two in 2019 to three in 2020. The decrease of utilization rate from 2020 to 2021 was due to slowdown in operation of extraction as a result of upgrade construction work completed on the path connecting our Beishan Mine to the main road during July and August 2021..

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, respectively, 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. Taking into account the differences in the unit cost of unprocessed graphite sourced from our suppliers and those from our Beishan Mine, our Directors are of the view that our extraction operations are essential to our core business.

Our operation of our Beishan Mine are subject to different levels of risks in various areas, such as occupational health and safety, environmental, nature of the mineral body and natural disaster that may affect our mining and production operations. The Independent Technical Consultant carried out a risk assessment highlighting the potential risks in relation to our extraction, beneficiation and processing operations. For details, please see “Risk Factors — Our operations are subject to various potential risks as identified by our Independent Technical Consultant, which may disrupt our business operations”.

Procurement or extraction of unprocessed graphite

Prior to obtaining the mining rights of our Beishan Mine in 2019, we purchased unprocessed graphite from third-party suppliers mainly located in Heilongjiang Province for the purpose of beneficiation of flake graphite concentrate. After obtaining mining rights of our Beishan Mine, we continued to procure from our raw materials suppliers. For each year during the Track Record Period, we purchased approximately 171,000 tonnes, 189,500 tonnes and 254,200 tonnes of unprocessed graphite from our suppliers, respectively, incurring a procurement cost of approximately RMB10.8 million, RMB14.2 million and RMB19.1 million, respectively thus at a unit cost of approximately RMB63 per tonne, RMB75 per tonne and RMB75 per tonne, respectively. For details of the supply of unprocessed graphite, please see the sub-section headed “— Our suppliers — Procurement of unprocessed graphite from third-party suppliers” in this section.

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Our beneficiation and processing operations

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).

During the Track Record Period, we had increased one processing line of spherical graphite in August 2019 and had an upgrade of machinery of beneficiation plant since 2020 and as a result, we had two beneficiation lines and three processing lines for our flake graphite concentrate and spherical graphite, respectively, as at the Latest Practicable Date. We purchase our production machinery and equipment from Independent Third Parties. We have established a maintenance system for our production machinery and equipment, including regular inspections at our beneficiation and processing plants, to ensure our production lines run smoothly. Our Directors confirm that, save as disclosed in the sub-section headed “— Our beneficiation and processing operations — Maintenance of our spherical graphite processing plant” in this section, during the Track Record Period, we did not experience any material or prolonged interruption to our production processes due to machinery and equipment failure.

As at the Latest Practicable Date, the useful life of our major beneficiation and processing equipment was estimated to be at least 10 years. We conduct regular maintenance for our machinery and equipment so as to ensure that our business operations will not be disrupted unnecessarily. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, save and except as disclosed below, our Group did not encounter any material machinery and/or equipment breakdown that had a material adverse impact on our business operations.

The table below sets out our designed production capacity, actual production volume and our utilization rate of our production lines for the relevant years of the Track Record Period:

	For the year ended December 31,								
	2019			2020			2021		
	Designed production capacity ⁽¹⁾ (tonne)	Actual production volume (tonne)	Utilization rate ⁽²⁾ (%)	Designed production capacity ⁽¹⁾ (tonne)	Actual production volume (tonne)	Utilization rate ⁽²⁾ (%)	Designed production capacity ⁽¹⁾ (tonne)	Actual production volume (tonne)	Utilization rate ⁽²⁾ (%)
Flake graphite beneficiation	39,974	31,113	78%	39,974 ⁽³⁾	38,464	96%	51,756 ⁽³⁾	48,218	93%
Processing spherical graphite	4,176 ⁽³⁾	3,267	78%	5,184 ⁽³⁾	2,668	51% ⁽⁴⁾	5,184	3,992	77% ⁽⁴⁾

Notes:

- (1) For illustrative purposes only, the estimated maximum production capacity is arrived at by multiplying: (a) the estimated number of hours for which both beneficiation plants and processing plants are in operation in a calendar year, assuming 24 hours and 240 working days of operation per year, taking into account of: (i) sufficient labor is available at all times; (ii) machine downtime for maintenance, statutory holidays and suspension of production from January to March due to severely cold weather for each year during the Track Record Period; (iii) three eight-hour shifts per working day; (iv) production capacity of approximately 167 tonnes per day for our beneficiation plants (before the machinery upgrade) and 216 tonnes per day (after the machinery upgrade); and production capacity in the range of approximately 14 tonnes per day (before the addition of production line of spherical graphite) and approximately 22 tonnes per day (after the addition of production line of spherical graphite) for our processing plants

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and (v) no major equipment breakdown, by (b) the estimated processing volume (per tonne) per hour of the flake graphite concentrate processed from the beneficiation plants, and graphite spherical processed from the processing plants respectively.

- (2) The utilization rate for each of the years ended is calculated based on the actual production volume (based on final output of a finished product) for the relevant year divided by the annual designed production capacity. Unfinished products that had undergone some of the stages and then sent to external processors were excluded from the calculation of production volume. As unprocessed marble is directly sold to customers in its original form and does not require processing, it is excluded from the calculation of our utilization rate. For the year ended December 31, 2021, the calculation of utilization rate included finished product of SG-10 spherical graphite and unfinished product of SG-9 spherical graphite for the reasons that (a) due to our suspension of its purification station from November 2020 to May 2021 where our processing of spherical graphite as finished product (i.e. SG-10 spherical graphite) was outsourced to third party service providers, and our processing plant was primarily utilized to produce SG-9 spherical graphite as we experienced an substantial increase of sales volume of SG-9 spherical graphite, attributable to the large purchase orders received from our customer for the year ended December 31, 2021. Save for SG-9, other unfinished products that had undergone some of the stages and then sent to external processors were excluded from the calculation of production volume for the year ended December 31, 2021.
- (3) The calculation for designed production capacity varies for the two years ended December 31, 2020 and 2021 due to (i) the commencement of an additional production line of spherical graphite in August 2019, which led to an increase in designed production capacity; and (ii) the upgrade of machinery of flake graphite beneficiation since 2020.
- (4) Between November 2020 and May 2021, we experienced a temporary suspension in the processing of spherical graphite as enhancements were required to our purification station in our processing plant. We also had a temporary suspension in June 2020 as enhancements were required for our air-drying process. Hence, we had to engage third-party service provider to provide processing services for our unfinished products. For details, please see the sub-sections headed “— Our business model — Our beneficiation and processing operations — Maintenance of our spherical graphite processing plant” and “— Our suppliers — Third-party service providers — Graphite products processing services” in this section. As a result, our processing plant was only opened for 179 days for the year ended December 31, 2020. In the hypothetical sense, should the designed production capacity’s assumed working days be reduced from 240 to 179 days, thus leading to capacity to be lowered from approximately 5,184 tonnes for the year to approximately 3,867 tonnes for the year, the utilization rate of our spherical graphite processing plant for the year ended December 31, 2020 would then be approximately 69%. For the year ended December 31, 2021, if the actual production volume includes other unfinished products that had undergone some of the stages and then sent to external processors (i.e. unfinished SG-10 sent to external processor for purification process), the actual production volume shall be 5,119 tonnes with utilization rate of approximately 99%.

We consider that the production volume of our beneficiation operations primarily depends on the steady supply of quality unprocessed graphite. For instance, during the year ended December 31, 2019 we began using graphite extracted from our Beishan Mine, and our production volume and utilization rate of flake graphite beneficiation increased for the year ended December 31, 2020 as the raw materials procured from our suppliers were of a higher quality, combined with our own extracted unprocessed graphite, led to the highest processing volume during the Track Record Period. In general, we also sourced a larger amount of unprocessed graphite, in aggregate, every year during the Track Record Period in face of the anticipated increase in demand for our products.

We are of the view that the production volume of processing our spherical graphite primarily depends on the actual working days at the processing plant, which would generally be affected by the suspension of our operations during the months between January and March every year due to severe cold weather. For the year ended December 31, 2019, we maintained a steady production volume as a result of (i) increased orders made from other customers; and (ii) an additional processing line of spherical graphite in August 2019. The production volume for the year ended December 31, 2020 dropped because of the temporary suspension of production as enhancements were required for our air-drying process in June 2020. Moreover, between November 2020 and May 2021, we had experienced a temporary suspension in the processing of spherical graphite as enhancements were required to our

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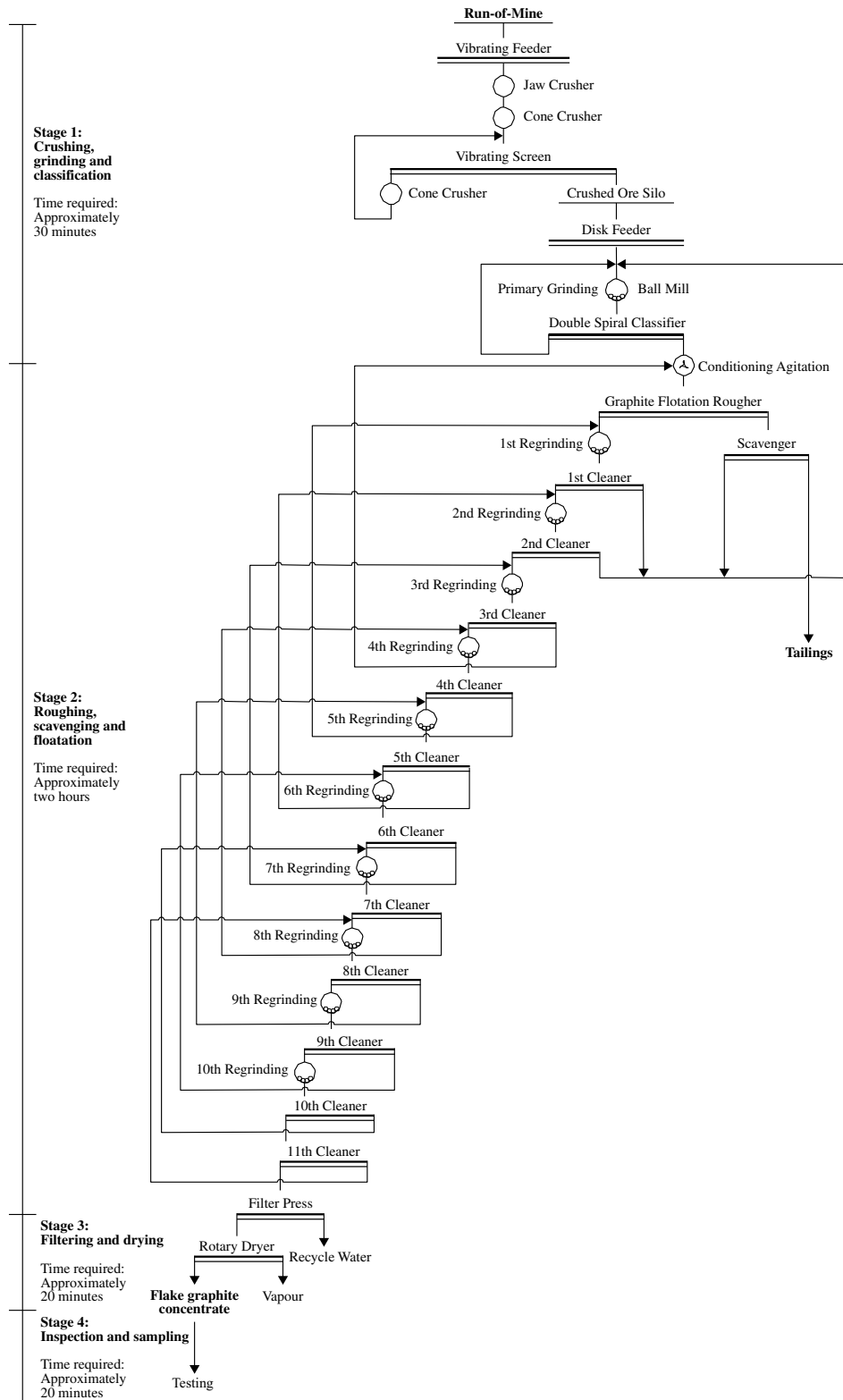
purification stations in our processing plant. For details, please see the sub-section headed “— Our business model — Our beneficiation and processing operations — Maintenance of our spherical graphite processing plant” in this section. Hence, we had to engage third-party service providers to provide processing services for our unfinished products, which led to a lower overall production volume of processing our spherical graphite. For the year ended December 31, 2021, we experienced an increase in our production volume due to an increased orders on our SG-9 model spherical graphite products.

Beneficiation of our flake graphite concentrate

For the three years ended December 31, 2019, 2020 and 2021, we beneficiated approximately 31,000 tonnes, 38,500 tonnes and 48,200 tonnes of flake graphite concentrate, respectively. Our beneficiation plant occupies a total site area of approximately 41,000 m² with a total gross floor area of approximately 27,000 m². By our estimate, the shelf-life of this plant would be approximately 20 years. According to the Independent Technical Consultant, our beneficiation plant grew from the original design production capacity of approximately 10,000 tonnes per year to the current approximately 50,000 tonnes per year. We have completed further expansions and updates to our current beneficiation plants to increase our design production capacity of flake graphite concentrate to approximately 50,000 tonnes per year. For further details, please see the sub-section headed “— Our business strategies” in this section.

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The following flowchart illustrates the beneficiation process:



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Crushing, grinding and classification

Once extracted from our Beishan Mine, the unprocessed graphite ore undergoes the first process of physical separation, i.e. being crushed into smaller pieces by jaw crusher, before being transported into the ball mill for primary grinding, which further reduces the size of the graphite and through which impurities are be detached from the graphite, following which the graphite is classified. Graphite ore is crushed from a maximum lump size of 750 mm to the final particle size of less than 20–30–mm before entering the ball mill. Water is injected into the process after grinding to prepare the materials for the subsequent stages. After the physical separation stage, the materials processed separate into graphite flakes of various carbon content and other refuse substances. Graphite which is not sufficiently grounded is returned to the ball mill. The general amount of time involved in this stage per cycle would be approximately 30 minutes.

Roughing, scavenging and floatation

After preliminary physical separation, graphite flakes enters flotation process, which embodies roughing, scavenging and floatation. The material entering this stage generally achieve a desired level of carbon content. Roughing refers to the process the material to further remove impurities and to further reduce its size of the ore, which is also known as rough magnetic separation. The graphite ore will be going through ten separate cycles of roughing before being sent to the floatation stage. Scavenging refers to the collection of minerals that are attached to the graphite and could not be further processed, such minerals shall be pumped away to a previous stage for re-processing, or to storage area for later disposal. Floatation is the process of removing hydrophilic substances from hydrophobic substances (such as graphite, due to its water-repellent characteristics, thus being very susceptible to floatation). By removing the non-graphite substances, the carbon content of the processed material will be enhanced and determined. Our graphite material will be going through 10-stage regrinding on primary (rougher) concentrate followed by 11-stage cleaning and collective middlings recycling, before progressing onto the final stages. The general amount of time involved in this stage per cycle would be approximately two hours.

Filtering and drying

As water is used in the floatation stages, filtering, dehydration and heat-drying are employed to dry the product. Dusts and tiny particles are also removed during the heat-drying process. The general amount of time involved in this stage per cycle would be approximately 20 minutes.





Inspection and sampling

After the products are dried, they will be packaged before sampling, screening and inspected. The sampling size of our packaged products will be about 200g and the inspection will mostly review the compound, structure, size and carbon content of the material after processing, adhering to industry and national standards. Once all inspections have been performed, the materials will be relocated to our storage facilities. The general amount of time involved in this stage per cycle would be approximately 20 minutes.

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Major equipment

The table below sets out information on our major equipment for the beneficiation of flake graphite concentrate as at December 31, 2021:

Types of equipment	Illustrative photo	Quantity	Principal use in our operations	Estimated useful lives (Months)	Approximate average remaining useful lives (Months)⁽¹⁾
Jaw crusher		7	Widely used to reduce the size, or change the form, of waste materials so they can be more easily disposed of or recycled, or to reduce the size of a solid mix of raw materials (as in graphite ore), so that pieces of different composition can be differentiated.	120	20
Ball mill		7	Used to grind solid materials through mechanical forces that break down graphite microstructures. After the grinding, the grain size, the grain size disposition and the grain shape will be changed.	120	38
Flotation machine		228	Used for graphite flotation.	120	68
Rotary dryer		3	Used to dry flake graphite concentrate after flotation.	120	18

Note:

- (1) The average remaining useful lives of our major production machinery and equipment were estimated based on (i) the historical usage of such production machinery and equipment since its acquisition; and (ii) the current and expected condition of such production machinery and equipment.

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Beneficiation yield and tailings storage

For the three years ended December 31, 2019, 2020 and 2021, our beneficiation plant had an input of unprocessed graphite of approximately 419,700 tonnes, 385,000 tonnes and 507,600 tonnes, and an output of beneficiated flake graphite concentrate of approximately 31,100 tonnes, 38,500 tonnes and 48,200 tonnes, thus reaching a yield of approximately 7.4%, 10.0% and 9.5%, respectively. The beneficiation yield is calculated by dividing the output amount of beneficiated flake graphite concentrate by the input amount of unprocessed graphite of the respective year. According to F&S Report, our Group’s beneficiation yield is in line with the industry average. The beneficiation yield increased for the year ended December 31, 2020 and remained stable for the year ended December 31, 2021, primarily due to the carbon content of the unprocessed graphite extracted from our Beishan Mine was also increased as the extraction efforts went deeper into the mine, without much of the top soil material extracted for beneficiation. Our Directors are of the view that the abovementioned fluctuation of yield during the Track Record Period would not affect the designed production capacity.

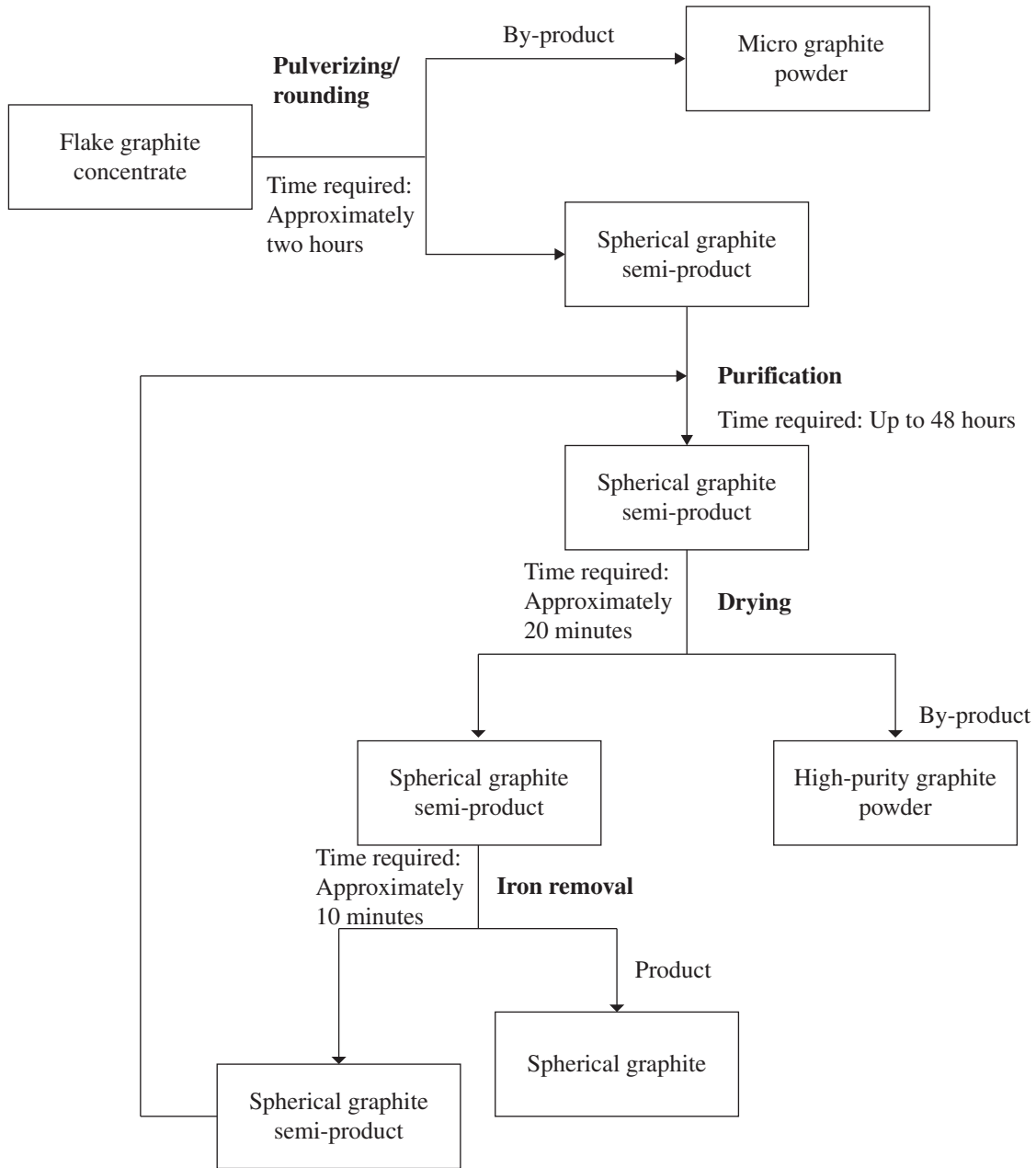
As an outcome of our beneficiation, we had generated approximately 388,600 tonnes, 346,600 tonnes and 459,400 tonnes of tailings, respectively, for the three years ended December 31, 2019, 2020 and 2021. Such tailings were stored in our current tailings storage plant located on the northern bank of Yadan River, adjacent to the north of beneficiation plant and processing plant. The storage plant was constructed on a flat ground with an embankment dam with a height of 21.5 m. According to the Independent Technical Report, our tailings storage plant has an effective storage capacity of approximately 1.2 million m³. Some of the tailings are stored at the secondary tailing storage facility with designed-capacity of 900,000 m³, located 3 km to the east of our tailing storage plant. As at the Latest Practicable Date, the storage plant had already accumulated approximately 945,000 m³ of tailings that were pumped from the beneficiation plant through a pressurized pipeline. A decant water pond, an overflow pipe, a draining pipe and an overflow pond are built in the vicinity as a flood control. Clarified water in the tailings pond is drained into the decant pond using a well-pipe drainage facility and pumped back for use in the beneficiation plant. The Independent Technical Consultant is of the opinion that the decant well and draining pipes are able to water via gravity under normal working conditions. Two water pumps have been installed in the western dam as auxiliary discharge equipment.

