

SUMMARY

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

BUSINESS OVERVIEW

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

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

For the three years ended December 31, 2019, 2020 and 2021, we extracted approximately 255,500 tonnes, 211,200 tonnes and 258,300 tonnes of unprocessed graphite, from our Beishan Mine, at an extraction cost of approximately RMB3.8 million, RMB5.6 million and RMB5.2 million, thus approximately RMB14.7 per tonne, RMB26.5 per tonne and RMB20.1 per tonne, accounting for approximately 5.9%, 6.5% and 4.9% of our total cost of sales, respectively. For details, please see “Financial Information — Cost of Sales — Extraction Costs”. Whilst we continue to source unprocessed graphite from third parties, for the three years ended December 31, 2019, 2020 and 2021, unprocessed graphite extracted from our Beishan Mine represented approximately 60.0%, 52.7% and 50.4% of our total unprocessed graphite supply.

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

SUMMARY

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

Leveraging on our beneficiation and processing capabilities; our effective cost structure as a result of the synergies benefitting from vertical integration; and our proven track record performance, we believe that we are well-positioned to capture the up-and-coming growth opportunities in the PRC graphite products industry. In particular, according to the F&S Report, the sales revenue of flake graphite concentrate is expected to increase from approximately RMB2,524.7 million in 2022 to approximately RMB3,465.1 million in 2026, illustrating a CAGR of approximately 8.2% from 2022. The sales revenue of spherical graphite in the PRC increased from approximately RMB1,287.1 million in 2017 to approximately RMB2,223.0 million in 2021 at a CAGR of approximately 14.6%, and is expected to grow from approximately RMB2,610.0 million in 2022 to approximately RMB4,100.1 million in 2026 with a CAGR of 12.0%. We also benefitting from a series of favorable measures implemented by the local government authorities in Luobei County, Heilongjiang Province to support our operations and industry competitiveness, including (i) improvement of transportation and communication infrastructure; (ii) financial subsidies; and (iii) comparable electricity prices against other regions.

For the reasons above, our Group experienced moderate business growth during the Track Record Period, generating a total revenue of approximately RMB123.7 million, RMB168.7 million and RMB198.4 million, and a net profit of approximately RMB24.5 million, RMB37.9 million and RMB53.3 million, for the three years ended December 31, 2019, 2020 and 2021, respectively. The increase in our net profit for the year ended December 31, 2021 was partly contributed by the receipt of government grants of approximately RMB7.9 million, as compared to approximately RMB0.5 million and RMB0.6 million for the two years ended December 31, 2019 and 2020, respectively, as a result of our Group’s effort in achieving a target level of taxation contribution for the past years and in research and development. For details, please see “Financial Information — Principal Income Statement Components — Other income and other gains, net”. There is no assurance that we will receive equivalent or larger sum of such government grant in the future, and if any of the government grants we currently enjoy is discontinued, our financial conditions would be adversely affected. Please see “Risk Factors — Risks relating to our business and operations — Government grants and preferential tax treatment currently available to us may not be recurring”. Although our Group generated net profit during the Track Record Period, there is no assurance that the unprocessed graphite and unprocessed marble extracted from our Beishan Mine would ultimately be extracted at a profit in the future.

