



SANERGY

SANERGY GROUP LIMITED 昇能集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 2459

GLOBAL OFFERING

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

SANERGY GROUP LIMITED

昇能集團有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares : 172,400,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares : 17,240,000 Shares (subject to reallocation)
Number of International Placing Shares : 155,160,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price : HK\$2.20 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value : US\$0.01 per Share
Stock Code : 2459

Sole Sponsor



Overall Coordinator



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available On Display" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or about Wednesday, 11 January 2023 and, in any event, unless otherwise announced, not later than Friday, 13 January 2023. The Offer Price will be no more than HK\$2.20 and is currently expected to be no less than HK\$1.60 unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$2.20 for each Offer Share together with a brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%, subject to refund if the Offer Price as finally determined is lower than HK\$2.20. If, for any reason, the Offer Price is not agreed between the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or before Friday, 13 January 2023, unless otherwise announced, the Global Offering will not proceed and will lapse.

The Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, reduce the indicative offer price range below that which is stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement will be published on the websites of the Stock Exchange at www.hkexnews.hk and of our Company at www.sanergygroup.com not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the GREEN Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares are subject to termination by the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares will be offered and sold only outside the United States in reliance on Regulation S.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

The prospectus is available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.sanergygroup.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

IMPORTANT

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “*HKEXnews > New Listings > New Listing Information*” section, and our website at www.sanergygroup.com. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk;
- (2) apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary, broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

IMPORTANT

Please refer to the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus for further details of the procedures through which you can apply for the Hong Kong Offer Shares electronically.

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 2,000 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

SANERGY GROUP LIMITED (HK\$2.20 per Hong Kong Offer Share)							
NUMBER OF HONG KONG OFFER SHARES THAT MAY BE APPLIED FOR AND PAYMENTS							
No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>	No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>	No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>	No. of Hong Kong Offer Shares applied for	Amount payable on application <i>HK\$</i>
2,000	4,444.38	40,000	88,887.48	350,000	777,765.46	2,500,000	5,555,467.50
4,000	8,888.75	50,000	111,109.36	400,000	888,874.80	3,000,000	6,666,561.00
6,000	13,333.13	60,000	133,331.22	450,000	999,984.16	3,500,000	7,777,654.50
8,000	17,777.50	70,000	155,553.09	500,000	1,111,093.50	4,000,000	8,888,748.00
10,000	22,221.86	80,000	177,774.95	600,000	1,333,312.20	4,500,000	9,999,841.50
12,000	26,666.24	90,000	199,996.84	700,000	1,555,530.90	5,000,000	11,110,935.00
14,000	31,110.62	100,000	222,218.70	800,000	1,777,749.60	6,000,000	13,333,122.00
16,000	35,554.99	150,000	333,328.06	900,000	1,999,968.30	7,000,000	15,555,309.00
18,000	39,999.37	200,000	444,437.40	1,000,000	2,222,187.00	8,620,000 ⁽¹⁾	19,155,251.95
20,000	44,443.75	250,000	555,546.76	1,500,000	3,333,280.50		
30,000	66,665.61	300,000	666,656.10	2,000,000	4,444,374.00		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable, our Company will issue a separate announcement to be published on the websites of the Stock Exchange (www.hkexnews.hk) and of our Company (www.sanergygroup.com).

Date⁽¹⁾

Hong Kong Public Offering commences⁽¹⁾ 9:00 a.m. on Friday,
30 December 2022

Latest time to complete electronic applications under
the **White Form eIPO** service through the designated
website at www.eipo.com.hk⁽²⁾ 11:30 a.m. on Tuesday,
10 January 2023

Application lists open⁽³⁾ 11:45 a.m. on Tuesday,
10 January 2023

Latest time for (a) completing payment of **White Form eIPO** applications
by effecting PPS payment transfer(s) and (b) giving
electronic application instructions to HKSCC⁽⁴⁾ 12:00 noon on Tuesday,
10 January 2023

If you are instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists close⁽³⁾ 12:00 noon on Tuesday,
10 January 2023

Expected Price Determination Date⁽⁵⁾ Wednesday, 11 January 2023

Announcement of the final Offer Price, the indication of level of
interest in the International Placing, the results of applications
in the Hong Kong Public Offering and the basis of allocation
under the Hong Kong Public Offering to be published
(i) on the website of our Company at www.sanergygroup.com⁽⁷⁾;
and (ii) on the website of the Stock Exchange
at www.hkexnews.hk⁽⁶⁾ on or before Monday, 16 January 2023

EXPECTED TIMETABLE⁽¹⁾

Date⁽¹⁾

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to apply for the Hong Kong Offer Shares — D. Publication of results", including:

- (1) in the announcement to be posted on the website of our Company at www.sanergygroup.com⁽⁷⁾ and Stock Exchange at www.hkexnews.hk⁽⁶⁾ Monday, 16 January 2023
- (2) Results of allocations in the Hong Kong Public Offering will be available at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function from 8:00 a.m. on Monday, 16 January 2023 to 12:00 midnight on Sunday, 22 January 2023
- (3) From the allocation results telephone enquiry by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Monday, 16 January 2023 to Thursday, 19 January 2023 (except Saturday and Sunday)

Despatch/Collection of share certificates of the Offer Shares or deposit of share certificates of the Offer Shares into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁸⁾ Monday, 16 January 2023

Despatch/Collection of **White Form** e-Refund payment instructions/refund cheques in respect of wholly successful (in the event that the final Offer Price is less than initial price per Hong Kong Offer Share payable on application) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before⁽⁸⁾⁽⁹⁾ Monday, 16 January 2023

Dealing in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on Tuesday, 17 January 2023

The Hong Kong Public Offering and the application period for the Hong Kong Offer Shares will commence on Friday, 30 December 2022 through Tuesday, 10 January 2023, which is longer than normal market practice of three and a half days. The gap between the closing date of the application lists and the Listing Date is longer than the usual market practice of six days. The application monies (including the brokerage fees, SFC transaction levy, AFRC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicants without interest on Monday, 16 January 2023. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 17 January 2023. Investors may not be able to sell or deal in the Shares during the period between the Price Determination Date, which is expected to be on or around Tuesday, 10 January 2023, and, in any event, not later than Friday, 13 January 2023, and the Listing Date. Our Shareholders are subject to the risk that the price of the Shares could fall before trading begins, as a result of adverse market conditions or other adverse developments that could occur between the Price Determination Date and the Listing Date.

Notes:

1. All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Global Offering, including the conditions of the Hong Kong Public Offering, are set out in the section headed "Structure of the Global Offering" in this prospectus.
2. You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m. you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

EXPECTED TIMETABLE⁽¹⁾

3. If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 10 January 2023, the application lists will not open and close on that day. Please refer to the section headed “How to apply for the Hong Kong Offer Shares — C. Effect of bad weather and extreme conditions on the opening and closing of the application lists” in this prospectus. If the application lists do not open and close on Tuesday, 10 January 2023, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
4. Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed “How to apply for the Hong Kong Offer Shares — 6. Applying Through the White Form eIPO Service” in this prospectus.
5. The Price Determination Date, being the date on which the final Offer Price is to be determined, is expected to be on or around Wednesday, 11 January 2023 and in any event, not later than Friday, 13 January 2023. If, for any reason, the final Offer Price is not agreed by 6:00 p.m. on Friday, 13 January 2023 between the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.
6. The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the website of the Stock Exchange at www.hkexnews.hk.
7. None of the information contained on any website forms part of this prospectus.
8. Applicants who apply on the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares may collect share certificates (if applicable) and/or refund cheques (if applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 16 January 2023 or any other date as notified by us as the date of despatch of share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who is eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who is eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his/her/its corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.

Applicants who have applied for Hong Kong Offer Shares through **CCASS EIPO** service should refer to the section headed “How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Cheques—Personal Collection — If you apply through CCASS EIPO service” in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Share certificates and/or refund cheques for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications.

Further information is set out in the paragraphs headed “How to Apply for Hong Kong Offer Shares — F. Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares — G. Despatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Cheques” in this prospectus.

9. e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed “How to apply for the Hong Kong Offer Shares” in this prospectus.

EXPECTED TIMETABLE⁽¹⁾

Share certificates are expected to be issued on Monday, 16 January 2023 but will only become valid evidence of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid evidence of title do so entirely at their own risk.

The above expected timetable is a summary only. For further details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, please refer to the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus, respectively.

If the Global Offering does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed. In such case, our Company will make an announcement as soon as practicable thereafter.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by us solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus for purposes of a public offering and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

*You should rely only on the information contained in this prospectus and the **GREEN** Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus and the **GREEN** Application Forms must not be relied on by you as having been authorised by us, the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries, any of our or their respective directors, officers, employees, agents or representatives or any other parties involved in the Global Offering.*

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Hong Kong Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Hong Kong Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Hong Kong Offer Shares. Various expressions used in this section are defined or explained in the section headed “Definitions” in this prospectus.

OVERVIEW

We are a global manufacturer of UHP graphite electrodes with a worldwide customer base in over 25 countries comprising major global EAF steel manufacturers in Americas, EMEA, APAC and the PRC that sell their products to the automotive, infrastructure, construction, appliance, machinery, equipment and transportation industries.

The dual carbon goals, namely carbon peaking before 2030 and carbon neutrality before 2050 have brought global momentum towards the transformation of our downstream industry of steel manufacturing by shifting from blast furnace steelmaking to EAF steel manufacturing. Currently, blast furnace steelmaking predominates the steel production with 70% in worldwide and even 90% in the PRC. Using EAF is more environmental friendly in terms of pollutants emissions and energy consumptions and regarded as a core pillar of decarbonisation to complete “super-low-emission” renovations within the steel industry. With our commitments to offer high quality UHP graphite electrode which serves as a key industrial material to EAF steel manufacturers and our continuous efforts to strive for a cleaner production process to reduce emissions and wastes as well as energy consumption, we believe, together with our downstream customers, we would be able to contribute to a green and sustainable economy in the long run.

According to the F&S Report, we ranked seventh among the global UHP graphite electrode manufacturers in 2021 with a market share of approximately 1.4%, and ranked fourth in the UHP graphite electrode manufacturers in the PRC in 2021 with a market share of approximately 7.1%, in terms of production volume.

We have our production facilities in Italy and the PRC with annual effective production capacities of 16,500MT and 14,000MT, respectively, which enable us to flexibly meet the demand for graphite electrodes from our customers located in different parts of the world and provide them with support and technical services. We source finished graphite electrodes and needle coke from various suppliers.

We have regional sales teams focusing on the markets of Americas, EMEA, APAC and the PRC to serve and support our customers in all different geographies. Our global reach through our strong sales and distribution network ensures that our products are readily available to our customers.

SUMMARY

During the Track Record Period, the global graphite electrodes industry was at the peak in terms of the average selling price in 2018 and experienced market correction during 2019 and the impact of COVID-19 since early 2020. Driven by the recovery of the demand from its downstream steel industry, namely the global EAF steel industry, the global demand for graphite electrodes surged starting from second half of 2017 and in turn caused an upsurge in the price of UHP graphite electrodes globally (excluding the PRC) within a short period in 2018, reaching approximately USD16,054 per tonne in global excluding the PRC and RMB115,686.7 per tonne in the PRC, respectively. Followed by over investment, production and purchase, which resulted in an over-stocking in the market, there was a plunge in the average selling price of graphite electrodes in 2019 to approximately USD8,824 per tonne globally (excluding the PRC) and approximately RMB50,647.1 per tonne in the PRC. In 2020, the global outbreak of COVID-19 further affected the demand for UHP graphite electrodes and led to a slight decrease in the consumption volume globally.

Despite the market correction during 2019 and impact of COVID-19 since early 2020, our Group had been able to maintain growth in its sales volume from approximately 10,994MT in FY2018 to 19,656MT in FY2019, to 25,647MT in FY2020, and to 27,669MT in FY2021. We managed to achieve a gross profit margin of approximately 62.5%, 22.7%, 15.2% and 21.0% during the corresponding periods, respectively, which aligned with the overall industry trend and had outperformed some of its industry peers in terms of operating or gross profit margin despite the market correction and impact of COVID-19 in FY2020.

However, in FY2019, our Group underperformed our industry peers in terms of operating or gross profit margin, which was mainly attributable to (i) a significant decrease in the average selling price by approximately 49.9% in FY2019 from historical high in FY2018; and (ii) the provision for inventory of approximately US\$16.2 million in FY2019. In FY2020, while our Group managed to maintain a positive operating profit margin and gross profit margin, some of the industry players, namely Showa Denko, Tokai Carbon, Graphite India and Yicheng New Energy recorded a negative operating profit margin or gross profit margin. For details on the comparison of the financial performance of major industry peers, please refer to the section headed “Industry Overview — Recent development of global and China Steel and graphite electrode market amid the COVID-19 — comparison of major participants’ financial performance” in this prospectus.

In FY2021, the market price of graphite electrodes resumed gradual trajectory after its stabilisation since August 2020 and the steel market and other downstream industries started to recover from the COVID-19 downturn. Against such market condition, our Group proactively adopted measures to increase sales volume and expand our customer base and as a result, our financial performance improved substantially. For details, please refer to the section headed “Financial Information — Gross profit and gross profit margin — The market price of graphite electrodes resumed gradual trajectory in 2021”. As compared 1H2022 to 1H2021, our sales volume increased from approximately 11,402MT to approximately 12,456MT and our gross profit margin improved significantly from approximately 17.3% to approximately 26.1%.

SUMMARY

The table below sets out the breakdown of our revenue, sales volume, average selling price, gross profit and gross profit margin of our graphite electrodes during the Track Record Period:

	Revenue	Sales volume	Average selling price	Gross profit	Gross profit margin	Industry average selling price (The PRC) <i>(Notes 1 and 2)</i>	Industry average selling price (Global excluding the PRC) <i>(Note 2)</i>
	<i>US\$'000</i>	<i>MT</i>	<i>US\$/MT</i>	<i>US\$'000</i>	<i>%</i>	<i>US\$/MT</i>	<i>US\$/MT</i>
FY2018	168,319	10,994	15,310	105,218	62.5	16,527	16,055
FY2019	150,844	19,656	7,674	34,263	22.7	7,235	8,824
FY2020	108,540	25,647	4,232	16,514	15.2	3,640	4,120
FY2021	108,694	27,669	3,928	22,830	21.0	4,862	4,883
1H2021 <i>(unaudited)</i>	41,786	11,402	3,665	7,215	17.3	4,424	4,576
1H2022	59,706	12,456	4,793	15,564	26.1	5,541	6,088

Notes:

- (1) The translation of RMB into USD was approximately 7.0 during the Track Record Period.
- (2) The industry average selling price only took into account UHP graphite electrodes.

During the Track Record Period (save for FY2020), our average selling price was generally lower than that of the industry average selling prices (only related to UHP graphite electrodes) mainly due to the fact that we sold some HP and RP graphite electrodes to fulfil customers' orders, which represented approximately 27.8%, 24.6%, 13.6%, 22.0% and 15.5% of our revenue in FY2018, FY2019, FY2021 and 1H2022, respectively. Since the average selling price of HP and RP graphite electrodes was lower than that of UHP graphite electrodes, our average selling price, which included the average selling price of UHP, HP and RP graphite electrodes was generally lower than that of the industry average selling price of UHP graphite electrodes in the global market (excluding the PRC) and in the PRC market.

During the Track Record Period, our average selling price of UHP graphite electrodes was approximately US\$19,051/MT, US\$8,523/MT, US\$4,640/MT, US\$4,253/MT, US\$3,893/MT and US\$5,128/MT in FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022 respectively.

During the Track Record Period (save for FY2018 during which we have not entered the PRC market and FY2020 during which the delivery of an order for 2,268MT of UHP graphite electrodes to Xinxiang Longhui was delayed from mid-2019 to June 2020), our average selling price of UHP graphite electrodes was generally lower than that of the industry average selling prices mainly due to the fact that the industry average selling price of the UHP graphite electrodes in the PRC has been generally lower than that of the UHP graphite electrodes sold in the global market (excluding the PRC). As such, our average selling price of UHP was dragged down by our sales of UHP graphite electrodes in the PRC.

SUMMARY

For FY2020, since there was a postponement of delivery of a purchase order with a relatively high average selling price amounted to approximately US\$6,063/MT from the original scheduled time in FY2019 to FY2020 upon the request of one of our major customers, Xinxiang Longhui. Such postponement of delivery from FY2019 to FY2020 led to our relatively higher average selling price compared with than of UHP graphite electrode in the global market (excluding the PRC) and in the PRC market in FY2020.

While our average selling price per MT decreased by approximately 7.2% or approximately US\$304 from approximately US\$4,232 in FY2020 to approximately US\$3,928 in FY2021, the market price of graphite electrodes and our average selling price have bottomed out in August 2020 and resumed gradual trajectory in 2021. Our average selling price per MT of each quarter of 2020 and 2021 was approximately US\$4,786, US\$4,626, US\$3,595, US\$3,679, US\$3,690, US\$3,645, US\$3,970 and US\$4,230, respectively. For details, please refer to the section headed “Financial Information — Gross profit and gross profit margin — The market price of graphite electrodes resumed gradual trajectory in 2021”.

The decrease in our gross profit margin during FY2018, FY2019 and FY2020 was largely caused by the downward adjustment of the average selling price of graphite electrodes sold and the market price volatility of graphite electrodes. In particular, our gross margin for FY2020 was adversely affected by the COVID-19 pandemic which had resulted in a drastic drop of global economic activities and lower graphite electrode prices.

Due to the downward adjustment of the graphite electrode market during 2019, the delivery of an order for 3,402MT of graphite electrodes to Xinxiang Longhui, which Xinxiang Longhui intended to on-sell to the Downstream Customer, was delayed from the middle of 2019 to June 2020 with the delivery quantity reduced by one-third to 2,268MT. Despite such delay and reduction in quantity, the unit price of the graphite electrodes remained to be the original unit price agreed between the parties when the purchase agreement was entered into and the 2,268MT of graphite electrodes became fully secured by actual prepayment. For details of the relevant transaction between Xinxiang Longhui and the Downstream Customer, please refer to the section headed “Business — The sales agreement between our Group and Xinxiang Longhui” in this prospectus.

For the sensitivity analysis of our gross profit with reference to the price fluctuation of graphite electrodes, the price fluctuation of raw materials and the fluctuation of sales volume during the Track Record Period, please refer to the section headed “Financial Information — Key factors affecting our results for operations” in this prospectus for further details.

SUMMARY

Our gross profit and gross profit margin for Americas decreased in FY2020 compared to FY2019 because our gross profit and gross profit margins of the United States and Canada, two of our major markets, decreased significantly. Our gross profit in the United States further decreased from approximately US\$10.3 million for FY2019 to approximately US\$1.1 million for FY2020 and our gross profit margin in the United States decreased from approximately 33.7% for FY2019 to approximately 5.2% for FY2020 due to the decrease in the average selling price by approximately 45.7% or approximately US\$4,208/MT from approximately US\$9,215/MT for FY2019 to approximately US\$5,007/MT for FY2020, which was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. The effect of such decrease was partially offset by the decrease in the average cost of sales by approximately 22.3% or approximately US\$1,366/MT from approximately US\$6,114/MT for FY2019 to approximately US\$4,748/MT for FY2020.

Our gross profit in Canada decreased from approximately US\$18.3 million for FY2019 to approximately US\$3.2 million for FY2020 and our gross profit margin in Canada decreased from approximately 48.3% for FY2019 to approximately 22.0% for FY2020 due to the decrease in the average selling price by 42.8% from approximately US\$8,675/MT to approximately US\$4,965/MT, which was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. The effect of such decrease was partially offset by the decrease in the average cost of sales per MT by approximately 13.5% from approximately US\$4,481/MT in FY2019 to US\$3,874/MT in FY2020.

Our gross profit and gross profit margin for Americas increased in FY2021 compared to FY2020 which was primarily due to the improvement in our gross profit and gross profit margin from the sales to our customers in the United States partially offset by the decrease of gross profit in Canada despite an improvement in the gross profit margin in Canada. Our gross profit and gross profit margin for Americas increased significantly in 1H2022 as compared to 1H2021 primarily driven by the strong increase in our average selling price in the United States and Canada, partially offset by the increase of our average cost of sales in the United States and Canada. For the trends of our Group's gross profit and gross profit margins in the United States and Canada, please refer to the sections headed "Financial Information — Gross profit and gross profit margin — United States" and "Financial Information — Gross profit and gross profit margin — Canada" in this prospectus.

Our gross profit and gross profit margin for EMEA decreased in FY2020 compared to FY2019 because our gross profit and gross profit margins for Russia and France, two of our major markets, decreased significantly. Our average selling price decreased by approximately 53.4% from FY2019 to FY2020. Our gross profit and gross profit margin increased in FY2021 compared to FY2020 which aligned with our overall gross profit and gross profit trends in FY2021. For the trends of our Group's gross profit and gross profit margins for Russia and France, please refer to the sections headed "Financial Information — Gross profit and gross profit margin — Russia" and "Financial Information — Gross profit and gross profit margin — France" in this prospectus. Our gross profit and gross profit margin increased significantly in 1H2022 as compared to 1H2021, primarily driven by the significant increase in the average selling price partially offset by the increase in our average cost of sales.

The gross profit and gross profit margin for APAC in FY2018 and FY2019 remained stable. Our gross profit and gross profit margin from APAC decreased in FY2020 compared to FY2019 because of the decrease in our average selling price from FY2019 to FY2020 by approximately 59.4%. Our margin position improved from gross loss for FY2020 to gross profit for FY2021 primarily because of the decrease of cost of sales by approximately 36.8% from approximately US\$4,948/MT for FY2020 to approximately US\$3,129/MT for FY2021. Such fluctuation was mainly due to our sales to one of our customers where a gross loss of approximately US\$0.1 million was recorded in FY2020 and where a gross profit of approximately US\$0.6 million was recorded in FY2021. Our gross profit and gross profit margin increased in 1H2022 compared to 1H2021 which was in line with the rising trends of our overall gross profit and gross profit margin in 1H2022.

For the commentary on our financial performance of this segment, please refer to the section headed "Financial Information — Results of Operations" in this prospectus.

SUMMARY

Revenue, gross profit and gross profit margin by sources of graphite electrodes

The table below sets out the breakdown of revenue, gross profit and gross profit margin by sources of graphite electrodes:

	FY2018			FY2019			FY2020			FY2021			1H2021 <i>(unaudited)</i>			1H2022						
	Percentage of our total revenue		Gross profit margin	Percentage of our total revenue		Gross profit margin	Percentage of our total revenue		Gross profit margin	Percentage of our total revenue		Gross profit margin	Percentage of our total revenue		Gross profit margin	Percentage of our total revenue		Gross profit margin				
	Revenue US\$'000	%	US\$'000	Revenue US\$'000	%	US\$'000	Revenue US\$'000	%	US\$'000	Revenue US\$'000	%	US\$'000	Revenue US\$'000	%	US\$'000	Revenue US\$'000	%	US\$'000	Revenue US\$'000	%		
Manufactured by our Group	920	0.5	696	75.7	150,844	100.0	50,422	33.4	93,090	85.8	11,588	12.4	91,155	83.9	37,570	89.9	5,734	15.3	45,366	76.0	11,345	25.4
Sourced from suppliers	167,399	99.5	104,522	62.4	—	—	—	—	15,450	14.2	7,332	47.5	17,539	16.1	4,216	10.1	1,481	35.1	14,340	24.0	4,019	28.0
Inventory provision							(16,159)				(2,406)											
Total	168,319	100.0	105,218	62.5	150,844	100.0	34,263	22.7	108,540	100.0	16,514	15.2	108,694	100.0	41,786	100.0	7,215	17.3	59,706	100.0	15,564	26.1

Notes:

- (1) In FY2018, we sourced the graphite electrodes from various suppliers.
- (2) We purchased graphite electrodes from other suppliers to fulfil selected sales orders.

SUMMARY

In FY2020, in reaction to the market downward adjustment starting from late 2019, we sourced graphite electrodes from suppliers to fulfill a small portion of our sales and utilised our inventories with an aim of destocking. We leveraged our substantive global customer and PRC supplier networks to source graphite electrodes at a low price.

During FY2021, as the price gap between global and the PRC markets has been narrowing down, we manufactured most of the graphite electrodes delivered in FY2021 and sourced graphite electrodes from suppliers to fulfil a small portion of our sales.