Processing of spherical graphite

For the three years ended December 31, 2019, 2020 and 2021, we processed approximately 3,300 tonnes, 2,700 tonnes and 4,000 tonnes of spherical graphite, respectively. Our processing plant uses flake graphite concentrate mostly with a carbon content of 95% as raw material to process spherical graphite through the steps of pulverizing, rounding, purifying, drying and iron removal. Through this process, we also produce micropowder graphite and high-purity graphite as by-products.

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The following flowchart illustrates the spherical graphite process:



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Pulverizing and rounding

When the flake graphite concentrate arrive at the processing plant, it will first undergo the process of pulverizing and rounding through our pulverizers, which essentially crushes the flake graphite concentrate to a smaller size (around 40 microns). During the pulverizing process, flake graphite concentrate that are not adequately pulverized will be removed for further micronization and those that have met the size requirements will progress to further stages. After pulverizing, the small-sized graphite powder will then be rounded, i.e. to gather the power into spherical forms. The round shape is necessary for them to be spread thinly and uniformly during the high-speed manufacturing process. The round shape also results in a higher density in the battery when used, better rate capacity and longer battery life. They have also been described as a “clenched-fist” or a “cabbage” structure. The final size varies between five and 20 microns depending on the application. After this process, there will be micro graphite powder produced as a by-product, separated via a classifier. The general amount of time involved in this stage per cycle would be about two hours.

Purification and drying

The micronized and rounded material is then purified using hydrofluoric and sulphuric acid through leaching impurities as such impurities affect battery performance. Such purification will be conducted twice. After purification, it will be dehydrated first via a press filter, and then with a centrifuge. After this process, there will be high-purity graphite powder produced as a by-product. The general amount of time involved in this stage per cycle would be about 24 hours for purification and 20 minutes for drying. The remaining and scavenged semi-product at the end of the process will returned to the purification station again to enhance our overall processing yield.





Iron removal

Graphite ore will often have residues or impurities of some magnetic content, which still exist after the previous stages, though in smaller quantities. Thus, before commercial use of spherical graphite, iron removal work will be required to remove via the Magnetic separator such substances. Then the spherical graphite will be screened via an ultrasound shaking sieve so that there will be little to no impurities before being sample-checked and then packed into the shape of the anode required for the lithium-ion batteries as specified by our customers. The general amount of time involved in this stage per cycle would be about ten minutes.



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Major equipment

The table below sets out information on our major equipment for the processing of spherical graphite as at December 31, 2021:

Types of equipment	Illustrative photo	Quantity	Principal use in our operations (Months)	Estimated useful lives (Months) ⁽¹⁾	Approximate average remaining useful lives
Ultrafine pulverizing unit		162	To reduce the size of the flake graphite concentrate and to re-shape the flake graphite concentrate from crystalline shape to powder form.	120	60
Classifier		52	To separate the ready made products from the yet to be ready substances.	120	45
Filter press		4	To dehydrate the spherical graphite with the filter method.	120	47
Centrifuge		4	To dehydrate the spherical graphite by using centrifugal force.	120	56

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Types of equipment	Illustrative photo	Quantity	Principal use in our operations (Months)	Estimated useful lives (Months) ⁽¹⁾	Approximate average remaining useful lives
Magnetic separator		3	To remove the iron content	120	43
Ultrasound shaking sieve		3	To further remove impurities with the use of ultrasound.	120	40

Note:

- (1) The average remaining useful lives of our major production machinery and equipment were estimated based on (i) the historical usage of such production machinery and equipment since its acquisition; and (ii) the current and expected condition of such production machinery and equipment.

Processing yield

For the three years ended December 31, 2019, 2020 and 2021, our processing plant had an input of flake graphite concentrate (with a carbon content of approximately 95%) of approximately 8,400 tonnes, 10,200 tonnes, and 12,400 tonnes and an output of spherical graphite of approximately 3,300 tonnes, 2,700 tonnes and 4,000 tonnes. For the three years ended December 31, 2019, 2020 and 2021, our processing plant reached a processing yield (which is derived from each step of processing, and includes unfinished products) of approximately 35.3%, 36.1% and 36.8%, respectively. Such processing yield increased steadily as primarily benefited from our research and development efforts and the patents developed and adopted by us which enhance our processing yield. The processing yield is the percentage of multiplying the yield of the pulverizing and rounding stage, purification stage, drying state and iron removal stage. The yield of each stage is calculated by dividing the output amount of processed graphite materials by the input amount at each different stage for the respective year. This calculation is different to the calculation of beneficiation yield, as the processing processes are fundamentally different from beneficiation processes. According to the F&S Report, our Group’s processing yield is in line with the industry average. We allocate our flake graphite concentrate between direct sales and further processing into spherical graphite based on customers’ demand on our spherical graphite products and our flake

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graphite concentrate inventory level. Our Directors are of the view that the abovementioned fluctuation of yield during the Track Record Period would not affect the designed production capacity of our processing of spherical graphite.

Maintenance of our spherical graphite processing plant

In June 2020, we had to temporarily suspend the processing of our spherical graphite as enhancements were required for our air-drying process, which is a bottleneck that connects all of our three processing lines. Between November 2020 and May 2021, our processing plants’ purification station had undergone the enhancement in which the purification process had been suspended. Such enhancement work, in the view of our Directors, is vital for the future growth and sustainability in the processing and sales of our spherical graphite, and our Directors observe that there might be potential risks of water leakage. In order to ensure that all environmental risks and safety hazards are mitigated, we suspended our purification operations. During such a period, we had engaged outsourced graphite products processing services providers to provide purification services for our unfinished products after the rounding and pulverizing stage, in order for us to continue the sales of spherical graphite to our customers. Due to the effects of severe weather from January to March 2021, such enhancement works were also suspended. Our Directors confirm that such enhancement work was completed in May 2021, and our processing plant had resumed full operations.

During the suspension period in June 2020, we continued our sales of spherical graphite and by-products to our customers where we continued to generate revenue totaling approximately RMB3.4 million and did not engage any services provider to perform the work as we had sufficient inventory for sale. During the suspension period from November 2020 to May 2021, we continued our sales of spherical graphite and by-products to our customers where we continued to generate revenue totaling approximately RMB35.4 million, as we expected high demand from customer on spherical graphite and engaged services providers to perform the work for a total fee of approximately RMB6.7 million until our enhancement work was completed. Despite the incurrence of services provider fees had an impact on our gross profit of the sale of spherical graphite for the year ended December 31, 2021, our Directors are of the view that such impact was not material and there had been no material business interruption to our Group’s facilities, considering that our Group remained profitable and sustainable by generating a revenue of approximately RMB198.4 million and net profit of approximately RMB53.3 million for the year ended December 31, 2021.

Quality control

We believe that the quality of our products are crucial to our success. We have implemented quality control procedures throughout our operations (including but not limited to, mining, procurement, and production), aiming to ensure that we can produce high quality products consistently.

As advised by our PRC Legal Advisers, according to the Standardization Law of the PRC (中華人民共和國標準化法), national standards are classified into compulsory standards and recommended standards. Compulsory standards must be complied with, while the state encourages the adoption of recommended standards. Our Directors confirm that our products are not subject to compulsory national standards.

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We have established and maintained quality control standards and testing and inspection procedures during the production of our products. These standards and procedures are documented in our quality control policies or procedures. In addition, we provide training to our employees aiming to ensure effective application of our quality control procedures. As at the Latest Practicable Date, our quality control team consisted of personnel from beneficiation and processing team.

Our quality control measures primarily consist of the following:

- **Materials and supplies** — We consider the quality of our materials and supplies would affect the overall quality of our final products. Our materials and supplies include, among others, flake graphite concentrate supplied by Yixiang Graphite and other materials sourced from our suppliers. We perform checks and tests, if necessary, on samples of incoming materials and supplies.
- **Beneficiation and processing** — Quality checks and testing are performed at various stages of our processes. We perform tests on unprocessed graphite to determine its suitability for the beneficiation of flake graphite concentrate, and tests on flake graphite concentrate to ensure its suitability for the production of spherical graphite, based on carbon and moisture content. Graphite ore or flakes that do not meet the relevant quality requirements will be reprocessed, which will thereafter be subject to the same quality checks and testing again.
- **Finished goods** — A final test will be performed on our finished goods, by sampling, to ensure that they comply with all necessary quality specifications and requirements before they are delivered to our customers. Finished goods that do not meet the relevant chemical and quality specifications and requirements will be reprocessed and in case of spherical graphite products, could also be treated as tailings. All reprocessed finished goods will be subject to the same quality checks and inspections again.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims or complaints by our customers in respect of the quality of our products and there was no incident of failure of our quality control systems which had a material and adverse impact on our business operation.

Product feedback and returns

We have in place a product returns management policy governing the product returns procedures. Our agreements with major customers generally provide our major customers the right to return purchased products should such products fail to comply with the relevant standards as agreed. Upon receiving any complaints or feedback from customers regarding our products, we would examine the products sent to the customer, and to a further extent, we would also visit the site of the customer to ascertain all the necessary information. The initial feedback or complain will be handled by our sales and marketing staff whereas the follow-up will be handled by our production team. Our Directors confirm that we had not experienced any product returns during the Track Record Period.

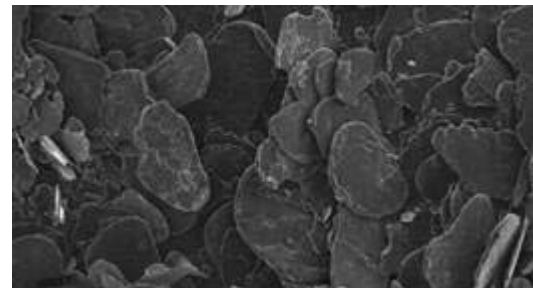
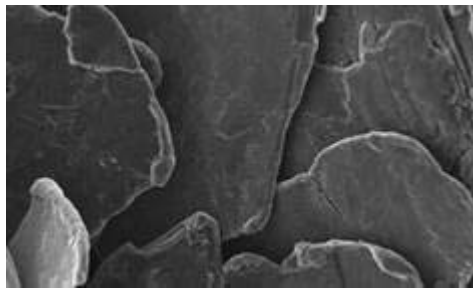
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Our products

Flake graphite concentrate

Flake graphite concentrate constitutes a unique set of properties, accredited to its molecular structure. It is a crystalline form of carbon, which is (i) a solid-state lubricant; (ii) the only non-metallic conductor; and (iii) can sustain temperature greater than 3000°C. Though it is a non-metal, it has unique properties of both metal and non-metal. Given these molecular characteristics, the flake graphite concentrate is the preferred and mostly non-replaceable choice in various industries, products and applications.

The following are microscopic photos of our flake graphite concentrate:



The flake graphite concentrate being benefited by our Group are mainly used as anode materials in lithium-ion batteries and as heat resistant materials for further production by our customers. Mostly such flake graphite concentrate (i.e. those with a carbon content between 94% and 96.8%) are used for the production of the heat resistant magnesia carbon brick. Our flake graphite concentrate with a carbon content of 95% (or from 95% to less than 96%) can also be used for further processing into spherical graphite.

We have been selling flake graphite concentrate since our business was founded in 2006, with a focus on those with a carbon content between 94% and 96.8%. For each year during the Track Record Period, sales from our flake graphite concentrate, mainly included types, “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%) generated revenue of approximately RMB48.6 million, RMB74.0 million and RMB92.9 million, respectively. Both 194 and 195 are applied in refractory materials, coatings, catalysers and others. 196 is suitable for many applications such as lubricants, dispersions and friction. The following table summarizes the revenue generated, the sales volume and the average selling prices of our flake graphite concentrate during the Track Record Period:

Type	For the year ended December 31,								
	2019			2020			2021		
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (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	

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Note:

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

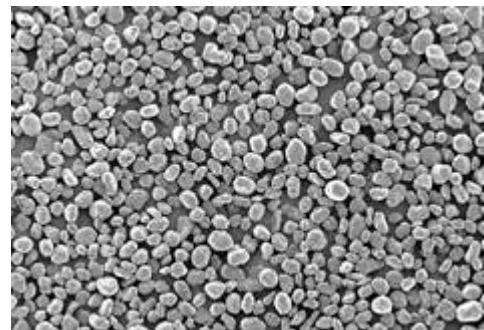
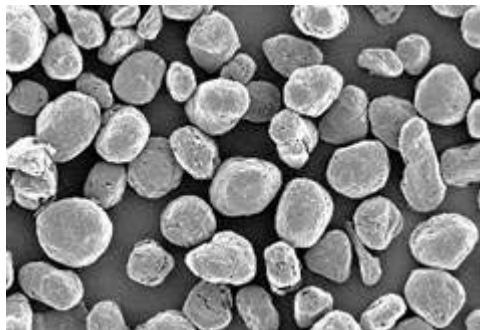
Our revenue generated from the sale of flake graphite concentrate is determined by our average selling price and sales volume. The selling price of our flake graphite concentrate is generally influenced by factors such as production costs and product specifications required by our customers. For instance, there is a general increase in the average selling price of each of our flake graphite concentrate type by the percentage of carbon content, which means the higher percentage of the carbon content, the higher the average selling prices will be. Our Directors believe that, due to the standardized nature of such flake graphite concentrate, such products may be price sensitive and easily replicated by competitors. For such reasons, we believe that our advantage on flake graphite concentrate primarily lies with effective cost control through a vertically integrated supply chain since the year ended December 31, 2019. Another key to our success in generating revenue from the sales of flake graphite concentrate is our ability to secure new customers, or secure more orders from existing customers. Our Directors consider this to be a major contributory factor to the general increase in our revenue generated from the sales of flake graphite concentrate during the Track Record Period. This allowed us to effectively pursue a competitive pricing strategy, even during the COVID-19 outbreak in the year ended December 31, 2020.

Across all the three main types of flake graphite concentrate during the Track Record Period, there had been a general increasing trend for sales volume and revenue generated, whilst there had been a general declining trend for the average selling prices from 2019 to 2020. The benefits from vertical integration by obtaining the mining rights of our Beishan Mine allowed us to sell such products at a lower cost to capture a higher market share. Such average selling prices decreased in 2020, as our Directors decided to provide discounts to existing customers who might have been facing difficulties during the COVID-19 outbreak, in order to maintain our long-term relationships with such customers and to strengthen our competitiveness, and further discounts were given to two newly engaged major customers during the same year. The slight increase in the average selling prices for the year ended December 31, 2021 as compared to 2020 was in line with the increase of market demand.

Spherical graphite and its by-products

According to the F&S Report, spherical graphite is a niche technology contributing to the ongoing energy storage revolution by accelerating the performance of lithium-ion batteries. It is majorly used as a battery anode material in the lithium-ion batteries.

The following are microscopic photos of our spherical graphite:



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Our spherical graphite is mainly processed from flake graphite concentrate of high carbon content (either from suppliers, or directly from Yixiang Graphite once they have completed the processing of the graphite ore extracted from our Beishan Mine). Spherical graphite processed by our Group can be used for anode materials for consumer electronic products and NEVs.

During the Track Record Period, we had sold spherical graphite with a carbon content primarily above 99%, processed from our plants. Model numbers of our spherical graphite are designated according to the size of the spherical graphite processed (for example, SG-10, which denotes the radius of 10 μm for each spherical graphite, and it is our predominantly sold spherical graphite model). Additional specifications to spherical graphite may include designated density, purity or shapes of such spherical graphite, which even within the spherical graphite model SG-10, there may be over ten variances for sale and subsequent industrial use. SG-10 and other models of spherical graphite are mainly varied by different particle size and carbon content. The application of SG-10 is various in the field of NEVs and electrics. We also sell micro graphite powder and high-purity graphite powder which are by-products of processing our spherical graphite. The following table summarizes the revenue generated, the sales volume and the average selling prices of our spherical graphite and its by-products from spherical graphite processing 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									
<i>SG-10</i>	47,122	2,343	20,112	63,926	3,479	18,375	47,842	3,059	15,638
<i>Other models</i>	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 required by our customers due to their specific nature as spherical graphite products are often made upon request by customers, with tailored instructions and demands. The average selling price of our SG-10 products was lowered in 2020 as compared to 2019 with an aim to maintain our market share and customer relationships during the COVID-19 outbreak. The decrease in the average selling prices for the year ended December 31, 2021 as compared to 2020 was primarily attributable to an decreased sales of a high-density version of the model during the period and also contributed by our adoption of our market competitive pricing strategy, while the average selling price of other models increased, mainly due to the increased demand on our SG-9 model graphite products.

Unprocessed marble

We had begun the sale of unprocessed marble as a by-product of our extraction operations in the year ended December 31, 2020, which we sold approximately 675,200 tonnes of unprocessed marble, generating a revenue of approximately RMB6.9 million. For the year ended December 31, 2021, we sold approximately 341,700 tonnes of unprocessed marble generating a revenue of approximately RMB2.2

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million. Our Directors consider that the sales of such unprocessed materials is generally influenced by factors such as typical forces of supply and demand, and our extraction costs of approximately RMB4.1 million for the year ended December 31, 2020 and approximately RMB2.3 million for the year ended December 31, 2021.

Sales and marketing

The graphite product market in 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 potential customers. This may be followed-up with relationship management efforts by our sales and marketing team once a customer is engaged. We had also engaged customer relationship services providers to assist with our sales and marketing, and customer relationship management efforts. For the three years ended December 31, 2019, 2020 and 2021, we had incurred approximately RMB0.9 million, nil and nil, respectively, for such services. Under our agreements with such services providers, we generally agree to pay such services providers fees calculated at approximately 15% of the sales revenue generated from customers introduced by such services provider, and generally any variation or termination of such agreement shall be made in written form by mutual consent. For the years ended December 31, 2020 and 2021, our Directors decided to absorb such functions in-house by expanding our sales and marketing team, and confirm that the Group no longer required such services.

Our sales and marketing approach also include sponsoring the hosting of, industry or academic events such as forums, site studies or symposiums. We believe that such an approach to be effective in increasing our exposure among industry players and potential customers, and thus building up a stable clique clientele. Such events include the fields of finance and economics. For the three years ended December 31, 2019, 2020 and 2021, such expenses incurred amounted to approximately RMB3.7 million, nil and nil, respectively. For the year ended 31 December 2019, we had entered into exclusive sponsorship agreements with an event host which are generally (i) for the term of one year; (ii) capped as to the annual sponsorship fee thereunder at a fixed aggregate amount; (iii) that we as the title sponsor shall make full payment to the event host before the opening ceremony of the relevant event (if it is held in the form of forum) or after the relevant event (if it is held in other forms); (iv) that we as the title sponsor shall be entitled to, among others, have our brand name displayed during the relevant event, our promotional materials sent to all guests of the relevant event, and private meeting opportunities with certain guests of the relevant event; and (v) provided for that, in the event of force majeure causing the event to be cancelled or suspended, the event host shall return to us all the fees paid.

Our Directors confirm that for the years ended December 31, 2020 and 2021, due to the effects of the COVID-19 outbreak, many of such academic and industry events were put on hold, as our Directors observed that expenses via this sales and marketing avenue were heavily reduced. Our Directors estimate that as the government restrictions on movement and gathering may gradually be lifted, our sales and marketing efforts will continue at the resumption of such events, as these sales and marketing efforts are deemed beneficial to gaining market exposure and building rapport with existing and potential customers.