OUR COMPETITIVE STRENGTHS

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

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

SUMMARY

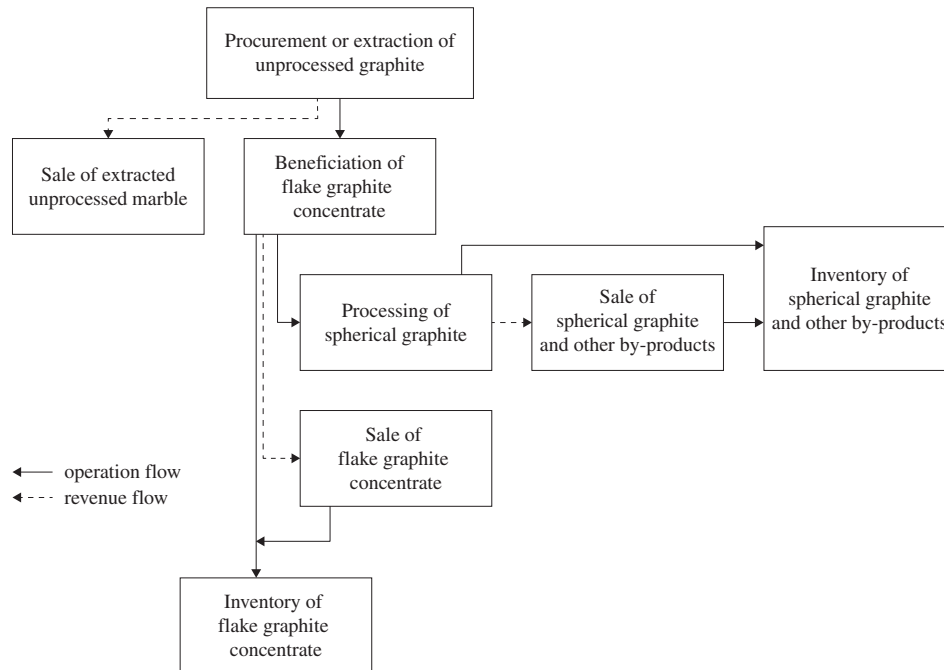
OUR BUSINESS STRATEGIES

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

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

OUR BUSINESS MODEL

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



EXTRACTION OF UNPROCESSED GRAPHITE FROM OUR BEISHAN MINE

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

SUMMARY

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



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

SUMMARY

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

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

Graphite Mineral 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>2,123</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

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

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

SUMMARY

spherical graphite. The current mining elevation allowed is 274–150m ASL. If we submit an application for the permission to extract below the licensed limit of 150m ASL and if such application is approved by relevant authority, there would be an additional Indicated and Inferred Resources of approximately 20,900 kilo tonnes and 8,400 kilo tonnes, respectively. If we believe there is a need in future, we may consider to apply for permission to extract below the licensed limit of 150m ASL and we plan to conduct additional technical studies and prepare relevant documents to support an application to increase the graphite ore mining capacity to 1,000,000 tonnes per year. For details of the cash operating and production costs of the unprocessed graphite extracted from our Beishan Mine, please see “Financial Information — Estimated Capital Costs and Operating Costs — Operating costs”. In addition, if the Company’s capital expenditure for future land acquisition and construction is ultimately significantly more than our internally generated funds and borrowings from financial institutions, our business, financial position and results of operations may be adversely affected in the future. Please see “Risk Factors — Risks relating to our business and operations — We may not have adequate financing to fund our future expansion plans, and such capital resources may not be available on commercially reasonable terms or at all”. Our Directors confirm that as at the Latest Practicable Date, our mining rights in our Beishan Mine are not pledged to secure any of our banking facility. According to the Notice of the Ministry of Land and Resources on Adjusting Production and Construction Scale Standards of Some Mineral Mines (國土資源部關於調整部分礦種礦山生產建設規模標準的通知) issued by the Ministry of Land and Resources on September 30, 2004, the scale of a graphite mine would be determined as “large” if the volume of unprocessed graphite to be extracted is over 10,000 tpa, “medium” if the volume of unprocessed graphite to be extracted is between 10,000 to 3,000 tpa, and “small” if the volume of unprocessed graphite to be extracted is below 3,000 tpa. Accordingly, based on our volume of extracted unprocessed graphite at 258,300 tonnes for the year ended December 31, 2021 and as advised by our PRC Legal Advisers, our Beishan Mine shall be classified as large scale.