The decrease in our gross profit margin for graphite electrodes manufactured by our Group during FY2019 and FY2020 was largely caused by the downward adjustment of the average selling price of graphite electrodes sold and the market price volatility of graphite electrodes. The gross profit margin increased from 12.4% in FY2020 to 19.1% in FY2021 and then to 25.4% in 1H2022. The increase in FY2021 was mainly due to the decrease in purchase cost of raw materials in FY2020 and the increase in 1H2022 was mainly driven by the significant increase in our average selling price.

The gross profit margin for FY2020, FY2021 and 1H2022 for graphite electrodes sourced from our suppliers was 47.5%, 30.7% and 28.0%, respectively, which reflects the price gap between the purchase price agreed with our customers and the sourcing costs of the graphite electrodes we traded.

According to Frost & Sullivan, the reopening from lockdowns and the gradual recovery of the downstream industries of the EAF steel market were fundamental contributing factors to the rebound of the global graphite electrodes industry since late 2020. Numerous indicators for the recovery and growth drivers have been found in the UHP graphite electrodes industry, including but not limited to (i) a continuous increase in the global monthly average price of graphite electrodes from approximately USD3,838 in January 2021 to USD5,233 in December 2021 (excluding the PRC) and from approximately RMB27,082 in January 2021 to RMB38,259 in December 2021 (for the PRC); (ii) a moderate growth in the estimated revenue of UHP graphite electrodes among our Group's major markets, of which the CAGR from 2021 to 2026 ranges from approximately 11.2% to 22.5%; (iii) various initiatives for dual carbon goals and more stringent environmental policies and regulations as well as the increasing awareness of the carbon neutrality which encourage environmental friendly production process and further spur the development of the global EAF steel industry.

The average selling price of UHP graphite electrodes has bottomed out in the second half of 2020, and in the future, along with the recovery of the downstream industries, especially global EAF steel industry and taken into account graphite electrode as a necessary consumable for EAF steel manufacturing, the graphite electrode market is expected to resume its long-term growth trajectory.

SUMMARY

COMPETITIVE STRENGTHS

Our principal competitive strengths are:

- We have worldwide presence and diversified customer base with reputable customers;
- We offer premium quality graphite electrodes manufactured by our factories under our close oversight of high environmental standards;
- We have strong technical capability to deliver optimised products;
- We have stable raw material supply; and
- We have an experienced management team with extensive knowledge of the graphite electrode industry and markets.

BUSINESS STRATEGIES

Our aim is to maintain our strong position in the graphite electrode industry and as a global UHP graphite electrode manufacturer to supply UHP graphite electrodes to facilitate our downstream customers to contribute to a green and sustainable economy in the long run. To achieve this objective, we have formulated the following major business strategies:

- Strategies to expand customer base and sales volume;
 - Strengthen established customer relationship and further expand our customer base
 - Expand our production capacity
- Maintain and enhance profitability; and
- Strengthen our research and development capability and expand product portfolio.

SUMMARY

Production capacity

The table below sets out information about the utilisation rate of our production facilities since our commencement of production during the Track Record Period:

	FY2018		FY2019		FY2020		FY2021		1H2022	
	Effective production capacity (MT) (Note 1)	Utilisation rate (Note 2)	Effective production capacity (MT) (Note 1)	Utilisation rate (Note 2)	Effective production capacity (MT) (Note 1)	Utilisation rate (Note 2)	Effective production capacity (MT) (Note 1)	Utilisation rate (Note 2)	Effective production capacity (MT) (Note 1)	Utilisation rate (Note 2)
Not taking into account production of connecting pins (Note 3)										
The Italian Factory (Note 4)	9,625	14.6%	16,500	62.0%	16,500	57.5%	16,500	91.7%	8,182	80.2%
The PRC Factory (Notes 5, 6, 7 and 8)	—	—	14,000	91.2%	12,250	60.8%	11,654	65.2%	4,679	91.2%
Taking into account production of connecting pins (Note 3)										
The Italian Factory (Note 4)	9,625	14.6%	16,500	62.0%	16,500	57.5%	16,500	91.7%	8,182	80.2%
The PRC Factory (Notes 5, 6, 7 and 8)	—	—	14,000	95.8%	12,250	69.6%	11,654	80.2%	4,679	107.0%

For details of Notes (1) to (8), please refer to the section headed “Business — Our Production — Production capacity” in this prospectus.

SUMMARY

OUR CUSTOMERS

A majority of our customers are world reputable and leading EAF steel manufacturers which are located in over 25 countries, mainly in the Americas, EMEA, APAC and the PRC.

The table below sets out the breakdown of revenue, gross profit and gross profit margin by customer types:

	FY2018			FY2019			FY2020			FY2021			1H2021 <i>(unaudited)</i>			1H2022		
	Revenue US\$'000	Gross profit margin %	Percentage of our total revenue %	Revenue US\$'000	Gross profit margin %	Percentage of our total revenue %	Revenue US\$'000	Gross profit margin %	Percentage of our total revenue %									
End users ^(Note 1)	163,778	63.5	90.5	136,535	40.1	61.3	66,566	18.4	68.0	29,351	18.5	70.2	4,455	15.2	71.5	12,001	28.1	71.5
Others ^(Note 2)	4,541	26.4	9.5	(4,384)	(30.6)	38.7	41,974	15.9	32.0	12,435	26.3	29.8	2,760	22.2	28.5	3,563	20.9	28.5
Inventory provision	—	—	—	(16,159)	(2,406)	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	168,319	62.5	100.0	150,844	22.7	100.0	108,540	15.2	100.0	41,786	21.0	100.0	7,215	17.3	100.0	15,564	26.1	100.0

Notes:

- (1) Mainly included steel manufacturers, a mineral product manufacturer and a mining company.
- (2) Others comprise sales to distributor and industry traders.

SUMMARY

For FY2018, FY2019 and FY2020, the trends in our gross profit and gross profit margin from steel manufacturers are generally in line with our overall trends of gross profit and gross profit margin. For FY2020 and FY2021, the trend in our gross profit from steel manufacturers are generally in line with our overall trend of gross profit, but the gross profit margin decreased due to the average selling prices of graphite electrodes sold to steel manufacturers decreased. The gross loss margin from other customers, namely the distributor and industry traders, in FY2019 was mainly due to the downward adjustment in the PRC graphite electrodes market price in the second half in 2019. During FY2019, the average selling price of graphite electrodes we sold to PRC distributors and industry traders dropped, resulting in a gross loss in FY2019. Our Directors are of the view that the above sales of graphite electrodes were on normal commercial terms.

Our margin position from other customers improved from gross loss margin in FY2019 to gross profit margin in FY2020. For FY2020 and FY2021, our gross profit margin from other customers increased from 15.9% to 26.3% due to the decrease in the unit cost of sales which was partially offset by the decrease in the average selling price.

The gross profit margin of sales to the end customers for FY2021 remained similar to that of FY2020 and was lower than that of the other customers in FY2021. Given the market price of graphite electrodes resumed trajectory trend in FY2021. The gross profit margin of sales to the end customers was lower than that of the other customers in FY2021 mainly due to the combined effects of that (i) the cost of sales of graphite electrodes remained stable through FY2021; and (ii) the end customers placed most of their orders in late FY2020 or the first half of 2021, the time point when the market price of graphite electrodes was relatively low. The orders for 4,381MT of graphite electrodes with the average selling price of US\$4,897/MT were placed in the second half of 2021.

Our gross profit margin of sales to the other customers in FY2021 improved as compared to that of FY2020, primarily attributable to certain traders conducted short term purchases (i.e. place orders with less than 60 days of delivery period) in the second half of 2021.

The gross profit margin of the sales to end users increased significantly from 15.2% for 1H2021 to 28.1% for 1H2022, primarily driven by the significant increase in our average selling price. The gross profit margin of our sales to other customers remained stable during 1H2021 and 1H2022 primarily attributable to the net effect of the increase in our average selling price and the increase in the average cost of sales.

Our top five customers in aggregate, accounted for approximately 77.9%, 47.2%, 54.7%, 46.7% and 43.6% of our total revenue in each year/period during the Track Record Period, respectively. Our largest customer accounted for approximately 27.6%, 16.9%, 24.3%, 12.3% and 14.5% of our total revenue in each year/period during the Track Record Period, respectively. Please refer to the section headed “Business — Customers” in this prospectus for further details of our major customers.

SUMMARY

Pricing policy

According to Frost & Sullivan, as an industry characteristic, there is no consistent trend of gross profit margin, average selling price and average costs of sales of different geographical regions, major markets or even individual customers. The price of graphite electrodes is influenced by supply and demand, global and regional economic conditions, and the ability to negotiate between the supplier and customer, so the price trends, the pattern of gross profit, average selling price, and average costs of sales vary by case. The price trend and the pattern of gross profit margin, average selling price, and average costs of our Group's sales globally are generally in line with the market trend and within the range of its industry peers.

Our primary goal is to provide a competitive quotation to secure purchase orders from our customers and at the same time, maximise our utilisation rate and allocate our products to purchase orders with the highest margins available at the relevant time.

Upon receipt of a request quote from our customers, a case-by-case quotation proposal will be prepared for our management's consideration. In determining our quote for each potential order, we will consider a bundle of factors and price our products based on these factors on a case-by-case basis. The quotation will be subject to further negotiation between our customers and us and counter-offers made by the customers based on the price range received from other suppliers. Our management will decide whether we should accept or refuse the order based on the said factors.

Throughout the price determination process, our customers do not have information about the cost of our Group nor other suppliers. In view of that, the final price and the gross profit margin of each purchase order may vary. While our Group aims at maximising our gross profit margin, the final price of each transaction will likely to be adjusted towards the most competitive price quotation in the negotiation and as a result, will not lead to a consistent or predetermined gross profit margin.

Trade War between China and the U.S.

Our operations are subject to various legal, political and economic risks, particularly the escalating tension of the Sino-U.S. relation and the anti-dumping regulations.

The U.S. government implemented a series of tariffs on Chinese-origin products. Graphite electrodes of Chinese origin exported to our customers located in the U.S. are included on List 3 of the U.S. tariffs on Chinese-origin products. Prior to List 3 coming into effect, our graphite electrodes were subject to a tariff of 6% imposed by the U.S. government. As our graphite electrodes are included in List 3, we are subject to an additional tariff (the "**Additional Tariff**") of 10% from 24 September 2018 to 9 May 2019 and 25% from 10 May 2019 up to the Latest Practicable Date.

SUMMARY

Since we commenced manufacturing in late 2018, as part of our overall business strategy to diversify our manufacturing beyond the PRC and our measure to minimise our exposure to the imposition of the Additional Tariff on our products effective from September 2018 and any negative effect on the demand of our products from the U.S. customers, we have used, to the extent possible, the production capacity of the Italian Factory instead of the PRC Factory to manufacture products for sales to our customers in the U.S. with an aim to minimising our exposure to the Additional Tariff. During FY2021 and 1H2022, all of our products for sales to our customers in the U.S. were manufactured by the Italian Factory. During the Track Record Period, the total amount of Additional Tariff paid by our Group amounted to approximately US\$1.3 million, US\$1.6million, US\$44,000, nil and nil, respectively. Therefore, given we have put in place counter measures to mitigate the impact of Additional Tariff, we do not expect that the Sino-U.S. trade conflicts have or will have a material impact on our business and outlook.

Impact of anti-dumping regulations

While the anti-dumping and countervailing duty regulations in the U.S. and the anti-dumping regulations under the European Union (collectively, the “**Anti-Dumping Regulations**”, details of which are set out in the sections headed to “Regulatory Overview — Antidumping and Countervailing Duty Regulations” and “Regulatory Overview — European Union Laws and Regulations” in this prospectus) are applicable to our businesses in the U.S. or Europe, our Directors consider that the Anti-Dumping Regulations do not exert material adverse impact on our businesses. Since the anti-dumping regulations by the European Commission is only applicable to graphite electrodes (other than connecting pins) imported from China and our Group generally does not import graphite electrodes (other than connecting pins) from China to the European Union, there is no anti-dumping duty chargeable on our products distributed in these regions upon the implementation of the anti-dumping regulations under the European Union.

On the other hand, the anti-dumping duty under the anti-dumping and countervailing duty regulations of the U.S. will only be applicable to our graphite electrodes manufactured at the Italian Factory, if coupled with connecting pins which are imported from China. During the Track Record Period, we had paid approximately nil, US\$176,000, US\$33,000, US\$38,000 and US\$13,000 anti-dumping duty for the connecting pins originated from China, which represented approximately nil, 0.15%, 0.04%, 0.04% and 0.03% of our total cost of sales of the respective years. Our Directors confirm that all these duties have been duly paid and we have been in compliance with the Anti-dumping Regulations. By having the Italian Factory which can supply products to these regions, our Directors believe that the Anti-dumping Regulations provide us with a competitive advantage in that we will have greater competitiveness in pricing against our competitors in these regions.

OUR SUPPLIERS

We mainly source our graphite electrodes and raw materials, such as needle coke and binder pitch, from suppliers located in the U.K., Germany, Japan, South Korea, the PRC and the Czech Republic.

In each year/period during the Track Record Period, our top five suppliers in aggregate accounted for approximately 91.2%, 54.6%, 65.8%, 67.4% and 59.9%, and our largest supplier accounted for approximately 31.9%, 18.0%, 22.2%, 27.2% and 23.5% of our total purchases, respectively. Please refer to the section headed “Business — Our Suppliers — Our top suppliers” in this prospectus for further details of our major suppliers.

SUMMARY

SUMMARY OF KEY OPERATIONAL AND FINANCIAL INFORMATION

Summary of consolidated statements of profit or loss and other comprehensive income

The table below summarises our consolidated statements of profit or loss and other comprehensive income for the Track Record Period which are extracted from the Accountants' Report set out in Appendix I to this prospectus:

	FY2018	FY2019	FY2020	FY2021	1H2021	1H2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
					<i>(unaudited)</i>	
Revenue	168,319	150,844	108,540	108,694	41,786	59,706
Cost of sales	<u>(63,101)</u>	<u>(116,581)</u>	<u>(92,026)</u>	<u>(85,864)</u>	<u>(34,571)</u>	<u>(44,142)</u>
Gross profit	105,218	34,263	16,514	22,830	7,215	15,564
Profit before tax	89,488	5,532	3,206	6,154	395	7,930
Income tax (expense)/credit	<u>(17,472)</u>	<u>(369)</u>	<u>980</u>	<u>(1,766)</u>	<u>(18)</u>	<u>(1,397)</u>
Profit for the year	<u><u>72,016</u></u>	<u><u>5,163</u></u>	<u><u>4,186</u></u>	<u><u>4,388</u></u>	<u><u>377</u></u>	<u><u>6,533</u></u>

Revenue

Our revenue increased significantly by US\$17.9 million or 42.9%, from US\$41.8 million for 1H2021 to US\$59.7 million for 1H2022, primarily driven by the combined effect of (i) the increase in the sales volume by 1,054MT or 9.2% from 11,402MT in 1H2021 to 12,456MT in 1H2022; and (ii) the significant increase in the average selling price by US\$1,128/MT or 30.8% from US\$3,665/MT in 1H2021 to US\$4,793/MT in 1H2022.

Our revenue remained stable in FY2020 and FY2021 due to the increase in sales volume by 2,022MT or 7.9% from 25,647MT in FY2020 to 27,669MT in FY2021, the effect of which was partially offset by the decrease in the average selling price by US\$304/MT or 7.2% from US\$4,232/MT in FY2020 to US\$3,928/MT in FY2021.

Our revenue decreased by US\$42.3 million or 28.0%, from US\$150.8 million for FY2019 to US\$108.5 million for FY2020 primarily due to the average selling price decreased by US\$3,442/MT or 44.9% from US\$7,674/MT for FY2019 to US\$4,232/MT for FY2020 because of the downward adjustment in the market price of graphite electrodes during second half in 2019 and FY2020 following the slowing growth of global EAF steel market as a result of COVID-19, the effect of which was partially offset by the increase in sales volume by 5,991MT or 30.5% from 19,656MT to 25,647MT.

Our revenue decreased by US\$17.5 million or 10.4%, from US\$168.3 million for FY2018 to US\$150.8 million for FY2019 primarily due to the average selling price decreased by US\$7,636/MT or 49.9% from US\$15,310/MT for FY2018 to US\$7,674/MT for FY2019 as the global market price of graphite electrodes returned from historical high in FY2018 to a relatively normal level in FY2019, effect of which was partially offset by the increase in sales volume by 8,662MT or 78.8% from 10,994MT to 19,656MT.

SUMMARY

Gross profit and gross profit margin

Our overall gross profit increased significantly by US\$8.4 million or 115.7%, from US\$7.2 million in 1H2021 to US\$15.6 million in 1H2022 and the gross profit margin improved significantly from 17.3% for 1H2021 to 26.1% for 1H2022. Such increase was mainly driven by the significant increase in the average selling price of graphite electrodes by 30.8% from US\$3,665/MT in 1H2021 to US\$4,793/MT in 1H2022 and the increase in sales volume by 9.2% from 11,402MT in 1H2021 to 12,456MT in 1H2022.

Our overall gross profit increased by US\$6.3 million or 38.2%, from US\$16.5 million for FY2020 to US\$22.8 million for FY2021. Such increase was mainly due to the unit cost of sales decreased by 13.5% from US\$3,588/MT in FY2020 to US\$3,103/MT in FY2021 and the increase in sales volume by 7.9% from 25,647MT for FY2020 to 27,669MT for FY2021. The gross profit margin increased from 15.2% for FY2020 to 21.0% for FY2021 which was mainly due to the decrease in purchase cost of raw materials in FY2020.

Our overall gross profit decreased by US\$17.8 million or 51.8%, from US\$34.3 million for FY2019 to US\$16.5 million for FY2020. Such decrease was mainly due to the effect of the significant decrease of average selling price by 44.9% from US\$7,674/MT for FY2019 to US\$4,232/MT for FY2020 because of the downward adjustment in the graphite electrode market price during the second half in 2019 and FY2020 following the slowing growth of the global EAF steel market due to the COVID-19 pandemic; which was partially offset by the decrease in purchase cost of raw materials, the amount of stock provision reduced due to inventories sold in FY2019, being US\$537/MT, and the postponement of delivery of a purchase order with a relatively high average selling price from the original scheduled time in FY2019 to FY2020 upon the request of one of our major customers, Xinxiang Longhui. The average selling price for that order was higher than that of our Group's other sales in the PRC in FY2020 given the graphite electrode market was vibrant in FY2019. Therefore, for such order, we recorded the transaction amount of approximately US\$13.8 million and the gross profit margin of approximately 40.0%, which was relatively higher than our overall gross profit margin.

Our overall gross profit decreased by US\$70.9 million or 67.4%, from US\$105.2 million in FY2018 to US\$34.3 million in FY2019. Such decrease was mainly due to the combined effect of (i) the significant decrease in the average selling price by 49.9% in FY2019 as the market price of graphite electrodes returned from the historical high in FY2018; (ii) the increase in cost of sales because of the significant increase in sales volume in FY2019, and (iii) the provision for inventories of US\$16.2 million in FY2019.

Net profit

Our net profit increased significantly by US\$6.1 million or 1,632.9%, from US\$0.4 million for 1H2021 to US\$6.5 million in 1H2022. Such increase was driven by the strong increase in revenue and gross profit margin for the reasons explained above.

Our net profit for FY2020 and FY2021 remained stable.

Our net profit decreased by US\$1.0 million or 18.9%, from US\$5.2 million for FY2019 to US\$4.2 million for FY2020. Such decrease was mainly due to the decrease in revenue and gross profit margin for the reasons explained above and the listing expenses incurred.

SUMMARY

Our net profit decreased by US\$66.8 million or 92.8%, from US\$72.0 million for FY2018 to US\$5.2 million for FY2019. Such decrease was mainly due to the decrease in revenue and gross profit margin for the reasons explained above.

Other income

In FY2018, FY2019, FY2020, FY2021 and 1H2022, our other income accounted for 9.2%, 64.9%, 129.6%, 29.6% and 10.8% of our net profit. Our other income mainly represents the net profit on sales of other carbon products, gain on bargain purchase on acquisition of a subsidiary, interest income on bank deposits, insurance claims for plant and machinery, revaluation gain on property, plant and equipment previously impaired and other miscellaneous income. Our other income amounted to US\$6.6 million, US\$3.4 million, US\$5.4 million, US\$1.3 million and US\$0.7 million in FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

Summary of consolidated statements of financial position

The table below sets out a summary of our consolidated balance sheet as at the dates indicated:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Total non-current assets	64,464	70,656	113,460	116,034	107,917
Total current assets	147,162	143,782	96,108	106,826	110,802
Total Assets	211,626	214,438	209,568	222,860	218,719
Total Equity	106,173	110,322	133,210	134,989	131,901
Total non-current liabilities	23,857	22,870	27,666	26,678	31,824
Total current liabilities	81,596	81,246	48,692	61,193	54,994
Total liabilities	105,453	104,116	76,358	87,871	86,818
Net current assets	65,566	62,536	47,416	45,633	55,808

The net assets increased from US\$106.2 million as at 31 December 2018 to US\$110.3 million mainly due to the net profit for the year amounted to US\$5.2 million for the year ended 31 December 2019.

The net assets increased from US\$110.3 million as at 31 December 2019 to US\$133.2 million as at 31 December 2020 mainly due to (i) the increase in asset revaluation reserve by US\$8.3 million in FY2020 due to our acquisition of the PRC Factory and the Sanli Assets in FY2020; (ii) the increase in the issued capital and share premium by US\$10.0 million; (iii) the increase in retained profits by US\$4.2 million contributed by the net profit for the year for FY2020; and (iv) the increase in exchange fluctuation reserve by US\$6.1 million for FY2020 which was partly offset by the decrease in capital reserve by US\$5.7 million.

The net assets increased from US\$133.2 million as at 31 December 2020 to US\$135.0 million as at 31 December 2021 mainly due to: (i) the net profit for the year amounted to US\$4.4 million for FY2021; and (ii) the increase in share premium of US\$11.4 million, which was partly offset by the dividend declared amounted to US\$14 million for FY2021.

SUMMARY

The net assets decreased from US\$135.0 million as at 31 December 2021 to US\$131.9 million as at 30 June 2022 mainly due to the decrease in exchange fluctuation reserve amounted to US\$9.3 million for 1H2022, which was partially offset by the net profit for the period amounted to US\$6.5 million for 1H2022.

Our Group's net current assets decreased from US\$65.6 million as at 31 December 2018 to US\$62.5 million as at 31 December 2019. The decrease was primarily due to the increase in other payables and accruals and decrease in trade receivables, which was partially offset by the decrease in income tax payables.

Our Group's net current assets decreased from US\$62.5 million as at 31 December 2019 to US\$47.4 million as at 31 December 2020. The decrease was primarily due to the decrease in inventories.

Our Group's net current assets decreased from US\$47.4 million as at 31 December 2020 to US\$45.6 million as at 31 December 2021. The slight decrease was primarily due to the increase in interest-bearing bank borrowings and the increase in trade and notes payables and offset by the decrease in other payables and accruals.

Our net current assets increased from US\$45.6 million as at 31 December 2021 to US\$55.8 million as at 30 June 2022. The increase was primarily attributable to the increase in inventories and trade receivables, the decrease in trade and notes payables, the decrease in other payables and accruals and partially offset by the increase in interest-bearing bank and other borrowings.

Summary of consolidated statements of cash flows

The table below sets out selected items of our key consolidated cash flows for the Track Record Period:

	FY2018	FY2019	FY2020	FY2021	1H2021	1H2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
					<i>(unaudited)</i>	
Net cash flows from/(used in) operating activities	(8,003)	15,340	21,996	6,277	6,315	1,247
Net cash used in investing activities	(4,843)	(9,813)	(42,914)	(15,668)	(6,423)	(5,675)
Net cash flows from/(used in) financing activities	(48)	6,867	16,384	12,383	1,332	4,418
Cash and cash equivalents at the end of the year	5,920	18,341	12,694	15,086	13,638	14,619

For FY2018, our Group recorded net operating cash outflow of US\$8.0 million mainly due to the increase in inventories of US\$92.5 million as a result of the ramping up of production at the Italian Factory in June 2018 which required us to increase our buffer stock of raw materials, work in progress and finished goods.