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OUR CUSTOMERS

During the Track Record Period, our major customers are primarily industrial manufacturers and retailers of heat-resistant materials. The general terms and conditions of sale are set out in the respective sales agreements with such customers. For the three years ended December 31, 2019, 2020 and 2021, our five largest customers accounted for approximately 62.9%, 59.0% and 55.7% of our Group’s total revenue, and sales to the largest customer group accounted for approximately 37.9%, 37.9% and 20.1% of our Group’s total revenue, respectively. The tables below set forth the basic information of our Group’s top five customers during the Track Record Period:

For the year ended December 31, 2019

Customer	Transaction amount (Approximate RMB'000)	Percentage to total revenue of our Group (Approximate %)	Year of commencement of business relationship	Background and principal business activity	Location	Major products purchased	Credit period/term	Payment method
BTR New Material Group Co., Ltd. (貝特瑞新材料集團股份有限公司) and its certain subsidiaries (the “BTR Group”) ⁽¹⁾	46,943	37.9	2013	An associated company of a China-listed company focused on the development of materials to be used in lithium-ion batteries	PRC	Spherical graphite	Within the next month after reconciliation	Bank’s acceptance bill or telegraphic transfer
Qingdao Longdi Carbon Technology Co., Ltd.* (青島龍迪碳材料科技有限公司)	8,795	7.1	2019	Focused on the manufacturing of graphite products and research and development of materials of lithium-ion batteries	PRC	Spherical graphite	Within the same month after the receipt of invoice	Telegraphic transfer
Dashiqiao Guancheng Refractory Co., Ltd. (大石橋市冠誠耐火材料有限公司)	8,260	6.7	2013	A retailer for heat-resistant materials	PRC	Flake graphite concentrate	Within the same month after the receipt of invoice	Bank’s acceptance bill
Yingkou Guangyang Refractories Materials Co., Ltd. (營口光陽耐火材料有限公司) and Yingkou Krosaki Harima Refractories Co., Ltd. (營口黑崎播磨耐火材料有限公司) ⁽²⁾	8,034	6.5	2008	A manufacturer for magnesium-carbon bricks and other carbonized bricks	PRC	Graphite	Within a month or about 50 days after the receipt of invoice	Bank’s acceptance bill
Dashiqiao Lele Refractory Materials Co., Ltd. (大石橋市樂樂耐火材料有限公司)	5,752	4.7	2018	A processor and retailer of heat-resistant materials	PRC	Flake graphite concentrate	Within a month after the receipt of invoice	Bank’s acceptance bills
Total	77,784	62.9						

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For the year ended December 31, 2020

<u>Customer</u>	<u>Transaction amount</u> <i>(Approximate RMB'000)</i>	<u>Percentage to total revenue of our Group</u> <i>(Approximate %)</i>	<u>Year of business commencement</u> <u>relationship</u>	<u>Background and principal business activity</u>	<u>Location</u>	<u>Major products purchased</u>	<u>Credit period/term</u>	<u>Payment method</u>
BTR Group ⁽¹⁾	63,926	37.9	2013	An associated company of a China-listed company focused on the development of materials to be used in lithium-ion batteries	PRC	Spherical graphite	Within the next month after reconciliation	Bank's acceptance bill or telegraphic transfer
Dashiqiao Guancheng Refractory Co., Ltd. (大石橋市冠誠耐火材料有限公司)	11,662	6.9	2013	A retailer for heat-resistant materials	PRC	Flake graphite concentrate	Before the 15th day of the next month after the receipt of invoice	Bank's acceptance bill
Qingdao Tianshengda Graphite Co., Ltd.* (青島天盛達石墨有限公司)	10,378	6.1	2013	A processor, retailer and exporter of graphite products	PRC	Flake graphite concentrate	No credit term	Bank's acceptance bill
Qingdao Langrui Graphite Co., Ltd.* (青島朗芮特石墨有限公司)	8,443	5.0	2020	A retailer, importer and exporter of graphite products	PRC	Flake graphite concentrate	Up to 60 days	Bank's acceptance bill
Yanshi Zhongyue Refractory Materials Co., Ltd. (偃師中岳耐火材料有限公司)	5,195	3.1	2008	A manufacturer and retailer for heat-resistant materials	PRC	Flake graphite concentrate	Before the 15th day of the next month after the receipt of invoice, or within the same month of the receipt of invoice, depending on the invoice terms	Bank's acceptance bill or telegraphic transfer
Total	99,604	59.0						

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For the year ended December 31, 2021

<u>Customer</u>	<u>Transaction amount</u> <i>(Approximately RMB'000)</i>	<u>Percentage to total revenue of our Group</u> <i>(Approximate %)</i>	<u>Year of commencement of business relationship</u>	<u>Background and principal business activity</u>	<u>Location</u>	<u>Major products purchased</u>	<u>Credit period/term</u>	<u>Payment method</u>
Qingdao Longdi Carbon Technology Co., Ltd.* (青島龍迪碳材料科技有限公司)	40,523	20.4	2019	Focused on the manufacturing of graphite products and research and development of materials of lithium-ion batteries	PRC	Spherical graphite	Within 3 months after the receipt of invoice	Telegraphic transfer
BTR Group ⁽¹⁾	39,956	20.1	2013	An associated company of a China-listed company and focused on the development of materials to be used in lithium-ion batteries	PRC	Spherical graphite	Within the next 3 months after reconciliation	Bank's acceptance bill or telegraphic transfer
Qingdao Langruite Graphite Co., Ltd.* (青島朗芮特石墨有限公司)	10,998	5.5	2020	A retailer, importer and exporter of graphite products	PRC	Flake graphite concentrate	Within the same month after the receipt of invoice	Bank's acceptance bill or telegraphic transfer
Dashiqiao Guancheng Refractory Co., Ltd.* (大石橋市冠誠耐火材料有限公司)	9,606	4.9	2013	A retailer for heat-resistant materials	PRC	Flake graphite concentrate	Within the same month after the receipt of invoice	Bank's acceptance bill
Qingdao Luowei New Materials Co., Ltd.* (青島洛唯新材料有限公司)	9,442	4.8	2021	Focused on manufacturing of graphite products	PRC	Flake graphite concentrate and spherical graphite	Within 7 days after signing of contract or within 3 months	Bank's acceptance bill
Total	110,525	55.7						

Notes:

- Our Group had conducted businesses with BTR New Material Group Co., Ltd. (貝特瑞新材料集團股份有限公司) for each of the years ended December 31, 2019, 2020 and 2021. In addition, such amount also included the transactions with two subsidiaries of BTR New Material Group Co., Ltd. (貝特瑞新材料集團股份有限公司) for the years ended December 31, 2020 and 2021, respectively. Headquartered in Shenzhen, China, BTR New Material Group Co., Ltd. (貝特瑞新材料集團股份有限公司) has been listed on the National Equities Exchange and Quotations since 2015.
- To the best of our Directors' knowledge, the two entities were the subsidiary of a company which principally engages in manufacturing of refractories and magnesia carbon brick located in the proximity of Jinlong Industrial Park, Dashiqiao City, the PRC.

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Our Directors confirm that the five largest customers of our Group during the Track Record Period were all independent third parties and that none of our Directors, their respective close associates or any Shareholder (which to the knowledge of our Directors owning more than 5% of our share capital as at the Latest Practicable Date) had any interest, directly or indirectly, in any of our issued Group’s top five customers during the Track Record Period. During the Track Record Period, to the best knowledge of our Directors, our Group did not have any material disputes with its customers or face any major return of defective products.

We believe that perceived quality and reputation are of paramount importance for the sales of our products. While we have not entered into any long-term sales agreement with our major customers, we believe that our business relationships with our major customers are well-established and that our commitment to product quality and a competitive pricing strategy will enable us to further attract new customers to diversify our customer base. According to the F&S Report, it is not uncommon that companies engaged in the sales of flake graphite concentrate and spherical graphite do not enter into long-term sales agreement with their major customers in the PRC. Nevertheless, our Group aims to continue to broaden our customer base and product range which may eventually reduce any concentration and counter-party risk in future. Whilst it is considered as an advantage to have a stable customer base comprising large 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 in the 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.

Salient terms of our sale and purchase agreements with our major customers

During the Track Record Period, we generally entered into legally binding sale and purchase agreements with our major customers, who placed individual purchase orders in accordance with the terms stipulated in our relevant sale and purchase agreements. Our Directors confirm that there had not been any material breaches of these agreements during the Track Record Period. The typical salient terms of the sale and purchase agreements we entered into with our five largest customers for the Track Record Period are set out below:

Order details:	Specification, quantity unit price and total purchase amount are to be specified in the purchase orders
Quality control:	Standards to be abided by national standards (save that under the agreements with BTR Group it adopts Restriction of Hazardous Substances Directive (ROHS) and the highest one among national standards, industry standards and common standards) and specific standards required by customer in individual orders. Our Directors confirm that our products (including the quality control as stipulated in the agreements) are not subject to compulsory national standards.
Delivery:	Transport directly to customer’s factory or designated location, costs of which were borne by us or paid in advance by customer

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Duration:	Generally not specified as each agreement was for one-off purchase, save that under the agreements with BTR Group the duration is specified to be one year provided that after expiration the parties may choose to continue trading subject to the terms and conditions thereof.
Purchase Commitment/ Target:	In general the exact purchase quantities are stipulated in the agreements to be decided by the customer according to its actual needs.
Termination:	In general the agreements contain no specific termination clauses but to be governed by the Economic Contract Law of the People’s Republic of China, save that under the agreements with BTR Group the customer is entitled to terminate the agreement unilaterally in the event of significant defect of the products, late delivery exceeding 15 days, non-compliance with prescribed standards or our breach of confidentiality provisions regarding commercial secrets or warranties in relation to intellectual property rights.

Pricing

Our overall pricing strategy is to be price-competitive in the market, especially after the better cost control measures implemented since obtaining the mining rights to our Beishan Mine. We normally set the prices for our products based on analysis on market demand and we take into account a variety of factors, including but not limited to, prices of our competitors, production costs and the product specifications required by our customers. Our senior management would rely on (i) communications between our sales staff (either by phone or in person) with our customers on the demand for average selling price, or general feedback of their product, in order to deduce market demand for our graphite products, (ii) monthly market studies conducted by our sales and marketing team; (iii) comparable selling prices of similar products offered by our competitors; (iv) an analysis on revenue, gross profit and net profit provided by our finance and sales departments; and (v) references to sales targets of previous years in order to determine the pricing of our products. We would also adjust our prices as a response to occurrence of unexpected events. For instance, during the COVID-19 outbreak, we adjusted our average selling price in order to maintain stable relationships with existing customers. We also gave further discounts to new customers and those willing to prepay for our products, in order to reduce our trade and bills receivables turnover days.

Leveraging on the cost-saving benefits from vertical integration by acquiring and obtaining the mining rights of our Beishan Mine, we adopt a competitive pricing strategy to attract more customers, of which its success is evidenced by the increase in our number of customers for the three years ended December 31, 2019, 2020 and 2021 being 53, 59 and 88. Our Directors are of the view that such strategy will enable us to continue to attract new customers and will allow us to diversify our customer base.

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Payment terms and credit control

To the best knowledge and belief of our Directors, it is not uncommon for PRC companies involved in the manufacturing and sale of products to grant credit terms to customers. During the Track Record Period, most of our major customers were granted a credit period up to three months. Given the established business relationships and significant transaction amounts with our major customers, as well as their good credit history, our Directors believe that the aforesaid credit arrangement with our major customers will facilitate our transactions with customers as well as the business operations of our Group as a whole.

In terms of payment, most of our customers pay by bank’s acceptance bill. Such bills were given to us at the end of the credit period, with a maturity date between six and 12 months. Upon receipt of the bank acceptance bills paid by our customers for settlement of our invoices, we would then use such bank acceptance bills to settle our outstanding payments owing to our suppliers and third party service providers. Our Directors believe that the bill endorsement arrangement allows our Group to mitigate potential credit losses since the bills are issued and payable by banks and financial institutions which assure any third-party that the banks will back the obligations of the creator of the bills in the event that the creator cannot make payment. Our Directors confirm this payment practice has been a long on-going industry practice.

For the three years ended December 31, 2019, 2020 and 2021, our total trade and bills receivables amounted to approximately RMB113.6 million, RMB160.9 million and RMB148.6 million, of which our bills receivables amounted to approximately RMB61.8 million, RMB85.5 million and RMB98.2 million, respectively. In order to minimize the credit risk that may potentially arise due to the prolonged receivables turnover days and the reliance on bank bills, our Group has implemented internal control measures to monitor the outstanding receivables of our customers and bills receivables. We also paid our creditors by endorsing certain of our bills receivables in order to mitigate our potential credit losses.

The responsibility of collecting accounts receivables lies mainly with our sales staff. In general, our customers should begin to make payment upon receiving an invoice from us. If we receive a bank’s acceptance bill, records shall be kept by the finance team and confirmed by the sales supervisor. Sales staff shall check, at the end of each month, that the records between the sales department and the finance depart are consistent, then report to the general manager. The sales staff must also check and confirm with our customers once to twice a year to ensure that the balances of the accounts of both parties are accurate. In the event that certain amounts could not be received from long outstanding trade receivables, we would commence litigation against such customers for liquidated damages as recovery. During the Track Record Period, there was no material breach of sale and purchase agreements nor purchase orders by our customers.

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OUR SUPPLIERS

During the Track Record Period, our major suppliers included suppliers of utilities such as electricity and suppliers of unprocessed graphite. For the three years ended December 31, 2019, 2020 and 2021, purchases from our top five suppliers accounted for approximately 69.2%, 63.8% and 57.0% of our total purchases for the same period, respectively, and purchases from our top supplier accounted for approximately 36.1%, 34.7% and 27.5% of our total purchases for the same period, respectively. The tables below set forth the basic information of our Group’s top five suppliers during the Track Record Period:

For the year ended December 31, 2019

Supplier	Transaction amount (Approximate RMB'000)	Percentage to total purchase of our Group (Approximate %)	Year of commencement of business relationship	Background and principal business activity	Location	Products/services principally procured/rendered	Credit period/term	Payment method
The State Grid Heilongjiang Luobei County Electric Power Bureau Co., Ltd.* (國網黑龍江蘿北縣電業局有限公司)	23,532	36.1	2006	The state electricity grid	PRC	High voltage electricity	No credit term	Telegraphic transfer
Supplier B ⁽¹⁾ and ⁽²⁾	10,776	16.5	2019	Focused on the mining investments, consultation, mineral processing and trading	PRC	Unprocessed graphite ore	No credit term	Telegraphic transfer
Heilongjiang Hegang Luobei Branch of Petroleum Co., Ltd.* (中國石油天然氣股份有限公司黑龍江鶴崗蘿北石油分公司) and Baoquanling Branch of PetroChina & NK Fuels Co., Ltd.* (中油黑龍江農墾石油有限公司寶泉嶺分公司) ⁽³⁾	3,958	6.1	2016	A retailer of petroleum products, refined oil, gas, hazardous chemicals products and groceries	PRC	Diesel fuel	No credit term	Telegraphic transfer
Qingdao Anhe Shengtai Chemical Co., Ltd.* (青島安和盛泰化工有限公司)	3,557	5.5	2019	A manufacturer and distributor of chemical products and containers	PRC	Hydrochloric acid, acid base	3 days	Telegraphic transfer
Hegang Xingxing Coal Mine* (鶴崗市興星煤礦) and Hegang Wanchang Coal Mine* (鶴崗市萬昌煤礦) ⁽⁴⁾	3,322	5.0	2017	Mining of coal.	PRC	Coal	No credit term	Bank’s acceptance bill or telegraphic transfer
	<u>45,145</u>	<u>69.2</u>						

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For the year ended December 31, 2020

<u>Supplier</u>	<u>Transaction amount</u> <i>(Approximate RMB'000)</i>	<u>Percentage to total purchase of our Group</u> <i>(Approximate %)</i>	<u>Year of business commencement</u> <u>relationship</u>	<u>Background and principal business activity</u>	<u>Location</u>	<u>Products/services principally procured/rendered</u>	<u>Credit period/term</u>	<u>Payment method</u>
The State Grid Heilongjiang Luobei County Electric Power Bureau Co., Ltd.* (國網黑龍江蘿北縣電業局有限公司)	25,794	34.7	2006	The state electricity grid	PRC	High voltage electricity	No credit term	Telegraphic transfer
Luobei County Yunshan Longxing Graphite Development Co., Ltd.* (蘿北縣雲山龍興石墨開發有限公司) ⁽²⁾	14,214	19.1	2020	A graphite mining company and manufacturer and retailer of flake graphite concentrate products	PRC	Unprocessed graphite ore	No credit term	Telegraphic transfer
Yilan Country Rongda Coal Distribution Co., Ltd.* (依蘭縣融達煤炭經銷有限公司)	2,915	3.9	2020	A retailer for coal and coal gangue	PRC	Coal	No credit term	Bank's acceptance bill or telegraphic transfer
Hegang Shunlong Blasting Engineering Co., Ltd.* (鶴崗市順隆爆破工程有限公司)	2,287	3.1	2019	Focused on the design and construction, safety supervision and blasting operations	PRC	Blasting service	Up to one month	Bank's acceptance bill
Yingkou Hongsuo Textile Co., Ltd. (營口宏梭織業有限公司)	2,189	3.0	2012	A manufacturer of processed or woven carry-bag	PRC	Packaging	One month after the delivery date	Bank's acceptance bill
	<u>47,399</u>	<u>63.8</u>						

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For the year ended December, 31, 2021

Supplier	Transaction amount (Approximately RMB'000)	Percentage to total purchase of our Group (Approximate %)	Year of commencement of business relationship	Background and principal business activity	Location	Products/services principally procured/rendered	Credit period/term	Payment method
The State Grid Heilongjiang Luobei County Electric Power Bureau Co., Ltd.* (國網黑龍江蘿北縣電業局有限公司) and the Luobei Power Supply Branch of State Grid Heilongjiang Electric Power Co., Ltd.* (國網黑龍江省電力有限公司蘿北縣供電分公司) ⁽⁵⁾	29,607	27.5	2006	The state electricity grid	PRC	High Voltage electricity	No credit term	Telegraphic transfer
Luobei County Yunshan Longxing Graphite Development Co., Ltd.* (蘿北縣雲山龍興石墨開發有限公司) ⁽²⁾	19,079	17.7	2020	A graphite mining company and manufacturer and retailer of flake graphite concentrate products	PRC	Unprocessed graphite ore	No credit term	Telegraphic transfer
Qingdao Zhiqing Economic Service Co., Ltd.* (青島智擎經濟服務有限公司)	4,946	4.6	2021	Crowdsourcing	PRC	Labour services	Withing 3 days upon receipt of invoice	Telegraphic transfer
Yilan Country Rongda Coal Distribution Co., Ltd.* (依蘭縣融達煤炭經銷有限責任公司)	3,902	3.6	2020	A retailer for coal and coal gangue	PRC	Coal	No Credit term	Bank's acceptance bill or telegraphic transfer
Yingkou Hongsuo Textile Co., Ltd. (營口宏梭織業有限公司)	3,888	3.6	2012	A manufacturer of processed or woven carry-bag	PRC	Packaging	One month after the delivery date	Bank's acceptance bill
Total	61,422	57.0						

Notes:

- Our Group had procured unprocessed graphite ore from Luobei County Yunshan Graphite Mining Co., Ltd.* (蘿北縣雲山石墨採礦有限責任公司) for the year ended December 31, 2018 for further processing. To our Directors' best knowledge, such company transferred its mining rights to Supplier B in 2019 and thus our Group procured the unprocessed graphite ore from Supplier B.
- To our Directors' best knowledge, Luobei County Yunshan Longxing Graphite Development Co., Ltd.* (蘿北縣雲山龍興石墨開發有限公司) and Supplier B were each a subsidiary of a company focused on mining investment and mineral consulting service established in 2009 and headquartered in Beijing, China.
- Heilongjiang Hegang Luobei Branch of Petroleum Co., Ltd.* (中國石油天然氣股份有限公司黑龍江鶴崗蘿北石油分公司) was the subsidiary of PetroChina Co., Ltd. (中國石油天然氣股份有限公司), a company established in 1999 and headquartered in Beijing, China. PetroChina Co., Ltd. (中國石油天然氣股份有限公司) which has been listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange since 2000 and 2007, respectively, was ultimately controlled by the State Council of the PRC. Baoquanling Branch of PetroChina & NK Fuels Co., Ltd. (中油黑龍江農

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墾石油有限公司) was 49% held by PetroChina Co., Ltd. (中國石油天然氣股份有限公司) and 51% held by CNPC Heilongjiang Nongken Petroleum Co., Ltd. (中油黑龍江農墾石油有限公司), which was also ultimately controlled by the State Council of the PRC.

4. To our Directors’ best knowledge and based on enquiry, they were ultimately controlled by an Independent Third Party.
5. The State Grid Heilongjiang Luobei County Electric Power Bureau Co., Ltd.* (國網黑龍江蘿北縣電業局有限公司) was de-registered on 27 November 2021. To our Directors’ best knowledge, such company transferred its business to the Luobei Power Supply Branch of State Grid Heilongjiang Electric Power Co., Ltd.* (國網黑龍江省電力有限公司蘿北縣供電分公司) upon de-registration, thus our Group purchased electricity from both suppliers in 2021.

The State Grid Heilongjiang Luobei County Electric Power Bureau Co., Ltd.* (國網黑龍江蘿北縣電業局有限公司) was a subsidiary of the Heilongjiang Province Power Co., Ltd.* (國網黑龍江省電力有限公司). The Luobei Power Supply Branch of State Grid Heilongjiang Electric Power Co., Ltd.* (國網黑龍江省電力有限公司蘿北縣供電分公司) is one of the branches of the Heilongjiang Province Power Co., Limited.

Our Directors confirm that the five largest suppliers during the Track Record Period were all Independent Third Parties and that none of our Directors, their respective close associates or any Shareholder (which to the knowledge of our Directors owning more than 5% of our share capital as at the Latest Practicable Date) had any interest, directly or indirectly in any of our five largest suppliers during the Track Record Period. Our Directors confirm that our Group did not experience any material disruption, disputes or delay in relation to the supply by our suppliers during the Track Record Period and up to the Latest Practicable Date.

We select our suppliers (and third-party services providers) based on various factors, including but not limited to product or service quality, pricing and delivery time, so as to ensure that materials and supplies supplied by our suppliers meet the required quality standards for our production purposes. We usually source for potential suppliers by conducting market research, after which we will contact them to enquire about the price of the relevant materials and supplies and obtain, among other documents, a copy of their business license, tax registration certificate and any other licenses and permits that are required for the services to be provided.

The results of the price enquiries and the relevant documents of the potential suppliers and service providers are submitted to our general manager for his approval, who will make the final decision on the suppliers to be selected. The selected suppliers will be entered into our Company’s approved list, which is maintained and updated on a periodical basis by our procurement team. In addition, we also regularly review and evaluate our suppliers and their product quality to ensure continuing satisfaction of our production and future development needs, compliance with our quality standards.

We consider it important to maintain good business relationships with our suppliers and where possible, diversify our supplier base so as to avoid any disruptions in material supply. Our Directors confirm that during the Track Record Period and as at the Latest Practicable Date: (i) we did not experience any material difficulties in obtaining materials and supplies material to our production processes in a timely manner; (ii) we did not have any material disputes with our major suppliers; (iii) as advised by the Independent Technical Consultant, the quality of the unprocessed graphite extracted from our Beishan Mine are generally better than that procured from third party suppliers in terms of carbon content; and (iv) save as disclosed in the sub-section headed “— Utilities provider” in this section, we have not entered into any long-term agreements with our suppliers.