OUR BENEFICIATION AND PROCESSING OPERATIONS

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

Sale of flake graphite concentrate

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

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

Note:

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

SUMMARY

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

Sale of spherical graphite

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

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

The selling price of our spherical graphite is generally influenced by factors, such as, production costs and product specifications, as our spherical graphite is often processed upon request by customers with designated specifications and tailored instructions, which leads to additional processing costs. During the Track Record Period, there was a decline in the average selling price of our spherical graphite products, which was attributable to the overall decrease in unit cost of unprocessed graphite extracted from our Beishan Mine as compared to the unit cost of unprocessed graphite procured from our third party suppliers since the commencement of our vertical integration. The selling price of our SG-10 model spherical graphite products experienced a decrease in general for the year ended December 31, 2021 as compared to the corresponding period in the year ended December 31, 2020, which was primarily attributable to decreased sales of a high-density version of the model from approximately 14% of SG-10 high density model in the year ended December 31, 2020 to 11% of SG-10 high density model in 2021, as SG-10 low density model had lower average selling price at approximately RMB15,200 per tonne, and our adoption of market competitive pricing strategy. The selling price of our other model experienced an increase for the year ended December 31, 2021 attributable to strong market demand and sales in our SG-9 model spherical graphite products from one of our top five customers in the years ended December 31, 2019 and 2021.

Sale of unprocessed marble

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

SUMMARY

Our Directors are of the view that our sales of unprocessed marble is influenced by factors, such as, supply and demand, and our extraction costs were approximately RMB4.1 million and RMB2.3 million, accounting for approximately 4.8% and 2.1% of our total cost of sales for the years ended December 31, 2020 and 2021.

Our gross profit and gross profit margin

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

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

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

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

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

Our gross profit margin decreased from 49.3% in the year ended December 31, 2020 to 46.9% in the year ended December 31, 2021, which was primarily attributable to the engagement of third-party service providers for purification processing during the temporary suspension of our purification station from November 2020 to May 2021.

SUMMARY

OUR CUSTOMERS

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

Sales and marketing

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

OUR SUPPLIERS

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

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

For the three years ended December 31, 2019, 2020 and 2021, we extracted approximately 255,500 tonnes, 211,200 tonnes and 258,300 tonnes of unprocessed graphite from our Beishan Mine at an extraction cost of approximately RMB3.8 million, RMB5.6 million and RMB5.2 million thus approximately RMB14.7 per tonne, RMB26.5 per tonne and RMB20.1 per tonne, respectively. There was an increase in our unit extraction costs for the year ended December 31, 2020 as the total volume of material moved, including graphite ore, marble ore and waste extracted from Beishan Mine, increased in 2020. Our total extraction costs for the year ended December 31, 2021 decreased to approximately RMB7.5 million as compared to approximately RMB9.7 million in the year ended December 31, 2020, primarily attributable to the increase in portion capitalized in 2021 as a result of proportional increase of waste materials extracted in 2021. For details on reconciliation of the volume of unprocessed graphite procured from third party suppliers and extracted from our Beishan Mine to our sales volume of flake graphite concentrate and spherical graphite, please see “Business — Inventory Management”. During the Track Record Period, depending on the yield of unprocessed graphite extracted from our Beishan Mine, all of the unprocessed graphite extracted from our Beishan Mine would be prioritized to be

SUMMARY

consumed for the reasons that (i) consumption of unprocessed graphite extracted from our Beishan Mine is more cost effective; and (ii) we do not need to make available additional area and facility for storage of unprocessed graphite not consumed in our production. The remaining unprocessed graphite needed would be purchased from our suppliers depending on our beneficiation production capacity. For details, please see “Business — Our Suppliers”.

Third-party providers

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

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

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

MARKET AND COMPETITION

Most of the graphite supply in the PRC is sourced from Shandong and Heilongjiang provinces. Shandong Province is home to most of China’s graphite processing plants. However, many of the mines in Shandong Province 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 transport their ore about 2,000 km to the processing plants in Shandong Province. There were over 120 market participants in flake graphite concentrate industry in 2021. The flake graphite concentrate sales revenue of our Group ranked fifth in 2021 with approximately RMB97.7 million, accounting for a market share of approximately 4.4% of total flake graphite concentrate industry by sales revenue. Moreover, spherical graphite industry in the PRC was concentrated with top 10 companies accounting for a total market share of approximately 70.0% by sales revenue in 2021. There were over 60 market participants in spherical graphite industry in 2021. Our Group ranked sixth in 2021 with a market share of approximately 4.1% by sales revenue. In addition to rising costs of production, the Chinese graphite industry faces an additional economic impost due to the winter closures: having to buy before the ice takes control ramps up warehousing and insurance costs. The average selling prices of flake graphite concentrate and spherical graphite may vary by different specification and generally influenced by factors such as production costs, market demands and macro economy. From 2018, many Chinese spherical graphite companies began to expand the spherical production capacity, which resulted in the decrease in the average selling price of spherical graphite in 2019 and 2020. Going forward, with the recovery of economy and continuously increasing demand from lithium-ion batteries industry, the demand of graphite would increase, which in turn would drive the average selling price of flake graphite concentrate and spherical graphite. Considering the rise in global demand for lithium-ion batteries, and the market move that most of Heilongjiang’s graphite is actually processed in Shandong Province, we believe that our business model in operating an integrated graphite production company in Heilongjiang