SUMMARY

In FY2019, while our inventories further increased due to the increase in work-in-progress inventories as a result of the full operation of both the Italian Factory and the PRC Factory, the cash flow position turned around and we recorded net operating cash inflow of US\$15.3 million due to operating cash inflow generated by the sale of the finished goods we manufactured.

Our net cash flow from operating activities decreased from US\$22.0 million in FY2020 to US\$6.3 million in FY2021 because we produced approximately 16,927MT of graphite electrodes in FY2020 while 22,726MT were produced in FY2021 only, leading to a substantial increase in inventories in FY2021 which contributed to the decrease in working capital in FY2021.

Our net cashflows from operating activities decreased from US\$6.3 million for 1H2021 to US\$1.2 million in 1H2022 mainly attributable to the net decrease in working capital amounted to US\$10.2 million in 1H2022 comparing with the net increase in working capital amounted to US\$4.9 million in 1H2021. Such change in working capital was mainly due to the increase in inventories of US\$6.0 million, the increase in trade receivables of US\$4.6 million and the decrease in trade and notes payables of US\$3.0 million in 1H2022. Further, there were a decrease in trade receivables of US\$0.7 million and an increase in trade and notes payables of US\$4.5 million in 1H2021. Therefore, it resulted to the decrease in net cash flow from operating activities from 1H2021 to 1H2022.

KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as at each of the periods and the dates indicated:

	FY2018	FY2019	FY2020	FY2021	1H2022
Gross Profit Margin (%)	62.5	22.7	15.2	21.0	26.1
Net Profit Margin (%)	42.8	3.4	3.9	4.0	10.9
Return on equity (%)	67.8	4.7	3.1	3.3	N/A
Return on total assets (%)	34.0	2.4	2.0	2.0	N/A
		As at 31 December			As at
	2018	2019	2020	2021	30 June
					2022
Current ratio	1.8	1.8	2.0	1.7	2.0
Gearing ratio (%)	21.7	26.0	18.7	24.9	26.5
Net debt to equity ratio (%)	16.2	9.4	9.2	13.7	15.4

For further details, please refer the section headed “Financial Information — Key financial ratio” in this prospectus.

OFFER STATISTICS

We have prepared the offer statistics below on the basis of hypothetical Offer Prices without taking into account the 1% brokerage, 0.0027% SFC transaction levy, 0.00565% Stock Exchange trading fee and 0.00015% AFRC transaction levy. We have also assumed no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.

SUMMARY

	Based on Offer Price per Share of HK\$1.6	Based on Offer Price per Share of HK\$2.2
Market capitalisation of our Shares ^(Note 1)	HK\$1,600 million	HK\$2,200 million
Unaudited <i>pro forma</i> adjusted consolidated net tangible assets per Share ^(Notes 1 and 2)	US\$0.1603 equivalent to HK\$1.2503	US\$0.1732 equivalent to HK\$1.3510

Notes:

- (1) Based on 1,000,000,000 Shares expected to be in issue immediately following the completion of the Capitalisation Issue and the Global Offering.
- (2) For the assumption and calculation method, please refer to the section headed “Unaudited pro forma financial information” in Appendix II to this prospectus

DIVIDEND POLICY

Our Company declared a dividend of US\$14.0 million, of which US\$13.4 million was settled and the remaining is expected to be settled before the Listing. Other than the above, no dividend has been paid or declared by our Company during the Track Record Period.

Our Shareholders will be entitled to receive dividends that we declare. Our Group does not have a pre-determined dividend-payment ratio. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. Any future declarations and payments of dividends will be at the discretion of our Directors and may require the approval of our Shareholders.

FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$238.4 million (assuming an Offer Price of HK\$1.9 per Share, being the mid-point of the indicative Offer Price range), after deducting the underwriting fees and expenses payable by us in the Global Offering and assuming no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.

SUMMARY

We currently intend to apply these net proceeds in the following manner:

- approximately HK\$83.0 million or 34.8% of our total estimated net proceeds will be used to pay for the purchase price of the Taigu Assets. For details of the acquisition of the Taigu Assets, please refer to the sections headed “Business — Business Strategies” in this prospectus;
- approximately HK\$131.6 million or 55.2% of our total estimated net proceeds will be used to upgrade our production systems in the Italian Factory, the PRC Factory and the Sanli Assets;
- approximately HK\$23.8 million or 10.0% of our total estimated net proceeds for our Group’s working capital and general corporate purposes.

For details of our future plans and use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

RISK FACTORS

Our business faces risks including those set out in the section headed “Risk Factors” in this prospectus. As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the section headed “Risk Factors” in this prospectus in its entirety before you decide to invest in the Offer Shares.

A summary of certain of these risk factors is set out below and any of the following developments may have a material and adverse effect on our business, financial condition and operating results:

- Our business, financial condition and results of operations are highly affected by the market selling price of graphite electrodes and recent macro-economic changes which are subject to numerous factors beyond our control.
- Our gross profit margin, average selling price and/or average cost of sales are subject to a bundle of factors and may fluctuate significantly from time to time.
- We rely on our major customers which account for a significant portion of our revenue. Any change in our relationship with our major customers may materially and adversely affect our business, financial condition and results of operations.
- Any material increase in the price of our major raw materials or shortage of our major raw materials may have adverse impacts on our business, financial condition and results of operations.
- The continuing spread, prolonged occurrence and recurrence of COVID-19 globally may result in a significant delay in the delivery of our products which, in turn, may have a material and adverse material effect on our business, financial condition and results of operations.

SUMMARY

LEGAL COMPLIANCE

Our Directors confirm that we had complied with all applicable laws and regulations in Hong Kong, Italy, the PRC, the U.S., Switzerland, South Africa and Macau in all material respects during the Track Record Period and up to the Latest Practicable Date.

COMPETITIVE LANDSCAPE

The global UHP graphite electrode manufacturing market is highly concentrated. According to the F&S Report, (i) the top 10 global UHP graphite electrode manufacturers accounted for approximately 41.6% of the global market share in 2021 in terms of the total production volume of the global UHP graphite electrodes, and we ranked seventh with a market share of approximately 1.4% of the global UHP graphite electrode market in terms of the total production volume, and (ii) the top five graphite electrode manufacturers in the PRC in 2021 accounted for approximately 75.7% of the UHP graphite electrode market share in the PRC in terms of the UHP graphite electrode production volume and we ranked fourth with a market share of approximately 7.1% of the UHP graphite electrode market shares in the PRC in terms of the UHP production volume.

Our Directors consider that there are entry barriers to UHP graphite electrode manufacturing, including the requirement to commit heavy capital investment and the possession of technical industry knowledge and know-how in production. However, we consider that we are well-positioned to compete effectively in the UHP graphite electrode manufacturing market and that our strengths will distinguish us from our competitors. Please refer to the sections headed “Business — Competitive Strengths” in this prospectus for further information.

LISTING EXPENSES

Our listing expenses mainly comprise professional fees paid to the Overall Coordinator, the Joint Global Coordinators, the Underwriters, legal advisers and the reporting accountant, among others, for their services rendered in relation to the Listing and the Global Offering. Up to 30 June 2022, we had incurred listing expenses of HK\$55.0 million, of which HK\$13.4 million will be accounted for as a deduction in equity upon Listing and HK\$41.6 million we had recorded as expenses.

We expect to incur further listing expenses amounting to HK\$34.1 million, of which HK\$14.4 million is expected to be accounted for as a deduction in equity upon Listing and the remaining HK\$19.7 million is expected to be recorded as expenses in the year ending 31 December 2022.

The total listing expenses are expected to be HK\$89.1 million, which is approximately 27.2% of the gross proceeds from the Global Offering (based on the mid-point of the Offer Price range). Such listing expenses comprise underwriting-related expenses of HK\$9.8 million and non-underwriting expenses of HK\$79.3 million, which included (i) professional fees paid and payable to the Sole Sponsor, legal advisers, and the reporting accountants of HK\$51.9 million, and (ii) fees paid and payable to other working parties and other expenses in relation to the Listing and the Global Offering of HK\$27.4 million. For details, please refer to the section headed “Financial Information — Listing Expenses” in this prospectus.

SUMMARY

As confirmed by our Directors, discretionary bonus of no more than HK\$3.3 million is expected to be given to the professional parties involved in the Listing and the Global Offering. The Sole Sponsor also confirms that our Group and/or our Controlling Shareholders have not engaged or will not engage any parties other than the professional parties in connection with this Listing and the Global Offering, the fees and expenses of which have already been accounted for as “listing expenses” in our Group’s consolidated statements of profit or loss and other comprehensive income.

RECENT DEVELOPMENTS

Outbreak of COVID-19

Based on the data from the Organisation of Economic Cooperation and Development, the outbreak of COVID-19 has adversely impacted the global steel industry, which has passed its lowest point in 2020 and has been recovering thereafter. However, the recovery differed across countries depending on their success in containing the virus, their national industry structure, and economic support measures. China’s steel industry, for instance, rebounded from the second quarter in 2020.

The global (excluding the PRC) production volume and operating rate of crude steel also bottomed in 2020 and has since picked up. For further details on the market development of the graphite electrode industry as well as its downstream industries, namely the steel, construction, machinery and automotive industries, please refer to the section headed “Industry Overview — Recent Development of global and China steel and graphite electrode market amid the COVID19” in this prospectus.

There have been delays in orders of some of our customers and postponement in the delivery of some of our products in the later part of the second and third quarters of 2020 and certain of our customers’ sales volume has not yet recovered. The outbreak of COVID-19 has resulted in the cancellation and the postponement in the delivery of some of our products in 2020 and hence, a decrease in our revenue. During the period of March to December 2020, orders in the aggregate sales amount of approximately (i) US\$0.7 million were cancelled, (ii) US\$3.7 million were postponed without indication of delivery time, (iii) US\$3.8 million were postponed to the second half of 2020 and (iv) US\$1.1 million were postponed to 2021 due to COVID-19. Among the US\$8.6 million orders which were postponed, US\$4.7 million worth of orders have been delivered and materialised in FY2021. The aggregate contract value of the cancelled sales orders and orders without delivery time schedule amounted to approximately 0.6% of our revenue for FY2020. This, together with the decrease in the average selling price of our graphite electrodes, have attributed to the decrease in our revenue in FY2020, the impact of which was partially offset by the increase in our sales volume. Despite the cancellation and postponement of the confirmed orders, our sales volume of approximately 25,647MT in FY2020 represented an increase of approximately 30.5% compared with the sales volume of 19,656MT in FY2019.

During FY2021, businesses of our customers gradually returned to normal and our customers no longer cancelled purchase orders nor postponed delivery due to COVID-19, and orders in the aggregate sales amount of approximately (i) US\$1.7 million were cancelled by our customers due to quality issues and that a customer underwent ownership change and (ii) US\$1.1 million were postponed at customers’ requests as the inventory level of graphite electrodes of the relevant customers was high. As at the Latest Practicable Date, the above postponed orders had been delivered.

SUMMARY

Based on the data from the Organisation of Economic Cooperation and Development, while the outbreak of COVID-19 has resulted in the near-term recession in early 2020, the global economy has begun to recover in the third quarter of 2020. In addition, the demand from downstream industries that the EAF steel manufacturing industry serves, such as the public infrastructure industry, the construction industry and the automobile industry, has started to recover in late 2020 and early 2021. This will help the recovery of the global EAF steel market. As the UHP graphite electrode market has been gradually recovering in terms of the average selling price in early 2021, our Group's business performance has shown improvement since the second quarter of 2021. Our average selling price per MT of each quarter of 2020 and 2021 was approximately US\$4,786, US\$4,626, US\$3,595, US\$3,679, US\$3,690, US\$3,645, US\$3,970 and US\$4,230, respectively, which mirrored the increasing market average selling price trend of graphite electrodes. Our gross profit margin has increased from approximately 15.2% in FY2020 to approximately 21.0% in FY2021.

In 1H2022, the lockdowns in various PRC cities have had some impact on our financial performance with PRC sales being lower than forecast due to lower demand. Operationally, the lockdowns had also posed logistical challenges with inter-provincial transport being affected although we have mitigated such adverse effect by adopting more advance planning, such as ascertaining the COVID-19 related measures of the relevant cities and having proactive communication with the relevant local governments' authorities.

While most countries have implemented travel restrictions as a result of the outbreak of COVID-19, such restrictions do not have a material impact on the transportation of goods, including the raw materials from our suppliers and our products except for a slight increase in freight changes. As such, our Directors consider that such restrictions did not have any material adverse impact on our operations up to the Latest Practicable Date. Our Directors confirm that there was no actual or foreseeable material disruption on the supply of raw materials from our suppliers up to the Latest Practicable Date.

Other recent developments

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group continued to focus on developing its business and explored business opportunities and secured four new customers.

Our Directors confirm that during the period from 2 January to 28 February 2022, the production at the PRC Factory was substantially suspended according to the order from the relevant local government which mandated power rationing for the preparation of the Beijing 2022 Winter Olympics. Following the mandatory power suspension, the PRC Factory recommenced operations at full power starting from 1 March 2022. As all the baking furnaces were switched off since 2 January 2022, the PRC Factory had to restart the baking furnaces and took 380 hours (which were approximately 16 days) to reach the baking temperature of 1,200 degrees celsius. The production schedule for steps following baking was therefore extended. Therefore, the production at the PRC Factory was partially suspended in March 2022 and gradually resumed normal in May 2022.

Due to the power rationing, the delivery of 200MT and 1,200MT (in aggregate attributable to US\$5.6 million in terms of revenue) of graphite electrodes scheduled to be delivered in February and March 2022, respectively, were delayed and have been delivered from April to June 2022. Given the revenue amount attributable to the delayed deliveries was not substantial, the delay did not have any material adverse effect on our Group after the Track Record Period.

SUMMARY

Our Directors confirm that as at the Latest Practicable Date, none of the affected customers had cancelled their purchase orders. In addition, none of the affected customers who experienced delayed deliveries in February and March 2022 had cancelled their orders. According to the terms of the purchase orders placed by these affected customers, there were no contractual terms entitling them to claim compensation or penalties against our Group on the basis of the delayed deliveries. Our Directors consider that it is unlikely for the affected customers to bring compensation claims against our Group.

Despite the postponement of orders as described above, based on the Directors' understanding, our delivery arrangement in the PRC has gradually resumed normal in May 2022. Our Directors consider that the Winter Olympics is a one-off event and it would not have an ongoing impact on the operation of the PRC Factory.

Save for the delay or cancellation of orders as described in this section headed "Recent developments — Outbreak of COVID-19", there has been no delay or cancellation of orders since September 2021. Based on our Group's latest order book as at 30 September 2022, we received confirmed orders for sales volume of approximately 8,959MT for the year ending 31 December 2022. Based on the past experience of our Directors, our Group did not experience material difficulty in preparing logistic arrangement for delivery and material delay in the delivery of goods to our customers. Furthermore, among the confirmed orders received as at 30 September 2022 of approximately 2,843MT, 3,804MT and 202MT for Americas, EMEA, and APAC (excluding the PRC), respectively, their average selling prices have achieved approximately US\$6,437/MT, US\$5,412/MT and US\$4,884/MT, respectively, which indicated that our Group has continued to align with the trend of the industry recovery.

In relation to our performance after the Track Record Period, our sales volume during the four months ended 31 October 2022 amounted to approximately 6,365MT, representing a decrease of approximately 27.8% from that of the four months ended 31 October 2021, being approximately 8,818MT. Our gross profit margin during the four months ended 31 October 2022 decreased to approximately 19.1% as compared with approximately 26.1% in 1H2022, mainly attributable to the increase in the average cost of sales by approximately 13.2% from US\$3,544/MT in 1H2022 to the approximately US\$4,013/MT during the four months ended 31 October 2022. Such increase in the average cost of sales was due to the increase in the cost of needle coke and conversion costs.

Macroeconomic environment

The macro economy has impact on our business operation and financial performance because we are highly dependent on our downstream customers, in particular, the steel industry, which is susceptible to the macroeconomic environment such as the slowdown in economic growth, rising inflation and geopolitical issues.

SUMMARY

According to World Steel Association, it is expected that steel demand in the global market will contract by approximately 2.3% in 2022. Steel demand in the European Union is expected to contract by 3.5% in 2022 and steel demand in the PRC is likely to fall by approximately 4.0% in 2022. In addition the manufacturing activities in the United States are expected to cool sharply and the steel demand in the United States is expected to maintain in similar level. Particularly, the outlook of the European Union is subject to further downside risk due to the high inflation and the energy crisis that have been exacerbated by the Russia-Ukraine conflict. Therefore, the slowdown in economic growth, economic downturn or other adverse events affecting the major geographical markets of our Group, such as EMEA, the PRC and Americas, may lead to a reduction in the downstream steel demand from steel manufacturers for our graphite electrodes products.

Our procurement cost of raw materials are dependent on the market price of needle coke and binder pitch. Therefore, any changes in the market demand and the inflation of needle coke and binder pitch may lead to an increase or decrease in the market price of needle coke and binder pitch, resulting in an increase or decrease in our procurement cost and a decrease or increase in our gross profit margin. During the Track Record Period, there was a significant price surge in raw materials during 1H2022 due to the rising inflation driven by supply chain pressures and the outbreak of the Russia-Ukraine conflict. Furthermore, the increasing demand of needle cokes contributed by the increase in demand from our downstream industries, such as the EAF steel and the new energy vehicle industries, has also resulted in the significant increase in the price of needle coke in 1H2022.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the Track Record Period, we had sales and deliveries of our graphite electrodes to the Relevant Regions. The revenue generated from such transactions related to the Relevant Regions was approximately US\$4.0 million, US\$10.0 million, US\$13.7 million, US\$9.6 million and US\$2.9 million, representing approximately 2.4%, 6.7%, 12.7%, 8.9% and 4.8% of our total revenue for FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

Balkans (Serbia), Belarus, Egypt, Libya, Russia (excluding Crimea region) and Turkey were subject to various sanctions during the Track Record Period but were not subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of a Relevant Jurisdiction (i.e., none of them was a Comprehensively Sanctioned Country).

For more details, please refer to the section headed “Risk Factors — We could materially and adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities” in this prospectus.

SUMMARY

As advised by our International Sanctions Legal Advisers after performing the procedures they consider necessary, we did not engage in Primary Sanctioned Activity or Secondary Sanctionable Activity and did not violate International Sanctions for our business activities in countries subject to International Sanctions during the Track Record Period as we did not have sales to Comprehensively Sanctioned Countries or Sanctioned Persons. In response to the Russian-Ukraine conflict, additional International Sanctions were imposed on Russia and Belarus. As at the Latest Practicable Date, the sales and deliveries of our non-U.S. origin graphite electrodes to Russia during the Track Record Period did not implicate restrictions under the International Sanctions and none of our customers, distributors and end-users was a SDN or Sanctioned Persons. As such, our Directors are not aware of material adverse impacts on our Group's business in light of the recent International Sanctions on Russia. To minimise our exposure to the risks relating to the Russian-Ukraine conflict, our Group stopped approaching or reaching out to existing and potential customers in Russia since the conflict was instigated. As a result, we generated no revenue from the Russia market during 1H2022. Our Group has ceased to sell products to Balkans (Serbia), Belarus, Egypt and Libya since FY2021. Our Directors will continue to closely monitor the latest development and ensure that we will respond to any change in circumstances in a prudent and timely manner.

Save for the above, we intend to continue to sell our products to customers, distributors and end-users in Countries subject to International Sanctions except for the Comprehensively Sanctioned Countries after Listing if and when suitable business opportunity arises, subject to our strict adherence to our internal control and risk management measures. To identify and monitor our exposure to risks associated with sanctions laws relating to these sales, we will implement relevant internal control measures to protect the interests of our Group and our Shareholders. For details, please refer to the section headed "Business — Business Activities with Customers, Distributors and End-users in relation to Countries subject to International Sanctions" in this prospectus.

As at the Latest Practicable Date, our Group had ceased to sell products to Balkans (Serbia), Belarus, Egypt, Libya and Russia (excluding Crimea region) but our continued to sell products to Turkey.

The revenue generated from the sales of our graphite electrodes to Turkey amounted to approximately US\$0.3 million, US\$7.2 million, US\$5.5 million, US\$3.8 million and US\$2.9 million in FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

Our Directors confirm that there has been no material adverse change in our financial, operational, trading positions or prospects since 30 June 2022, which is the end of the period covered by the Accountants' Report as set out in Appendix I to this prospectus and up to the date of this prospectus.

SUMMARY

SHAREHOLDER INFORMATION AND SHARE OPTION SCHEME

Controlling Shareholders

Upon completion of the Global Offering and assuming none of the Over-allotment Option and option to be granted under the Share Option Scheme is exercised, Otautahi Capital will be interested as to 75.0% of our total issued share capital, and Otautahi Capital is in turn wholly-owned by Otautahi Holdings. Otautahi Holdings is in turn wholly-owned by Otautahi Enterprises, which is the trustee of the Otautahi Trust. Accordingly, upon the Listing, Otautahi Capital, Otautahi Holdings and Otautahi Enterprises being the beneficial owner of the said 75.0% of our Shares, a controlled corporation of such beneficial owner and the trustee of the Otautahi Trust respectively, will be regarded as our Controlling Shareholders. Mr. Hou is one of the beneficiaries under the Otautahi Trust and does not currently hold, and will not hold, directly or indirectly, any Shares upon completion of the Global Offering. He is the protector of the Otautahi Trust who has the power to dismiss and appoint trustee(s). Considering that certain powers of the trustee may only be exercised with the written consent of the protector, Mr. Hou is also deemed to have control of the Otautahi Trust in his capacity as the protector and thus will be regarded as one of our Controlling Shareholders by operation of the Listing Rules. For details, please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the section headed “Statutory and General Information — F. Share Option Scheme” in Appendix IV to this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

“1H2021”	the six months ended 30 June 2021
“1H2022”	the six months ended 30 June 2022
“AFRC”	the Accounting and Financial Reporting Council of Hong Kong
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company, conditionally adopted on 19 December 2022 which will become effective upon Listing and as amended, supplemented or modified from time to time, a summary of which is set out in Appendix III to this prospectus
“BIS”	the U.S. Department of Commerce’s Bureau of Industry and Security
“BIS List”	the Bureau of Industry and Security’s Entity List, Denied Parties List, or the Unverified List maintained by the U.S. Department of Commerce
“Board”	the board of Directors
“business day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are open for normal banking business
“BVI”	the British Virgin Islands
“CAC”	Cyberspace Administration of China
“CAGR”	compound annual growth rate
“Capital Market Intermediaries”	the capital market intermediaries as named in “Directors and Parties Involved in the Global Offering”
“Capitalisation Issue”	the issue of Shares to be made on the capitalisation of certain sums standing to the credit of the share premium account of our Company referred to under the section headed “Statutory and General Information — A. Further Information about our Company” in Appendix IV to this prospectus
“Cayman Companies Act” or “Companies Act”	the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS EIPO”	the application for the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant’s stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving electronic application instructions through the CCASS Internet System (https://ip.ccass.com) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input electronic application instructions for CCASS Investor Participants through HKSCC’s Customer Service Centre by completing an input request
“CCASS Investor Participant(s)”	a person admitted to participate in CCASS as an investor participant, who may be an individual, joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operation and functions of CCASS, as from time to time in force
“CCASS Participant(s)”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CHF”	Swiss franc, the lawful currency of Switzerland
“China”, “PRC” or the “People’s Republic of China”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not include Hong Kong, Macau and Taiwan

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Sanergy Group Limited, a company incorporated in the Cayman Islands on 26 June 2018 as an exempted company with limited liability
“Comprehensively Sanctioned Countries”	Cuba, Iran, North Korea, Syria, the Crimea Region of Russia/ Ukraine and the self-proclaimed Luhansk People’s Republic and self-proclaimed Donetsk People’s Republic regions
“Controlling Shareholder(s)”	has the meaning given to it in the Listing Rules and, unless the context otherwise requires, refers to Otautahi Capital, Otautahi Holdings, Otautahi Enterprises and Mr. Hou
“Countries subject to International Sanctions”	countries or territories for which Relevant Jurisdictions maintain various forms of sanctions programs in place
“COVID-19”	the novel coronavirus, a coronavirus disease which has its outbreak across various parts of the world since around December 2019
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 19 December 2022 given by each of our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries)
“Deed of Non-competition”	the deed of non-competition dated 19 December 2022 entered into by our Controlling Shareholders in favour of our Company (for ourselves and for the benefit of our subsidiaries) regarding certain non-competition undertakings as more particularly set out in the section headed “Relationship with Controlling Shareholders — Non-competition Undertaking” in this prospectus
“Director(s)”	the director(s) of our Company
“EIT”	the PRC Enterprise Income Tax