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Procurement of unprocessed graphite from suppliers

Prior to obtaining the mining rights of our Beishan Mine, our raw materials used for beneficiation were purchased from suppliers located in Heilongjiang Province. Such raw materials (i.e. unprocessed graphite) were supplied through the same mine, though operated by different entities with different licenses during the Track Record Period. The salient terms of the supply agreements with such suppliers are generally as follows:

Duration:	One year
Pricing:	Based on a fixed unit price set out in the agreements
Termination:	Among other things, the relevant agreement may be terminated by mutual consent or force majeure. Further, if there are any material changes to governmental mining policy, development system restoration project, graphite resources integration in Yunshan, or governmental policy requirements etc., which would render the continual performance of the agreement impossible, our unprocessed graphite supplier is entitled to unilaterally terminate the agreement without incurring any liabilities for breach of such agreement.
Delivery:	Delivery takes place in the quarry stipulated in the agreements
Quantity:	In accordance with the quantity stipulated in the agreement

For the three years ended December 31, 2019, 2020 and 2021, we had purchased approximately 171,000 tonnes, 189,500 tonnes and 254,200 tonnes of unprocessed graphite ore from such suppliers at approximately RMB10.8 million, RMB14.2 million and RMB19.1 million, respectively. The unit cost of unprocessed graphite from such suppliers is estimated at approximately RMB63 per tonne, RMB75 per tonne and RMB75 per tonne, respectively.

Utilities provider

During the Track Record Period, we had paid our electricity supplier based on the unit electricity price promulgated by the PRC government, which we believe was the market rate, and the fee was settled on a monthly basis.

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Our electricity supplier was also one of our largest suppliers during the Track Record Period. In order to ensure that we will have a stable supply of electricity sufficient for our business operations, we enter into a legally binding agreement with our electricity supplier for a term of one or five years (with automatic renewal unless either party serve a written notice to object) with the typical salient terms set out below:

Designed capacity of electricity point: One electricity point with a designed capacity of 4,000 to 6,410 kilovolts.

Meter reading, price and price adjustment: Our electricity supplier will generally determine the amount of electricity supplied to our Group based on the meter reading on each month before the 24th calendar day (subject to adjustment made by our electricity supplier). The price is determined by the competent administrative authority having electricity administration power. Any price adjustment is made in accordance with the competent administrative authority's price adjustment policies.

Payment term: Monthly settlement (in three installments) of outstanding amounts for electricity supplied in the previous month. In the event of any dispute between the parties in relation to the electricity fees payable, our Group shall still pay the full amount as originally charged in advance. An adjustment will be made once the dispute has been settled.

Termination and renewal: The agreement shall be terminated by: (i) our electricity supplier loses its entity status or is declared bankrupt in accordance with the law; (ii) we as the electricity user lose our entity status or are declared bankrupt in accordance with the law; (iii) the agreement is terminated in accordance with the law or clauses of the agreement; or (iv) both parties or either party file a written notice objecting the continued performance of the agreement.

If we as the electricity user do not use electricity for six consecutive months and do not apply for suspension of electricity usage, our electricity supplier may take measures to cancel our account and terminate the agreement.

Consequences for breach: If our electricity supplier violates its electricity quality obligation under the agreement and causes us losses, it shall compensate us for our actual loss with a maximum compensation cap, unless the failure to perform its obligation is due to our reasons. If our electricity supplier terminates the electricity supply in breach of the agreement and causes us losses, it shall compensate us for the actual loss with a maximum cap.

If we commit a breach of the agreement, we shall make corrections in accordance with the government's directions, industry standards of the electricity supply industry or the relevant clauses of the agreement, and shall continue to perform under the agreement.

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For the three years ended December 31, 2019, 2020 and 2021, cost of sales incurred for the consumption of electricity amounted to approximately RMB21.6 million, RMB22.5 million and RMB23.0 million, respectively. We believe that the dedicated electricity point to be sufficient for our future mining and processing operations going forward. Our Directors confirm that there had not been any material disruption in such electricity supply during the Track Record Period and up to the Latest Practicable Date.

Overlapping customers and suppliers

For the year ended December 31, 2021, two of our Group’s suppliers were also our customers. The following table sets out our Group’s total sales revenue and purchase amount from the overlapping customers-suppliers during the period indicated:

	For the year ended December 31, 2021
Sales to the overlapping customer-suppliers	
Sales revenue (<i>RMB’000</i>)	593
As a percentage of our total sales revenue (%)	0.3
Gross profit (<i>RMB’000</i>)	(46)
Gross profit margin (%)	(7.7)

The gross profit margin from overlapping customers and suppliers for the year ended December 31, 2021 was (7.7)% as the products sold to these customers were primarily unprocessed marbles, the price of which was lowered in 2021 to accelerate sales in order to make available working spaces for other extracted materials on our site and our customers’ demand on unprocessed marble decreased due to the slowdown in the property building and construction industry in the PRC in second half of 2021.

Purchases from overlapping customers-suppliers

Purchase amount (<i>RMB’000</i>)	1,225
As a percentage of our total purchase costs (%)	1.1

Luobei Fengxiang Yongding Building Materials Store* (蘿北縣鳳翔鎮永鼎建材商店) was one of our customers of unprocessed marble for the year ended December 31, 2021, with sales revenue of approximately RMB0.6 million, representing approximately 0.3% of our Group’s total revenue for the year ended December 31, 2021. Luobei Fengxiang Yongding Building Materials Store* (蘿北縣鳳翔鎮永鼎建材商店) was one of the suppliers of consumables for the year ended December 31, 2021, with purchase amount of approximately RMB10,000. The shareholder of Luobei Fengxiang Yongding Building Materials Store* (蘿北縣鳳翔鎮永鼎建材商店) is also the shareholder of Luobei County Yongding Construction Machinery Equipment Rental Co., Ltd.* (蘿北縣永鼎工程機械設備租賃有限公司), which provided leasing of equipment and machinery services to the Company in 2021 for a service fee of approximately RMB1.2 million. As such, Luobei Fengxiang Yongding Building Materials Store* (蘿北縣鳳翔鎮永鼎建材商店) is regarded as an overlapping customer and supplier.

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Jiamusi Jinzhu Wear-resistant Materials Co., Ltd.* (佳木斯市金鑄耐磨材料有限公司) was one of our customers of graphite tailings for the year ended December 31, 2021, with sales revenue of approximately RMB1,000, representing approximately 0.0% of our Group’s total revenue for the year ended December 31, 2021. Jiamusi Jinzhu Wear-resistant Materials Co., Ltd.* (佳木斯市金鑄耐磨材料有限公司) was one of the suppliers of consumables for the year ended December 31, 2021, with purchase amount of approximately RMB3,000. As such, Jiamusi Jinzhu Wear-resistant Materials Co., Ltd.* (佳木斯市金鑄耐磨材料有限公司) is regarded as an overlapping customer and supplier.

For the year ended December 31, 2021, three of our Group’s third party service provider were also our customers. The following table sets out our Group’s total sales revenue and subcontractor fee amount from the overlapping customers-third party services provider during the period indicated:

**For the year ended
December 31, 2021**

Sales to the overlapping customers-third party services provider

Sales revenue (<i>RMB’000</i>)	11,998
As a percentage of our total sales revenue (%)	6.0
Gross profit (<i>RMB’000</i>)	4,233
Gross profit margin (%)	35.3

The gross profit margin from overlapping customers and third party service provider as compared to the overall gross profit margin earned by our Group for the year ended December 31, 2021 was lower, as our Group mainly sold SG-10 spherical graphite which did not undergo the purification processing and SG-15 and SG-16 spherical graphite to such overlapping customer and the gross profit margin of our Group’s sale of unpurified SG-10 and SG-15 and SG-16 spherical graphite is relatively lower than the sale of other graphite products.

**For the year ended
December 31, 2021**

Purchases from the overlapping customers-third party services provider

Subcontractor fee amount (<i>RMB’000</i>)	6,249
As a percentage of our third-party service fees (%)	26.7

Fujian Yongjiu Si&C Industrial Ltd.* (福建永久硅碳材料有限公司) was one of the customers of our spherical graphite products for the year ended December 31, 2021, with sales revenue of approximately RMB1.8 million, representing approximately 0.9% of our Group’s total revenue for the year ended December 31, 2021. It was one of the graphite processing service providers for the year ended December 31, 2021, for service fees of approximately RMB3.5 million. As such, Fujian Yongjiu Si&C Industrial Ltd.* (福建永久硅碳材料有限公司) is regarded as an overlapping customer and third party service provider.

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Qingdao Luowei New Materials Co., Ltd.* (青島洛唯新材料有限公司) was one of our customers of our spherical graphite and flake graphite concentrate products for the year ended December 31, 2021, with sales revenue of approximately RMB9.4 million, representing approximately 4.8% of our Group’s total revenue for the year ended December 31, 2021, respectively. It was one of the graphite processing service providers for the year ended December 31, 2021, for service fees of approximately RMB1.0 million. As such, Qingdao Luowei New Materials Co., Ltd.* (青島洛唯新材料有限公司) is regarded as an overlapping customer and third party service provider.

Qingdao Xintaihe Nanotechnology Co., Ltd. (青島新泰和納米科技有限公司) was one of our customers of our flake graphite concentrate products for the year ended December 31, 2021, with sales revenue amounting to approximately RMB0.7 million, representing approximately 0.4% of our Group’s total revenue for the year ended December 31, 2021, respectively. The controlling shareholder of Qingdao Xintaihe Nanotechnology Co., Ltd. (青島新泰和納米科技有限公司) is also the controlling shareholder of Qingdao Xintaihe Energy Materials Co., Ltd (青島新泰和能源材料有限公司), which provided graphite processing services to the Company in 2021 for service fees of approximately RMB1.7 million. As such, Qingdao Xintaihe Nanotechnology Co., Ltd. (青島新泰和納米科技有限公司) is regarded as an overlapping customer and third party service provider.

For the year ended December 31, 2021, due to the temporary suspension of our spherical graphite processing plant’s purification station from November 2020 to May 2021, our Group procured processing services from these third party services providers, which incurred a total of approximately RMB6.5 million in subcontractor fees (of which approximately RMB6.2 million were paid to our overlapping customers and third-party services providers, representing approximately 26.7% of our Group’s total third-party service fees for the relevant period). Therefore, the aforesaid companies were both our Group’s third party services provider and our Group’s customers for the year ended December 31, 2021.

Our Directors confirm that our Group’s sales and purchases to/from such overlapping customers-suppliers/third party service providers were (i) entered into after due consideration taking into account the prevailing purchase and selling prices at the relevant times, (ii) conducted in the ordinary course of business under normal commercial terms and on an arm’s length basis, and (iii) at prices that are no less favorable than from other independent third parties who are not customer-supplier. To the best knowledge of our Directors, our Group did not have any other overlap between our other major customers and major suppliers during the Track Record Period

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Third-party services providers

During the Track Record Period, we had engaged third-party services providers for services that are auxiliary to our mining operations in our Beishan Mine (namely, blasting, graphite product processing, logistics and transportation and leasing of equipment and machineries). For the years ended December 31, 2019, 2020 and 2021, we engaged over 35, 25 and 15 service providers. 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. The tables below set forth the basic information of our Group’s top five service providers for services that are auxiliary to our mining operations in our Beishan Mine during the Track Record Period:

For the year ended December 31, 2019

Third-party service provider	Transaction Amount (Approximate RMB'000)	Percentage to total third-party service fees of our Group (Approximate %)	Year of commencement of business relationship	Background and principal business activity	Location	Services principally rendered	Credit period/term	Payment method
Hegang Shunlong Blasting Engineering Co., Ltd.* (鶴崗市順隆爆破工程有限公司)	1,557	17.6	2019	Focused on the design and construction, safety supervision and blasting operations	PRC	Blasting service	Up to one month	Bank's acceptance bill
Luobei County Lulushun Transportation Co., Ltd.* (蘆北縣路路順運輸有限公司)	1,032	11.7	2018	Focused on transportation of goods	PRC	Transportation service	5 days	Telegraphic transfer
Third Party Service Provider A	369	4.2	2019	Focused on transportation of goods	PRC	Transportation service	No credit period	Telegraphic transfer
Third Party Service Provider B	321	3.6	2018	Focused on transportation of goods	PRC	Transportation service	No credit period	Telegraphic transfer
Third Party Service Provider C	314	3.6	2019	Focused on transportation of goods	PRC	Transportation service	No credit period	Telegraphic transfer
	3,593	40.7						

For the year ended December 31, 2020

Third-party service provider	Transaction Amount (Approximate RMB'000)	Percentage to total third-party service fees of our Group (Approximate %)	Year of commencement of business relationship	Background and principal business activity	Location	Services principally rendered	Credit period/term	Payment method
China Reserve Nanjing Smart Logistics Technology Co., Ltd. Jinhu Branch* (中儲南京智慧物流科技有限公司金湖分公司)	4,243	34.9	2020	Focused on transportation	PRC	Transportation service	No credit period	Telegraphic transfer

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Third-party service provider	Transaction Amount (Approximate RMB'000)	Percentage to total third-party service fees of our Group (Approximate %)	Year of commencement of business relationship	Background and principal business activity	Location	Services principally rendered	Credit period/term	Payment method
Hegang Shunlong Blasting Engineering Co., Ltd.* (鶴崗市順隆爆破工程有限公司)	2,287	18.8	2019	Focused on the design and construction, safety supervision and blasting operations	PRC	Blasting service	Up to one month	Bank's acceptance bill
Luobei County Lulushan Transportation Co., Ltd.* (羅北縣路路順運輸有限公司)	1,090	9.0	2018	Focused on transportation of goods	PRC	Transportation service	5 days	Telegraphic transfer
Luobei County Yongding Engineering Mechanical Equipment Leasing Co. Ltd.* (羅北縣永鼎工程機械設備租賃有限公司)	572	4.7	2020	Construction machinery and equipment operating leasing service	PRC	Excavator leasing service	Within 10 days after reconciliation	Bank's acceptance bill and telegraphic transfer
Third Party Service Provider C	297	2.4	2019	Focused on transportation of goods	PRC	Transportation service	No credit period	Telegraphic transfer
	8,489	69.8						

For the year ended December 31, 2021

Third-party service provider	Transaction amount (Approximate RMB'000)	Percentage to total third-party service fees of our Group (Approximate %)	Year of commencement of business relationship	Background and principal business activity	Location	Services principally rendered	Credit period/term	Payment method
China Reserve Nanjing Smart Logistics Technology Co., Ltd. Jinhua Branch* (中儲南京智慧物流科技有限公司金湖分公司)	6,687	28.6	2020	Focused on transportation	PRC	Transportation service	No credit period	Telegraphic transfer
Fujian Yongjiu Si&C Industrial Ltd.* (福建永久硅碳材料有限公司)	3,549	15.2	2020	Research & development, production and sales of carbon materials and silicon materials	PRC	Graphite processing service	Monthly	Bank's acceptance bill
Hegang Dongshan Hewen Truck Transportor* (鶴崗市東山區鶴文貨車運輸戶)	2,159	9.2	2021	Focused on transportation of goods	PRC	Transportation service	15 days	Telegraphic transfer

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Third-party service provider	Transaction amount (Approximate RMB'000)	Percentage to total third-party service fees of our Group (Approximate %)	Year of commencement of business relationship	Background and principal business activity	Location	Services principally rendered	Credit period/term	Payment method
Qingdao Xintaihe Energy Materials Co., Ltd.* (青島新泰和能源材料有限公司)	1,740	7.4	2020	Production and sales of anode materials for lithium-ion batteries and graphite	PRC	Graphite processing service	Monthly	Bank's acceptance bill
Poly Xinlian Blasting Engineering Group Co., Ltd. Luobei Branch* (保利新聯爆破工程集團有限公司魯北分公司)	1,611	6.9	2021	Public works construction general contracting; mining engineering construction general contracting	PRC	Blasting service	Monthly	Telegraphic transfer
	15,746	67.3						

Note: Some of these third party services providers were our five largest suppliers for the respective financial year. For details, please refer to the sub-section headed “Our Suppliers” in this section.

Please refer to the section headed “Business — Our suppliers — Graphite product processing services” in this document for details.

During the Track Record Period, to the best knowledge of our Directors, we have not experienced any material product quality issue for graphite products sourced from our external processing services provider.

Blasting services

Whilst the most mining functions at our Beishan Mine were conducted by our own team, we had contracted third-party services providers for certain blasting tasks such as surveying, loading of explosives 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 in engaging such services. The salient terms of the services agreements with such services providers are as follows:

Duration:	About two and a half months
Service fees and payment terms:	<ul style="list-style-type: none"> (i) Explosives are priced at RMB12,000 per tonne (inclusive of tax); (ii) We shall settle the payment through the bank's acceptance bill on the 20th day of each calendar month; and (iii) We shall bear the extra fees resulting from any measures taken to render the blasting operation amenable and properly carried out

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- Responsibilities of parties:
- (i) We shall be responsible for the unloading of explosives, the drilling of blasting holes, and the communications and coordination with the residents in nearby neighborhoods; and
 - (ii) The services provider shall be responsible for the loading of explosives, onsite safety and security, and any damage or loss caused by flying rocks

Termination: The services provider may terminate the agreement anytime in view of relevant regulations and changing circumstances

Graphite product processing services

During the Track Record Period, we engaged external 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 maintenance and repair. We incurred outsourced processing costs of approximately RMB0.2 million and RMB6.5 million for such services for the two years ended December 31, 2020 and 2021. The salient terms of the agreements with such services providers are as follows:

Duration:	Not specified or short-term
Service fees and payment terms:	A fixed lump-sum for each tonne of processed product, payable monthly
Requirements:	The external processor shall ensure the processed product meet the specifications set by us
Orders:	About 80–100 tonnes per month
Delivery:	We shall confirm and bear the transportation fee incurred. The external processor shall be responsible for logistics and delivery
Termination:	Not specified

Logistics and transportation

For the three years ended December 31, 2019, 2020 and 2021, 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) primarily for delivery of unprocessed graphite to our production sites and finished graphite goods to our customers.

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In 2020, we entered into framework agreements with a third-party logistics services platform provider and its subsidiary, for the transportation of finished goods to our customers. All insurance, costs and liabilities in relation to the goods during transport shall be borne by us until delivery is made. The salient terms of the framework agreements with such logistics services platform provider are as follows:

- Duration: Approximately 1 year and 5 months
- Calculation of service fees: Based on the transportation itinerary as recorded on the e-logistics system of the logistics services platform provider, payable monthly
- Credit period/term: No credit terms
- Settlement method: We shall submit invoicing application to our third-party logistics services platform provider on the 20th date of each month, and within five business days after the date our third-party logistics services platform provider received and verified our invoicing application and issued to us a special VAT invoice that meets the national tax requirements, we shall make payment to such services provider in accordance with the agreed settlement period and payment method.
- Terms of guarantee: Our logistics services platform provider shall comply with the provisional measures for the operation and management of road freight transport on network platforms* (網絡平台道路貨物運輸經營管理暫行辦法). For every truckload of goods valued under RMB3.0 million, our logistics services platform provider is obliged to purchase “product guarantee services” and the fee is borne by us or the carrier.

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- Late payment:** In the event of late payment, we are obliged to pay damages to our logistics services platform provider at four times the bank’s benchmark loan interest rate, calculated from the day following the contractual date of payment to the actual date of payment.
- Termination:** Within the contractual period, the framework agreement may be terminated by the mutual consent of all parties. In the event that we do not agree with the policy adjustments made by our logistics services platform provider, any party shall be entitled to terminate the framework agreement. If any party commits a fundamental breach, the compliant party/parties shall be entitled to terminate the framework agreement with written notice to the breaching party.

Leasing of equipment and machineries

For the three years ended December 31, 2019, 2020 and 2021, we incurred a total of approximately nil, RMB0.6 million and RMB1.9 million for leasing of equipment and machineries to be used in the mining operation in our Beishan Mine. Since 2020, we entered into framework agreements with third-party service providers for us to lease equipment and machineries, including the leasing of excavators. The salient terms of the framework agreements with such service providers are as follows:

- Term:** Ranging from 3 months to unspecified period
- Leasing fees and payment terms:** Based on the volume of material in tonnes extracted, payable monthly within 10 or 20 days upon receipt of invoice issued by the service provider.
- Responsibilities of parties:** Service provider shall be responsible for the (i) the wages of the operating personnel of the excavators, and normal maintenance and related fees of the excavators; and (ii) any incidents arisen due to its maloperation of the excavators. We shall be responsible for providing instructions and safety training to the operating personnel of the excavators and ensure safe working environment and road conditions.

Our Directors believe that engaging such third-party services providers allowed us to have better cost control during the Track Record Period, as it reduced the need for equipment investment and management time such as staff training, hence lowering our overall operating costs. Our Directors also believe that engaging such third-party services providers with the requisite experience and expertise will ensure that the works are carried out efficiently, hence increasing our overall efficiency and reducing our overall operating costs. Our Directors confirm that all third-party services providers that had provided services to our Group during the Track Record Period were Independent Third Parties. We will continue to engage such third-party services providers when the need arises.

During the selection of potential third-party services providers, we will request for, among others, their business licenses, certificates of organization code and safe production certificates, and check (i) whether they possess, among others, the relevant licenses, certificates, permits or qualifications under the relevant PRC laws and regulations; and (ii) whether the scope of business in such licenses, permits and/or certificates cover the services to be provided by such third-party services providers our Group.

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We will keep copies for our own records. If any issues with the licenses, permits and/or certificates provided by such potential service providers are identified, we will either follow up with such third-party services providers directly or with our external legal advisers.

For potential third-party services providers whereby we have identified authenticity issues with, among others, their licenses, permits and/or certificates, we will maintain a list of such questionable services providers and will refrain from outsourcing work to them in the future. We require our third-party services providers to maintain a high standard of quality for the services provided, and to comply with and have in place adequate occupational health and safety and environmental protection procedures in accordance with the applicable laws and regulations and safety requirements as imposed by the relevant PRC government authorities, including (i) our chief of safety monitors the on-site safety of services rendered by the third party services providers, (ii) our mining manager would conduct on-site inspection to ensure no regulations on environmental protection are violated by the third party services providers, (iii) regular meetings are conducted with vice president of mining operations to report on occupational health, safety, environmental issues and protection, and (iv) we continue to communicate with local residents in nearby neighborhood to ensure they are not adversely affected by the services rendered by the third party services providers.