SUMMARY

Province remains a strong advantage. For details on the market and competitive landscape of the graphite industry, please see “Industry Overview — Overview of graphite industry in Heilongjiang Province — Competitive landscape”.

SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

Summary of our results of operations

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

	Year ended December 31,		
	2019	2020	2021
	(RMB’000)	(RMB’000)	(RMB’000)
Revenue	123,736	168,749	198,365
Cost of sales	<u>(64,309)</u>	<u>(85,502)</u>	<u>(105,322)</u>
Gross profit	59,427	83,247	93,043
Other income and other gains, net	663	300	8,033
Selling and distribution expenses	(14,299)	(9,393)	(10,138)
General and administrative expenses	(9,019)	(18,770)	(19,738)
Research and development expenses	(4,820)	(5,830)	(8,118)
Reversal of/(provision for) impairment of financial assets	<u>194</u>	<u>(349)</u>	<u>(1,463)</u>
Operating profit	32,146	49,205	61,619
Finance income	12	18	54
Finance costs	<u>(435)</u>	<u>(778)</u>	<u>(834)</u>
Finance costs, net	<u>(423)</u>	<u>(760)</u>	<u>(780)</u>
Profit before income tax	31,723	48,445	60,839
Income tax expense	<u>(7,174)</u>	<u>(10,586)</u>	<u>(7,514)</u>
Profit for the year	<u>24,549</u>	<u>37,859</u>	<u>53,325</u>
Profit attributable to:			
Owner of the Company	24,549	36,884	53,325
Non-controlling interests	<u>—</u>	<u>975</u>	<u>—</u>
Profit for the year	<u>24,549</u>	<u>37,859</u>	<u>53,325</u>

Non-HKFRSs information

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

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

SUMMARY

Extraction costs

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

	For the year ended December 31,		
	2019	2020	2021
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Depreciation	1,778	3,552	1,607
Blasting services	1,590	2,287	2,460
Fuel costs	1,911	1,668	1,805
Employees salaries and benefits	1,130	830	1,145
Machinery expenses	1,173	661	1,198
Amortization of mining rights	813	1,837	1,108
Raw materials	250	242	1,043
Repairs and maintenance	338	19	85
Mining project management and administrative expenses	1,102	—	—
Others ⁽¹⁾	718	291	529
Total	10,803	11,387	10,980
Portion capitalized ⁽²⁾	7,040	1,656	3,504
Portion accounted for as cost of sales for the extraction of graphite ⁽³⁾	3,763	5,606	5,195
Portion accounted for as cost of sales for the extraction of marble ⁽³⁾	—	4,125	2,281
Total	10,803	11,387	10,980

Notes:

- Others include expenses in relation to workplace safety expenses, insurance on mining equipment, consumables and delivery of the dump truck.
- The portion capitalized accounted for the amount to be capitalized as mining structures under our property, plant and equipment, which would be depreciated using the units of production method based on the total proved and probable reserves of the mine as the depletion base and recognized as depreciation under extraction costs in future. Mining structures primarily include the cost incurred to carry out waterproof engineering, construct on-site utilities systems and other miscellaneous infrastructure on the mining site, and the capitalization of the portion of costs incurred for mine extraction that is allocated to the stripping activities. Stripping activities exposed our Group to usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. To the extent the benefit is improved access to ore, our Group recognized these costs as mining structures under property, plant and equipment. The capitalization of extraction costs is made by using an allocation basis that is based on volume of waste extracted compared with expected volume of total extraction from the ore, for a given volume of ore production.
- The cost of sales for the extraction of graphite and marble were allocated on the basis of the respective portions of graphite and marble extracted as measured in volume and were apportioned accordingly.