DEFINITIONS

“EIT Law”	the PRC Enterprise Income Tax Law 《中華人民共和國企業所得稅法》 promulgated on 16 March 2007, as amended, supplemented or otherwise modified from time to time
“ESG”	environmental, social and governance
“EU”	European Union
“EUR”	Euro, the lawful currency of the member states of the European Union
“Everbright Financial Holding”	Everbright No. 2 Private Equity Investment Fund, represented by Everbright Financial Holding Capital Co., Ltd. (now known as Zhongguang Holdings Co., Ltd.* (中光控股有限公司)), a private equity investment fund managed by Everbright Financial Holding Capital Co., Ltd. (now known as Zhongguang Holdings Co., Ltd.* (中光控股有限公司)) and is one of our Pre-IPO Investors
“Extreme Conditions”	extreme conditions, including but not limited to, serious disruption of public transport services, extensive flooding, major landslides or large-scale power outage after super typhoons as announced by the government of Hong Kong
“Extrusion Facilities”	additional extrusion facilities built within the land area of the PRC Factory
“F&S Report”	the market research report prepared by Frost & Sullivan and commissioned by us
“Frost & Sullivan” or “F&S”	Frost & Sullivan Limited, an independent industry research consultant commissioned by us to prepare the F&S Report
“FSE List”	the list of Foreign Sanctions Evaders maintained by OFAC, which sets out individuals and entities that are determined to have violated, attempted to violate, conspired to violate, or caused a violation of U.S. sanctions on Syria or Iran, and are prohibited to transact with U.S. persons or within the United States but whose assets/property interest are not subject to blocking
“FY2018”	the financial year ended 31 December 2018
“FY2019”	the financial year ended 31 December 2019
“FY2020”	the financial year ended 31 December 2020
“FY2021”	the financial year ended 31 December 2021
“FY2022”	the financial year ending 31 December 2022

DEFINITIONS

“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Gosource (China)”	Gosource (China) Limited* (高碩(中國)有限公司), a company established under the laws of the PRC on 18 July 2018 and an indirect wholly-owned subsidiary of our Company
“Gosource (Taigu)”	Gosource (Taigu) New Materials Technology Co., Limited* (高碩(太谷)新材料科技有限公司), a company established under the laws of the PRC on 2 September 2019 and an indirect wholly-owned subsidiary of our Company
“Gosource Capital”	Gosource Capital Limited 高碩資本有限公司, a company incorporated under the laws of Hong Kong on 11 June 2018 and an indirect wholly-owned subsidiary of our Company
“Gosource Group”	GoSource Group Limited 高碩集團有限公司, a company incorporated under the laws of Hong Kong on 13 October 2011 and an indirect wholly-owned subsidiary of our Company
“Grafworld International”	GRAFWORLD INTERNATIONAL INC., a company incorporated under the laws of the BVI on 3 April 2012 and an indirect wholly-owned subsidiary of our Company
“Grafworld Macau”	GRAFWORLD MACAU COMMERCIAL OFFSHORE LIMITED 格瑞沃德澳門離岸商業服務有限公司 (also known as “GRAFWORLD COMMERCIAL OFFSHORE DE MACAU LIMITADA” and formerly known as “Kan Tsang Industrial Macao Commercial Offshore Limited”), a company incorporated under the laws of Macau on 26 June 2003 and an indirect wholly-owned subsidiary of our Company
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider
“Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries (or before such associated companies of our Company), the business operated by such subsidiaries or their predecessors (as the case may be)

DEFINITIONS

“Henan Kefeng”	Henan Kefeng Carbon Materials Co., Ltd* (河南科峰炭材料有限公司), a company established under the laws of the PRC on 30 October 2009 and is owned as to 60% by China Investment New Asia Pacific China Economic (Beijing) Investment Management Co., Ltd.* (中投新亞太中經(北京)投資管理有限公司) and as to 40% by Beijing Xingu Wealth Investment Management Co., Ltd* (北京鑫谷財富投資管理有限公司) which are Independent Third Parties
“Henan Sanli”	Henan Sanli Carbon Products Co., Ltd.* (河南三力炭素制品有限公司), a company established under the laws of the PRC on 15 March 1991 and an Independent Third Party
“Hexagon”	Hexagon Special Opportunities SPC (acting for the account of Segregated Portfolio I), a segregated portfolio company incorporated under the laws of Cayman Islands and managed by Venture Smart Asia Limited, which is a licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO, and is one of our Pre-IPO Investors
“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 17,240,000 Shares initially being offered by us for subscription at the Offer Price under the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%), on the terms and subject to the conditions described in this prospectus
“Hong Kong Underwriters”	the underwriters of Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” of this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated on or around 28 December 2022 relating to the Hong Kong Public Offering entered into by, among other parties, our Company, our Controlling Shareholders and the Hong Kong Underwriters
“IMF”	International Monetary Fund
“Independent Third Party(ies)”	person(s) or company(ies) which, to our Directors’ best knowledge, information and belief, having made all reasonable enquiries, is/are not a connected person(s) (as defined in the Listing Rules) of our Company
“International Placing”	the conditional placing of the International Placing Shares outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act, including to professional investors in Hong Kong, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 155,160,000 Shares being initially offered for subscription under the International Placing together with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“International Sanctions”	all applicable laws and regulation to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted administered and enforced by the U.S. Government, the EU and its member states, UN or Government of Australia
“International Sanctions Legal Advisors”	Hogan Lovells, our legal advisors as to International Sanctions laws in connection with the Listing
“International Underwriters”	the underwriters who are expected to enter into the International Underwriting Agreement, being the underwriters of the International Placing
“International Underwriting Agreement”	the international underwriting agreement relating to the International Placing which is expected to be entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Overall Coordinator, the Sole Sponsor, the Joint Global Coordinators and the International Underwriters on or around the Price Determination Date

DEFINITIONS

“Italian Factory”	our production facility, comprising the land, buildings, plant and machinery, and warehouse located in Narni, Umbria, Italy, which we acquired in April 2018 and commenced production in June 2018
“Italian Legal Advisers”	Green Horse Legal Advisory, the legal advisers to our Company as to Italian laws
“Joint Bookrunners”	Southwest HK Brokerage, Yue Xiu Securities, First Capital Securities Limited, Zhongtai International Securities Limited, BOCI Asia Limited, ABCI Capital Limited, China Everbright Securities (HK) Limited, Sheng Yuan Securities Limited and Valuable Capital Limited
“Joint Global Coordinators”	Southwest HK Brokerage, Yue Xiu Securities, First Capital Securities Limited, Zhongtai International Securities Limited and Sheng Yuan Securities Limited
“Joint Lead Managers”	Southwest HK Brokerage, Yue Xiu Securities, First Capital Securities Limited, Zhongtai International Securities Limited, Sheng Yuan Securities Limited, BOCI Asia Limited, ABCI Securities Company Limited, China Everbright Securities (HK) Limited, Valuable Capital Limited, Tiger Brokers (HK) Global Limited, JMC Capital International Limited, Venture Smart Asia Limited, Yuet Sheung International Securities Limited, Vision Capital International Holdings Limited and Eddid Securities and Futures Limited
“Kiu Yeung Asset Management”	Kiu Yeung Asset Management Limited (驕陽資產管理有限公司), a private company limited by shares incorporated under the laws of Hong Kong on 28 January 2008, which is primarily engaged in investment holding, and is one of our Pre-IPO Investors. As at the Latest Practicable Date, it was owned as to 99.95% by Mr. Tang Wai Po, 0.025% by Mr. Yu Ka Hay, and 0.025% by Mr. Co Hon Jesse, all are Independent Third Parties
“Latest Practicable Date”	21 December 2022, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to the printing of this prospectus

DEFINITIONS

“Liaoning Jinhao”	Liaoning Jinhao Technology (Group) Co., Ltd* (遼寧省金灝科技(集團)有限公司), a private company established in the PRC on 15 March 2021 which is primarily engaged in the manufacturing of coal chemical products in the PRC, and is one of our Pre-IPO Investors. As at the Latest Practicable Date, it was owned as to 50.5% by Liu Zheng, 45% by Liu Yanan, 3% by Li Jiming and 1.5% by Chen Wandong, all are Independent Third Parties
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of director of the Stock Exchange
“Listing Date”	17 January 2023, being the date on which dealings in our Shares are expected to first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	the Macau Special Administrative Region of the PRC
“Macau Legal Advisers”	Lou Sio Fong Lawyer & Associates, our legal advisers as to Macau laws
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, adopted on 19 December 2022 with immediate effect, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“MIIT”	the Ministry of Industry and Information Technology of the PRC
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOP”	Macau Pataca, the lawful currency of Macau
“Mr. Hou”	Mr. Hou Haolong (侯皓瀧), our executive Director and deemed to be one of our Controlling Shareholders by operation of the Listing Rules
“NDRC”	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)

DEFINITIONS

“NEEQ”	the National Equities Exchange and Quotations Co., Ltd., a PRC over-the-counter system for trading the shares of public companies
“OFAC”	the U.S. Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%) at which the Hong Kong Offer Shares are to be subscribed under the Hong Kong Public Offering and the International Placing Shares are to be offered under the International Placing, to be determined in the manner further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, including the additional Shares that might be issued under any exercise of the Over-allotment Option
“Otautahi Capital”	Otautahi Capital Inc., a limited liability company incorporated under the laws of the BVI on 11 June 2018, a wholly-owned subsidiary of Otautahi Holdings and one of our Controlling Shareholders
“Otautahi Enterprises”	Otautahi Enterprises Trust Company Limited, a limited liability company incorporated under the laws of New Zealand on 9 January 2014, a wholly-owned subsidiary of Helmores Wealth Trust Company Limited which is a New Zealand company providing trust services, and one of our Controlling Shareholders and the trustee of the Otautahi Trust
“Otautahi Holdings”	Otautahi Holdings Limited, a limited liability company incorporated under the laws of New Zealand on 9 January 2014, a wholly-owned subsidiary of Otautahi Enterprises and one of our Controlling Shareholders
“Otautahi Trust”	a discretionary family trust established on 21 January 2014 by Otautahi Enterprises as the trustee, details of which are set out in the section headed “History, Reorganisation and Group Structure” in this prospectus

DEFINITIONS

“Over-allotment Option”	the option to be granted by our Company to Yue Xiu Securities Company Limited, exercisable by it for itself and on behalf of the International Underwriters, subject to the terms and conditions of the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 25,860,000 additional Offer Shares (representing 15% of the initial number of the Offer Shares) to cover over-allocations in the International Placing and/or to satisfy the obligation of the Stabilising Manager to return securities borrowed under the Stock Borrowing Agreement, particulars of which are set out in the section headed “Structure of the Global Offering” in this prospectus
“Overall Coordinator”	Southwest HK Brokerage
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Factory”	the production facility of graphite electrodes, comprising the land, buildings, plant and machinery, warehouse and office located in Hongzhou Town, Huixian City, Henan Province, the PRC
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to our Company as to PRC laws
“Pre-IPO Investments”	the pre-IPO investments made by the Pre-IPO Investors, details of which are set out in the section headed “History, Reorganisation and Corporate Structure — Pre-IPO Investments” in this prospectus
“Pre-IPO Investors”	the investors of the Pre-IPO Investments and, unless the context otherwise requires, refer to Everbright Financial Holding, Liaoning Jinhao, Hexagon, Kiu Yeung Asset Management and ZhengNan Enterprise
“Price Determination Date”	the date expected to be on or around Wednesday, 11 January 2023 but no later than Friday, 13 January 2023
“Primary Sanctioned Activity”	any activities by our Company in a Comprehensively Sanctioned Country or (i) with; or (ii) directly or indirectly benefiting or involving the property or interests in property of, a Sanctioned Target incorporated or located in a Relevant Jurisdiction or which otherwise has a nexus with such jurisdiction with respect to the relevant activity, such that it is subject to the relevant sanctions law and regulation

DEFINITIONS

“Regulation S”	Regulation S under the U.S. Securities Act
“Relevant Jurisdiction”	any jurisdiction that is relevant to our Company and has sanctions related law or regulation restricting, among other things, its nationals and/or entities which are incorporated or located in that jurisdiction from directly or indirectly making assets or services available to or otherwise dealing in assets of certain countries, governments, person or entities targeted by such law or regulation
“Relevant Persons”	the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Capital Market Intermediaries, the other Underwriters and any other parties involved in the Global Offering or any of their respective directors, officers or representatives
“Relevant Regions”	Balkans (Serbia), Belarus, Egypt, Libya, Russia (excluding Crimea region) and Turkey
“Reorganisation”	the corporate reorganisations undergone by our Group in preparation for the Listing described in the section headed “History, Reorganisation and Group Structure — The Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sanctioned Person”	certain person(s) and identity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the U.S., EU, UN or Australia
“Sanctioned Target”	any person or entity (i) designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (ii) that is, or is owned or controlled by, a government of a Country subject to International Sanctions; or (iii) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (i) or (ii)
“Sanergy Asia”	Sanergy Asia Ltd, a company incorporated under the laws of the BVI on 11 June 2018 and an indirect wholly-owned subsidiary of our Company
“Sanergy Europe”	Sanergy Europe Inc, a company incorporated under the laws of the BVI on 11 June 2018 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Sanergy Global”	Sanergy Global Ltd, a company incorporated under the laws of the BVI on 11 June 2018 and an indirect wholly-owned subsidiary of our Company
“Sanergy Group (HK)”	Sanergy Group (Hong Kong) Limited (formerly known as Sanergy Group Limited), a company incorporated under the laws of Hong Kong on 26 July 2018 and a direct wholly-owned subsidiary of our Company
“Sanergy Holding”	Sanergy Holding International Inc, a company incorporated under the laws of the BVI on 11 June 2018 and an indirect wholly-owned subsidiary of our Company
“Sanergy International AG in Liquidation”	Sanergy International AG in Liquidation, a company incorporated under the laws of Switzerland on 13 August 2018 and an indirect wholly-owned subsidiary of our Company, which commenced voluntary winding up proceedings on 8 September 2022
“Sangraf Energy”	Sangraf Energy Technology Co., Ltd* (昇瑞能源科技有限公司), a limited liability company established in the PRC on 25 December 2013 and an indirect wholly-owned subsidiary of our Company
“Sangraf Global”	Sangraf Global Inc, a company incorporated under the laws of the BVI on 11 June 2018 and an indirect wholly-owned subsidiary of our Company
“Sangraf Henan”	Henan Sangraf Carbon Technology Company Limited* (河南昇瑞炭材料科技有限公司) (formerly known as Henan Gosource New Materials Technology Co., Limited 河南高碩新材料科技有限公司), a company established under the laws of the PRC on 1 November 2018 and an indirect wholly-owned subsidiary of our Company
“Sangraf International (HK)”	Sangraf International (Hong Kong) Limited 昇瑞國際(香港)有限公司, a company incorporated under the laws of Hong Kong on 11 June 2018 and an indirect wholly-owned subsidiary of our Company
“Sangraf International (PTY)”	Sangraf International Proprietary Limited (formerly known as Sangraf South Africa Proprietary Limited), a company incorporated under the laws of South Africa on 6 March 2015 and an indirect wholly-owned subsidiary of our Company
“Sangraf International SA”	Sangraf International SA, a company incorporated under the laws of Switzerland on 18 November 2014 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Sangraf Italy”	Sangraf Italy S.r.l. (formerly known as Gosource Italy S.R.L.), a company incorporated under the laws of Italy on 17 November 2017 and an indirect wholly-owned subsidiary of our Company
“Sangraf US”	Sangraf International Inc., a company incorporated under the laws of the United States on 27 February 2012 and an indirect wholly-owned subsidiary of our Company
“Sanli Assets”	the Sanli Equipment and the Sanli Factory
“Sanli Equipment”	the equipment associated with the Sanli Factory
“Sanli Factory”	the production plant of graphite electrodes located in Xiaotun Village East, Baiquan Town, Huixian City, Henan Province, the PRC and its associated buildings and land
“Sanli Group”	Henan Sanli Carbon Group Ltd.* (河南三力炭素集團有限公司), a company established under the laws of the PRC on 12 October 2012 and is owned as to 79.2% by a brother-in-law of Mr. Hou, and 20.8% by an Independent Third Party
“Sanli New Materials”	Henan Sanli Carbon New Materials Technology Co., Ltd.* (河南三力碳素新材料科技有限公司), a company established under the laws of the PRC on 23 August 2016 and an Independent Third Party
“Secondary Sanctionable Activity”	certain activity by our Company that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though our Company is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction
“SDN”	individuals and entities that are listed on the SDN List
“SDN List”	the list of Specially Designated Nationals, and Blocked Persons maintained by OFAC, which sets out individuals and entities that are subject to its sanctions and restricted from dealings with U.S. persons
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Shanxi Taigu”	Shanxi Taigu Mingxing Carbon Steel Company Limited* (山西太谷明興碳素瑪鋼有限公司), a company established under the laws of the PRC on 27 March 2001 with the registered address at Shangzhuang Village, Xiaobai District, Gu County, Jinzhong City, Shanxi Province, the PRC and is owned as to 27.8%, 26.2% and 46% by Zhang Mao Yu (張卯玉), Tian Yuan Sheng (田雲生) and Zhang Ming Bin (張明斌), respectively, who are Independent Third Parties
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 19 December 2022 which is governed by Chapter 17 of the Listing Rules, the principal terms of which are summarised in “Statutory and General Information — F. Share Option Scheme” in Appendix IV to this prospectus
“Share(s)”	ordinary share(s) with nominal value of US\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Shares
“Sihai”	Henan Sihai Import and Export Co., Ltd.* (河南駟海進出口有限公司), a company established under the laws of the PRC on 16 July 2007 and an Independent Third Party
“Sole Sponsor” or “Southwest HK Capital”	Southwest Securities (HK) Capital Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, acting as the sponsor to the Listing
“Southwest HK Brokerage”	Southwest Securities (HK) Brokerage Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities, acting as the Overall Coordinator, one of the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers of the Global Offering
“South Africa”	the Republic of South Africa
“South African Legal Advisers”	Bowman Gilfillan Incorporated, our legal advisers as to South African laws
“South Korea”	the Republic of Korea

DEFINITIONS

“SSI List”	the list of the Sectoral Sanctions Identifications parties maintenance by OFAC, which sets out entities designated by OFAC in Russia’s energy, financial and/or defence sectors that are subject to more limited, sectoral, sanctions imposed under one or more OFAC Directives that prohibit certain (but not all) dealings with U.S. persons or within the United States
“Stabilising Manager”	Yue Xiu Securities Company Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement which is expected to be entered into on or about the Price Determination Date between the Stabilising Manager (or its affiliates acting on its behalf) and Otautahi Capital, pursuant to which Otautahi Capital will agree to lend up to 25,860,000 Shares to the Stabilising Manager on terms set out therein
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Swiss Legal Advisers”	Des Gouttes & Associés, our legal advisers as to Swiss laws
“Switzerland”	the Swiss Confederation
“Taigu Assets”	the production facilities comprising the land, buildings, plant and machinery used in the re-baking, pitch impregnation and graphitisation of graphite electrodes which are owned by Shanxi Taigu and are situated at Taigu County, Jinzhong City, Shanxi Province, the PRC
“Track Record Period”	the period comprising FY2018, FY2019, FY2020, FY2021 and 1H2022
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United Kingdom” or “U.K.”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “U.S.”	the United States of America, its territories and possessions, and all areas subject to its jurisdiction
“US Legal Advisers”	Squire Patton Boggs (US) LLP, our legal advisers as to US laws

DEFINITIONS

“U.S. dollars”, “USD” or “US\$”	United States dollars, the lawful currency of the United States
“VAT”	value-added tax
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO Service Provider at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xinxiang Longhui”	Xinxiang Longhui Graphite Products Co., Ltd.*(新鄉市隆慧石墨製品有限公司), a company established under the laws of the PRC on 10 December 2012 and an Independent Third Party
“ZAR” or “Rand”	the South African Rand, the lawful currency of the Republic of South Africa
“ZhengNan Enterprise”	ZhengNan Enterprise Limited (征楠企業有限公司), a private company limited by shares incorporated under the laws of Hong Kong on 26 February 2016 which is primarily primary engaged in the manufacturing of coal chemical products in the PRC and one of our Pre-IPO Investors. As at the Latest Practicable Date, it was beneficially owned as to 100% by Mr. Liu Qingqiu, who is an Independent Third Party
“%”	per cent

The terms “associate”, “close associate”, “connected person”, “connected transaction”, “controlling shareholder”, “core connected person”, “subsidiary” and “substantial shareholder” have the meanings given to such terms under the Listing Rules, unless the context otherwise requires.

This prospectus contains explanations and definitions of certain terms used in connection with our Group’s business. The terms and their meanings used in this prospectus may not correspond to standard industry meaning or usage of these terms. As there is no official industry classification, the classification of our products is determined based on our Directors’ knowledge and experience. Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown in totals in certain tables may not be the arithmetic aggregation of the figures preceding them.

** for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.*

GLOSSARY

This glossary contains explanations of certain terms used in this prospectus that relate to our business and the industry in which we operate. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

“Americas”	an acronym for North America and South America
“APAC”	an acronym for Asia Pacific
“BOF”	basic oxygen furnace
“carbon neutrality”	the balance between emitting carbon and absorbing carbon emissions from carbon sinks
“CIF”	cost, insurance and freight where the seller is responsible to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier, and the risk delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel
“CFR”	cost and freight, which requires the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier. Under CFR, the seller does not have to procure marine insurance against the risk of loss or damage to the goods during transit
“DAP”	delivered at place, where the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport ready for unloading at the named place of destination. The risk passes from seller to buyer from the point of destination mentioned in the contract of delivery
“DDP”	delivery duty paid, where the seller is responsible for delivering the goods to the named place in the country of the buyer, and pays all costs in bringing the goods to the destination including import duties and taxes. The seller is not responsible for unloading
“EAF”	electric arc furnace
“EMEA”	an acronym for Europe, the Middle East and Africa
“FOB”	free on board, a term of sale whereby the seller delivers when the goods pass the ship’s rail at the named port of shipment after which the buyer has to bear all shipping and other costs and tasks in respect of loss of or damage to the goods from that point
“graphite”	a naturally-occurring form of crystalline carbon
“graphite electrode”	a carbon product prepared by calcining an amorphous carbon, such as petroleum needle coke, coal needle coke and binder pitch from coal tar through a graphitisation furnace, which is a high temperature resistant graphite conductive material used in steel making process where scrap from other appliances is melted to produce new steel

GLOSSARY

“HP graphite electrodes”	high power graphite electrodes, a term used in the global graphite electrode market, which can generally withstand current densities between 18 ampere per square centimeter to 25 ampere per square centimeter.
“Incoterms”	a set of pre-defined commercial terms used for international transactions, including CIF, CFR, FOB, DAP and DDP
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“MES”	manufacturing execution system
“mm”	millimetre
“MT”	metric tonne
“RP graphite electrodes”	regular power graphite electrodes, a term used in the global graphite electrode market, which can generally withstand current densities lower than 18 ampere per square centimeter.
“sq. ft.”	square foot (feet)
“sq. m.”	square meter
“UHP graphite electrodes”	ultra high power graphite electrodes, a term used in the global graphite electrode market, which can generally withstand current densities greater than 25 ampere per square centimeter

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on various assumptions regarding our Group's present and future business strategy and the environment in which our Group will operate in the future and are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures and initiatives to implement them;
- our future business development and various business opportunities that we may pursue;
- fluctuations in general business conditions globally, particularly in the U.S., EMEA, the PRC and Hong Kong;
- changes in competitive conditions and our ability to compete under these conditions;
- changes in the political, economic, legal and social conditions globally, particularly in the U.S., EMEA, the PRC and Hong Kong;
- costs of bank loans and other forms of financing, and our ability to secure adequate financing for our business operations;
- our financial conditions;
- our dividend policy;
- our ability to enter into new geographic markets and expand our operations;
- our ability to obtain permits and licences to carry on our business;
- changes in foreign exchange rates;
- the other factors referenced in this prospectus, including without limitation, under the sections headed "Risk Factors", "Business" and "Financial Information"; and
- other factors beyond our control.