Our Directors confirm that the services provided by these third-party service providers are sufficient for our operation and expansion, and we did not experience any material disruption on the services provided by these third-party service providers during the Track Record Period. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not encounter any material dispute with any of our third-party services providers. In general, if any non-compliance incidents arise, the relevant third-party services providers will be required to undertake the necessary remedial actions at their own costs. All losses caused by or incurred as a result of their failure to maintain proper quality, occupational health and safety and environmental protection standards will be borne by the third-party services providers themselves.

INVENTORY MANAGEMENT

Our inventory primarily consists of raw materials, which principally includes unprocessed graphite, work in progress, finished goods (i.e. flake graphite concentrate, spherical graphite and its byproducts and unprocessed marble), and parts and components. According to the F&S Report, shelf life is not applicable on our Group's major product.

As at December 31, 2019, 2020 and 2021, our inventory balance amounted to approximately RMB35.4 million, RMB26.0 million and RMB18.9 million, respectively, representing approximately 14.5%, 8.4% and 5.6% of our total assets as at the respective year end dates. For the Track Record Period, average inventory turnover days was approximately 184.8 days, 131.4 days and 77.7 days, respectively.

Our Group has implemented an inventory management system whereby incoming and outgoing materials and supplies are documented to ensure that an optimal inventory level is maintained to satisfy the needs of our customers without over-stocking. We generally procure our materials and supplies based on various factors, including but not limited to: (i) the delivery dates and volumes of our products stipulated in purchase orders from our customers; (ii) historical sales demand; and (iii) our production capacity.

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Our stock takes are carried out jointly by one of our Directors, our finance department, procurement department, sales department, and administration department. A stock take report for Yixiang Graphite and for Yixiang New Energy will be prepared, covering aspects including storage conditions, and any surplus or shortages of inventories. The report will be signed by the relevant Director and the representative of each department that participated in the stock take.

Our Directors confirm that, our Group assesses the adequacy of impairment provision on obsolete and slow-moving inventory items which are identified as no longer saleable or usable in accordance with our accounting policy based on the results of stock takes and review on the ageing of inventories at the end of each financial reporting period. As at December 31, 2019, 2020 and 2021, we had provision for inventories of approximately RMB0.6 million, RMB0.3 million and nil, respectively.

Inventory and production planning

Due to the severe weather conditions in Heilongjiang Province, we had to suspend our operations between the months of January and March each calendar year, whilst maintaining management of inventory, delivery and orders received. In order to ensure that there would be sufficient stock to satisfy customer orders during those winter months, we would increase our production rate of both our beneficiation and processing plants, with a target of creating a buffer of inventory (in the form of finished goods) for two months usually near the fourth quarter of each year. According to our historical sales record, whilst the industry might experience a shut down due to the severe weather conditions, market demand from downstream sector customers still exist, except for the month of February due to the Chinese New Year holidays. Hence, our Directors believe that the buffer of two months is essential to our operations, brand recognition and the maintenance of our business relationships with major customers.

As at December 31, 2019, 2020 and 2021, our inventory balance for finished goods amounted to approximately RMB27.0 million, RMB14.2 million and RMB6.3 million, respectively, representing approximately 74.9%, 54.1% and 33.5% of our inventory balance as at the respective year end dates. For details of our inventory balance, please see the section headed “Financial Information — Certain items of consolidated statements of financial position — Inventories” in this document. For such reasons, the fourth quarter of each calendar year would be the peak of our production volume, even though the orders received at the time may not be corresponding to such an increased volume. The finished goods would then be stored in our warehouse and product library, and during the months when our operations are suspended, we would continue to sell such products to our customers. As unprocessed graphite ore is the key material for our beneficiation and subsequently the processing of spherical graphite, the mining volume at our Beishan Mine would follow the same pattern in order to ensure that there would be enough raw materials for beneficiation and processing during those peak months.

In the event that our operations encounter any temporary suspension due to repairs or maintenance, we would engage third-party service providers to provide services to process our work in progress items. For instance, during the temporary suspension of our spherical graphite processing plant’s purification station, we had engaged a third-party service providers to provide purification services of our work in progress items which had already undergone the initial rounding and pulverizing stages, in order to ensure that the orders received during the year was met. Moreover, in the event that the market demand was greater than our anticipation based on our forecast by relying on historical figures, we would also

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engage third party services providers to assist with the production. We consider that, with the benefits of a vertically integrated supply chain since obtaining the mining rights to our Beishan Mine, it would be much easier to procure raw materials to face any sudden changes in market demands in the future.

Procurement control

Our procurement team is responsible for the purchase of materials and supplies and negotiation of contracts with our suppliers. We procure our materials and supplies based on various factors, including but not limited to (i) the unit cost of unprocessed graphite that was sourced from suppliers and those from our Beishan Mine; (ii) historical sales demand; and (iii) our production capacity, and have in place an inventory management system, which monitors the level of inventory for each type of materials and supplies utilized in our production processes. Before placing purchase orders with our supplier for a particular type of materials and supplies, our procurement team will check the existing level of that particular type of materials and supplies in stock using the inventory management system to avoid over-purchasing and accumulation of excess inventory. Since obtaining the mining rights of our Beishan Mine, we now have further improved our procurement policy and strategy along with the benefits of an integrated supply chain.

Materials and supplies and price fluctuations

The principal raw materials and supplies for our production are mainly consumables used in our production processes, including, unprocessed graphite and other raw materials such as acid base and limestone. For the three years ended December 31, 2019, 2020 and 2021, our total cost of sales for materials and consumables amounted to approximately RMB25.2 million, RMB40.9 million and RMB49.9 million, respectively, representing approximately 39.2%, 47.8% and 47.3%, respectively, of our total cost of sales for the relevant year. Our Directors confirm that we did not encounter any significant delay or shortages in the supply of our major raw materials and supplies during the Track Record Period. We monitor the prices of our materials and supplies closely and adjust our materials and supplies inventory policy in accordance with price fluctuations of our materials and supplies. Our Directors confirm that, during the Track Record Period, we did not experience any significant price fluctuation in relation to our materials and supplies.

We take into account various factors such as cost of our materials and respective margin, market prices and relationship with customers for determining the prices of our products and would adjust our pricing strategy from time to time. To minimize our exposure to such price fluctuations and to avoid shortage or delay in the supply of raw materials, we have implemented the following measures, including but not limited to:

- increase our inventory level of certain materials and supplies in anticipation of price increases and vice versa;
- enter into long-term supply agreement if the prices of certain materials and supplies are expected to increase in the near future and vice versa;
- maintain at least two suppliers for our principal materials and supplies to reduce over-reliance on any one supplier;

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- review and monitor our materials and supplies levels on a periodical basis. The quantity of materials to be procured shall take into account the current levels and prices of such materials and supplies; and
- analyze price trends of raw materials on an on-going basis and purchase more materials and supplies in anticipation of price increases.

Nevertheless, since our acquiring of the mining rights of our Beishan Mine, we believe that we have exercised better control of the raw materials for production due to the benefits of a vertically integrated supply chain. For the three years ended December 31, 2019, 2020 and 2021, we extracted unprocessed graphite from our Beishan Mine at a unit cost of approximately RMB11.5 per tonne, RMB17.8 per tonne and RMB15.9 per tonne, respectively. In comparison, for the three years ended December 31, 2019, 2020 and 2021, we purchased unprocessed graphite from our suppliers at a unit cost of approximately RMB63 per tonne, RMB75 per tonne and RMB75 per tonne, respectively.

PROPERTIES

Our corporate headquarter is located in Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC. As at the Latest Practicable Date, we owned, occupied and leased the following properties in the PRC:

Owned Properties with good titles

We have obtained real estate ownership certificate (不動產權證書) for three parcels of granted land for industrial use purpose and the five buildings and/or structure in the PRC. The following table sets out the details of our owned properties.

Owner	Property type	Location	Total site/gross floor area (approximately)	Tenure	Usage
Yixiang Graphite	Land	No. 15 Residential Group (Yixiang Graphite No. 2), Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC (中國黑龍江省鶴崗市蘿北縣延軍農場第十五居民組(溢祥石墨有限公司2號))	16,000 m ²	Until October 19, 2036	Industrial purpose
Yixiang Graphite	Building	No. 15 Residential Group (Yixiang Graphite No. 2), Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC (中國黑龍江省鶴崗市蘿北縣延軍農場第十五居民組 (溢祥石墨有限公司2號))	9,802 m ²	Until October 19, 2036	Residential and industrial purposes

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Owner	Property type	Location	Total site/gross floor area (approximately)	Tenure	Usage
Yixiang New Energy	Land	No. 15 Residential Group (Yixiang Graphite No. 1), Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC (中國黑龍江省鶴崗市蘿北縣延軍農場第十五居民組 (溢祥石墨有限公司1號))	24,610 m ²	Until April 19, 2061	Industrial purpose
Yixiang New Energy	Building	No. 15 Residential Group (Yixiang Graphite No. 1), Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC (中國黑龍江省鶴崗市蘿北縣延軍農場第十五居民組 (溢祥石墨有限公司1號))	17,168 m ²	Until April 19, 2061	Office and industrial purposes
Yixiang New Energy	Building	Room 2, Floor 1–4, 16 Wei Education Bureau Multiple-use Building, Fengxiang Town, Hegang City, Heilongjiang Province, the PRC (中國黑龍江省鶴崗市蘿北縣鳳翔鎮十六委教育局綜合樓1–4層2室)	876 m ²	Until April 15, 2044	Commercial service purpose
Yixiang New Energy	Building	Room 3, Floor 1–2, 16 Wei Education Bureau Multiple-use Building, Fengxiang Town, Hegang City, Heilongjiang Province, the PRC (中國黑龍江省鶴崗市蘿北縣鳳翔鎮十六委教育局綜合樓1–2層3室)	230 m ²	Until April 15, 2044	Commercial service purpose

Please refer to Appendix IV — Property Valuation Report for valuation of the properties situated at No. 1, No. 2 and No. 20. and No. 15 Residential Group, Yanjun Farm, Luobei Country, Hegang City, Heilongjiang Province, the PRC* (中國黑龍江省鶴崗市蘿北縣延軍農場第十五居民組), the total valuation of which was approximately RMB41.2 million as at December 31, 2021. No single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets as at December 31, 2021.

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Properties with defective titles

During the Track Record Period, Yixiang Graphite did not obtain certificate or registration for the parcel of land and the structure erected thereon as follows:

Owner	Property type	Location	Total site/gross floor area (approximately)	Tenure	Usage
Yixiang Graphite	Land	No. 15 Residential Group (No. 20) Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC (中國黑龍江省鶴崗市蘿北縣延軍農場第十五居民組 (二十連))	25,264.59 m ²	Until April 1, 2071	Industrial purpose
	Structure	No. 15 Residential Group (No. 20) Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC (中國黑龍江省鶴崗市蘿北縣延軍農場第十五居民組 (二十連))	12,167.02 m ²	Until April 1, 2071	Storage and industrial purpose

A land with a total site area of approximately 25,264.59m² located in Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, was assigned to Yixiang Graphite on April 2, 2021, but the registration of state-owned construction land use rights was yet to be completed. As advised by our PRC Legal Advisers, Yixiang Graphite has made the payment of the land transfer fee in accordance with the state-owned construction land use right assignment agreement (國有建設用地使用權出讓合同) with Luobei County Natural Resources Administration as well as the corresponding tax. On November 26, 2021, Yixiang Graphite has obtained the real estate ownership certificate.

Our Directors confirm that we have constructed structures (“**Structures**”) on the abovementioned land in 2007, without first entering into the state-owned construction land use right assignment agreement, obtaining the real estate ownership certificate, construction land use planning permit, construction project planning permit and the construction permit (施工許可證) or completing the inspection and acceptance procedures for these Structures. Details are as follows:

Company involved : Yixiang Graphite

Details of owned properties : We have constructed structures (“**Structures**”) for flotation, ball mill, storing finished product, packaging, crushing, sedimentation, drying, screening, pump room and power switching on the above-mentioned parcel of land. Together, the Structures have a gross floor area of approximately 12,167.02 m².

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Nature of title defect : To remedy the title defects, Yixiang Graphite has entered into the state-owned construction land use right assignment agreement on April 2, 2021 with Luobei County Natural Resources Administration. Yixiang Graphite has obtained the construction land use planning permits (建設用地規劃許可證), the construction project planning permits (建設工程規劃許可證), the construction permit and completed the inspection and acceptance procedures for the Structures on June 16, 2021, June 17, 2021, August 25, 2021 and November 1, 2021, respectively. On November 26, 2021, Yixiang Graphite has obtained the real estate ownership certificate.

Reasons for non-compliance : Our Directors confirm that this is caused by the fact that our senior management staff members lack experience and knowledge in PRC property laws and regulations.

Legal consequences and potential maximum penalty/fine : As advised by our PRC Legal Advisers, the following acts constitute violations of Regulation on Quality Management of Construction Projects (《建設工程質量管理條例》):

- (i) If the construction unit commenced construction without having obtained a construction permit or the commencement report has not been approved by the relevant competent authority, the competent authority may order suspension of the construction, require correction measures to be implemented within a specific time and impose a fine at the amount between 1% and 2% of the contract price of the project; and

The potential maximum penalty is 2% of the contract price of the project for the Structures, being approximately RMB0.2 million.

- (ii) If the construction unit commits one of the followings acts, it may be ordered to make corrections and be fined between 2% and 4% of the contract price of the project; and if losses are caused, the construction unit may be liable for compensation according to the applicable law: (1) failure to organize completion inspection before delivery to use; (2) delivery for use upon unsatisfactory inspection and acceptance; and (3) acceptance of unqualified construction project as a qualified construction project.

The potential maximum penalty is 4% of the contract price of the project for the Structures, being approximately RMB0.5 million.

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Backup relocation plan : As advised by our PRC Legal Advisers, it is unlikely that Yixiang Graphite will be ordered to move out from the properties due to the aforesaid title defects, however, if that happens, we plan to relocate to a site owned by Yixiang New Energy, at the Fifteen Jumin Group (Yixiang Graphite No.1), Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC ("**Backup Site**"). The Backup Site has a total area of approximately 24,610 m², the usage of which is designated as industrial. We estimate the costs of the relocation will be approximately RMB2.5 million, covering disassembly and reinstallation of machinery and equipment, transport logistics expenses and other expenditures for the Backup Site, which will be funded by our internal resources.

Relocation Period. Given that (i) the Backup Site and the properties with title defects are both located in Yanjun Farm; and (ii) each round of transportation of the machinery and equipment by vehicle from our existing production facility to the Backup Site can be completed within a few days, to the best knowledge of our Directors, it is estimated that the relocation and disassembly and transfer of equipment for installation and testing of the production lines require approximately 60 days. We expect our production facility at the Backup Site can be fully ramped up for production after completing the relocation.

Estimated loss of revenue resulting from stoppage in production. Our PRC Legal Advisers advised that, according to the Administrative Compulsion Law of the PRC and the Administrative Reconsideration Law of the PRC, if an illegal building needs to be dismantled, the party concerned has the right to file an application for administrative reconsideration within 60 days from the day when it knows the specific administrative act. As such, we believe that we will have sufficient time to devise the requisite preparations and execute our relocation plan without sustaining material disruptions to our production. We expect that our loss resulting from the stoppage in production would account for approximately 60 days of our yearly revenue.

Our Directors believe that if our relocation plan cannot be implemented as expected, we may be forced to suspend our production for a certain period of time resulting in loss of revenue and therefore our business, financial condition and results of operations could be adversely affected.

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- Remedial actions taken or to be taken :**
- (i) As at the Latest Practicable Date, we have entered into the state-owned construction land use right assignment agreement with Luobei County Natural Resources Administration. We have obtained a construction land use planning permit (建設用地規劃許可證), construction project planning permit (建設工程規劃許可證) and construction permit (施工許可證) and completed the inspection and acceptance procedures. We have obtained the real estate ownership certificate. To the best knowledge of our Directors, we have not received any notice from the relevant government authorities requiring us to rectify such defective titles, nor been fined or imposed on any from of administrative punishment by the relevant government authorities.
 - (ii) We have obtained confirmation letters from the Luobei County Natural Resources Administration and Luobei County Housing and Urban and Rural Construction Administration indicating that (a) we may continue to use Structures on an "as is" basis, (b) we would not be imposed any administrative penalties, and (c) there is no obstacle in completing relevant formalities.

As advised by our PRC Legal Advisers, Luobei County Natural Resources Administration and Luobei County Housing and Urban and Rural Construction Administration are the competent authorities to provide the above confirmations for the reason that (i) according to the public service guide and list of rights and responsibilities of Heilongjiang government service website, Luobei County Natural Resources Administration is responsible for, among others, granting state-owned land use right and issuing construction land and construction project planning license in Luobei County; and Luobei County Housing and Urban-Rural Development Administration is responsible for, among others, issuing construction permit and fire safety validation of construction projects in Luobei County; and (ii) according to the confirmation letters issued by the Luobei County Natural Resources Administration and the Luobei County Housing and Urban-Rural Development Administration on August 4, 2021 and August 3, 2021, respectively, the two administrations confirmed that they are the competent administrative authorities of Yixiang Graphite.

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- (ii) We will obtain an indemnity from the Controlling Shareholder(s) to indemnify our Group against any claims, fines, penalties and other liability arising from such non-compliance.

Our Directors confirm that the conditions of properties without the requisite permits and/or certificates remain safe and in order.

View of our PRC Legal Advisers : Our PRC Legal Advisers are of the view that the risk that the competent government authorities may penalize on us due to our failure to register stated-owned construction land use rights, obtain real estate ownership certificate and a construction permit and complete the inspection and acceptance procedures relating to the Structures is remote. The aforesaid authorities are the competent administrative authorities of Yixiang Graphite, and the risk of the confirmations from the aforesaid authorities being revoked by higher authorities is remote.

Internal Control Measures : To prevent recurrence of such non-compliance, our Group has set up a compliance committee to check and ensure all land and construction related application procedures are fully complied before commencing construction projects. Our Directors confirm that any failure to comply with such applicable policies and procedures by our employees shall be subject to internal disciplinary actions and be assessed adversely in the annual performance review of our Company. Moreover, our Group will, as part of our internal control work, engage legal and other professional advisers, to ensure that we are compliant with applicable statutory requirements.

Our Directors are of the view that the properties with defective titles set forth above will not have a material adverse impact on our business and financial position, considering the extent of the penalties, our back up relocation plan and risk to be penalized is remote.

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Effect on business : After due consideration, we decided not to make any provisions as (i) the maximum amount of fine involved in the above non-compliances is not material; and (ii) our Directors are of the view that the risk of our Group being imposed any fine as a result of the above non-compliances is minimal taking into account the advice from our PRC Legal Advisors. During the Track Record Period and up to the Latest Practicable Date, our Group has not been charged or penalised for the above non-compliance incidents, and has not made any provision for the non-compliance incidents in its financial statements as no provision was considered necessary. Our Directors expect that the non-compliance incidents will not have any material adverse operational and financial impact on our Group.

Leased Properties

As at the Latest Practicable Date, we leased approximately 23.1 hectares of land that is material to our business operation located in the Graphite Development Zone and Jinshiling Management Zone in Yanjun Farm, Luobei County, Hegang City, Heilongjiang Province, the PRC. The leased lands were leased from Independent Third Parties and were used primarily for placing semi-finished products, tailings and waste rocks. With respect to such land lease arrangements, we have obtained a letter from Luobei County Natural Resources Bureau (蘿北縣自然資源局), confirming that (i) such lease will not be objected by them; and (ii) we can continue to use the leased land for production and operation.

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SEASONALITY

According to the Independent Technical Report, our Beishan Mine is located in an area where the climate is classified as a humid-continental climate, with average minimum and maximum temperatures of -21°C and 21°C respectively, and an average temperature of 2°C , whereby mines generally would have to close down for up to three months from January to March where there would be a severe drop in temperature. This would affect the supply of unprocessed graphite during these winter months. Moreover, as the beneficiation of flake graphite concentrate and the processing of spherical graphite would require the use a relatively large amount of water, which would freeze over during such winter months, all of our operations (mining, beneficiation and processing) would be halted from January to March each year. Despite the general shut down among industry players, market demand would not experience a severe drop, thus there would always be demand for graphite products during these winter months. This market demand with a decreased supply would push the average selling price of our graphite products higher during the cold climate seasons due to the overall drop in supply in the market.

RESEARCH AND DEVELOPMENT

As at December 31, 2021, our research and development team consisted of 11 personnel, some of whom have received tertiary or higher education and with notable experience in graphite products, research and development. Our research and development expenses during the Track Record Period amounted to approximately RMB4.8 million, RMB5.8 million and RMB8.1 million for the three years ended December 31, 2019, 2020 and 2021, respectively. The research and development expenses incurred mainly represented the salaries and other benefits paid to our research and development staff and materials used for our research and development activities, specifically for products of specific requirements as designated by our major customers.

As at the Latest Practicable Date, we had successfully obtained certain utility model patents, mostly related to enhancing the performance and efficiency of our production equipment and processes. For details of the patents that we have obtained, please refer to the section headed “Statutory and General Information — 2. Further information about the business — B. Our intellectual property rights — (b) Patents” in Appendix VI to this document.

The following summarizes some of our key research and development achievements:

A method in the production of high tap density spherical graphite

We observed that in the ordinary course of rounding and micronization, when graphite substances collide with each other for a prolonged period of time, a large amount of graphite at the micro or nano level will be released. This would lead to uneven, unequal and even enlarged surface areas of spherical graphite at the end of production, which also lead to longer time as there would be spherical graphite that was too large for commercial sales, and to be re-processed. We solved such problems by altering the production process of our spherical graphite by improving on the flow speed of substances in the process, allowing particles to travel at a consistent average speed and also shortening the grinding time.