For details on the fluctuation of major items in the above extraction costs, please see “Financial Information — Cost of Sales — Extraction Costs”.

SUMMARY

Selected consolidated statements of financial position

	As at December 31,			As at
	2019 (RMB'000)	2020 (RMB'000)	2021 (RMB'000)	April 30, 2022 (RMB'000) (Unaudited)
Assets				
Non-current assets				
Property, plant and equipment	60,546	71,864	87,908	95,500
Right-of-use assets	5,799	7,608	9,933	9,661
Mining rights	20,562	27,013	25,905	25,895
Other intangible assets	63	55	35	29
Deferred income tax assets	2,506	779	271	268
Prepayments	3,039	244	1,038	1,534
	<u>92,515</u>	<u>107,563</u>	<u>125,090</u>	<u>132,887</u>
Current assets				
Inventories	35,423	25,992	18,874	26,287
Trade and bills receivables	113,632	160,863	148,645	99,713
Deposits, prepayments and other receivables	180	4,566	7,533	12,094
Cash and cash equivalents	1,861	10,007	33,934	72,122
	<u>151,096</u>	<u>201,428</u>	<u>208,986</u>	<u>210,216</u>
Total assets	<u>243,611</u>	<u>308,991</u>	<u>334,076</u>	<u>343,103</u>
Liabilities				
Non-current liabilities				
Lease liabilities	164	976	383	144
Provision for reclamation and mine closure	2,206	2,314	2,427	2,467
Deferred income tax liabilities	2,516	1,462	1,838	1,888
	<u>4,886</u>	<u>4,752</u>	<u>4,648</u>	<u>4,499</u>
Current liabilities				
Trade payables	16,160	20,965	18,608	23,958
Accruals and other payables	12,595	19,754	18,498	14,800
Amounts due to related parties and non-controlling interests	77,696	82,749	73,127	73,127
Borrowings	16,156	18,500	10,000	10,000
Contract liabilities	443	9,758	5,310	5,282
Lease liabilities	680	1,169	1,143	1,111
Current tax liabilities	4,204	2,671	744	1,075
	<u>127,934</u>	<u>155,566</u>	<u>127,430</u>	<u>129,353</u>
Total liabilities	<u>132,820</u>	<u>160,318</u>	<u>132,078</u>	<u>133,852</u>
Net current assets	23,162	45,862	81,556	80,863
Net assets	110,791	148,673	201,998	209,251

SUMMARY

As at December 31, 2019, 2020 and 2021, we recorded non-current assets at approximately RMB92.5 million, RMB107.6 million and RMB125.1 million, respectively, the increase of which was mainly attributable to our acquisition of property, plant and equipment as a result of our production plant upgrade. Our current assets increased from approximately RMB151.1 million in the year ended December 31, 2019 to RMB201.4 million in the year ended December 31, 2020, and further to RMB209.0 million in the year ended December 31, 2021, mainly attributable to our overall increase in cash and cash equivalents and trade and bills receivables during the corresponding periods which were consistent with our business growth. Our current liabilities increased from approximately RMB127.9 million in the year ended December 31, 2019 to RMB155.6 million in the year ended December 31, 2020 due to the increase in trade payables, accruals and other payables and contract liabilities which were in line with our business growth, and our current liabilities decreased to approximately RMB127.4 million in the year ended December 31, 2021 mainly attributable to the decrease in borrowings as we repaid certain bank loans considering our positive financial conditions. As at December 31, 2019, 2020 and 2021 and April 30, 2022, we recorded net current assets at approximately RMB23.2 million, RMB45.9 million, RMB81.6 million and RMB80.9 million. For details on the movement of our net current assets, please see “Financial Information — Liquidity and capital resources — Current assets and liabilities”.