The words "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to us, in particular, in the sections headed "Business" and "Financial Information" in this prospectus, are intended to identify a number of these forward-looking statements. These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. They reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, or

FORWARD-LOOKING STATEMENTS

expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

An investment in our Shares involves risks. You should carefully consider the following information, together with the other information contained in this prospectus, including our consolidated financial statements and related notes, before you decide to purchase our Shares. If any of the circumstances or events described below actually arises or occurs, our business, financial condition, results of operations and prospects may suffer. In any such case, the market price of our Shares may decline, and you may lose all or part of your investment. This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.

RISKS RELATING TO OUR BUSINESS

Our business, financial condition and results of operations are highly affected by the market selling price of graphite electrodes and recent macro-economic changes which are subject to numerous factors beyond our control.

The provision of UHP graphite electrodes is our major business. As such, our business, financial condition and results of operations are, therefore, dependent on the prices of graphite electrodes. Factors which could potentially impact the prices of graphite electrodes include, among others, the level of supply and demand, the price of needle cokes, international economic conditions, export controls, technological development and the development of the EAF steel manufacturing industry.

Prices of graphite electrodes have historically been affected by the demand trends of global EAF steel manufacturing industry and the supply of graphite electrodes. According to the F&S Report, the average global price (excluding the PRC) of graphite electrodes had increased from US\$3,721.5 per tonne to US\$16,054.9 per tonne between 2016 to 2018, then decreased to US\$4,120.4 per tonne in 2020, and increased to US\$4,883.0 per tonne in 2021, and subsequently increased to US\$6,724.9 per tonne by 2026. Accordingly, we cannot assure you that the price of graphite electrodes will be stable or on an increasing trend. Our business, financial condition and results of operations may, therefore, be materially and adversely affected to the extent that prices for graphite electrodes may decline in the future.

For the sensitivity analysis of our gross profit with reference to the average selling price fluctuation of our graphite electrodes during the Track Record Period, please refer to the section headed “Financial Information — Key factors affecting our results for operations — Price fluctuation of graphite electrodes and market demand of our products” in this prospectus for further details.

RISK FACTORS

Our business is also highly dependent on the macroeconomic environment. Factors such as the slowdown in economic growth, rising inflation and geopolitical issues may result in unfavorable operating conditions. According to World Steel Association, it is expected that steel demand in the global market will contract by 2.3% in 2022 and high inflation, monetary tightening and slowdown in the PRC contributed to a difficult 2022. Steel demand in the European Union is expected to contract by 3.5% in 2022 and steel demand in the PRC is likely to fall by 4.0% in 2022. In addition, steel demand in the United States is not expected to turn into a contraction even though manufacturing activities are expected to cool sharply. Particularly, the outlook in European Union is subject to further downside risk due to the high inflation and the energy crisis that have been exacerbated by the Russia-Ukraine conflict. Therefore, the slowdown in economic growth, economic downturn or other adverse events affecting the major geographical markets of our Group, such as EMEA, China and Americas, may lead to a reduction in the downstream steel demand from steel manufacturers for our graphite electrodes products.

The slowdown in economic growth, economic downturn or other adverse events may lead to a reduction in the demand for our products. All of the foregoing may adversely affect our business operations, financial performance and prospects. In relation to our performance after the Track Record Period, the sales volume during the four months ended 31 October 2022 amounted to approximately 6,365MT, representing a decrease of approximately 27.8% from that of the four months ended 31 October 2021, being approximately 8,818MT.

Our gross profit margin, average selling price and/or average cost of sales are subject to a bundle of factors and may fluctuate significantly from time to time.

Graphite electrode is not a common commodity nor consumer product with a readily available market price and therefore, there is no authoritative benchmark price as such in the graphite electrode market for the market participants to follow.

In determining our quote for each potential order, we will consider a bundle of factors and price our products based on these factors on a case-by-case basis, which include among others, the prevailing market price, the supply and prices of raw materials at relevant times and the manufacturing costs. Such quotation will be subject to further negotiation between our customer and us. Therefore, our gross profit margin, average selling price and/or average cost of sales are subject to the said bundle of factors and may fluctuate significantly from time to time. For the details of such factors, please refer to the section headed “Financial Information — Gross profit and gross profit margin” in this prospectus.

The interplay of all these factors will affect each price negotiation process and thus, each final purchase price. The final purchase price as well as the gross profit margin of each purchase order may vary. As a result, the trends of gross profit margin, average selling price and/or average costs of sales of different geographical regions, major markets or even individual customer during a specified period of time may not be consistent or of the same pattern. Our business, financial condition and results of operations may, therefore, be materially and adversely affected by the extent of fluctuation in our gross profit margin, average selling price and/or average cost of sales.

RISK FACTORS

Our other income, comprising, among others, the net profit on sales of other carbon products compensation income and foreign exchange difference, accounts for a significant portion of our net profit and may fluctuate going forward.

For FY2018, FY2019, FY2020, FY2021 and 1H2022, our other income amounted to approximately US\$6.6 million, US\$3.4 million, US\$5.4 million, US\$1.3 million and US\$0.7 million, representing approximately 9.2%, 64.9%, 129.6%, 29.6% and 11.5% of our net profit, respectively.

Among our other income generated, approximately US\$4.6 million, US\$2.8 million, US\$0.08 million, US\$0.29 million and US\$0.2 million, representing approximately 69.3%, 84.2%, 1.5%, 22.2% and 26.7% of our other income, were net profit generated from the sale of other carbon products in FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. Our sales of semi-finished graphite electrodes and scrap materials, being a major portion of our other carbon products, are recurring in nature and, similar to our graphite electrodes, may be subject to, among others, the level of supply and demand, international economic conditions and the development of the downstream industry. Further, we have no control on the other income amount generated from foreign exchange difference and compensation income, which are non-recurring in nature. Please refer to the section headed “Financial Information — Description of selected items in consolidated statements of profit or loss and other comprehensive income — Other income” in this prospectus for more details on our other income during the Track Record Period.

Accordingly, we cannot assure you that our other income will be stable or on an increasing trend. Our business, financial condition and results of operations may, therefore, be materially and adversely affected to the extent that our other income may decline in the future.

Fluctuations in our net profit from sales of other carbon products may have a material and adverse impact on our business, financial condition and results of operations.

Sales of other carbon products primarily include sales of semi-finished graphite electrodes, needle cokes and the income from processing graphite electrode materials. During the Track Record Period, our net profit from sales of other carbon products amounted to approximately US\$4.6 million, US\$2.8 million, US\$0.1 million, US\$0.3 million, US\$0.2 million, respectively. Our processing fee amounted to nil, approximately US\$1.0 million, US\$(47,505), US\$(3,128) and US\$19,546, respectively. The gross loss in processing fee in FY2020 was mainly due to a processing service transaction between our Group and Xinxiang Longhui in the first quarter of 2020 and the slight gross loss in processing fee in FY2021 which was mainly due to the increase in fixed cost per unit as the quantity of graphite electrodes processed decreased during the period. For details, please refer to the sub-section headed “Other income” in this prospectus. Please refer to the section headed “Financial Information — Description of selected items in consolidated statements of profit or loss and other comprehensive income — Other income” in this prospectus for more details on fluctuations in our net profit from the sales of other carbon products during the Track Record Period. Accordingly, our business, financial condition and results of operations may, therefore, be materially and adversely affected by the extent of fluctuation in our net profit from sales of other carbon products.

RISK FACTORS

We rely on our major customers which account for a significant portion of our revenue. Any change in the relationship with our major customers may materially and adversely affect our business, financial condition and results of operations.

Our graphite electrodes are generally sold to EAF steel manufacturers. During the Track Record Period, a majority of our revenue was generated from our five largest customers which contributed, in aggregate, approximately 77.9%, 47.2%, 54.7%, 46.7% and 43.6%, respectively, of our total revenue in each year/period during the Track Record Period. Therefore, our success depends on our ability to secure purchase orders from these major customers as well as orders from any new customer. Sales to our customers could be affected by the respective customers' business and financial performance, which could vary according to their respective financial condition, market demand from their downstream industries, market supply of similar products and technological advancement which may lead to the introduction of a product with better quality, level of competition in their target markets, industry development and overall economic climate, which are beyond our control.

We cannot assure you that our customers will continue to do business with us at the same level or at all. Hence, our future growth and expansion depend on our ability to continue securing purchase orders from our potential customers and retain our current customers. We cannot guarantee that our existing customers will continue to engage us. If any of the major customers substantially reduces the volume of its orders or ceases to conduct business with us, our business, financial condition and results of operations would be materially and adversely affected. There is no assurance that (i) our Group will be able to secure new sales contracts or purchase orders to make up for such loss of sales; or (ii) even if we are able to secure other sales contracts or purchase orders, that they would be on commercially comparable terms.

Any material increase in the prices of our major raw materials or shortage of our major raw materials may have adverse impacts on our business, financial condition and results of operations.

Needle coke and binder pitch are the major raw materials in the production of graphite electrodes. For FY2019, being the full financial year during which we had production at the Italian Factory and the PRC Factory, FY2020, FY2021 and 1H2022, our cost of raw materials amounted to approximately US\$57.0 million, US\$47.9 million, US\$26.1 million and US\$9.7 million, respectively, which accounted for approximately 48.9%, 52.1%, 30.4% and 21.9% of our total cost of sales for FY2019, FY2020, FY2021 and 1H2022. As such, our operation, to a large extent, depends on the prices of raw materials from our major suppliers.

The prices of our raw materials are affected by a number of external factors beyond our control, such as global demand and supply, commodity price fluctuations, currency fluctuations, general economic condition, and change in government regulations. During the Track Record Period, the average purchase price of needle coke amounted to approximately US\$3,311 per tonne, US\$3,373 per tonne, US\$829 per tonne, US\$1,291 per tonne and US\$1,887 per tonne, respectively, and the average purchase price of binder pitch amounted to approximately US\$996 per tonne, US\$674 per tonne, US\$601 per tonne, US\$837 per tonne and US\$1,132 per tonne, respectively. There was a significant surge in the price of raw materials during 1H2022. Any significant increase in the price of our raw materials may have a direct negative impact on our gross margins. There was a significant surge in the price of raw materials during 1H2022 due to the rising inflation driven by supply chain pressures and outbreak of the Russia-Ukraine conflict. Furthermore, the increasing demand of needle cokes contributed by the boom of new energy vehicles and an increase in demand from EAF steel industries led to a significant increase of needle coke price in 1H2022.

RISK FACTORS

We cannot assure you that we will be able to accurately anticipate and react to the changes in prices of our raw materials, or that we will be able to pass on the increased purchase cost of raw materials to our customers. If we fail to manage our raw material costs effectively, our business, financial condition and results of operations may be materially and adversely affected.

In addition, we cannot assure you that we will be able to secure a stable supply of raw materials. Our suppliers may reduce or discontinue the supply of raw materials to us at any time in the future. If the supply of raw materials is interrupted, our production process would be delayed and our business, financial condition and results of operations may be materially and adversely affected.

It is our practice not to enter into long-term supply agreements with our suppliers, which we believe is in line with the industry norm and in our commercial interest to maintain flexibility in the source of supply. We cannot assure you that our suppliers will continue their business relationships with us and supply raw materials to us on commercially acceptable terms, at favourable or similar prices and in a timely manner. If our business relationships with one or more major suppliers are terminated, we cannot assure you that we will be able to secure alternative sources for raw materials with a comparable quality, or at similar price and in a timely manner. Our business operations may then be significantly interrupted and our business, financial condition and results of operations may be materially and adversely affected.

For the sensitivity analysis of our gross profit with reference to the price fluctuation of raw materials used in our production during the Track Record Period, please refer to the section headed “Financial Information — Key factors affecting our results of operations — Price fluctuation of raw materials used in our production” in this prospectus for further details.

We have recorded net operating cash outflows for FY2018. Failure to manage our liquidity and cash flows may materially and adversely affect our business, financial condition and results of operations.

Although we had positive cash inflows from operating activities in FY2019, FY2020, FY2021 and 1H2022, we had cash outflows in FY2018. A key factor that negatively affected our operating cash flow in FY2018 was the significant increase in our inventory levels and decrease in other payables and accruals, details of which are set out in the section headed “Financial information — Liquidity and capital resources — Cash Flow” of this prospectus. Our ability to generate adequate cash inflows from operating activities in the future will depend largely on our abilities to maintain an optimum level of inventories and secure purchase orders from our customers. We cannot assure you that we will be able to generate operating cash flow in the future. In the event that our Group is unable to generate sufficient cash flow from our operations, business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

The continuing spread, prolonged occurrence and recurrence of COVID-19 globally may result in a significant delay in the delivery of our products which, in turn, may have a material and adverse effect on our business, financial condition and results of operations.

Since December 2019, the outbreak of COVID-19 has spread across various parts of the world, including North America, Europe and Asia, particularly in the PRC, the U.S., Italy and Hong Kong (the “**Outbreak**”). On 11 March 2020, the World Health Organisation declared the Outbreak as a pandemic.

As a result of the Outbreak, the operations of difference entities in various parts of the PRC, including factories in Henan Province, the PRC, where the PRC Factory is located, were disrupted due to measures, such as travel restrictions and compulsory lockdown, and the resumption of our factory operations following the Chinese New Year holidays was postponed until March 2020. Our Directors confirm that the PRC Factory has resumed their full operations since March 2020.

The quick development, spread and uncertainty of COVID-19 has triggered a number of governments across the world to implement emergency measures in an effort to contain the spread of COVID-19. COVID-19 has impacted industries across the spectrum, including construction and automobile industries. This has resulted in the forced closure of factories, compulsory quarantine, grounding of flights and forced “work from home” procedures being implemented by employers. In addition, it has resulted in the suspension of works in various industries, including the construction, real estate, machinery and automobile industries. This, together with the disruption on the global logistics and transportation networks, has led to a decrease in the demand for steel products and accordingly, the demand for graphite electrodes from steel manufacturers in the U.S., Europe and the PRC. There have been delays in orders of some of our customers and postponement in the delivery of some of our products in the second and third quarters of 2020.

Following the Outbreak, travel restrictions, mandatory quarantine measures and lockdowns to contain the Outbreak have been implemented in North America and various parts of Europe and Asia, including the U.S., Italy and the PRC. If the implementation of the above travel restrictions, quarantine measures and lockdown continue and are extended to restrictions on goods or affect countries where our customers are located, there may be a decrease or delay in, or cancellation of, purchase orders or delay in payments from our customers.

In addition, if any of our employees contracted or is suspected to have contracted COVID-19, we are required to report to the relevant Italian and the PRC authorities and such authorities could require our employees to be quarantined and/or our production facilities to be disinfected or suspended, which could disrupt our business operations and render us unable to deliver our products in a timely manner, or at all, which may trigger penalty clauses, if any, provided in the purchase orders of our customers or termination of orders from our customers. The Outbreak could, in extreme circumstances, lead to the forced suspension or closure of our production facilities in the Italian Factory and the PRC Factory as well as the operations of our customers and suppliers, as an attempt to contain the Outbreak. This, in turn, could materially and adversely affect the purchase orders of our customers and the supply or shortage of raw materials from our suppliers.

RISK FACTORS

The Outbreak has taken a toll on the global economy worldwide. There is no assurance that the Outbreak will slow down, end or will not reoccur. If the Outbreak continues or reoccurs in the foreseeable future, our business, financial condition and results of operations may be materially and adversely affected.

Our business is vulnerable to downturns in the industries which we serve.

We sell our products primarily to EAF steel manufacturers. Demand for our products depends on the general level of activity and growth in the EAF steel manufacturing industry. Factors which may influence the performance and growth of the EAF steel manufacturing industry include general economic conditions, government policies and regulations, inflation and technological development. According to the F&S Report, the global and Chinese production volume of EAF steel is expected to increase at a CAGR of approximately 6.8% and 11.2%, respectively, from 2021 to 2026. However, any economic downturn in the EAF steel manufacturing industry will generally lead to a decrease in number of purchase orders, which, in turn, may materially and adversely affect our business, financial condition and results of operations.

Demand for our graphite electrodes also depends on the general level of activity and growth in the downstream industries that the EAF steel manufacturing industry serves, which include the construction, automobile, marine, machinery and appliances industries. The downturn of any of these industries may lead to a decrease in demand of EAF steel, which, in turn, may reduce the demand for graphite electrodes and have a material and adverse effect on our business, financial condition and results of operations.

Natural disasters, such as flooding and rainfall, may result in significant damage to infrastructure, including power and communications systems, and adversely affect our operations.

Natural disasters, such as flooding and rainfall, occur from time to time in the locations where the PRC Factory and the Italian Factory are and can be particularly damaging with respect to loss of life and property. For instance, in July 2021, extreme rainfall of up to 200 mm per hour in Zhengzhou, Henan resulted in flooding that resulted in over 300 deaths and evacuation of at least 800,000 people and affected over a million people across the province. Other than casualties, such major flood also significantly impacted infrastructure in Henan, including power and communication systems. The production at the PRC Factory was therefore suspended for 10 days (save for quality control processes) due to this emergency situation. Accordingly, future natural disasters, which could become more frequent as a result of extreme climate due to global warming, could adversely affect our business, financial condition, results of operations and prospects.

Our Group relies on the use of our machinery and equipment to carry out the manufacturing graphite electrodes and any breakdown and interruption of such machinery and equipment will disrupt our operation.

The manufacturing of our graphite electrodes requires the use of a wide range of machinery and equipment, which are subject to operating risks, such as equipment failures, disruptions in power supply, industrial accidents, labour shortages, strikes, fire or natural disasters. Accordingly, the number of products that can be produced by our Group at any given time is limited by the availability of our machinery and equipment to carry out the production process.

RISK FACTORS

On the other hand, if there is any unexpected breakdown of our machinery and equipment during the production process, we may face difficulties in sourcing replacements or repairing the machinery and equipment in time. Our work progress may have to be delayed, where we may have to compensate our customers according to the terms of the contract between our customers and us. Our relationship with our customers could also be adversely affected due to our failure and we may be subject to contractual claims for compensation from our customers, which may materially and adversely affect our business, financial condition and results of operations.

The PRC Factory and subcontractors in the PRC may experience shortage of electricity.

The PRC Factory and subcontractors in the PRC may experience shortage of electricity. Our production processes require adequate and stable supply of electricity. Considering that there has been a significant increase in demand for electricity supply in the PRC in recent years, to conserve fuel stocks and reduce energy intensity, various provinces, including Henan province where the PRC Factory and subcontractors are based, have implemented power rationing measures and power outages in various industry sectors. While the PRC Factory is allowed to continue its operation without being subject to any power outage as at the Latest Practicable Date, one of our subcontractors experienced power outage in October and November 2021. Therefore, we cannot assure you that we and/or our subcontractors would not be subject to any power outages in the future. If we and/or our subcontractors are to be subject to power outages or there is prolonged power shortage in the future and our power system does not have sufficient capacity to support our production in the long run, our production will be inevitably disrupted. Our business, financial conditions and results of operation will therefore be adversely and materially affected.

We rely on the stable operation of our production facilities in the PRC Factory and cannot assure you that our production would be free of disruption in the future including the potential adverse consequences due to a lack of valid certificates in relation to a part of our production facilities in the PRC.

We own the Extrusion Facilities which are housed in a building (the “**Building**”) constructed on the land (the “**Land**”) where the PRC Factory is erected and have obtained the title to the Land pursuant to the final conclusion rulings issued by the relevant local PRC court in August 2020. As at the Latest Practicable Date, we had obtained the requisite land use right certificate in respect of the Land in accordance with the relevant PRC laws and regulations.

We are in the process of applying for the building ownership certificates in respect of all buildings erected on the Land (including the Building and the PRC Factory). Our Company is the view that, as advised by the PRC Legal Advisers, based on the final conclusion rulings issued by the relevant local PRC court and the relevant consultation conducted by the government to assist in handling the planning related amendment procedures of such building, there is no legal impediment in substance for us to obtain such building ownership certificates provided that we submit relevant registration documentation required by the relevant local real estate registration administrative authority.

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We estimate that we will be able to obtain the necessary certificates by 1H2023. However, we cannot assure as to the timeline for obtaining these certificates. In the event that we are required to demolish, relocate or are forced to move out of the Land or Building, we may be forced to suspend our production at the Extrusion Facilities. If this happens, we may incur costs for relocation and may need to subcontract our manufacturing process to ensure timely delivery of graphite electrodes ordered by our customers and accordingly, our business, financial condition and results of operation may be materially and adversely affected. For further details on the above title defect and related risks, please refer to the section headed “Business — Properties” in this prospectus.

If we fail to effectively manage our inventories or estimate accurately the demand for our products, we may face significant excess inventories which may materially and adversely affect our business, financial condition and results of operations.

As at 31 December 2018, 2019, 2020 and 2021, and 30 June 2022, our inventories, including raw materials, work in progress and finished goods, amounted to approximately US\$92.7 million, US\$92.4 million, US\$54.2 million, US\$60.9 million and US\$62.9 million, respectively, and our average inventory turnover days for FY2018, FY2019, FY2020, FY2021 and 1H2022 were approximately 268 days, 290 days, 291 days, 245 days and 255 days, respectively.

For FY2018, FY2019, FY2020, FY2021 and 1H2022, we have incurred inventory provision of nil, US\$16.2 million, US\$2.4 million, nil and nil, respectively. The provision for inventories for FY2019 was due to the global decrease in prices of graphite electrodes that had led to a decrease in the net realisable value of our inventories which were manufactured with raw materials which we purchased earlier at a relatively higher cost. While we typically manufacture graphite electrodes upon receiving purchase orders from our customers, we maintain a certain level of inventory of our products and raw materials to reduce the lead time for fulfilling the anticipated demand of our customers.

We cannot assure you that we will not experience any slow movement of inventories, which may result from our reduced sales due to changes in the market condition, customer preference or incorrect estimation of the market demand for our products. Further, any unforeseen change in the demand of our products may also result in the relevant inventories becoming excessive or even obsolete. Please refer to section headed “Business — Inventory Management” in this prospectus for further details. In addition, due to long production cycle of our products, we may not able to respond promptly to any unexpected change in circumstances, such as fluctuations in market demand and prices of graphite electrodes as well as our major raw materials.

Significant decline in market price of graphite electrodes could materially and adversely affect the net realisable value of our inventories and a sudden surge in the market price of raw material may materially and adversely affect our cost control. As such, if we fail to manage our inventories effectively or are unable to dispose of excess inventories, we may face a risk of inventory obsolescence, an increase in the required working capital and/or significant inventory provisions, which may impose pressure on our operating cash flow, and materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

We are subject to risks associated with our world-wide business presence and operation.

Our products are shipped to customers throughout the world with a majority of them (in terms of revenue) situated in the PRC, Americas and EMEA. During the Track Record Period, our sales to the PRC amounted to approximately US\$6.6 million, US\$18.2 million, US\$35.2 million, US\$28.6 million, US\$9.9 million and US\$15.7 million for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively, representing approximately 3.9%, 12.1%, 32.5%, 26.3%, 23.7% and 26.3% of our total sales for the corresponding periods; our sales to Americas amounted to approximately US\$125.1 million, US\$73.4 million, US\$36.0 million, US\$34.4 million, US\$13.6 million and US\$13.0 million in FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively, representing approximately 74.3%, 48.6%, 33.2%, 31.6%, 32.6% and 21.8% of our total sales for the corresponding periods; and our sales to EMEA amounted to approximately US\$35.5 million, US\$58.7 million, US\$35.3 million, US\$41.7 million, US\$16.5 million and US\$28.8 million in FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively, representing approximately 21.1%, 38.9%, 32.5%, 38.4%, 39.6% and 48.2% of our total sales for the corresponding periods.