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Owing to such new manufacturing methods, we have developed a high tap density spherical graphite with a size smaller than 10 μ m, which meets the PRC National Standard on spherical graphite (GB/T38887-2020) and produced with automated parts in our processing plant. Due to such high tap density, when used as a part of lithium-ion batteries for NEVs, high charging is achieved and consequently energy density is higher, which we believe is highly favored among our customers of our spherical graphite products.

A demagnetization process for spherical graphite with low-magnetic substance

Demagnetization is a key step in the production of spherical graphite, which is often difficult to remove substances with a low-magnetic content. We have developed a new method which would only lead to the existence of low-magnetic substances at 0.1 parts per million, which is much lower than the industry standard. This allowed us to create spherical graphite with fewer impurities and lower magnetic content, which is useful in the manufacturing of anode materials.

INTELLECTUAL PROPERTY

We place great importance on protecting our investment in research and development and our proprietary rights. We strive to secure the widest possible protection for our significant inventions and our other intellectual property rights by registering a combination of patents, domain name and trademarks with the relevant authorities. As at the Latest Practicable Date, we were the registered owner of 83 patents, one domain name and one trademark in the PRC and one trademark in Hong Kong. Our Directors confirm that, as at the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, nor are we aware of any such claims either pending or threatened. Please refer to the section headed “Statutory and General Information — 2. Further information about the business — B. Our intellectual property rights” in Appendix VI to this document for details of our Group’s intellectual property rights.

During the Track Record Period, to the best of our Directors’ knowledge, information and belief and having made all reasonable enquiry, there has been no material infringement of our Group’s intellectual property rights, including patent for our operational processes by third parties.

AWARDS

As a result of our expertise in beneficiation and processing technologies, we have obtained the following awards/certificates:

Award	Issuing party	Date of issue
First Prize of China Nonferrous Metal Industry Science and Technology Award* (中國有色金屬工業科學技術獎一等獎)	China Nonferrous Metals Industry Association (中國有色金屬工業協會) and The Nonferrous Metals Society of China (中國有色金屬學會)	December 2019

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Award	Issuing party	Date of issue
Innovative unit for Safety Product Target Assessment of 2017* (2017年度安全生產目標考核先進單位)	The Nongken Baoquanling Administration of the Heilongjiang Province* (黑龍江省農墾寶泉嶺管理局)	March 2018
2017 Excellent Supplier Technology Innovation Award* (2017年度優秀供應商技術創新獎)	BTR New Material Group Co. Ltd (貝特瑞新能源材料股份有限公司)	December 2017
Star-rated Non-public Enterprise* (星級非公有制企業)	CPC Hegang Municipal Committee (中共鶴崗市委) and People’s Government of Hegang (鶴崗市人民政府)	August 2012

EMPLOYEES

As at December 31, 2021, our Group had a total of 112 full-time employees, all of which were based in the PRC. The following table sets out a breakdown of our Group’s employees by function as at the December 31, 2021:

Function	Number of employees
Management	13
Finance	6
Sales and procurement	10
Research and development	11
Extraction, beneficiation and processing	72
Total	112

For the three years ended December 31, 2019, 2020 and 2021, we incurred staff costs of approximately RMB14.1 million, RMB14.2 million and RMB14.4 million, respectively, representing mainly wages and other benefits.

We believe that our employees are valuable assets that contribute to the success of our Group. We recruit out employees based on a number of factors such as their industry experience in the graphite mining industry, their educational background, and our vacancy needs. We generally pay our employees a fixed salary and other allowances based on their respective positions and responsibilities. We also entered into individual employment contracts with our employees covering matters such as wages, employee benefits, employment scope and grounds for termination. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements.

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Crowdsourcing services

Our Directors note that, historically, we had experienced labor shortages as some of our workers do not resume their duties after returning home for the Chinese New Year Holidays, or when we receive an unanticipated large batch of orders. In March 2021, we decided to engage a crowdsourcing services provider for better workforce management, labor sourcing and cost control. As at December 31, 2021, 66 members of our workforce were sourced from such an avenue (out of which 48 were our former employees that opted to be engaged via this services provider) performing lower-level tasks or administrative and sales support. For the year ended December 31, 2021, we had incurred approximately RMB4.7 million for such services. Salient terms with such services provider are as follows:

Duration:	One year, with auto renewal for another year
Fees:	A service fee calculated based on costs, with an additional platform management premium of 9.5%
Breach of contract:	We will be entitled to compensation for any losses (direct or indirect) due to the failure of the services provider
Termination:	We may unilaterally terminate the agreement by writing on a ten-day notice. The services provider may do so should there be any policy changes on the state or local levels which render it inoperable, but it shall inform us in writing on a ten-day notice. Terminations based on breach of contract also apply.

As advised by our PRC Legal Advisers, our Group’s engagement of such crowdsourcing services complies with the applicable PRC laws and regulations and does not constitute “labor dispatch” as defined in the Labor Contract Law of PRC and the Interim Provisions on Labor Dispatch, and the agreement entered into between our Group and the third-party crowdsourcing service provider does not violate the mandatory provisions of the applicable laws and regulations in the PRC. Save for the non-compliance incidents relating to social insurance contributions and housing provident fund contributions during the Track Record Period as disclosed in the sub-section headed “— Legal proceedings and regulatory compliance — Regulatory non-compliance” in this section, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with applicable labor laws and regulation in all material aspect.

Training

Our employees undergo training to enhance their technical mining skills, knowledge of industry quality standards, occupational health and safety standards and applicable laws and regulations.

Employee relationship

We believe that we have maintained good working relationships with our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any major labor disputes, work stoppages or labor strikes or any work safety related incidents that led to disruptions in our Group’s operations.

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According to the written confirmations in respect of safety production issued by the Luobei County Emergency Management Bureau (蘿北縣應急管理局) on January 24, 2022 and the written confirmations in respect of occupational health by Luobei County Health Bureau (蘿北縣衛生健康局) on January 24, 2022, Yixiang Graphite and Yixiang New Energy had not been subject to any administrative penalties by these bureaus and had not been involved in production safety accidents or ongoing investigations regarding violation of occupational health rules since the establishment of these two companies.

We are committed to providing an occupational health and safety mining operation environment for our staff and third party services providers, and have implemented control measures for this purpose, which include but not limited to:

- setting up a safety production design in relation to the mine site, air compressor, ventilation, dewatering, transportation, electricity, etc.;
- setting up a safety leading team, which is responsible to oversee and react to any safety matters;
- setting up safety notice and signs in the production area;
- setting out a safety production policies and procedures to standardize the practice on production safety;
- setting out a safety tool and equipment rules to standardize the application of safety tools and equipment in production;
- setting up an emergency protocol for any emergency response process, incident/accident reporting;
- setting out transportation vehicle safety management rules to standardize the practice of using the vehicles;
- setting out electrical work safety rules and procedures to standardize the practice;
- contracting blasting work to the licensed service provider;
- application of fire suppression tools in the production areas;
- maintaining third party liability insurance policies; and
- provision of personal protective equipment to new staff members and work safety training to all staff.

Luobei County Emergency Management Bureau and Luobei County Health Bureau has issued respective confirmation letters, confirming that they are the competent administrative authorities of Yixiang Graphite and Yixiang New Energy in respect of safety production and prevention of occupational hazards.

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According to the agency reports published by the People’s Government of Luobei County, Heilongjiang Province, (i) Luobei County Emergency Management Bureau is responsible for reviewing safety measures formulated and imposed by non-coal mine construction projects in Luobei County and issuing administrative order for rectification of irregularities; and (ii) Luobei County Health Bureau is responsible for monitoring occupational disease prevention such as imposing penalty on enterprises for violation of occupational disease prevention law in Luobei County. Based on the above, our PRC Legal Advisers advised that Luobei County Health Bureau and Luobei County Emergency Management Bureau are the competent administrative authorities of Yixiang Graphite and Yixiang New Energy in respect of safety production and prevention of occupational hazards.

INSURANCE

We have maintained various types of insurance, such as, (i) employee life insurance premium, (ii) safe production for mining production responsibility insurance to insure against operational hazards, and (iii) third party liability insurance in relation to vehicles to insure against the potential damages and loss caused by workplace accidents or work-related incidents. For each year during the Track Record Period, our Group paid approximately RMB0.6 million, RMB0.5 million and RMB0.1 million, respectively, as insurance premium payment for our various insurance policies (excluding social insurance and housing provident fund contributions).

In addition to the aforesaid insurance policies, the platform service provider has maintained employer responsibility insurance and work-related injury insurance for our staff employed by it.

As advised by our PRC Legal Advisers, it is not mandatory under the relevant PRC laws and regulations to maintain, and our Directors confirm that we have not maintained any business interruption insurance. Our Directors also confirm that, during the Track Record Period, we did not experience any business interruptions or losses or damages to our facilities that had a material adverse effect on our business, financial conditions or results of operation.

Our Group’s insurance coverage includes employee life insurance premium, safe production for mining production responsibility insurance and third party liability insurance in relation to vehicles. According to Frost & Sullivan, such insurance coverage is in line with the industry norm, which is widely considered by the industry players to be sufficient to insure against the operational hazards and environmental damages involved in mining business. Accordingly, taking into account our Group’s mining activities in our Beishan Mine, our Directors are of the view that our current insurance coverage is sufficient for our current operations and is in line with the industry norm. Our Directors and senior management will regularly review the risks relating to our operations and adjust our insurance coverage accordingly from time to time.

Social insurance and housing provident fund contributions

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance contributions and housing provident fund contributions. Under the PRC’s social insurance system, we are required to make contributions for our employees towards five categories of insurance, including the basic pension insurance, basic medical insurance, work-related injury insurance, unemployment, insurance and maternity insurance. We are also required to make housing provident fund contributions for our employees.

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Save for the non-compliance incidents relating to social insurance contributions and housing provident fund contributions during the Track Record Period as disclosed the sub-section headed “— Legal proceedings and regulatory compliance — Regulatory non-compliance” in this section, we have complied with the applicable labor laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

LICENSES, PERMITS AND APPROVALS

The table below summarizes the material licenses and permits required by our Group for our current business operations:

Name of license/permit	Authority granting license/permit	Holder	Date of issue	Date of expiry
Water Drawing License	Water Bureau of Baoquanling Administration, Heilongjiang Province	Yixiang Graphite	June 19, 2018	December 31, 2022
Safety Production License	Hegang Department of Emergency Management	Yixiang Graphite	January 10, 2020	January 9, 2023
Pollutant Emission Permit	Hegang Bureau of Ecology and Environment	Yixiang Graphite	July 21, 2020	July 20, 2023
Work Safety Standardization Certificate as Grade 3 Enterprise (Tailings)	Heilongjiang Province General Bureau of Land Reclamation Safety Production Supervision and Administration Bureau	Yixiang Graphite	December 31, 2018	December 2021 ⁽¹⁾
Work Safety Standardization Certificate as Grade 3 Enterprise (Beneficiation plant)	Heilongjiang Province General Bureau of Land Reclamation Safety Production Supervision and Administration Bureau	Yixiang Graphite	December 31, 2018	December 2021 ⁽¹⁾
Mining License	Heilongjiang Provincial Department of Natural Resources	Yixiang New Energy	April 8, 2019	April 8, 2024
Safety Production License	Heilongjiang Provincial Department of Emergency Management	Yixiang New Energy	March 19, 2020	March 18, 2023

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Name of license/permit	Authority granting license/permit	Holder	Date of issue	Date of expiry
Pollutant Emission Permit	Hegang Bureau of Ecology and Environment	Yixiang New Energy	June 19, 2020	June 18, 2023

Note:

- (1) The Company is in the processing of applying for renewal of these certificates with progress being that the applicable authorities would continue assess the application after the Company resumes beneficiation operation after March 2022.

As advised by our PRC Legal Advisers, we had obtained all material licenses, permits and approvals required for our operations in compliance with the relevant PRC laws and regulations for our operations in the PRC, and such licences, permits and approvals remained valid and effective and had not been revoked as at the Latest Practicable Date. Furthermore, if Yixiang Graphite and Yixiang New Energy (i) continue to comply with relevant PRC laws and regulations and requirements of the relevant authorities; and (ii) submit all necessary application materials for the renewal of the licenses and permits in accordance with the requirements of the relevant authorities, our PRC Legal Advisers are of the view that there is no material legal impediment to renew the material licenses and permits obtained by Yixiang Graphite and Yixiang New Energy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

The Board, in the performance of its ESG governance responsibilities, has the collective and overall responsibility of: (i) overseeing the formulation and reporting of the ESG strategies, target and internal control measures; (ii) assessing and determining ESG-related risks, and (iii) holding meetings to discuss the ESG governance matters of the Group when necessary. For day-to-day ESG governance, the Board authorizes the senior management to organize and coordinate the ESG work of each subsidiary to ensure that its strategic decisions are implemented. The Board is committed to maintaining good communications with our senior management and making timely 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 Board understands that the establishment of ESG targets aids in the Group’s ESG governance. Therefore, the Board sets ESG targets related to the Group’s business where appropriate, and reviews progress made toward improving the Group’s ESG performance. The Board will, if deemed necessary, engage independent third parties to evaluate the Group’s ESG risks and review existing strategies, targets and internal control measures.

ESG Risk Assessment and Management

The Group identifies and manages ESG risks in order to achieve its business objectives and ensure its stable development. We adopt a risk management system under a top-down risk management structure. The Board has the overall responsibility of maintaining sound ESG risk management and internal control systems within the Group. As part of this, the Board is responsible for identifying and assessing the Group’s significant ESG risks, determining related risk levels, and formulating countermeasures for which management is implemented by relevant departments and business units. The Board and the Compliance Committee are additionally responsible for reviewing and monitoring the effectiveness of the Group’s ESG risk management and internal control systems, and for ensuring that

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the Group has taken reasonable measures to manage significant risks. The Group believes that ESG risks have gradually becoming an important factor in its business, and is therefore considering the incorporation of ESG risks into its routine risk management process as a means of enhancing its overall risk management and control capabilities. The Group has also engaged the Independent Technical Consultant for ESG risk identification. Based on the Independent Technical Report, 13 risks have been identified for the Group’s operation by analysing their materiality based on consequence, likelihood of occurrence and rating. Risk, if uncorrected, could have an adverse effect on the cash flow and performance on our operation of mining and beneficiation and processing. In addition to consequence of impact, the likelihood of risk must also be considered. The degree of consequence of a risk and its likelihood are combined into an overall risk assessment to result in a rating of each risk. For details, please see “Appendix III — Independent Technical Report — 12 Risk Assessment”. Below sets forth the key risks identified with medium rating:

Risk	Description	Control Recommendations	Likelihood	Consequence	Rating	Actions taken by the Company
Waste rock management	Inadequate space for waste rock storage	An alternative waste rock disposal plan should be developed before the storage space is full	Possible	Moderate	Medium	Recommendations are accepted. The Group has entered into a land usage agreement with a third party for the Group’s disposal and storage of waste rocks.
Capital and operating costs	Higher capital and operating costs, resulting in poor financial performance	Secure long-term contracts with contractors and confirm advanced procurements orders with suppliers	Possible	Moderate	Medium	Recommendations are considered. The acquisition of mining rights in our Beishan Mine in 2019 has lowered the Group’s costs. The Group will endeavour to negotiate and secure favourable terms with its suppliers.
Product quality	Lower quality product produced, reducing the profit margin	Process monitoring and flowsheet optimization	Possible	Moderate	Medium	Recommendations are accepted. The Group has put in place quality control measures and invested in research and development to optimize production equipment and processes.

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Risk	Description	Control Recommendations	Likelihood	Consequence	Rating	Actions taken by the Company
Sales and pricing	Forecast sales not achieved at expected prices, reducing cash flow	Modify production volume; actively seek new customers and establish long-term contracts	Possible	Moderate	Medium	Recommendations are accepted. The Group has increased the beneficiation capacity from 40,000 to 50,000 tonnes. The Group will continue to develop new customers and foster long term relationship with customers.
Increased competition	Competition and possible reduction of price and sales volume leading to reduced cash flow	Market and prices be monitored to ensure the prices received are maximized	Possible	Moderate	Medium	Recommendations are considered. The Group will continue to monitor the market prices and to adjust the product prices in light of market competition and condition.

Environmental Responsibility

The Group believes that a sound environmental management policy is essential to achieving sustainable development. The Group has always been committed to minimizing the environmental impact of its routine operations. Save as disclosed in the sub-section headed “Legal Proceedings and Regulatory Compliance” in this document, our Directors confirm that during the Track Record Period, the Group has complied with the environmental laws and regulations that significantly relate to the Group’s operations.

Environmental Protection, Land Rehabilitation and Other Social Matters

Save as disclosed in the sub-section headed “Legal Proceedings and Regulatory Compliance” in this document, our Group adheres to the environmental requirements set or issued by the relevant PRC governmental authorities. The table below summarizes the Environmental Impact Assessment (“EIA”) reports and environmental approvals that our Group obtained in the PRC for our operations:

EIA reports and Environmental approvals

Area	Produced by	Approved by	Approval date
Beishan graphite mine	Heilongjiang Qingze Environmental Technology Company Limited	Hegang City Environmental Protection Bureau	May 31, 2018

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Area	Produced by	Approved by	Approval date
Beneficiation plant	Hegang Environmental Protection Scientific Research Institute	Heilongjiang Agricultural Reclamation Bureau — Environmental Protection Bureau	August 30, 2005
Spherical-graphite processing plant	Heilongjiang Academy of Agricultural Studies	Heilongjiang Province Environmental Protection Bureau — Agricultural Reclamation District Bureau	January 24, 2011
Beneficiation plant expansion	Heilongjiang Bohuan Technology Consulting Co., Ltd	Hegang City Ecology and Environment Bureau	March 25, 2021
Tailings storage facility (Secondary)	Heilongjiang Kedaxinxin Environmental Protection Technology Company Limited	Hegang City Luobei County Ecology and Environment Bureau	January 27, 2022

Environmental final check and acceptance approvals

Area	Approved by	Approval date
Beneficiation plant	Heilongjiang Agricultural Reclamation Bureau, Environmental Protection Bureau	November 5, 2008
Spherical-graphite processing plant	Heilongjiang Province Environmental Protection Bureau — Agricultural Reclamation District Bureau	January 17, 2014

Environmental protection

Our operations are subject to various PRC environmental protection laws and regulations, as well as local environmental protection regulations promulgated by local authorities on environmental protection. These laws and regulations govern a broad range of environmental protection matters, including but not limited to mining control, land rehabilitation, dust emissions, noise emissions, discharge of wastewater and pollutants. To ensure on-going compliance with the relevant environmental protection laws and regulations in the PRC, we have implemented or will implement certain measures, including but not limited to (i) conducting training on topics relating to environmental protection laws and regulations and safety production; and (ii) nominating our chairman and executive Director to lead our environmental protection team which will be responsible for updating our management and ensuring our compliance with the latest regulatory compliance. Our senior management continuously monitors our environmental policies to ensure compliance with the national legal and regulatory requirements. We also provide regular training to our management and employees to enhance their awareness of our environmental policies.

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Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not encounter any material claims, administrative actions or penalties by the relevant PRC authorities in relation to environmental issues. After reviewing the EIA reports pertaining to our Beishan Mine and conducting an environmental site visit, the Independent Technical Consultant notes that our Beishan Mine complies in accordance with the relevant PRC laws and regulations during the Track Record Period. Nevertheless, the Independent Technical Consultant recommended that we develop and implement an operational environmental protection and management plan, inclusive of a monitoring program. We expect to incur approximately RMB1.2 million, RMB1.2 million and RMB1.1 million, on compliance with the applicable environmental protection laws and regulations for the years ending December 31, 2022, 2023 and 2024, respectively.

During each year of the Track Record Period, our Group has incurred approximately RMB0.3 million, RMB1.0 million and RMB1.0 million, respectively, on compliance with the applicable environmental protection laws and regulations.

Site ecological assessment

The landform and topography in the mining area is commonly modified by open pit mining, waste rock dumping, haul roads, office buildings and dormitories, and other facilities, which may result in impacts to or loss of flora and fauna habitat. If effective measures are not taken to manage and rehabilitate the disturbed areas, the surrounding land can become polluted and the land use function will be changed, causing an increase in land desertification, water loss and soil erosion.

Environmental impact assessments indicated that the area of our Beishan Mine is dominated by man-made forest, natural secondary forest and shrubs, and that there are no rare and endangered species identified within such area. The main vegetation in such area is pine, birch, oak, yellow pineapple, low shrubs and weeds in the understorey. The main animals in such area are sika deer, horse deer, black bear, wild boar, roe deer, fox, small house mouse, frogs, snakes and sparrows. According to the Independent Technical Consultant, the total disturbed area for the mine site is estimated to be 0.3163 km², according to the environmental impact assessment report. We will take in the recommendations made by the Independent Technical Consultant in relation to the above whilst striking a balance between mining development and ecology, and will commission qualified professionals to conduct annual assessments.

Waste rock and tailings management

According to the EIA reports, the waste rock should be temporarily discharged to the waste rock dump located to the west of the mine site, with a capacity of 53,000 m³. The volume of waste rock is estimated to be 373,100 m³ per annum, which will be temporarily stored in the waste rock dump and sold periodically for use as construction material. Whilst, the Independent Technical Consultant observed that a small amount of stripped topsoil and waste rock had been discharged on site and there had been no such dump on site as a part of the review at the time of the site visit in July 2020, our Directors explained that most of the waste rock produced in the period of 2019 to 2021 was sold to local developers, and a small amount was used to maintain our tailings storage facility of the beneficiation plant. The Company is of the opinion that such use will continue consuming the majority of waste rocks. The Company has also leased a piece of land, located 2 km to the west of the mine site with a capacity of hosting approximately 1,000,000 m³ of waste rocks temporarily. The construction of the new tailing storage facility associated with the new beneficiation plant, located in the proximity of our Beishan

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Mine will also provide opportunity for further consumption of waste rock. The current waste rock management plan appears to have worked successfully, however, the Independent Technical Consultant recommends long term contracts to be secured with local developers to ensure the waste rocks are disposed accordingly.