Selected consolidated statements of cash flows

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

For details on the movement of our cash flow, please see “Financial Information — Liquidity and Capital Resources — Cash flow”.

Key financial ratios

	Year ended December 31,		
	2019	2020	2021
Net profit margin	19.8%	22.4%	26.9%
Return on equity	22.2%	24.8%	26.4%
Return on assets	10.1%	11.9%	16.0%
Interest coverage (<i>times</i>)	73.9	63.3	73.9

	As at December 31,		
	2019	2020	2021
Current ratio (<i>times</i>)	1.2	1.3	1.6
Quick ratio (<i>times</i>)	0.9	1.1	1.5
Debt-to-equity ratio	83.0%	61.4%	24.4%
Gearing ratio	84.7%	68.1%	41.2%

Please see “Financial Information” for details of our financial performance during the Track Record Period.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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

SUMMARY

general meetings of our Company immediately following completion of the [REDACTED], the Loan Consideration Capitalization and [REDACTED] (assuming that the [REDACTED] is not exercised). Therefore, each of Sandy Mining Limited and Mr. Zhao will be our Controlling Shareholders for the purpose of the Listing Rules.

SHARE OPTION SCHEME

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

WAIVER APPLICATION

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

LEGAL PROCEEDINGS AND REGULATORY COMPLIANCE

As advised by our PRC Legal Advisers and as confirmed by our Directors, during the Track Record Period and as at the Latest Practicable Date, save as disclosed in “Business — Legal Proceedings and Regulatory Compliance”, we (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 business, results of operations and financial conditions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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

[REDACTED]

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

SUMMARY

[REDACTED]

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

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

DIVIDENDS

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

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Our Directors expect that our net profit may experience a decrease for the year ending December 31, 2022, as compared to the year ended December 31, 2021, mainly for the reasons that: (i) we may incur more professional fees for [REDACTED] compliance works after the [REDACTED]; and (ii) we may no longer be entitled to the government grant for the year ending December 31, 2022 (as compared to our receipt of government grant of approximately RMB7.9 million in 2021). For the four months ended April 30, 2022, our revenue experienced a slight decrease of approximately 2.3% (unaudited) as compared to that for the four months ended April 30, 2021, primarily attributable to the period-to-period decrease in the volume of unprocessed marble extracted and sold. Our Directors confirm that since December 31, 2021, being the date of the latest audited financial statements of our Company, and up to the date of this document, there has been no material adverse change in our financial or trading position or prospects. Our Directors also confirm that there has been no events since December 31, 2021 which would materially affect the information shown in the Accountant’s Report as set out in Appendix I to this document.

RESPONDING TO THE COVID-19 OUTBREAK

Since December 2019, there has been an outbreak of COVID-19 in the PRC, Hong Kong and other countries. As a result, there had been lockdowns at workplaces and places of commerce in Heilongjiang Province, including our Beishan Mine. However, the temporary closure of our Beishan Mine and plants due to restrictions under the COVID-19 outbreak 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 normal operation, since April 2020, thus the disruption caused by the COVID-19 outbreak to our operations is not considered by our Directors to be severe. Our Directors further confirm that as at the Latest Practicable Date, no employee of our Group was infected with COVID-19. Our Directors also confirm that there was no cancellation of confirmed purchase orders nor was there any actual and/or expected loss of confirmed purchase orders during the Track Record Period and up to the

SUMMARY

Latest Practicable Date as a result of the COVID-19 outbreak and there was no other actual and/or expected loss. To the best knowledge, information and belief of our Directors, most of our suppliers and third-party service providers resumed their operations since April 2020. Our Directors also confirm that there was no actual or foreseeable disruption to the supply of raw materials or utility supplies from our suppliers and services by our third-party service providers up to the Latest Practicable Date, therefore there had not been a material adverse financial or operational impact that was directly caused by the COVID-19 outbreak. Nevertheless, we have implemented measures aiming at preventing the spread of COVID-19 in our Beishan Mine and our facilities. In case any of our employees and/or employees of our third-party 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.

STATISTICS OF THE [REDACTED]

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

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

Note:

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

RISK FACTORS

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

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