As at the Latest Practicable Date, in addition to our production facilities in the PRC and Italy, we had established offices in six different countries and regions. As such, our operations are subject to various legal, political and economic risks in different geographical market, which may include, among other things;

- (i) an increase in competition from foreign players or failure to anticipate changes to the competitive landscape in global markets due to a lack of familiarity with the local business environment;
- (ii) the imposition of trade barriers, such as import and export requirements, taxes, tariffs, such as those imposed on certain of our products produced in the PRC and exported to the U.S. under the Sino-U.S. trade conflicts in recent time, as well as other restrictions and expenses, which may increase the prices of our products, weaken the demand and reduce the competitiveness of our products in some countries;
- (iii) an infringement of our intellectual property rights in foreign jurisdictions;
- (iv) global political and economic instability, including wars, terrorism, political unrest, economic downturn, boycotts, curtailment of trade and other business restrictions. The continuation or worsening of economic downturns in countries and regions to which our products are sold, such as North America and Europe, may adversely affect the market sentiments and financial conditions of the enterprises in those countries and regions. Hence, the demand for our products, the collection of trade receivables and expected cash flow generation;
- (v) economic, financial and market instability and credit risks;
- (vi) difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations;
- (vii) economic sanctions, trade restrictions, discrimination, protectionism or unfavourable policies against products manufactured in the PRC or Italy;

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- (viii) exposure to litigation or third-party claims;
- (ix) foreign currency exchange controls and fluctuations; and
- (x) unfavourable tax conditions.

Any of the above factors could lead to, among other things, business disruptions and loss of sales, which could have a material and adverse effect on our business, financial condition and results of operations.

We could be materially and adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities.

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive orders, passing of legislation or other governmental means, implemented measures to impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we had sales and deliveries of our graphite electrodes to the Relevant Regions. The revenue generated from such transactions related to the Relevant Regions was approximately US\$4.0 million, US\$10.0 million, US\$13.7 million, US\$9.6 million and US\$2.9 million, representing approximately 2.4%, 6.7%, 12.7%, 8.9% and 4.8% of our total revenue for FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. Balkans (Serbia), Belarus, Egypt, Libya, Russia (excluding Crimea region) and Turkey were subject to various sanctions during the Track Record Period but were not subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of a Relevant Jurisdiction (i.e., none of them was a Comprehensively Sanctioned Country).

As advised by our International Sanctions Legal Advisers, our business transactions relating to the non-sanctioned customers, distributors and end-users in Relevant Regions during the Track Record Period did not violate the International Sanctions. However, new legal and regulatory restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being determined to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

Our business operations are subject to various environmental, health and safety laws and regulations which may materially and adversely affect the costs associated with more stringent standards from these laws and regulations.

Our graphite electrodes manufacturing facilities are located in the PRC and Italy, and are subject to various environmental, occupational health and safety laws, regulations and government policies promulgated by the PRC government and Italian government. Please refer to section headed “Regulatory Overview” in this prospectus for further details.

RISK FACTORS

We are required to undergo environmental impact assessments and implement environmental, health and safety programs and procedures to control risks associated with the design, construction and operation of our production facilities. The environmental, occupational health and safety laws, regulations and government policies applicable to our business operations and products are constantly evolving and we cannot predict when or how they will be amended, nor the consequence or impact thereof.

There is no assurance that the PRC or Italian government or the relevant government authorities in the PRC and Italy will not impose additional or more stringent laws, regulations or government policies in the future, which may subject us to more onerous duties and obligations. In the event that the PRC or Italian government imposes more stringent environmental, occupational health and safety laws, regulations and government policies, our production and distribution costs may increase, or we may be forced to curtail or suspend production or to incur material capital expenditures or other costs to remain in compliance and we may be unable to pass on these additional costs to our customers.

Any change or amendment to these laws, regulations or government policies may require us to incur substantial financial or other resources to adjust our production process, introduce new preventive or remedial measures, purchase new pollution control equipment and update our compliance and monitoring systems in order to ensure compliance, which may have a material and adverse effect on our business, financial condition and results of operations.

We are subject to credit risks from our customers.

Our trade receivables before impairment losses were approximately US\$32.8 million, US\$14.1 million, US\$17.1 million, US\$22.0 million and US\$25.9 million as at 31 December 2018, 2019, 2020 and 2021, and 30 June 2022, respectively.

The decrease in our trade receivables as at 31 December 2019 was mainly because of the decrease in our sales during FY2019. The subsequent increase in our trade receivables as at 31 December 2020 was mainly due to the increase in revenue of one of the top five customers during the fourth quarter of 2020 as compared to 2019 and also certain revenue of new customers secured during the fourth quarter of 2020. The increase in our trade receivables as at 31 December 2021 was mainly because of the increase in sales during the fourth quarter in FY2021 compared to the corresponding period of FY2020. The increase in our trade receivables as at 30 June 2022 was mainly due to increase in revenue from some existing and new customers during 1H2022.

As such, our business and financial results are dependent on the creditworthiness of our customers and the macro economic conditions of the jurisdictions where they are located. If the creditworthiness of our customers deteriorate or a significant number of our customers fail to settle their payments for any reason, we may incur impairment losses and our business, financial position and results of operations could be materially and adversely affected.

During the Track Record Period, we had incurred certain impairment losses in this regard. Impairment losses on trade receivables amounted to approximately nil, US\$0.9 million, US\$39,000, US\$136,000 and US\$0.2 million for FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. Please refer to the section headed “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Trade receivables” in this prospectus for further details.

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Our business, financial condition and results of operations may be materially and adversely affected by the recent escalating tension of Sino-U.S. relations

Some of our products are shipped to customers located in the U.S. from our production facilities situated in the PRC. For FY2018, FY2019, FY2020, FY2021 and 1H2022, we had six, 13, 14, nine and six customers located in the U.S. and our sales to them in aggregate accounted for approximately 23.0%, 20.3%, 18.9%, 21.1% and 18.1%, respectively, of our total revenue for the same periods. Among our sales to customers located in the U.S., in FY2018, FY2019, FY2020, FY2021 and 1H2022, 100%, 34.6%, 1.3%, nil and nil, were made under which our products were manufactured in the PRC, respectively. These sales represented approximately 23.0%, 7.0%, 0.2%, nil and nil of the total revenue of FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

Our operations are subject to various legal, political and economic risks arising from the recent escalating tension of Sino-U.S. relations which, if materialised, could have a material and adverse effect on our business, financial condition and results of operations. Such risks include the imposition of trade barriers, such as import and export requirements, taxes and tariffs, such as those imposed on certain of our products produced in the PRC and exported to the U.S. under the Sino-U.S. trade conflicts in recent times as well as other restrictions and expenses, which may increase the prices of our products, weaken demand and reduce the competitiveness of our products in some countries. For details on the impact of the Sino-U.S. trade conflicts to our Group, please refer to the section headed “Business — Trade War between China and the U.S.” in this prospectus.

Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability.

Our Group operates mainly in Hong Kong, the U.S., the PRC, Italy, Switzerland and South Africa, and conducts businesses with customers and suppliers in different jurisdictions. Our Group’s inter-company transactions and cross border business arrangements during the ordinary course of business may impose inherent uncertainty over our Group’s profit allocation and its respective tax position across different jurisdictions. The tax treatments of these transactions or arrangements may be subject to interpretation by respective tax authorities in different countries.

During the Track Record Period, we identified certain transfer pricing risks in the intra-group transactions of our Group. Our Group has quantified an aggregate tax payable amount of approximately US\$245,343 for the Track Record Period. Please refer to the section headed “Business — Transfer Pricing” for further details.

There is no assurance that relevant tax authorities would not subsequently challenge the appropriateness of our Group’s transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. In the event a competent tax authority later finds that the transfer prices and the terms that our Group has applied are not appropriate, such authority could require our relevant subsidiaries to re-determine transfer prices and thereby reallocate the income or adjust the taxable income or deduct costs and expenses of the relevant subsidiary in order to accurately reflect such income. Any such reallocation or adjustment could result in a higher overall tax liability for us and if this occurs, it may have a material and adverse effect on our business, financial condition and results of operations.

RISK FACTORS

We may not be able to implement our quality control systems effectively which would result in our failure to conform with the requisite standards in relation to our products.

The quality of our products is crucial to the success of our business and depends significantly on the effectiveness of our quality control systems, which in turn, relies on a number of factors, including the procedures and criteria we apply in the selection of our raw materials, our quality control training programme, and our employees' awareness in adhering to our quality control policies and guidelines. Any significant failure or deterioration of our Group's quality control systems could result in the production of defective or substandard products, delay in delivery of our products, replacement of defective or substandard products and damage to our reputation.

If our products do not meet the specifications and requirements of our customers, which are mainly EAF steel manufacturers, or if our products are defective, or result in our customers suffering losses as a result of our products, we may be subject to product liability claims.

We cannot assure you that we will not receive any complaint or claim against us in the future. In such case, we may have to incur significant costs in liaising with our customers to rectify such defective products or offer credits to our customers for the defective quantities. We may also incur significant legal costs regardless of the outcome of any claim of alleged defect.

Product failure or defects, and any complaints or negative publicity resulting therefrom, could result in a decrease in the sale of our products, or claims or litigation against us regarding the quality of our products. As a result, it may have a material adverse effect on our business, reputation, financial condition and results of operations.

In addition, our Group has received certifications relating to quality management standards including but not limited to ISO 9001:2015. Accordingly, any significant failure or deterioration of our quality control systems could result in a loss of such recognitions and certifications, which in turn may have a material adverse effect on our sales performance, reputation and prospects.

Any misconduct of our sales agents may adversely harm our business reputation.

During the Track Record Period, we had sales agents located in Americas, APEC and EMEA who were responsible for marketing and selling our products. For FY2018, FY2019, FY2020, FY2021 and 1H2022, our sales amount through our sales agents were approximately US\$77.9 million, US\$53.7 million, US\$26.8 million, US\$19.7 million and US\$9.7 million, respectively, which attributed to approximately 46%, 36%, 25%, 18% and 16% of our revenue for the respective year. As they are not our employees, we may not have the same degree of control over their conduct as we have over our employees. We may also not be able to effectively prevent, detect or deter all instances of misconduct of these sale agents. Any misconduct committed by them against our interests may have a material and adverse effect on our business, financial condition and results of operations as well as our reputation.

RISK FACTORS

We engage third party logistics providers to deliver our products and our customers may claim against us for the loss or damage to our products during delivery.

During the Track Record Period, a majority of our products were shipped to customers situated in Americas and EMEA. Depending on shipping terms, we may be responsible for engaging third party freight forwarding companies and logistics services providers to deliver the products to our customers and responsible for the costs and risks associated with the transportation. For FY2018, FY2019, FY2020, FY2021 and 1H2022, our delivery costs in engaging third party logistics providers amounted to approximately US\$4.2 million, US\$7.8 million, US\$4.2 million, US\$5.9 million and US\$2.6 million, respectively.

The services provided by the logistics providers could be interrupted by various reasons beyond our control, including poor handling by the logistics providers, transportation bottlenecks, adverse weather conditions, natural disasters, social contests and labour strikes. There is no assurance that the logistics providers have sufficient insurance coverage for our products delivered by them, if at all. As such, our customers may have liability claims against us if there is any loss or damage to our products during delivery and the logistics providers do not have sufficient or any insurance coverage. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. If any such claims are ultimately successful, we could be liable for substantial damages, which could materially and adversely affect our business, financial condition and results of operations.

There is no assurance that our business strategies and future plans will be successfully implemented.

The successful implementation of our business strategies and future plans may be hindered by risks set out in this section and is subject to numerous factors, including but not limited to:

- our ability to retain our existing customers and secure new customers;
- our ability to adapt to changing industry and market trends;
- the availability of management and financial resources;
- our ability to negotiate favourable terms with our major suppliers and customers;
- our ability to hire and retain skilled personnel to manage and operate our business;
- the increase in labour costs;
- the delay or non-completion of our acquisition of the Taigu Assets; and
- the termination of the asset purchase agreement dated 10 October 2019 (and supplemented by the supplemental agreements dated 15 October 2019, 26 June 2020, 25 June 2021 and 7 June 2022) between Shanxi Taigu and us in connection with the acquisition of the Taigu Assets.

Please refer to sections headed “Business — Business Strategies” and “Future Plans and Use of Proceeds” in this prospectus for further details of our business strategies and future plans.

RISK FACTORS

There is no assurance that we will be able to successfully implement our business strategies or future plans or such strategies or plans will result in increase in revenue or profits as expected. In addition, our expansion plans may place substantial demands on our management and our operational, technological, financial and other resources. We cannot assure you that we will be able to manage any future growth effectively and efficiently, and our ability to capitalise on new business opportunities may be adversely affected if we fail to do so, which would in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We are subject to the risk of foreign currency fluctuations.

Our Group's reporting currency is USD even if (i) a considerable portion of our revenue was denominated in USD, EUR and RMB; and (ii) our production costs and expenses are mainly denominated in EUR and RMB. In addition, we have manufacturing plants in the PRC and Italy, as well as offices in the U.S., Switzerland, Hong Kong, Macau, the PRC, and South Africa, of which overheads are settled in local currencies.

Therefore, we are exposed to foreign exchange risks. We incurred approximately US\$0.2 million, US\$1.4 million, US\$0.7 million and US\$0.1 million net foreign exchange expenses in FY2018, FY2019, FY2021 and 1H2022, respectively. We recorded approximately US\$2.6 million of net foreign exchange gain in FY2020, which represented approximately 47.1% of our other income in the same financial year.

Fluctuations in foreign exchange rates may be caused by various factors such as change in government policies, change in domestic and international economic and political conditions, and is always unpredictable. We cannot assure you that we will not suffer losses on foreign exchanges in the future.

As at the Latest Practicable Date, our Group had not entered into any agreements to hedge its exchange rate exposure. We cannot assure you that we will be able to manage and reduce our exchange rate fluctuation risk at reasonable costs, or at all. Changes in the foreign exchange rates between our functional currencies and reporting currency may have an adverse impact on our finance costs, sales and product margins, and may reduce the value of, and dividends payable on, our Shares, which may, in turn, materially and adversely affect our business, financial condition and results of operations. For details on our foreign currency exposures, please refer to the section headed "Financial Information — Foreign currency risk".

We are uncertain about the recoverability of our deferred tax assets, which may materially and adversely affect our financial condition.

As of 31 December 2018, 2019, 2020 and 2021, and 30 June 2022, our deferred tax assets amounted to approximately US\$1.6 million, US\$4.8 million, US\$6.3 million, US\$5.4 million and US\$3.8 million, respectively, which mainly represented the tax credit arising from tax losses, accrued expenses and provision. For details of the movements of our deferred tax assets during the Track Record Period, please refer to note 24 to the Accountants' Report set out in Appendix I to this prospectus.

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Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. We cannot guarantee the recoverability or predict the movement of our deferred tax assets. If we fail to recover our deferred tax assets, this may adversely affect our financial condition and results of operations in the future.

We may not be able to adequately protect our intellectual property rights and may be exposed to third-party claims of infringement or misappropriation of intellectual property rights.

We consider that our “SANGRAF” brand and other intellectual property rights are crucial to our success. As at the Latest Practicable Date, our Group had 22 patents registered in the PRC, six registered trademarks in the PRC, four registered trademarks in Hong Kong and one registered trademark each in the U.S. and South Africa, and by extension of a WIPO registration of trademark, our use of such trademark is protected in Switzerland. In addition, we are the registered owner of three registered domain names that are material to our business. Please refer to the section headed “Statutory and General Information — C. Further Information about our Business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus for further details of our intellectual property rights.

We cannot assure you that the steps we have taken to protect and safeguard our intellectual property rights are adequate or that our intellectual property rights will not be infringed by any third party in the future. Any unauthorised use of our intellectual property rights may harm our brand image and reputation, which may have a material and an adverse effect on our business performance and results of operations. We may resort to legal proceedings in order to protect and enforce our intellectual property rights and the legal fees and expenses involved in such proceedings can be substantial. Furthermore, the diversion of resources and our management’s effort and attention in addressing such intellectual property claims may significantly affect our business performance and hinder our business development.

The success of our business also depends on our ability to operate without infringing the intellectual property rights of third parties. We may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. The defence of intellectual property lawsuits, patent opposition proceedings and related legal and administrative proceedings can be costly and time consuming. An adverse judgement in any such proceedings may result in substantial liability on us and we may be subject to injunctions prohibiting the production or sale of our products. In addition, we may be required to re-design our products or obtain licences from third parties at a substantial cost. In these circumstances, our business, financial condition and results of operations may be materially and adversely affected.

Our current insurance cannot adequately cover all losses and liabilities arising from our operations.

Consistent with the practice in the graphite electrode manufacturing industry, we have obtained insurance for personal injuries, which is compulsory in nature. This practice is in place to protect us from substantial expenditures. However, it does not fully cover us from other potential risks and losses.

RISK FACTORS

According to the relevant PRC and Italian laws and regulations, we will be liable for losses and costs arising from accidents resulting from fault or omission on the part of us or our employees. If any accidents happen due to negligence on the part of us or our employees, we could be confronted with civil litigation or criminal litigation and expect to incur substantial losses. In addition, we may not have sufficient fire, earthquake insurance or property insurance with respect to our properties, facilities or inventory in the PRC. In the event that we incur substantial losses or liabilities but we are not insured against such losses or liabilities, or that our insurance is unavailable or inadequate to cover such losses or liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Our customers from time to time may claim that our products do not meet contractual requirements or claim to be harmed by the use or misuse of our products. This could give rise to a breach of contract, warranty or recall claims, or claims for negligence, product liability, strict liability, personal injury or property damage. Product liability insurance coverage may not be available or adequate in all circumstances.

There is no assurance that our insurance coverage will be sufficient to cover losses associated with claims arising from product liability, patent infringement, environmental protection liabilities, distributor terminations, commercial contracts, antitrust or competition law, employment law and employee benefit issues, and other regulatory matters. In the event that we incur substantial losses or liabilities and our insurance is unavailable or inadequate to cover such losses or liabilities, our business, financial condition and results of operations may be materially and adversely affected.

Our development capabilities may not be able to catch up with evolving technological advancements.

Our competitiveness is substantially dependent on our ability to (i) offer our customers with optimised products that meet their technical specifications that can accommodate the requirements of our customers and market demand; and (ii) enhance our production capabilities and efficiency. There is no assurance that we will be able to invest the same amount of resources in research and development in the future. Furthermore, there is no assurance that our future research and development efforts above will be successful or be completed within the expected time frame or budget. In addition, there is no assurance that our existing and/or potential competitors will not develop products which can meet the requirements of our customers and which may serve as substitutes for our products.

We may be exposed to fair value changes for property, plant and equipment measured at fair value and valuation uncertainty due to use of unobservable inputs that require judgement and assumptions which are inherently uncertain.

During the Track Record Period, we had property, plant and equipment measured at fair value. The carrying amounts of land and buildings and plant and equipment at 31 December 2018, 2019, 2020 and 2021, and 30 June 2022 were approximately US\$55.6 million, US\$56.1 million, US\$96.8 million, US\$99.7 million and US\$93.0 million, respectively. Among others, a significant change in the estimated useful life of the buildings, plant and machinery in isolation would result in a significant change in the fair value of such property, plant and equipment. For further details, including the key assumptions used for the fair value measurement and a sensitivity analysis, please refer to note 14 to the Accountants' Report set out in Appendix I to this prospectus.

RISK FACTORS

The fair value of our assets is determined using valuation techniques, which require judgement and assumptions and involve the use of unobservable input. Changes in the basis and assumptions used in the estimation could materially affect the fair value of these financial assets. The valuation may involve a significant degree of judgement and assumptions which are inherently uncertain, and may result in material adjustment, which in turn may materially and adversely affect our results of operations.

Our financial performance during the Track Record Period is not indicative of our future financial performance and our operating results may fluctuate significantly.

In FY2018, FY2019, FY2020, FY2021 and 1H2022, our gross profit amounted to approximately US\$105.2 million, US\$34.3 million, US\$16.5 million, US\$22.8 million and US\$15.6 million, respectively; while our gross profit margin was approximately 62.5%, 22.7%, 15.2%, 21.0% and 26.1%, respectively.

In FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, our revenue amounted to approximately US\$168.3 million, US\$150.8 million, US\$108.5 million, US\$108.7 million, US\$41.8 million and US\$59.7 million, respectively. Our revenue decreased by approximately US\$17.5 million or approximately 10.4%, from approximately US\$168.3 million for FY2018 to US\$150.8 million in FY2019 primarily due to the decrease in the average selling price, which was partially offset by the increase in sales volume.

Our revenue decreased by approximately US\$42.3 million or approximately 28.0%, from approximately US\$150.8 million in FY2019 to approximately US\$108.5 million in FY2020, primarily due to the decrease in the average selling price, which was partially offset by the increase in sales volume.

Our revenue remained stable in FY2020 and FY2021. Our revenue increased significantly by approximately US\$17.9 million or approximately 42.9%, from approximately US\$41.8 million for 1H2021 to approximately US\$59.7 million for 1H2022, primarily driven by the increase in the sales volume and a significant increase in the average selling price.

Our gross profit margin decreased from approximately 62.5% in FY2018 to approximately 22.7% for FY2019 mainly due to the combined effect of (i) a significant decrease in the average selling price of graphite electrodes by approximately 49.9% in FY2019 as the market price graphite electrodes returned from the historical high in FY2018; and (ii) the decrease of unit cost of sales (excluding the provision for inventories) by approximately 11.0% only in FY2019. It further decreased to approximately 15.2% in FY2020 mainly due to the decrease in the average selling price of graphite electrodes by 44.9% in FY2020 comparing with FY2019 because of the downward adjustment in the graphite electrode market price during second half of 2019 and FY2020 following the slow growth in the global EAF steel market caused by COVID-19, the effect of which was partially offset by the decrease in purchase cost of raw materials.

RISK FACTORS

Our gross profit margin increased to approximately 21.0% in FY2021 mainly due to the decrease in the unit cost of sales, which the effect was partially offset by the decrease in the average selling price. Our gross profit margin increased significantly as compared to 1H2022 primarily driven by the strong increase in our average selling price, partially offset by the increase of our average cost of sales. Please refer to the section headed “Financial Information — Description of selected items in consolidated statements of profit or loss and other comprehensive income — Gross profit and gross profit margin” in this prospectus for further information.

However, such trend of historical financial information of our Group is a mere analysis of our past performance only and does not have any positive implication or may not necessarily reflect our financial performance in the future. Our future performance depends on a number of factors, including but not limited, to the market trend and demand of our products, our business relationship with our customers, the implementation of our business strategies, the competitive landscape of the industry where we operate as well as the general economic conditions in Americas, Europe, the PRC, Hong Kong and elsewhere in the world.

During the Track Record Period, we had commenced in-house manufacturing of graphite electrodes to supplement our business operation. Historical figures or past results should not be relied on as indicators of our performance. We cannot assure you that our operating and financial performance in the future will remain at a level comparable to those recorded during the Track Record Period.

We rely on our key management personnel and losing their services could adversely affect our business.

Our success and growth are, to a large extent, attributable to the continued commitment of the members of our senior management team, as set out in the sections headed “Business — Competitive Strength” and “Directors and Senior Management” in this prospectus, and our capability to identify, hire and retain suitable and qualified employees, including management personnel with the necessary industry expertise. Notwithstanding our efforts to reward them for their service and contribution to our Group, there is no assurance that our compensation packages and incentive schemes will successfully attract and retain key personnel. Any unanticipated departure of our members of senior management team may have an adverse impact on our business operations and profitability.

Personal injuries, property damages or fatal accidents may occur at work sites.

Although we generally supervise and monitor closely our employees in the implementation of all safety measures and procedures during the manufacturing process, we cannot guarantee that our employees will follow our safety measures and/or will not breach any applicable laws, rules or regulations.

Our Group may be exposed to the risk of industrial accidents at our production facilities in the PRC Factory and the Italian Factory. Although we have enforced our safety measures and are covered by insurance under normal market practice, there is no guarantee that industrial accidents may not occur in the future, which may result in suspension of the operation in our production facilities, damaging our plant or machinery, and give rise to potential liability to our employees, our customers or third parties.

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Nevertheless, we might be exposed to claims in respect of matters that are not covered by the insurance policies we maintained. In addition, as to the insurance policies we maintained, there may be circumstances (such as fraud, gross negligence, natural disasters and acts of god) in which certain losses and claims would not be covered adequately, or at all. Any personal injuries and/or fatal accidents to the employees of our Group may lead to claims or other legal proceedings against our Group. As at the Latest Practicable Date, our Group was not subject to any material claims from employees.

Our business, financial condition and results of operations are materially and adversely affected by economic cycles, including the global financial and economic crisis.