The tailings generated by the processing plant is discharged to a tailing storage facility on site. According to the latest tailing storage facility design, the tailing storage facility has a total storage capacity of 1,591,800 m³ and an effective storage capacity of 1,193,850 m³. The tailing storage facility design states that the stability of the dam should be protected due to the increased risk during the highest flood of the Yadan River. The tailing storage facility consists of a sedimentation pond, a recycle pond and an overflow pond, and the tailings is used for brick making. The Independent Technical Consultant noted a tailing use agreement which was signed by Yixiang Graphite and an independent third party on January 3, 2015. The agreement stipulates our Beishan Mine, beneficiation and processing activities need to provide a minimum of 300,000 tonnes of tailings per annum. Similar agreements were signed with two other companies in July and August 2021. Some of the tailings are also stored temporarily at the secondary tailing storage facility, located 3 km to the east of the current tailing storage facility. The secondary tailing storage facility has a designed capacity of 900,000 m³. The Independent Technical Consultant sighted an environmental impact assessment report and associated government approval.

According to the Independent Technical Consultant, a potential risk to the environment from waste rock and tailings storage facility is acid rock drainage created when reducing sulfide minerals are exposed to air, precipitation and bacteria and, through an oxidation reaction, produce sulfuric acid, during mining, transportation, processing, waste rock discharge, and tailings storage, etc. Acid rock drainage has the potential to introduce acidity and dissolved metals into water, which can be harmful to surface and groundwater. The Independent Technical Consultant confirms that the pollutants in the leachate are mainly conventional pollution factors and the concentration of heavy metals is low. However, it did not sight any evidence of any leaching or acid rock draining during its site visit.

The table below sets out the details of the waste production by us during the Track Record Period.

Category	Waste Production		
	For the year ended December 31,		
	2019	2020	2021
Waste rock (tonnes/annum)	561	719	952
Tailing waste (tonnes/annum)	388,600	346,600	459,400

Water management

The nearest surface water body to our Beishan Mine site and processing plant is the Yadan River and its tributary, which is a water source of our Beishan Mine for production. The potential negative impact of our Beishan Mine on surface water and groundwater is mainly due to the arbitrary discharge of untreated production and domestic wastewater. In addition, mining activities may also cause changes in groundwater levels. The main wastewater pollution sources of our Beishan Mine include mine water, processing wastewater, return water from tailings storage facility, waste rock leachate, wastewater from maintenance workshop, industrial site rainwater, domestic sewage, etc.

The Independent Technical Consultant recommends the implementation of a sustainable water supply management plan to minimize the impact on natural systems through the management of water use, avoid the depletion of aquifers, and reduce the impact on water users. Alternative water sources can be provided if the development affects the surrounding community’s access to water. The EIA for the

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mine site proposes to collect the mine water in the settling pond and then discharge outside within the limit of standards. The Independent Technical Consultant noted that the mine water is collected and re-used for dust suppression. The EIA for the beneficiation plant and spherical graphite processing plant requires all production wastewater to be discharged to the tailing storage facility. Our production wastewater from the plants is collected and discharged to the tailing storage facility. The Independent Technical Consultant also recommends that surface drains be installed around the open pit and adequate stormwater diversion facilities be established at the plant to separate surface runoff from contaminated areas and clean areas. Further, the Independent Technical Consultant recommends implementing a monitoring program to assess the quality of surface water and groundwater within the area (including upstream and downstream areas, especially Yadan River and its tributary). Measures such as ground hardening, cofferdam, water-collecting ditch, leachate collection pool and accident pool in the processing plant area, temporary storage of hazardous waste, topsoil dump and tailings were recommended by the Independent Technical Consultant to mitigate the contamination risk of surface water and groundwater. The Independent Technical Consultant observed that as at the Latest Practicable Date, we have already planned a plant optimization program which will start with the sedimentation pond, and then gradually improve other facilities, including the stormwater diversion facilities. We will commission qualified parties to conduct water quality monitoring every year.

During the Track Record Period, our Directors confirm that no substantial sewage was produced as waste water generated from the mining, beneficiation and processing was collected at the sedimentation pond, where the water was recycled and reused in mining and production processes and the remaining waste was discharged to the tailing storage facilities.

Air quality and noise

The dust emission sources are mainly from open pit mining, loading and unloading, waste rock dump, tailings, storage facility, grinding, drilling, pilling, screening, drying, packaging and movement of vehicles and mobile equipment. It is noted by the Independent Technical Consultant that dust management measures for the mine site and plants proposed in the EIA reports mainly comprise wet drilling, watering of roads and stockpiles, greening on site and using dust remover for the process of grinding, screening and drying. The Independent Technical Consultant did not observe obvious fugitive dust emissions in the open pit area during the site visit and the fleet includes a water truck for dust suppression. The EIA states the fumes from the boiler during the graphite drying process need to be treated by a cyclone dust collector and then discharged. The EIA also proposes installation of a waste treatment facility to treat the exhaust gases from the coating surface treatment and charring processes which release smoke, dust, bituminous fumes and benzopyrene. The Company has installed dust collectors and waste treatment facility.

The main sources of noise are from the operation of rock drill, explosion, pump, crane, crusher, ball mill, dryer, loader and vehicles. The Independent Technical Consultant stated its opinion that the following noise prevention measures are feasible to implement: enclosure of high noise equipment; selection of low noise equipment; use of vibration damping facilities; time and speed limit on transportations; greening and optimizing the layout. The Company has put in measures as per the Independent Technical Consultant's opinion.

The table below sets out a comparison of the air pollutant emissions by us and the statutory permitted level as at December 31, 2021.

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Category	Pollutant emissions	Statutory permitted level
Dust Pollutant	0.15–0.317 mg/m ³	1.0 mg/m ³

The table below sets out a comparison of the noise pollutant emission by us and the statutory permitted level as at December 31, 2021.

Category	Pollutant emissions	Statutory permitted level
Daytime noise level	56.8–57.5 dB(A)	60 dB(A)
Nighttime noise level	45.9–49.5 dB(A)	50 dB(A)

Hazardous materials management

Hazardous materials are corrosive, reactive, explosive, toxic, flammable and potentially biologically infectious, which poses a potential risk to human and/or environmental health. The hazardous materials will be generated mainly by our mining operations including hydrocarbons (i.e. fuels, waste oils and lubricants), chemical and oil containers, batteries, medical waste, and paint. During its site visit, the Independent Technical Consultant did not observe any evidence of any significant hydrocarbon spillage in the open pit area. However, there was no separate facility for storage of hazardous wastes on site. The Independent Technical Consultant recommends that we collect the waste oil generated and hand it over to a qualified contractor for disposal. The Independent Technical Consultant also recommends the management of the collected waste oil, fuel tanks, acid storage tanks and mineral processing chemicals includes measures such as hardening the ground and setting up secondary containment facilities to reduce the risk of pollution caused by leakage. Our Directors confirm that there is currently no waste oil generated at the mine site, and if there is, we will commission a qualified contractor to dispose of it.

Land rehabilitation

Under the relevant PRC laws and regulations, we are required to undertake measures to restore a mine site to its original state within a prescribed time frame if our mining activities result in damage to arable land, grassland or forestry land. The rehabilitated land must satisfy rehabilitation standards in accordance with the relevant law from time to time, and cannot be used unless it has been examined and approved by the relevant PRC land authorities. Failure to comply with this requirement or failure to restore the mine site to its original state within the prescribed time frame will result in the imposition of fines on our Company, rehabilitation fees and/or rejection of applications for land use rights or rejection of applications for new mining license or renewal, alteration or cancellation of mining license by the local bureau of land and resources.

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Land rehabilitation generally involves: (i) the removal of building structures, equipment and machinery, and other physical remnants of mining; (ii) restoration of land features in disturbed areas and dump sites; (iii) contouring, covering and revegetation of disturbed areas. While this site closure planning process is not specified in the PRC national requirements for mine closure, the implementation of this process for a PRC mining project will facilitate achieving compliance with these PRC national legislative requirements and demonstrate conformance to internationally recognized industry management practice. To conform with the internationally recognized industry practice for managing site closure, there is being put in place a geological environment protection and rehabilitation plan which sets out our proposed site closure and rehabilitation measures, including but not limited to: (i) greening; (ii) stockpiling topsoil for reuse in rehabilitation; and (iii) rehabilitation monitoring of the area of geological disaster, land disturbance, water environment, soil and new plants. The plan describes the proposed treatment measures, schedule, monitoring, cost estimation, etc. Such plan also stated that the total cost for the geological environment protection and land reclamation is estimated to be approximately RMB4.8 million, which comprises geological environment protection of approximately RMB2.9 million and land reclamation of approximately RMB1.9 million. As at December 31, 2021, we have made provision of approximately RMB2.4 million for mine closure and rehabilitation of affected environment based on the progress of extraction in our Beishan Mine. According to the Independent Technical Consultant, under the PRC legal requirements, we are required to establish a mine geological environment treatment and restoration fund account. The Independent Technical Consultant noted that we have entered into an agreement for the aforementioned fund account which was signed by our Company, Luobei County Natural Resources Bureau and China Postal Savings Bank Luobei Branch dated December 2019, with approximately RMB0.3 million in land reclamation fees. The Independent Technical Consultant is of the view that our proposed approach to land rehabilitation is generally in line with the relevant recognized PRC industry practices.

Social aspects

The surrounding land around our Beishan Mine generally comprises forest and farmland. The Independent Technical Consultant noted that the environmental impact assessment reports do not report any natural reserves or potential cultural heritage sites within our Beishan Mine. The EIA provided public participation survey for the mine site and processing plant construction. The survey results showed full support for our Beishan Mine, beneficiation and processing construction. The EIA also state the local residents believe our business and operation will improve the development of local economy. Our Directors confirm that, in relation to local community concern relevant to environmental pollution, during the Track Record Period and up to the Latest Practicable Date, we had not received any historical or current non-compliance notices and/or other documented regulatory directives in relation to the development of our Beishan Mine and our processing operations. Our Directors also confirm that, to the best of their knowledge, they are not aware of any concerns of local governments and communities in relation to the mining activities at our Beishan Mine which are relevant and material to our business operations. The Company will implement annual public consultation to ensure the social responsibility requirements are met.

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Resource consumption

We consume electricity, fuel and water during our daily operations of our Beishan Mine, beneficiation and processing. We believe reducing resource consumption is beneficial to environmental protection and the improvement of work efficiency. We aim to strictly comply with relevant provisions of the Law of the People’s Republic of China on Conserving Energy (《中華人民共和國節約能源法》), the Water Law of the People’s Republic of China (《中華人民共和國水法》), and the Regulation on the Administration of Water Sourcing Permission and Levy of Water Resource Fees (《取水許可和水資源費徵收管理條例》) and formulates relevant plans targeting the reduction of electricity, fuel and water consumption in mining and office activities. We have implemented the following measures which are applicable to both our Group and our third-party service providers: (a) adjusting the temperature of office air-conditioning according to real-time weather; (b) encourage the staff to leave curtains open to make full use of natural light and reduce the use of electricity; (c) encourage employees to take public transport instead of driving to/from work; (d) regular maintenance and adjustment to engines to keep vehicles operating at the proper condition to reduce fuel consumption; (e) conduct regular maintenance of pipelines and taps and inspect any possible leakage; and (f) establish a comprehensive water resource management and control system focusing on tap water used during daily office work and groundwater used for dust prevention and cooling during stone cutting.

We have implemented the following electricity, fuel and water consumption targets for each year after reaching full production capacity of our beneficiation and processing:

Category	Annual performance target set by our Group for the year ending December 31, 2022
Water	
• Water for production (m ³) ('000)	Approximately 1,992 (including recycled water of 1,830 m ³ and fresh water of 162 m ³)
Electricity	
• Total use of energy (kilowatt) ('000)	Approximately 51,037
Fuel	
• Diesel (litres) ('000)	Approximately 1,131
• Coal (tonnes) ('000)	Approximately 7

Our Directors confirm that as at the Latest Practicable Date, save as disclosed in this document. We have complied with all the pollutant emission requirements in the EIA reports and environmental approvals prescribed by relevant regulatory bodies and government authorities. We will apply to update the requirements in the EIA as and when necessary to accommodate our actual pollutant emission and waste production in accordance with the applicable laws and regulations.

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As at the Latest Practicable Date, Yixiang New Energy had obtained (i) necessary approvals and licenses for exploiting Beishan Mine, including but not limited to “operation license”, “Mining License” and “Safety Production License”; and (ii) the confirmation letters issued by the Development and Reform Bureau, the Market Supervision and Administration Bureau, the Natural Resources Bureau, the Ecology and Environment Bureau, the Emergency Management Bureau, the Health Bureau and the Housing and Urban-Rural Development Bureau of Luobei County acknowledging that, during the Track Record Period and up to the respective issue dates of the confirmation letters, Yixiang New Energy has not been subject to any administrative punishment for violating relevant PRC laws and regulations. Based on the above, our PRC Legal Advisers advised that (i) Yixiang New Energy has completed and obtained all the necessary approval, review, filing, registration and license in material respects required for exploiting our Beishan Mine; and (ii) Yixiang New Energy has not been subject to any administrative punishment by the above authorities for violating relevant PRC laws and regulations in the operation of Beishan Mine.

The table below sets out details of environmental protection measures recommended by the Independent Technical Consultant, the latest implementation status and expected timeframe of full implementation.

Environmental protection measures recommended by the Independent Technical Consultant	The latest implementation status	Expected timeframe of full implementation
Annual site ecological assessment should be made by qualified professionals	Our Directors confirm that an ecological assessment was conducted by an independent assessor.	Completed

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Environmental protection measures recommended by the Independent Technical Consultant	The latest implementation status	Expected timeframe of full implementation
<p>— Given that the mine is entering into the shape of a depressed open pit, the main source of gushing water will be the atmospheric precipitation and the most depressed part of the pit will excavate a water collection pit. In order to make full use of water resources, the size of the catchment pit should be increased when excavated, without affecting the productivity of the mine.</p> <p>— To reuse water resources, a drainage pump is arranged in the water puddle to discharge water out of the mine. At the same time, the mine is drained by two 80QWN50-93-25 submersible pumps, and water pumped out is discharged to storage pond on the south side of the quarry via a pipe for storage. The water collected in the storage pond is used for dust reduction created by the mining process and road transportation and watering of plants.</p>		
<p>Surface drains around the open pit should be installed</p>	<p>Our mine has been installed with drainage facilities and drainage pumps at low points of the open pit</p>	<p>Completed</p>
<p>Establishment of stormwater diversion facilities at the plant to separate surface runoff from contaminated areas and clean areas</p>	<p>We have re-assessed the diversion systems and our Directors are of the view that there are sufficient facilities in place to divert storm water to the tailing storage area, where it will be reused for production after sedimentation</p>	<p>Completed</p>

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Environmental protection measures recommended by the Independent Technical Consultant	The latest implementation status	Expected timeframe of full implementation
A monitoring program to assess the quality of surface water and ground water within the area (including upstream and downstream areas, especially Yadan River and its tributary)	We have commissioned qualified professionals to conduct assessments	Completed
A plant optimization program, starting with the sedimentation pond, then other facilities	We have completed the enhancement of the sedimentation pond, and our Directors confirm that we will continue to enhance other facilities	Completed
Measures to mitigate the contamination risk of surface water and ground water, i.e., ground hardening, cofferdam, water-collecting ditch, leachate collection pool and accident pool in the processing plant area, and temporary storage of hazardous waste, topsoil dump and tailings storage facility	We have equipped the site with facilities to (i) mitigate the contamination risk via ground hardening; (ii) a leachate collection pool; (iii) accident pools in the beneficiation site; (iv) sedimentation ponds to treat leachate and related accidents; and (v) a tailing pond to treat production waste	Completed
Noise prevention measures including enclosure of high noise equipment, selection of low noise equipment, use of vibration damping facilities, time and speed limit on transportations, as well as greening and optimizing the layout	Our Directors confirm that we prioritize the purchase of low noise equipment, and that our high noise equipment had already been installed within the stations that form our beneficiation equipment. We have implemented time and speed limits on transportations, as well as greening and optimizing of our layout. We have re-assessed our usage of vibration damping facilities, and our Directors are of the view that there are sufficient facilities in place.	Completed

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Environmental protection measures recommended by the Independent Technical Consultant	The latest implementation status	Expected timeframe of full implementation
Measures of separate facility for storage of hazardous wastes on site, disposal by a qualified contractor, hardening the ground and setting up secondary containment facilities to reduce the risk of pollution caused by leakage	We have established a hazardous waste storage room	Completed
Setting up of a mine geological environmental treatment and land restoration fund account	We have deposited approximately RMB0.3 million to our mine geological environmental treatment and land restoration fund account	Completed

The Directors confirm that the amount of approximately RMB0.3 million has been deposited in the Group’s mine geological environmental treatment and land restoration fund account as designated by the Luobei Natural Resources Bureau, and the Directors consider such amount as sufficient, as no further queries nor payment requests have been made by the aforesaid government authority.

Social Responsibility

The Group believes that its staff members are fundamental to enterprise, and it strives to create a safe and healthy working environment to attract talents. The Group also attaches great importance to upholding employees’ rights and interests. Our Directors confirm that we have been in compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, non-discrimination, and other matters of benefits and welfare.

Occupational Health and Safety

The PRC government imposes significant regulatory requirements on graphite mines with respect to employee safety. We regard occupational health and safety as one of our most important responsibilities. We have implemented a number of measures to ensure compliance with the stringent regulatory requirements which we are subject to. Our Directors confirm that our safety procedures are in line with the PRC industry standard practices and PRC safety regulations.

As at December 31, 2021, we had a total of 112 employees, 7 of which were staff responsible for occupational health and safety work and responsible for periodic inspections and assessment of the implementation of our safety standards in order to ensure that our entire mining operation is in compliance with the applicable PRC laws and regulations. Our Directors confirm that during the three years ended December 31, 2019, 2020 and 2021, we had conducted over 100 internal inspections per year, covering electricity usage safety, fire safety, facility and equipment safety, maintenance and welding safety, tailing storage safety, mining vehicles, crane and chemicals safety.

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In addition to the safety systems and procedures we put in place, we organize and conduct training sessions for employees on accident prevention and management. First-aid kits are provided in all workplaces. Employees are provided with annual physical examinations to ensure the well-being of their health. The Group has established arrangements to minimize potential accidents when employees travel to or from their workplaces when typhoon and rainstorm warnings are in effect. Our Directors confirm that we have passed all periodic and other safety inspections by the relevant authorities, and our Beishan Mine has not been shut down by the PRC government. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had no accidents, claims or complaints which materially and adversely affected our operation (including our right to mine in our Beishan Mine).

Our Group has responded to the COVID-19 pandemic with a range of measures to safeguard the health of our employees. Employees were encouraged to telecommute during the pandemic’s most severe period to reduce the risk of cross-infection, and were regularly provided with masks and hand sanitizers. Hand sanitizers are also made available in our offices, and employees are reminded of the need for preventative personal hygiene.

Employment

Our Group has established rules and procedures of recruitment, job promotion, compensation, benefits, rest periods, dismissal, etc, to protect its employees’ rights. Our Directors confirm that our Group also constantly reviews and improves its policies to ensure that employees’ rights are upheld. During recruitment and job promotion, our Group follows the principle of “selection on merit”, taking into account the performance, work experience and capability of the applicant or employee. Our Group advocates a diverse and equal workforce culture by ensuring that applicants and employees are not discriminated against on the basis of gender, age, race, family status or physical disability. The Group strictly prohibits any forms of unfair or unreasonable dismissal, and sets out the terms of dismissal of employees. Our Group determines employees’ compensation packages on the basis of work performance and the market standard of remuneration. Our Group also provides employee benefits where applicable, such as overtime payment and holiday working allowances. Employees are entitled to statutory holidays, annual leave, sick leave and maternity leave. Unpaid leave, paternity leave, marriage leave and casual leave are provided depending on individual circumstances.

Development and training

Our Group believes that retaining talent and promoting teamwork are key to its long-term development, and is committed to enhancing the professional knowledge and skills of its employees. Our Group regularly participates in training seminars on topics such as financing, compliance and corruption prevention. Our Group provides all employees with orientation training, including an introduction to corporate culture and on-the-job training, which enable them to quickly integrate into our Group and adapt to their jobs. Further on-the-job training, health and safety training, in-house experience sharing and other activities are arranged for employees to broaden their professional horizons. To encourage development, our Group conducts employee assessments at the end of each year. Depending on their performance and responsibilities, our Group provides employees with promotion and training opportunities.

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Labor standards

Our Directors confirm that our Group does not employ children and prohibits any form of forced labor within its operations. Our Directors confirm that our Group has complied in full with the laws and regulations relating to child and forced labor. Our Group sets out policies regarding employee working hours and overtime expenses to prevent occurrence of forced work without compensation. As an additional measure to avoid violating labor laws and regulations, our Group inspects all applicants' identity certificates during the recruitment process. Our Directors confirm that if child labor or forced labor business is discovered, our Group shall seek legal advice and take corrective measures immediately.

Supply chain management

Our Group's supply chain primarily includes unprocessed graphite supplies and utilities provider. Our Group prescribes transparent procurement procedures for selecting suitable suppliers in a fair, impartial and open manner. Our Group's procedures ensure fair competition when procuring, including objective selection criteria. These procedures protect the interests of both our Group and the supplier. Our Group's procurement considerations including but not limited to product or service quality, pricing and delivery time, aim to reduce procurement risk and enhance procurement efficiency. Our Group has measures to ensure that the products and services provided meet its standards. Our Group also monitors the environmental and social performance of its suppliers to ensure that its requirements are met, and to reduce the environmental and social risks caused by procurement.