Our business is highly correlated with the trend and development of the global EAF steel industry. The demand for our products relies on the market conditions of such industry which might fluctuate over time. If the global demand in the EAF steel manufacturing industry falls as a result of adverse economic cycles, the demand for our products may also fall which may have a material and adverse effect on our business, financial condition and results of operations.

There are significant uncertainties and risks that may adversely affect the continued recovery of the global economy. There is no assurance that the global economy will continue to grow at a stable pace or at all, or will not experience a recession in the future. If the global economy grows at a lower than expected rate or experiences a recession in the future, demand for our products will decrease and our business, financial condition and results of operations would be materially and adversely affected.

RISKS RELATING TO OUR INDUSTRY

We operate in a highly competitive and concentrated industry and will continue to face challenges from existing or new competitors.

We operate in a highly competitive and concentrated industry, and our market position largely depends on our ability to compete with other graphite electrode manufacturers in the market. Competition may affect our sales and the price of our products, which will, in turn, affect the profitability of our business.

According to the F&S Report, in FY2021, the top 10 global UHP graphite electrode manufacturers accounted for approximately 41.6% of the global market share in terms of production volume, and the top five graphite electrode manufacturers in the PRC accounted for approximately 75.7% of the total production volume of UHP graphite electrode in the PRC.

Our success depends on our ability to compete effectively against our competitors in terms of our pricing, cost effectiveness, product quality and customer service. We cannot assure you that we will continue to compete successfully in the future, and if we fail to do so, our market share, operating margins and market recognition could be reduced, which may have a material and adverse effect on our business, financial condition and results of operations.

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Our business, financial condition and results of operations may be adversely affected by graphite electrode overcapacity.

There was an overcapacity in the global graphite electrode and the UHP graphite electrode markets during the period from 2019 to 2021. According to Frost & Sullivan, while there is an overproduction of the UHP graphite electrodes in China which is expected to continue between 2022 to 2026, there is at the same time a short supply of UHP graphite electrodes outside China arising from the demolition, long-term environmental remediation and repurposing of lower capacity facilities. The gap between the global production volume and consumption volume of the global market of UHP graphite electrodes (excluding the PRC) is expected to be fulfilled by the export of UHP graphite electrodes from the PRC. However, if such overcapacity of PRC market outweighs the shortage of global market, it may adversely affect pricing of our products.

An increase in graphite electrode production capacity that outpaces an increase in demand for graphite electrodes may adversely affect the price of graphite electrodes. Excess production capacity may result in manufacturers producing and exporting electrodes at prices that are lower than prevailing domestic prices, and sometimes at or below their cost of production. We cannot assure you that such overcapacity in the graphite electrode market will not adversely affect the pricing of our graphite electrodes, and if this happens, our business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN ITALY

We require various approvals, licences and permits to operate our business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect our business and results of operations.

Pursuant to the laws and regulations of Italy, we are required to maintain various approvals, licences and permits in order to operate our production facilities in Italy. We are required to obtain land and building titles and licences in relation to business operations and environmental issues. Compliance with the relevant laws and regulations may require substantial expense, and any non-compliance may expose us to liabilities. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time to remedy any deficiencies.

We may also experience adverse publicity arising from such non-compliance with any laws and regulations that negatively impact our reputation. We may experience difficulties or failures in obtaining the necessary approvals, licences and permits for our new production facilities in the future. In addition, there can be no assurance that we will be able to obtain or renew all of the approvals, licences and permits required for our existing business operations upon expiration in a timely manner or at all.

If we cannot obtain or maintain all licences required by us to operate our business, our production activities at our factory in Italy and our ongoing business in Italy could be interrupted. We may also be subject to fines and penalties.

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The ongoing weakness of the Italian economy could further adversely affect our operations and may have a material and adverse effect on our business, financial condition and results of operations.

One of our production facilities is located in Narni, Umbria, Italy. During the Track Record Period, our sales to Italy amounted to nil, approximately US\$4.9 million, US\$2.5 million, US\$4.2 million, US\$1.1 million and US\$5.8 million in FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022 respectively, representing nil, approximately 3.2%, 2.3%, 3.8%, 2.7% and 9.8% of our total sales for the corresponding periods.

The economic recession that Italy has experienced in recent years, including its high debt levels, has weighed on the development prospects of our business operations in the Italian market. The value of our operations and investments may be materially and adversely affected by political and economic developments in Italy which could lead to potential contraction in sales.

If the economy of Italy grows at a lower than expected rate or experiences a recession in the future, demand for our products in Italy will decrease and our business, manufacturing activities, financial condition and results of operations would be adversely and materially affected. We cannot exclude a potential further deterioration of economic conditions in Italy, which could have a material adverse effect on our results given our manufacturing activities in Italy.

In the event that Italy suffers a recession along with declining business activities, declining consumer confidence and increased unemployment, the demand for our products would decrease and our production activities and utilisation rate of our production machinery and equipment would decrease accordingly, resulting in a decrease in our production output. Therefore, any decrease in our production output may lead to an increase in our production cost per unit and adversely affect our operating results and financial performance.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

We require various approvals, licences and permits to operate our business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect our business, financial condition and results of operations.

Pursuant to the laws and regulations of the PRC, we are required to maintain various approvals, licences and permits in order to operate our production facilities in the PRC. Any non-compliance may expose us to liabilities. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time to remedy any deficiencies.

We may also experience (i) adverse publicity arising from such non-compliance with any laws and regulations that negatively impact our reputation, experience; and (ii) difficulties or failures in obtaining the necessary approvals, licences and permits for our new production facilities in the future. In addition, there can be no assurance that we will be able to obtain or renew all of the approvals, licences and permits required for our existing business operations upon expiration in a timely manner or at all.

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If we cannot obtain or maintain the necessary approvals, licences and permits required for the operation of our business, our production activities and our ongoing business in the PRC could be interrupted. We may also be subject to fines and penalties. If this happens, our business, financial condition and results of operations may be materially and adversely affected.

Changes in the economic, political and social conditions of China could adversely affect our business.

Our business and results of operations are subject to the political, economic and social policies and conditions of the PRC as a portion of our revenue is derived from our operations in the PRC and some of our major assets are located in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including its structure, level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

Our ability to conduct and expand our business operations in the PRC depends on a number of factors that are beyond our control, including macro-economic and other market conditions and credit availability from lending institutions. In order to control inflation and promote economic growth, the PRC government has introduced certain macro-economic policies, such as imposing commercial bank lending guidelines, which have the effect of restricting lending to certain industries. Some of these macro-economic policies and lending policies may limit our ability to obtain financing, thus reducing our ability to implement our business strategies. There is no assurance that the PRC government will not introduce more restrictive or onerous policies in the future. Any change in the political, economic and social policies and conditions of the PRC may bring uncertainty to our business operations and may materially and adversely affect our business, financial condition and results of operations.

Although the PRC government has implemented measures emphasising the utilisation of market forces in the development of the PRC economy, the PRC government still exercises significant control over the PRC economic growth through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The PRC government also continues to play a significant role in regulating industries by imposing industrial policies. There is no assurance that the economic, political or legal systems of China will not develop in a way that is detrimental to our business, financial condition, results of operations and prospects. Our business, financial condition and results of operations may be materially and adversely affected by political instability or changes in social conditions in China, changes in laws, regulations or policies or the interpretation of laws, regulations or policies, measures which may be introduced to control inflation or deflation, changes in the rate or method of taxation, and imposition of additional restrictions on currency conversion and remittances abroad.

While the PRC government has undergone various economic reforms in the last few decades, many of such reforms are of an experimental nature and are expected to be refined, adjusted and modified from time to time based on economic and social conditions. In addition, the scope, application and interpretation of the laws and regulations relating to such reforms may not be entirely clear. Such refinement, adjustment or modification may impact our business operations in ways that we cannot predict and any uncertainty in the scope, application and interpretation of the relevant laws and regulations may materially and adversely affect our business, financial condition and results of operations.

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Government control of currency conversion could affect our business and limit our ability to utilise our capital effectively.

We receive a part of our revenue in Renminbi. Under our current structure, our income is derived from dividend payments from our PRC subsidiaries. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. The restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us.

Fluctuations in exchange rates and the value of Renminbi could have a material adverse effect on our financial condition and results of operations.

A part of our revenue and expenditures are denominated in Renminbi, while the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. The value of Renminbi against U.S. dollars, Hong Kong dollars and other currencies fluctuates, and is subject to changes resulting from the PRC government's policies, domestic and international economic and political developments as well as supply and demand in the monetary market.

Since July 2005, the PRC government has adopted a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and with reference to a basket of currencies. In April 2012, the PBOC enlarged the floating band for the trading price of Renminbi against US dollars on the interbank spot exchange market to 1.0% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of Renminbi against US dollars on the interbank spot exchange market to 2.0% around the central parity rate. There remains significant international pressure on the PRC government to adopt more flexible currency policies. In the event of significant change in the exchange rates of Hong Kong dollars and US dollars against Renminbi, our ability to pay dividends in foreign currencies may be materially and adversely affected.

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Fluctuations in the exchange rate of Renminbi against Hong Kong dollars and U.S. dollars will affect the relative purchasing power in Renminbi with the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to Hong Kong dollars or U.S. dollars would affect our financial results in Hong Kong dollars without giving effect to any underlying change in our business, financial condition and results of operations.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries.

As an offshore holding company of our PRC subsidiaries, we may make additional capital contributions or loans to our PRC subsidiaries. Any capital contribution or loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, any of our loans to our PRC subsidiary cannot exceed the difference between the total amount of investment of which our PRC subsidiary is approved to make under relevant PRC laws and regulations and the registered capital of our PRC subsidiary, and such loans must be registered with the local branch of SAFE. In addition, our capital contributions to our PRC subsidiary is subject to registration with the relevant governmental authorities in the PRC and reporting with MOFCOM through the Enterprise Credit Information Publicity System in the case of an increase in registered capital.

There is no assurance that we will be able to complete or obtain the necessary government registrations or approvals in a timely manner, or at all, with respect to making future loans or capital contributions to our PRC subsidiaries with the net proceeds from the Global Offering. If we fail to complete such registrations or obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be materially and adversely affected, which may materially and adversely affect their ability to fund their working capital and expansion projects as well as meet their obligations and commitments.

Companies having businesses in China may be classified as a “resident enterprise” for EIT purposes, and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders.

The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered PRC “tax resident enterprises” and will generally be subject to the uniform 25% EIT rate on their global income. Under the implementation rules to the EIT Law, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise.

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However, the circumstances under which an enterprise's "de facto management body" would be considered to be located in China are currently unclear. A tax circular issued by the State Administration of Taxation on 22 April 2009 provides that certain foreign enterprises controlled by a PRC company or a PRC company group will be classified as "resident enterprises" if (i) the senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; (ii) key properties, accounting books, company seal, and minutes of board meetings and shareholders' meetings; and (iii) half or more of the senior management or directors having voting rights, are located or resident in China.

If we are considered as a PRC tax resident enterprise for PRC tax purposes, we will be subject to a uniform 25% EIT rate as to our global income as well as tax reporting obligations. In addition, we cannot assure you that such dividends, which would normally qualify as "tax-exempted income" under applicable rules, will not be subject to a 10% withholding tax, as no guidance has been issued by the PRC taxation authorities with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC tax purposes. Furthermore, dividends payable by us to our investors that are non-resident enterprises and gains on the sale of our Shares may become subject to PRC withholding tax, if such dividends and gains are regarded by PRC tax authorities to be sourced from China.

We may be subject to fines due to the lack of registration of our leases.

Pursuant to the Measures for Administration of Lease of Commodity Properties (《商品房屋租賃管理辦法》), which was promulgated by the Ministry of Housing and Urban-Rural Development of the PRC on 1 December 2010 and became effective on 1 February 2011, both lessors and lessees are required to file lease agreements for registration and obtain property leasing filing certificates for their leases. We may be required by relevant government authorities to file lease agreements for registration within a time limit, and may be subject to a fine for non-registration exceeding such time limit, which may range from RMB1,000 to RMB10,000 subject to the discretion of the government authorities.

The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business, acquisition or restructuring strategies or the value of your investment in us.

In February 2015, the State Administration of Taxation of the PRC issued the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) ("Circular 7") which provides comprehensive guidelines relating to, and also heightened the PRC tax authorities' scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (the "PRC Taxable Assets").

Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose.

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Although Circular 7 contains certain exemptions ((including (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets) if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

The legal system in the PRC has inherent uncertainties that could limit the legal protections available to our Shareholders.

We have business operations in the PRC which are governed by the PRC law, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC and may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolutions may not be consistent or predictable.

Although efforts have been made by the PRC government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system. The PRC government has made significant progress in promulgating laws and regulations related to economic affairs and matters, such as corporate organization and governance, foreign investments, commerce, taxation and trade. However, newly-enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. For example, the relevant PRC governments promulgated the Opinions on Strictly Cracking Down on Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》), among which, it is provided that the administration and supervision of overseas-listed China-based companies will be strengthened. On 24 December 2021, the CSRC published the draft Regulations of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》), and the draft Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) for public comments. Such drafts introduced a filing-based regulatory system to cover both direct and indirect overseas offering and listing of domestic companies and set out, among others, the principle and certain criteria for determining whether the offering and listing of an issuer will be deemed as indirect overseas offering and listing of domestic PRC companies, which will be subject to the filing requirement thereunder. Specifically, the offering and listing of an issuer that meets the following criteria will be deemed as an indirect overseas offering and listing of domestic PRC companies, and therefore will be subject to filing procedures with the CSRC:

- (i) the operating income, total profits, total assets or net assets of domestic enterprises in the latest financial year account for more than 50% of the respective data in such issuer's audited consolidated financial statements for the same period; and

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- (ii) a majority of the senior management personnel in charge of the business operations and management of such issuer are PRC citizens or have habitual residences in the PRC, and such issuer's principal place of business is located in the PRC or the business operations of such issuer are mainly conducted in the PRC.

As of the date of this prospectus, in light of our current business operations in the PRC, we have not meet such criteria as an indirect overseas listing of domestic PRC companies to be subject to the filing requirements under such drafts. However, it remains unclear whether the versions adopted will have any further material changes.

There are still uncertainties regarding the interpretation and implementation of the above drafts, and further explanations or detailed rules and regulations with respect to such drafts may be issued in the future, which may impose additional requirements on us and result in adverse effect on this offering. Furthermore, the PRC legal system is partly based on government policies and administrative rules that may take effect retrospectively.

As a result, we may not be aware of our violations of certain policies or rules in a timely manner. The legal protection available to us under the PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC.

These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you, and may adversely affect the value of your investment.

It may be difficult to effect service of process in relation to disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC.

Certain of our assets are located in the PRC. As the PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgement made by courts of most other jurisdictions, there is no assurance that you will be able to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC.

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On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). Under such arrangement, where any designated people's court of the PRC or any designated Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the PRC or Hong Kong court for recognition and enforcement of the judgement. The arrangement came into effect on 1 August 2008, but the outcome and enforceability of any action brought under the arrangement is still uncertain.

Present or future environmental and safety laws and regulations in the PRC may have a material adverse effect on our business, financial condition and results of operations.

Certain of our business is subject to certain PRC laws and regulations relating to environmental and safety matters. Under these laws and regulations, we are required to maintain safe production conditions and to protect the occupational health of our employees. While we have conducted periodic inspections of our operating facilities and carry out equipment maintenance on a regular basis to ensure that our operations are in compliance with applicable laws and regulations, we cannot assure you that we will not experience any material accidents or work injuries in the course of our manufacturing process in the future. In addition, our manufacturing process produces pollutants such as wastewater, noise, smoke and dust. Notwithstanding the existing controls, the discharge of pollutants from our manufacturing operations into the environment may give rise to liabilities that may require us to incur costs to remedy such discharge.

We cannot assure you that all situations that will give rise to material environmental liabilities will be discovered or any environmental laws adopted in the future will not materially increase our operating costs and other expenses. Should the PRC impose stricter environmental protection standards and regulations in the future, we cannot assure you that we will be able to comply with such new regulations at reasonable costs, or at all. Any increase in production costs resulting from the implementation of additional environmental protection measures and/or failure to comply with new environmental laws or regulations may have a material adverse effect on our business, financial condition or results of operations.

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Our business may subject to complex and evolving laws and regulations regarding cybersecurity and data security.

We face challenges with respect to the complex and evolving laws and regulations regarding cybersecurity and data security. While we do not process personal information of users for our business operation, we do process data produced during and related to our operations of procurement, production, sales, and transportation of raw materials and products. Recently, the PRC regulators have increasingly focused on regulations in the areas of data security and data protection. For example, on 10 June 2021, the Standing Committee of the National People’s Congress promulgated the PRC Data Security Law, which took effect on 1 September 2021. On 14 November 2021, the CAC published a draft of the Administrative Regulations for Internet Data Security (《網絡數據安全管理條例 (徵求意見稿)》) (the “**Draft Measures for Internet Data Security**”). On 28 December 2021, the CAC and 12 other PRC regulatory authorities jointly revised and promulgated the Cybersecurity Review Measures (《網絡安全審查辦法》) (the “**Cybersecurity Review Measures**”), which came into effect on 15 February 2022. Please refer to the section headed “Regulatory Overview — Regulations Relating to Data Security” in this prospectus for further details.

We expect that these areas will receive greater attention and focus from regulators and attract continued or greater public scrutiny and attention going forward, which could increase our compliance costs and subject us to heightened risks and challenges associated with data security and protection. Any failure or perceived failure by us or by our employees or partners to maintain the security of data or to comply with applicable PRC or foreign privacy, data security and personal information protection laws, regulations, policies, contractual provisions, industry requirements and other requirements may (i) result in civil or regulatory liability, including governmental or data protection authority enforcement actions and investigations, fines, penalties, enforcement orders requiring us to cease operating in a certain way, or revoking our licenses, litigation or adverse publicity, and may (ii) require us to expend significant resources in responding to and defending allegations and claims.

The Draft Data Security Regulations, for public comments, which specify that a data processor who seeks to list in Hong Kong, which affects or may affect the national security, shall apply for cybersecurity review. However, the criteria for determining “affect or may affect the national security” as stipulated therein remain unclear and are still subject to further explanation and elaboration, and substantial uncertainties exist with respect to the enactment date, final content, interpretation and implementation of the Draft Measures for Internet Data Security.

Pursuant to the Cybersecurity Review Measures, the network platform operators with personal information data of more than one million users that seek for listing in a foreign country are obliged to apply for a cybersecurity review by the Cybersecurity Review Office of the PRC. However, the Cybersecurity Review Measures provide no further explanation or interpretation for “listing in a foreign country” or the criteria on determining the risks that “affects or may affect national security.” The PRC government authorities may have discretion in the interpretation and enforcement of these laws, rules and regulations.

RISK FACTORS

We cannot assure you that relevant regulators will not interpret or implement the laws or regulations in ways that negatively affect us. As at the Latest Practicable Date, we had not been involved in any investigations or cybersecurity reviews by the CAC, nor had we received any inquiry, notice, warning, or sanction in such respect. If a cybersecurity review for any of our activities including any data that we processed of our products related to the export control item or this Listing, is required, we will actively cooperate with the CAC to conduct such cybersecurity review. However, there can be no assurance that we will be able to obtain approval from the regulatory authorities in a timely manner, or at all. Any failure to obtain such approval or clearance from the regulatory authorities could materially constrain our liquidity and have a material and adverse effect on our business, financial condition and results of operations, especially if we need additional capital or financing.

The interpretation and application of these PRC cybersecurity and data privacy laws, regulations, and standards are still evolving. Hence, it remains uncertain whether the future regulatory changes would impose additional compliance requirements on companies like us. Compliance with evolving laws and regulations could cause us to incur substantial costs or require us to change our business practices in a manner that materially increases our operating costs and expenses or affects our growth momentum that can be adverse to our business, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN DIFFERENT COUNTRIES

We could incur significant costs as a result of compliance with various laws and regulations that govern our operations in different jurisdictions.

Apart from our operations in Italy and the PRC, we have subsidiaries in Hong Kong, the U.S., Switzerland, South Africa and Macau. The laws and regulations in these jurisdictions govern different parts of our operations, such as workplace safety, employment and sales. Please refer to the section headed “Regulatory Overview” in this prospectus for the relevant laws and regulations that are material to our operations for further information.

Therefore, our operations in these jurisdictions are subject to certain inherent risks, including: (i) exposure to local economic, political and labour conditions; (ii) changes in laws, regulations, trade or monetary or fiscal policies; (iii) difficulty of enforcing agreements, collecting receivables and protecting assets; (iv) limitations on repatriation of earnings, including withholding and other taxes on remittances and other payments by subsidiaries; (v) investment restrictions or requirements; and (vi) violence and civil unrest. In addition, given the complexity of and continuous amendments to these laws and regulations, our compliance therewith may involve substantial financial and other resources and may hinder our business expansion.

We cannot assure you that any new or changes to government legislations, regulations and policies, such as employment, social security, financial reporting and accounting, will not have an adverse effect on our business and financial performance. Failure to meet any of these laws and regulations might subject ourselves to various penalties, including fines or suspension of our operations, and our business, financial position and results of operations may be materially and adversely affected.

RISK FACTORS

We face complex taxation regimes in various jurisdictions. audits, investigations, and tax proceedings could have a material adverse effect on our business and financial position.

We are subject to income and non-income taxes in numerous jurisdictions. Income tax accounting often involves complex issues, and judgment is required in determining our worldwide provision for income taxes and other tax liabilities. In addition, the application of withholding tax, value added tax, goods and services tax, sales taxes and other non-income taxes is not always clear and we may be subject to tax audits relating to such taxes. We believe that our tax positions are reasonable and our tax reserves are adequate to cover any potential liability. However, tax authorities in certain jurisdictions may disagree with our position, including the tax treatment of corresponding expenses and income. If any of these tax authorities are successful in challenging our positions, we may be liable for additional income tax and penalties and interest related thereto in excess of any reserves established which may have a significant impact on our financial position and future cash flow.

RISKS RELATING TO OUR GLOBAL OFFERING

There has been no prior public market for our Shares, and their liquidity and market price may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Overall Coordinator and the Joint Global Coordinators for themselves and on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of, and permission to deal in, our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our Shares will develop, or, if it does develop, will be sustained following the Global Offering, or that the market price of our Shares will not decline following the Global Offering. Furthermore, the price and trading volume of our Shares may be volatile. Factors such as the following may affect the volume and price at which our Shares will trade:

- actual or anticipated fluctuations in our revenues and results of operations;
- announcements of new projects or land acquisitions by us or our competitors;
- limitations or restrictions of financing for the property section;
- news regarding recruitment or loss of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;

RISK FACTORS

- the operating and stock price performance of other companies, other industries and other events or factors beyond our control; and
- release of lock-up or other transfer restrictions on our outstanding Shares or sales or perceived sales of additional Shares by us or other Shareholders.

The securities markets generally have from time to time experienced significant price and volume fluctuations that are not related to the performance of particular industries or companies. These types of price volatility and fluctuations may also materially and adversely affect the market price of our Shares.

You will experience immediate dilution after the Global Offering and may experience further dilution if we issue additional Shares in the future.

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, you and other subscribers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible asset value of approximately US\$0.1668, equivalent to HK\$1.3007, per Share (based on an Offer Price of HK\$1.9 per Share, being the mid-point of the stated price range of the Offer Share) and existing holders of our Shares will receive an increase in net tangible asset value per share of their Shares. If we issue additional Shares or equity-linked securities in the future and such Shares are issued at a price lower than the net tangible asset value per Share at the time of their issuance, you and other subscribers of our Shares may experience further dilution in the net tangible asset value per Share.

The price of our Shares may fall before trading begins due to the time lag between pricing and trading of the Offer Shares.

The Offer Price will be determined on the Price Determination Date, which is expected to be Wednesday, 11 January 2023. However, the Offer Shares will not commence trading on the Stock Exchange until the Listing Date, which is expected to be on Tuesday, 17 January 2023. Investors may not be able to sell or otherwise deal in our Shares during this period. Accordingly, holders of our Shares are subject to the risk that the prices of our Shares could fall before trading begins and could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the Price Determination Date and the Listing Date.

A potential sale of Shares by our existing Shareholders could have a material adverse effect on our Share price.