Products responsibility

Our Group is committed to upholding and enhancing the quality of its products for its customers. Our Group is committed to reducing the health and safety risks associated with its products in order to protect customers. Our Group regularly conducts inspection on its machinery and equipment employed in its mining, beneficiation and processing operations to ensure that they are safe and in good working order. Our Group has also established procedures for managing product defects. During the Track Record Period, our Directors confirm that our Group has not received any complaints regarding material product defects. Our Group regards customer privacy as a matter of prime importance, and provides employees with guidance to prevent them from disclosing customer information. If any leak of customer information is found, our Group will rectify it promptly and administer punishment to responsible employees corresponding to the severity of the incident. Employees will be held legally responsible in serious circumstances. During the Track Record Period, our Directors confirm that our Group has not experienced any incidents of customer information leakage, nor did it receive any complaints about improper use of customer information that had a significant impact on our Group. Our Group forbids any form of false or misleading description in its marketing processes. We believe this ensures that accurate and comprehensive information is provided to customers during sales of our graphite products.

Corruption prevention

The Group strives to be ethical in its business operations, and does not tolerate any form of corruption, such as bribery, extortion, fraud or money laundering. Our Directors confirm that our Group complies with laws and regulations regarding bribery, extortion, fraud and money laundering. Our Directors confirm that during the Track Record Period, our Group received no allegations against it or its employees regarding bribery, extortion, fraud or money laundering. Our Directors confirm that there

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also were no whistleblowing disclosures received relating to bribery or corruption. Our Group requires all employees to comply with professional ethics, and prohibits any form of corruption. Employees who are found to have committed corruption will be discharged from their duties and required to indemnify the losses caused. If their acts are found to be in violation of any regulatory requirement, the employee will be held accountable for his/her judicial responsibility. Our Group further strengthens the awareness of employees and new recruits by conducting periodic anti-corruption training.

Community engagement

Our Group appreciates the importance of giving back to the community and fulfilling its corporate social responsibilities. When developing its business, our Group inherently considers its potential for making a positive impact on the community. Our Group is constantly striving to understand the impact of its business on the communities in which it operates, and explores opportunities to contribute to them with a view of improving lives and enhancing our Group’s brand image.

Upon [REDACTED], our Directors confirm that they will closely monitor and ensure strict compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules, the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules and all relevant rules and regulations in relation to environmental, social and governance aspects.

Climate Related Issues

Responding to the increasing global focus on climate change, we have identified certain climate change risks which could adversely affect our business, results of operation and financial condition through studying governmental policies and benchmarking our practices against industry peers. The potential climate change risks can be categorized into transition risk and physical risks. In regard to transition risks, in particular the evolving environmental and climate regulatory requirements that could increase our environmental protection and compliance expenses, we intend to carry out further environmental and climate due diligence to ensure our business comply with the requirements. Furthermore, we intend to set climate change as an important topic and to communicate with our shareholders and relevant stakeholders during the course of low-carbon economy transformation. We also plan to acquire more environmentally friendly appliances, equipment and machinery in line with the evolving environmental and climate standards. In regard to physical risks, such as the increase of extreme weather events which may disrupt our mining, beneficiation and processing operations, damage our facility and machinery or affect our supply chain, we intend to enhance our practices of disaster drills to mitigate potential losses.

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

As all of our operations are in the PRC, we are required to conduct our business in compliance with the relevant PRC laws and regulations. A summary of the material PRC laws and regulations applicable to our operations in the PRC is set out in the section headed “Regulatory Overview and JORC code” in this document.

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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 this document, we have (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.

NON-COMPLIANCE INCIDENTS

During the Track Record Period, we have experienced the following major non-compliance incidents, which are systemic in nature:

Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Enhanced internal control measures to prevent recurrence
1. Non-compliance relating to the incomplete environmental protection inspection and acceptance of construction project				
(a) Yixiang Graphite failed to complete the completion inspection and acceptance of the environmental protection facilities of its beneficiation plant expansion project.	Our Directors confirm that above non-compliance incidents were unintentional and due to negligence and the lack of professional opinion on the applicable laws.	Pursuant to Regulations on Environmental Protection of Construction Projects* (建設項目環境保護管理條例), if the required supporting environmental protection facilities are not built or inspected and accepted, or they are put into operation before passing the inspection and acceptance, or any fraudulence occurs during the inspection and acceptance process, the environmental protection administrative department at or above the county level may order rectification within a time limit and impose a fine in the amount between RMB200,000 and RMB1 million. If rectification is not made within the time limit, the department may impose a fine in the amount between RMB1 million and RMB2 million. A fine in the amount between RMB50,000 and RMB200,000 may be imposed on responsible employees. If severe pollution is caused to the environment or ecological environment, the facilities may be ordered to cease production or operation or even shut down.	<ul style="list-style-type: none"> ● On March 25, 2021, Yixiang Graphite has passed the review of Ministry of Ecology and Environment of Hegang City in relation to the environmental impact on beneficiation plant expansion project. Our Directors confirm that Yixiang Graphite completed the procedures for environmental protection inspection and acceptance in September 2021, as it obtained the acceptance opinions of environmental protection inspection and completed the publicity on the website of National Environmental Protection Acceptance Information System for Completed Construction Projects in October 2021. ● On December 16, 2020, we received the confirmation letter from Baoquanling Branch of Ministry of Ecology and Environment of Hegang City, confirming: (a) between January 1, 2018 and August 2020, Yixiang Graphite has no environmental pollution accident, illegal act, and third party complaint or report related to environmental protection; (b) there is no administrative fine relating to environmental protection was imposed on Yixiang Graphite during the period between January 1, 2018 and August 2020; (c) the bureau does not have any potential or current lawsuits or disputes with Yixiang Graphite regarding environmental protection. ● On January 6, 2021, we received a confirmation letter from Ministry of Ecology and Environment of Luobei, Hegang City, confirming: (a) between August 2020 to the date of the confirmation, Yixiang Graphite has no environmental pollution accident, illegal act, and third party complaint or report related to environmental protection; (b) there is no administrative fine relating to environmental protection was imposed on Yixiang Graphite during the period between August 2020 to the date of the confirmation; (c) the bureau does not have any potential or current lawsuits or disputes with Yixiang Graphite regarding environmental protection. 	<ul style="list-style-type: none"> ● In order to prevent the recurrence of non-compliance incident and to ensure ongoing compliance with applicable laws and regulations in the future, our Group has designed, implemented and/or enhanced several internal control measures, the details of which is set out in the paragraphs under the heading “Internal Control and Risk Management — Key internal control measures implemented by our Group” in this section

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Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Enhanced internal control measures to prevent recurrence
<p>(b) Yixiang Graphite did not complete the environmental assessment procedures of its tailing storage facility.</p>	<p>Our Directors confirm that the relevant non-compliance incident was unintentional. The Company inquired the relevant authority on environmental assessment, and it was given the understanding that the Company can dispose tailings on the site and complete the environmental assessment procedures subsequently.</p>	<p>Pursuant to the Environmental Assessment Law of the People’s Republic of China* (中華人民共和國環境影響評價法), if the construction unit commences construction prior to submission of the environmental impact report or report form of the construction project for approval according to the law, or fails to apply for a re-approval or a re-examination of the environmental impact report in accordance with Article 24 thereof, the competent ecological environment department at or above the county level shall order suspension of the construction, and, according to the circumstances of the violation and the harmful consequences, shall impose a fine of 1%-5% of the total investment amount of the construction project, and may order restoration to the original state; administrative sanctions shall be given to the persons in charge and other persons who are directly responsible for the construction unit in accordance with the law.</p> <p>While Hegang City People’s Government has on 19 December 2021 announced that it would investigate into the non-compliance and intended to impose a fine of RMB182,400 against Yixiang Graphite (the “Announcement”) there has been no actual investigation or enforcement action taken as at the Latest Practicable Date.</p>	<ul style="list-style-type: none"> • According to our PRC Legal Advisers, pursuant to relevant laws and regulations as well as the abovementioned facts, the possibility of Yixiang Graphite receiving penalties from environmental protection administrative departments for commencing production before completing the environmental protection inspection and acceptance of the supporting environmental protection facilities of our beneficiation plant is remote. Different government authorities were consulted due to a transfer of authority between the government authorities. Baoquanling Branch of Ministry of Ecology and Environment of Hegang City was originally the administrative authority in respect of pollutant emission permit and environmental protection before August 2020. Pursuant to an agreement entered into between Baoquanling Branch of Ministry of Ecology and Environment of Hegang City and Ministry of Ecology and Environment of Luobei of Hegang City, Baoquanling Branch of Ministry of Ecology and Environment of Hegang City transferred the administrative responsibilities and other administrative roles in the field of ecological environment protection to Ministry of Ecology and Environment of Luobei of Hegang City since August 2020. Therefore, Ministry of Ecology and Environment of Luobei of Hegang City is now the administrative authority of Yixiang Graphite and Yixiang New Energy in respect of pollutant emission permit and environmental protection. • Pursuant to the Deed of Indemnity, we have obtained from the Controlling Shareholders an indemnity to indemnify our Group against any claims, fines and other liabilities arising from such non-compliance. • On January 27, 2022, Yixiang Graphite has obtained the approval of Ministry of Ecology and Environment of Luobei county in relation to the EIA reports on tailing sand storage project. On 17 February 2022, our PRC Legal Adviser had two interview with the Ministry of Ecology and Environment of Hegang City and the Ministry of Ecology and Environment of Luobei County in relation to our usage of the tailing storage facility. As advised by our PRC Legal Adviser, the Ministry of Ecology and Environment of Hegang City and Luobei County confirmed that (i) Yixiang Graphite is a corporate subject to its jurisdiction; (ii) Yixiang Graphite actively rectified the situation in a timely manner and it has not imposed any administrative penalty against Yixiang Graphite, nor has it initiated any investigation against Yixiang Graphite in the Announcement; and (iii) Yixiang Graphite can temporarily continue to use the tailing storage facility for tailings disposal purpose and after the acceptable conditions for inspection are met according to the actual usage situation, the inspection can be carried out. • According to our PRC Legal Advisers, pursuant to relevant laws and regulations as well as the abovementioned facts, the possibility of Yixiang Graphite receiving penalties from environmental protection administrative departments for use of our tailing storage facility before completing the environmental assessment procedure and have material adverse impact on our Group is remote. • Pursuant to the Deed of Indemnity, we have obtained from the Controlling Shareholders an indemnity to indemnify our Group against any claims, fines and other liabilities arising from such non-compliance. 	<ul style="list-style-type: none"> • In order to prevent the recurrence of non-compliance incident and to ensure ongoing compliance with applicable laws and regulations in the future, our Group has designed, implemented and/or enhanced several internal control measures, the details of which is set out in the paragraphs under the heading “Internal Control and Risk Management — Key internal control measures implemented by our Group” in this section

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Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Enhanced internal control measures to prevent recurrence
2. Structures without valid construction permit and the real estate ownership certificates				
<p>We have not (i) conducted inspection upon completion of the construction for the Structures; (ii) registered stated-owned land use rights and obtain real estate ownership certificate for the Structure; and (iii) obtain construction land use planning permit, construction permit and construction project planning permit prior to constructing the Structure (which has been resolved). For details, please see “Properties — Owned properties — Properties with defective titles”.</p>	<p>Please see “Properties — Owned properties — Properties with defective titles”.</p>	<p>Please see “Properties — Owned properties — Properties with defective titles”.</p>	<p>Please see “Properties — Owned properties — Properties with defective titles”.</p>	<ul style="list-style-type: none"> • In order to prevent the recurrence of non-compliance incident and to ensure ongoing compliance with applicable laws and regulations in the future, our Group has designed, implemented and/or enhanced several internal control measures, the details of which is set out in the paragraphs under the heading “Internal Control and Risk Management — Key internal control measures implemented by our Group” in this section
3. Non-payment of social insurance and housing provident fund				
<p>For each year during the Track Record Period, Yixiang Graphite and Yixiang New Energy have not made full social insurance and housing fund contributions for all employees as required by relevant PRC laws and regulations and such outstanding amounts were approximately RMB3.2 million, RMB43,200 and RMB127,000 for the years ended December 31, 2019, 2020 and 2021, respectively.</p>	<p>Such non-compliance incidents happened mainly because our employees of relevant PRC subsidiaries responsible for such matters at the material time were not fully aware of the regulatory requirements of the areas in which our operations located.</p>	<p>According to relevant PRC laws and regulations, (a) in respect of unpaid social insurance contributions, the relevant government department is entitled to require us to make up the outstanding contributions within a specified period and pay an overdue fee equal to 0.05% of the amount of the outstanding contributions for each day of delay; and if we fail to make such payment within the specified period, we may be subject to a fine ranging from one to three times of the amount of the outstanding contributions; and (b) in respect of unpaid housing fund contributions, the relevant government department is entitled to require us to pay the outstanding housing fund contributions within a specified period; and if we fail to make such payment within the specified period, an application may be made to the PRC courts for compulsory enforcement.</p> <p>As at the Latest Practicable Date, no administrative penalties have been imposed by relevant regulatory authorities regarding the outstanding social insurance and housing fund contributions, and we have not been ordered to settle any shortfall in contributions.</p>	<ul style="list-style-type: none"> • The Group received confirmation letters from Heilongjiang Yanjun Farm Social Insurance Affairs Administration on August 4, 2021, confirming: (a) Yixiang Graphite and Yixiang New Energy have each made social insurance contribution for their employees in accordance with the requirements of the administration; (b) as at the date of the confirmation letters, Yixiang Graphite and Yixiang New Energy did not have any records of social insurance violations or penalties, nor did the administration receive any complaints regarding social insurance and labor protection matters; (c) the administration will not, in principle, require Yixiang Graphite and Yixiang New Energy to make up the social insurance contributions or impose penalties on Yixiang Graphite and Yixiang New Energy. • The Group received confirmation letters from Luobei Administrative Department of Hegang City Housing Fund Management Center on August 3, 2021, confirming: (a) Yixiang Graphite and Yixiang New Energy have each made housing fund contributions for their employees in accordance with the requirements of the center; (b) the center will not require Yixiang Graphite and Yixiang New Energy to make up the housing fund contributions, or levy late payment, or impose other administrative penalties on Yixiang Graphite and Yixiang New Energy; (c) as at the date of the confirmation letters, the center did not receive any complaints regarding housing fund matters of Yixiang Graphite and Yixiang New Energy, nor had they been penalized by the center. 	<ul style="list-style-type: none"> • In order to prevent the recurrence of non-compliance incident and to ensure ongoing compliance with applicable laws and regulations in the future, our Group has designed, implemented and/or enhanced several internal control measures, the details of which is set out in the paragraphs under the heading “Internal Control and Risk Management — Key internal control measures implemented by our Group” in this section

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Non-compliance incidents	Reasons for non-compliance	Legal consequences and potential maximum penalties	Rectification actions taken and preventive measures to be taken	Enhanced internal control measures to prevent recurrence
			<ul style="list-style-type: none"> • In the case of social insurance, according to the “Urgent Notice on Implementing the Spirit of the Executive Meeting of the State Council to Effectively Stabilize the Collection of Social Insurance Premiums” issued on September 21, 2018, administrative and law enforcement authorities are prohibited from centrally clearing past social insurance arrears of enterprises. • According to our PRC legal Advisers, pursuant to relevant laws and regulations as well as the abovementioned facts, the possibility that we will be required by competent authorities to make full recovery and top-up payments and suffer material administrative penalties for failing to make full social insurance and housing fund contributions for the employees during the Track Record Period is remote. • Since July 2021, Yixiang Graphite and Yixiang New Energy have commenced making adequate payments of social insurance and housing fund for employees who had signed labor contracts. 	

INTERNAL CONTROL AND RISK MANAGEMENT

Key internal control measures implemented by our Group

In order to prevent the recurrence of non-compliance incidents and to ensure ongoing compliance with applicable laws and regulations in the future, our Group has designed, implemented and/or enhanced several internal control measures which include the following:

- We established a compliance committee on [●] to monitor and oversee the compliance-related issues of our Group. The primary duties of the Compliance Committee are to ensure compliance with regulatory matters as well as the adequacy and effectiveness of regulatory compliance procedures and system. The members of the Compliance Committee, individually or as a whole, have unrestricted access to advice given by professional advisers of our Group. The committee is required to meet quarterly to discuss, among others, existing and potential compliance issues, formulate solutions to such compliance issues, and report to the Board if necessary. The compliance committee comprises two independent non-executive directors and one executive director, namely, Mr. Liu Zezheng, Mr. Chiu G Kiu Bernard and Mr. Lei. The roles of the Compliance Committee include, but not limited to, the following:
 - i. to identify, address and rectify any potential and non-compliance issues regarding or involving any member or employee of our Group;
 - ii. to liaise with relevant government authorities and statutory bodies to ensure proper compliance of our Group;
 - iii. to handle all the complaints or suggestions from the employees of our Group;
 - iv. to ensure compliance with our Company’s internal control procedure manual, and make relevant compliance-related recommendations to our Board from time to time;

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- v. to make recommendations on review measures to our Board to improve the health and safety of workers of our Group;
 - vi. to make recommendations on review measures to our Board to monitor the procedures and systems of our Group;
 - vii. to ensure compliance with the requirements of the publication of financial information of our Group in accordance with the Listing Rules;
 - viii. to develop, review and monitor the codes of conduct applicable to employees and Directors;
 - ix. to ensure that key employees have been trained on the details of our Company’s internal control procedure manual and the relevant safety policies;
 - x. to review our Company’s compliance with the CG Code and the Environmental, Social and Governance (“ESG”) Reporting Guide set out in the Listing Rules;
 - xi. to review the annual corporate governance report and ESG report for our Board’s consideration and approval for disclosure;
 - xii. to prepare and submit a summary report every quarter to our Board on the overall compliance performance and corporate governance practice of our Group; and
 - xiii. together with our company secretary, to ensure continuous training is provided to our Directors and senior management after [REDACTED] on their continuous duties and obligations under the Listing Rules.
- We will appoint Mr. Lei Wai Hoi as the compliance officer of our Company who is responsible for reviewing regulatory requirements both in Hong Kong and the PRC. The compliance officer will, with the support of the company secretary of our Company and other external professional advisers including a qualified PRC law firm, a qualified Hong Kong law firm, and the compliance adviser, conduct regular review and make recommendation to our Board in respect of our Group’s policies and practices on corporate governance, review and monitor our Group’s policies and practices on compliance with any requirement, direction and regulation that may be prescribed by our Board or imposed by the Listing Rules, other applicable laws regulations, rules and codes, and ensure that consistent procedures are applied;
 - We have appointed Lego Corporate Finance Limited as our compliance adviser upon [REDACTED] to advise our Group on compliance matters relating to the Listing Rules;
 - We will appoint a qualified PRC law firm upon [REDACTED] as our Group’s external PRC legal adviser to advise us on compliance with the applicable PRC laws and regulations and, if necessary, provide us with the relevant training, from time to time;

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- We will appoint a qualified Hong Kong law firm upon [REDACTED] as our Group’s external Hong Kong legal adviser to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations and, if necessary, provide us with the relevant training, from time to time;
- We have arranged training sessions for our Directors and senior management as to the responsibilities of Directors and compliance with the Listing Rules, conducted by our legal advisers as to Hong Kong laws in May 2021;
- We have put in place a stringent payment and credit control system to monitor and mitigate the credit risks posed to us. For details, please see the sub-section headed “ — Our customers — Payment terms and credit control” in this section;
- We will organise compliance training sessions for our Directors and senior management members to be held periodically so as to enhance compliance awareness and knowledge. The training sessions will cover topics such as changes and/or updates to the relevant rules and regulations for our operations and compliance with the Listing Rules;
- We will appoint an independent internal control consultant to undertake review of the internal control system of our Group annually upon [REDACTED].

The Internal Control Consultant has reviewed and provided recommendations to our internal control system for preventing the recurrence of the above-mentioned non-compliance incidents, and our Group has implemented all such recommendations. Our Directors considered that key steps taken and to be taken by our Group in response to each of the non-compliance incidents mentioned above and for enhancement of our internal control and risk management measures are disclosed above. The Internal Control Consultant has performed a follow-up review in this connection, of which upon completion, our Group did not have significant deficiencies in our internal control system.

After considering the nature and reasons for our historical non-compliance incidents, the remedial actions taken by our Group and our business nature and operation scale, our Directors are satisfied that our internal control procedures are adequate and effective for the purpose of Listing Rules, and consider that the non-compliance incidents do not have any material impact on: (i) the suitability of our Directors under the Listing Rules; and (ii) our suitability for [REDACTED] under the Listing Rules.

MARKET AND COMPETITION

Most of the PRC flake graphite supply 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 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

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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.

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. The World Health Organization declared the outbreak of COVID-19 as a pandemic on March 11, 2020. As a result of this outbreak, 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 on our operations were not considered to be severe by our Directors. 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 these confirmed purchase orders nor was there any no other actual and/or expected loss of these orders during the Track Record Period up to the Latest Practicable Date as a result of the COVID-19 outbreak. We maintain active and continuous dialogues with our customers on their status of resumption of business and if the situation of delay in collection of our products from our customers continues, we will negotiate with our customers accordingly. 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 on 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. Yet, there had been a drop in the overall market price for spherical graphite and flake graphite concentrate during the months of the COVID-19 outbreak. Leveraging on our cost-effective methods of beneficiation and processing, and the synergies of our vertical integration, we managed to provide discounts to customers struggling during the COVID-19 outbreak for the purposes of maintaining a positive business relationship. As a result, our sales volume increased significantly in the year ended December 31, 2020 and our revenue for the year ended December 31, 2021 increased to approximately RMB198.4 million.

Nevertheless, we have implemented measures aiming at preventing the spread of COVID-19 in our Beishan Mine and our facilities, such as providing face masks and sanitizer to our employees and requiring them to undergo mandatory temperature checks on a daily basis. All employees are required to wear masks when they are on duty. In case if any of our employees and/or employees of our third-party service 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.