Future sales by our existing Shareholders of a substantial number of our Shares in the public markets after the Listing could materially and adversely affect market prices of our Shares prevailing from time to time. Only a limited number of the Shares currently outstanding will be available for sale immediately after the Listing due to contractual and regulatory restrictions on re-sale. Please refer to the section headed “Underwriting” for further information. Nevertheless, after these restrictions lapse or if they are waived or breached, future sales of a substantial number of our Shares, or a perception of such impeding sales, could materially and adversely affect the market prices of our Shares and our ability to raise equity capital in the future.

RISK FACTORS

There can be no assurance that we will declare or distribute any dividend in the future.

Any decision to declare any dividend would require the recommendation of our Board and approval of our Shareholders. Any decision to pay any dividend will be made having regard to factors such as the results of operation, financial condition and position, and other factors deemed relevant. Any distributable profits that are not distributed in any given year may be retained and be made 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 operation. There can be no assurance that we will be able to declare or distribute any dividend. Our future declarations of dividends will be at the absolute discretion of our Board.

You may experience difficulties in protecting your interests because we are a Cayman Islands company and the laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or certain other jurisdictions.

We are a Cayman Islands company and our corporate affairs are governed by the Cayman Companies Act and other laws of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ from those under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed “Summary of the Constitution of our Company and Cayman Company Law” in Appendix III to this prospectus for further information.

Forward-looking information may prove inaccurate.

This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “aim”, “estimate”, “anticipate”, “believe”, “continue”, “could”, “expect”, “intend”, “may”, “might”, “plan”, “consider”, “potential”, “propose”, “seek”, “ought to”, “should”, “will” and “would” or similar expressions, or their negatives. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

Subscribers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions may prove inaccurate. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set out in this section. We do not intend to update these forward-looking statements in addition to our continuing disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information. Please refer to the section headed “Forward-looking Statements” in this prospectus.

RISK FACTORS

We cannot guarantee the accuracy of facts, forecasts and other statistics derived from various official government publications and other publicly available publications with respect to the global economy and the global graphite electrode manufacturing industry contained in this prospectus.

Facts, forecasts and other statistics in this prospectus relating to the global economy and the global graphite electrode manufacturing industry have been derived from various official government publications, other publicly available publications and the F&S Report. We cannot guarantee the quality or reliability of these source materials. In particular, the information from official government sources has not been independently verified by us or any of the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries or any of our or their respective directors and advisers, or any other persons or parties involved in the Global Offering. Therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled for such purpose.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the facts, forecasts and statistics in this prospectus may be inaccurate or may not be comparable to facts, forecasts and statistics produced with respect to other economies. Furthermore, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Therefore, you should not unduly rely upon the facts, forecasts and statistics with respect to the global economy and the global graphite electrode manufacturing industry contained in this prospectus.

We strongly caution you to read the entire prospectus and not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

We strongly caution our investors not to unduly rely on any information contained in press articles or other media regarding us and the Global Offering. Before the publication of this prospectus, there may be press and media coverage which contains certain information regarding the Global Offering and us that is not set out in this prospectus. We have not authorised the disclosure of such information in any press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no presentation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, our company secretary must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of our company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or
- (c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Our Company appointed Mr. Lau Che Yan Kenneth (“**Mr. Lau**”) and Ms. Ip Cheuk Man Louisa (“**Ms. Ip**”) as joint company secretaries. Mr. Lau is a member of the Hong Kong Institute of Certified Public Accountants and he therefore meets the requirements under Rules 3.28 and 8.17 of the Listing Rules. Since Ms. Ip does not possess a qualification stipulated in Rules 3.28 and 8.17 of the Listing Rules, she is not able to solely fulfil the requirements of a company secretary of a listed issuer stipulated under the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules in relation to the appointment of Ms. Ip as our joint company secretary. In addition, Ms. Ip will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules during the three-year period from the Listing Date. We will further ensure that Ms. Ip has access to the relevant training and support that would enhance her understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange. The waiver will be revoked immediately if Mr. Lau ceases to provide assistance to Ms. Ip as the joint company secretary during the three years after the Listing. Before the end of the three-year period, we will liaise with the Stock Exchange to enable it to assess whether Ms. Ip, having had the benefit of Mr. Lau’s assistance for three years, will have acquired the relevant experience within the meaning of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

Please refer to the section headed “Directors and Senior Management” in this prospectus for further information regarding the qualification of Mr. Lau and Ms. Ip.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors (including any proposed Director who is named as such in this Prospectus) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (as amended) and the Listing Rules for the purposes of giving with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus contains all the terms and conditions of the Hong Kong Public Offering.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Overall Coordinator, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners and the Underwriters, the Capital Market Intermediaries, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as at any subsequent time.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which is part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus contains the terms and conditions of the Hong Kong Public Offering.

Details of the terms of the Global Offering are described in the section headed "Structure of the Global Offering" in this prospectus.

The Listing is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters. The International Placing is managed by the Overall Coordinator. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to the agreement on the Offer Price between us and the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed upon amongst us and

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters, the Capital Market Intermediaries), the Global Offering will not proceed and will lapse. Further details about the Underwriters and the underwriting arrangements are contained in the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Underwriters, any of their respective directors or any other person involved in the Global Offering.

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exception therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including Shares to be issued pursuant to the Capitalisation Issue, Shares which may fall to be issued upon the exercise of the Over-allotment Option, options which may be granted under the Share Option Scheme) on the Main Board.

Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTER OF MEMBERS

Our Company's principal register of members will be maintained by its principal share registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by its Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. All Shares to be issued pursuant to the Global Offering, the Capitalisation Issue and any Shares to be issued upon exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme will be registered on our Company's register of members in Hong Kong. Only Shares registered on our Company's register of members maintained in Hong Kong may be traded on the Stock Exchange.

STAMP DUTY

No stamp duty is payable by applicants in the Global Offering.

Dealings in our Shares registered in the Hong Kong register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.26% of the consideration or, if higher, the market value of our Shares being sold or transferred.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the shareholders listed on the Hong Kong register of members of our Company, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or, if joint Shareholders, to the first-named therein in accordance with the Articles.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in our Shares. None of our Group, the Underwriters, the Sole Sponsor, any of their respective directors, supervisors, agents or advisers or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of, dealing in, or exercising any rights in relation to, our Shares.

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the **GREEN** Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offering, the Stabilising Manager or any person acting for it may over-allot or effect transactions with a view to supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time and is required to be brought to an end after a limited period. An announcement will be made to the public within seven days after the end of the stabilising period as required under the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong).

In connection with the Global Offering, our Company intends to grant to Yue Xiu Securities Company Limited (for itself and on behalf of the Underwriters) the Over-allotment Option, which will be exercisable in full or in part by Yue Xiu Securities Company Limited (for itself and on behalf of the Underwriters) no later than 30 days after Tuesday, 10 January 2023, being the last day for the lodging of applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required to allot and issue at the Offer Price up to an aggregate of 25,860,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the International Placing, if any.

Further details with respect to stabilisation and the Over-allotment Option are set out in the sections headed “Structure of the Global Offering — Stabilisation” and “Structure of the Global Offering — Over-allotment Options” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company’s compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 17 January 2023, it is expected dealings in our Shares on the Main Board of the Stock Exchange will commence at 9:00 a.m. on Tuesday, 17 January 2023. Shares will be traded in board lots of 2,000.

The stock code for our Shares is 2459.

Our Company will not issue any temporary documents of title.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, the translation of Renminbi, US\$, ZAR, CHF and MOP into Hong Kong dollars has been made at the rate of RMB0.87, US\$0.13, ZAR2.07, CHF0.12 and MOP1.03 to HK\$1.00. No representation is made that the RMB amounts could have been, or could be, converted into Hong Kong dollars at such rates or at any other rate on such date or on any other date.

ROUNDING

In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred, or hundred thousand, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding. Accordingly, the total of each column of figures as presented may not be equal to the sum of the individual items.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Directors		
Dr. Wei-Ming Shen	496 W. Charleston Rd. Unit 303 Palo Alto, CA 94306 United States	American
Mr. Adriaan Johannes Basson	Hamilton Weg 7, Golf Park Meyerton, 1961 South Africa	South African
Mr. Yan Haiting (閔海亭)	Unit 6, 37/F, Block A Causeway Centre 28 Harbour Road, Wanchai Hong Kong	Chinese
Mr. Hou Haolong (侯皓瀧)	Flat B, 11/F, Block 2 Star Crest 9 Star Street Hong Kong	Vanuatu
Non-executive Director		
Mr. Wang Ping (王平)	Flat B, 22nd Floor, Tower 1 Marbella 23 On Chun Street, Ma On Shan New Territories Hong Kong	Chinese
Independent Non-executive Directors		
Mr. Cheng Tai Kwan Sunny (鄭大鈞)	Flat A, 46/F, Tower 8 Bel Air on The Peak Avenue Cyberport, Pokfulam Hong Kong	Chinese
Mr. Sun Qing (孫慶)	No. 907, 6th Floor Jiayuan Sanli Fengtai District Beijing PRC	Chinese
Mr. Ngai Ming Tak (魏明德)	House C12, Ville De Jardin 33-35 Sui Wo Road Fo Tan, Shatin New Territories Hong Kong	Chinese
Ms. Chan Chore Man Germaine (陳楚雯)	Flat A, 21/F, Tower 3 Bel-air No. 8, 8 Bel-air Peak Avenue Hong Kong	Chinese

For further information regarding our Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Party	Name and Address
Sole Sponsor	Southwest Securities (HK) Capital Limited <i>A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO</i> 14/F, One Hysan Avenue Causeway Bay Hong Kong
Overall Coordinator	Southwest Securities (HK) Brokerage Limited <i>A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO</i> 14/F, One Hysan Avenue Causeway Bay Hong Kong
Joint Global Coordinators	Southwest Securities (HK) Brokerage Limited <i>A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO</i> 14/F, One Hysan Avenue Causeway Bay Hong Kong Yue Xiu Securities Company Limited <i>A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO</i> Rooms Nos. 4917–4937 49/F, Sun Hung Kai Centre No.30 Harbour Road Wanchai Hong Kong First Capital Securities Limited <i>A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO</i> Unit 4512, 45/F., The Center 99 Queen's Road Central, Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Zhongtai International Securities Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO

19/F., Li Po Chun Chambers
189 Des Voeux Road Central
Central, Hong Kong

Sheng Yuan Securities Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO

Room 2202, 22/F.
No. 238 Des Voeux Road Central, Sheung Wan
Hong Kong

Joint Bookrunners

Southwest Securities (HK) Brokerage Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO

14/F, One Hysan Avenue
Causeway Bay
Hong Kong

Yue Xiu Securities Company Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO

Rooms Nos. 4917–4937

49/F, Sun Hung Kai Centre

No.30 Harbour Road

Wanchai

Hong Kong

First Capital Securities Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO

Unit 4512, 45/F., The Center

99 Queen's Road Central, Central

Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Zhongtai International Securities Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO

19/F., Li Po Chun Chambers
189 Des Voeux Road Central
Central, Hong Kong

Sheng Yuan Securities Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities under the SFO

Room 2202, 22/F.
No. 238 Des Voeux Road Central, Sheung Wan
Hong Kong

BOCI Asia Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

26/F., Bank of China Tower
1 Garden Road, Central
Hong Kong

ABCI Capital Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

11/F., Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

JMC Capital International Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO

Rm 2602, 26/F., China Insurance Group Building
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Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

China Everbright Securities (HK) Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

12/F., Everbright Centre
108 Gloucester Road, Wan Chai
Hong Kong

Valuable Capital Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities under the SFO

Room 2808, 28/F, China Merchants Tower, Shun Tak Centre
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Joint Lead Managers

Southwest Securities (HK) Brokerage Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and 4 (advising on securities) regulated activities under the SFO

14/F, One Hysan Avenue
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Hong Kong

Yue Xiu Securities Company Limited

A corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO

Rooms Nos. 4917–4937
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First Capital Securities Limited

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Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Zhongtai International Securities Limited

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BOCI Asia Limited

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1 Garden Road, Central
Hong Kong

ABCI Securities Company Limited

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10/F., Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

China Everbright Securities (HK) Limited

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12/F., Everbright Centre
108 Gloucester Road, Wan Chai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Valuable Capital Limited

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Tiger Brokers (HK) Global Limited

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JMC Capital International Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO

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Venture Smart Asia Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO

23/F., Lee Garden Five
18 Hysan Avenue, Causeway Bay
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Yuet Sheung International Securities Limited

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8/F., Central 88
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Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Vision Capital International Holdings Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities for the purpose of SFC

Room A01–A02
11/F. Grand Millennium Plaza
181 Queen’s Road Central
Sheung Wan
Hong Kong

Eddid Securities and Futures Limited

A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 3 (leveraged foreign exchange trading), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities for the purpose of SFC

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Legal advisers to our Company

As to Hong Kong law:

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The PRC

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Bowman Gilfillan Incorporated

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As to International Sanctions law:

Hogan Lovells

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and Underwriters**

As to Hong Kong law:

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Ernst & Young

Certified Public Accountants and
Registered Public Interest Entity Auditor
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979 King's Road
Quarry Bay
Hong Kong

Independent industry consultant

Frost & Sullivan Limited

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Compliance adviser

Yue Xiu Capital Limited

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No. 30 Harbour Road
Wanchai
Hong Kong

Receiving Bank

DBS Bank (Hong Kong) Limited

11/F The Center
99 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Room 2602, 26th Floor China Resources Building 26 Harbour Road Wanchai Hong Kong
Company's website address	www.sanergygroup.com <i>(information on this website does not form part of this prospectus)</i>
Joint company secretaries	Mr. Lau Che Yan Kenneth (劉智仁) <i>(HKICPA, ICAEW, ACCA)</i> Flat C, 6/F., 49 Broadway Mei Foo Sun Chuen Kowloon Hong Kong Ms. Ip Cheuk Man Louisa (葉卓敏) 12/F, 29D Broadway Mei Foo Sun Chuen Kowloon Hong Kong
Authorised representatives	Mr. Hou Haolong (侯皓瀾) Flat B, 11/F, Block 2 Star Crest 9 Star Street Hong Kong Mr. Wang Ping (王平) Flat B, 22nd Floor, Tower 1 Marbella 23 On Chun Street, Ma On Shan New Territories Hong Kong
Audit committee	Mr. Cheng Tai Kwan, Sunny (鄭大鈞) (<i>Chairman</i>) Mr. Sun Qing (孫慶) Mr. Ngai Ming Tak (魏明德) Ms. Chan Chore Man Germaine (陳楚雯)

CORPORATE INFORMATION

Remuneration committee	Mr. Sun Qing (孫慶) (<i>Chairman</i>) Mr. Ngai Ming Tak (魏明德) Dr. Wei-Ming Shen
Nomination committee	Dr. Wei-Ming Shen (<i>Chairman</i>) Mr. Cheng Tai Kwan, Sunny (鄭大鈞) Mr. Sun Qing (孫慶)
ESG Committee	Mr. Ngai Ming Tak (魏明德) (<i>Chairman</i>) Mr. Yan Haiting (閻海亭) Mr. Sun Qing (孫慶)
Principal Share Registrar and Transfer Agent	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wan Chai Hong Kong
Compliance adviser	Yue Xiu Capital Limited Rooms Nos. 4917–4937 49/F, Sun Hung Kai Centre No. 30 Harbour Road Wanchai Hong Kong
Principal banks	Wells Fargo Bank, N.A. 420 Montgomery Street San Francisco CA 94104 U.S. Credit Suisse (Switzerland) Ltd. Uetlibergstrasse 231 Zurich 8070 Switzerland

INDUSTRY OVERVIEW

The information and statistics set out in this section and other sections of this prospectus were extracted from the Frost & Sullivan Report, which was commissioned by us, and from various official government publications and other publicly available publications. We engaged Frost & Sullivan to prepare the Frost & Sullivan Report, an independent industry report, in connection with the Global Offering. The information from official government sources has not been independently verified by us, the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries, any of their respective directors and advisors, or any other persons or parties involved in the Global Offering, and no representation is given as to its accuracy. Please refer to the section headed “Risk Factors — Risks Relating to Our Business” in this prospectus for a discussion of risks relating to our industry.

SOURCES OF INFORMATION

We have commissioned Frost & Sullivan, an independent market researcher and consultant, to analyse and report on the global and PRC graphite electrode industry. Frost & Sullivan is an independent global consulting firm founded in 1961 in New York. Frost & Sullivan offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in the PRC includes chemicals, materials and food, commercial aviation, consumer products, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom. We commissioned Frost & Sullivan for a total fee of RMB980,000. We are of the view that the payment of such fee does not affect the fairness of the conclusions drawn in the F&S Report.

Our Company has included certain information from the F&S Report in this prospectus because our Directors believe that such information facilitates an understanding of the relevant market for potential investors. The market research process for the F&S Report has been undertaken through detailed primary research which involves discussing the status of the global and PRC graphite electrode market with leading industry participants and industry experts. Secondary research involves the review of company reports, independent research reports in addition to our Group’s key competitors and data based on Frost & Sullivan’s own research database. Frost & Sullivan considers the source of information reliable as it has validated and crosschecked all data through various sources, including primary discussions and through its own proprietary research methodology.

Except otherwise noted, all of the data and forecasts contained in this section are derived from the In addition, information extracted from the Frost & Sullivan Report is referred to in the sections headed “Summary”, “Risk Factors”, “Business” and “Financial Information” in this prospectus. Our Directors confirm that after taking reasonable care, there is no material adverse change in the market information on the data of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information in this section.

INDUSTRY OVERVIEW

Analyses and forecasts contained in the Frost & Sullivan Report are based on the following major assumptions:

- global and PRC economy is likely to maintain steady growth in the next decade;
- global and PRC social, economic, and political environment is likely to remain stable in the forecast period; and
- COVID-19 will affect global and PRC economic stability in the short term.

OVERVIEW OF THE GLOBAL GRAPHITE ELECTRODE MARKET

Definition and Segmentation

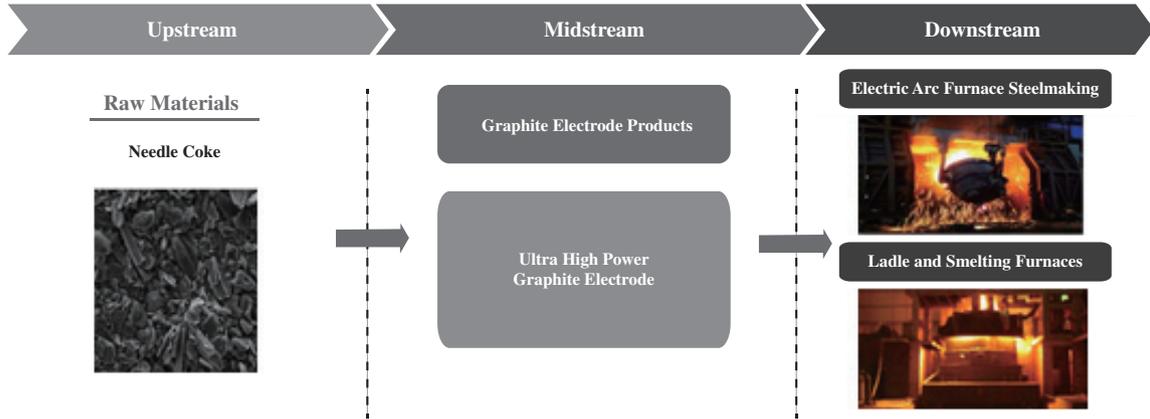
Graphite electrode is a kind of graphite conductive material with high temperature resistance. Graphite electrodes, which conduct electric currents and create electricity that melts scrap steel or other raw materials in the furnace to produce steel and other metal products, are mostly used for steel manufacturing. Graphite electrodes are the only material with low electrical resistivity and resistance to the thermal gradients generated in EAFs.

The production of graphite electrodes mainly uses petroleum or coal-based needle coke and binder pitch from coal tar as raw materials. Graphite electrodes are produced during processes which include mixing, extrusion, baking, pitch impregnation, rebaking, graphitising and machining. The main features of the production of graphite electrodes are its relatively long production cycles, which normally lasts three to five months, high consumption of electricity and complex production processes.

Based on different raw materials and physicochemical index of finished products, graphite electrodes are divided into three types, namely regular power graphite electrodes, HP graphite electrodes, and UHP graphite electrodes. UHP graphite electrodes have better performance in specifications, such as higher bulk density, lower specific electrical resistance, higher flexural strength, lower total porosity and lower ash content, compared with regular power and HP graphite electrodes. UHP graphite electrodes are mainly used for steel manufacturing in EAF, ladle, and smelting furnaces. Compared with UHP, RP and HP graphite electrodes are of lower grade specifications among graphite electrode products in general.

INDUSTRY OVERVIEW

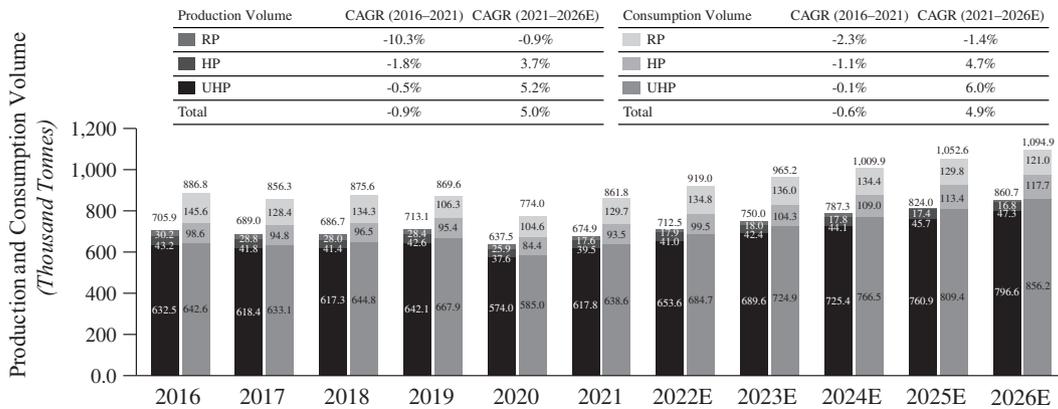
Value Chain of the UHP Graphite Electrode Manufacturing Industry



Source: Frost & Sullivan Analysis

Market Size

Production and Consumption Volume of Graphite Electrodes by Grades (Global, excluding China), 2016–2026E



Source: Frost & Sullivan Analysis

From 2016 to 2021, the production volume of graphite electrodes in the world, excluding the PRC, decreased from approximately 0.71 million tonnes to approximately 0.67 million tonnes, with a CAGR of -0.9%. The production volume of UHP graphite electrodes outside the PRC accounted for approximately 90% of the total global production volume of all graphite electrodes in 2021, excluding the PRC. During this period, the production capacity outside the PRC was reduced due to the demolition of low-capacity plants, long-term environmental remediation and repurposing of lower capacity facilities, which take a long time to upgrade capacity, resulting in the continuous decrease of production volume outside the PRC. The gap between the production volume and the consumption volume was fulfilled by the exported graphite electrodes from the PRC.

INDUSTRY OVERVIEW

The fluctuation of the consumption of global graphite electrodes was mainly due to the fluctuated demands from downstream steel industry. Since 2016, focused efforts by the PRC government to restructure the domestic steel industry in the PRC have led to clamping restrictions on Chinese BOF steel production and lowering of export volumes. In addition, developed economies, which typically have much larger EAF steel industries, have instituted a number of protective trade policies to protect its domestic steel producers. For example, the U.S. and European countries imposed anti-dumping duties on steel products from the PRC. The reduction in exports of steel from the PRC has resulted in an increased steel production outside of China, especially EAF steel production, and an increase in the demand for graphite electrodes accordingly.

In future, along with the recovery of the EAF steel industry, the graphite electrode market is expected to resume its long-term growth trajectory. In 2026, the global production volume and the consumption volume of graphite electrodes, excluding the PRC, is expected to reach 0.86 and 1.09 million tonnes, respectively, with a CAGR of approximately 5.0% and 4.9% from 2021 to 2026.

The reasons of the increase in the global production volume and consumption volume of UHP graphite electrodes from 2021 to 2026 are as follows:

- the global macro economy witnessed a downturn in 2020 with a decrease of approximately 2.6% in the global nominal GDP compared with the previous year. In 2021, the global nominal GDP was approximately USD96.3 trillion with an increase of approximately 13.0% from the previous year. The global macro economy is expected to rebound and witness a continuous increase in the future.

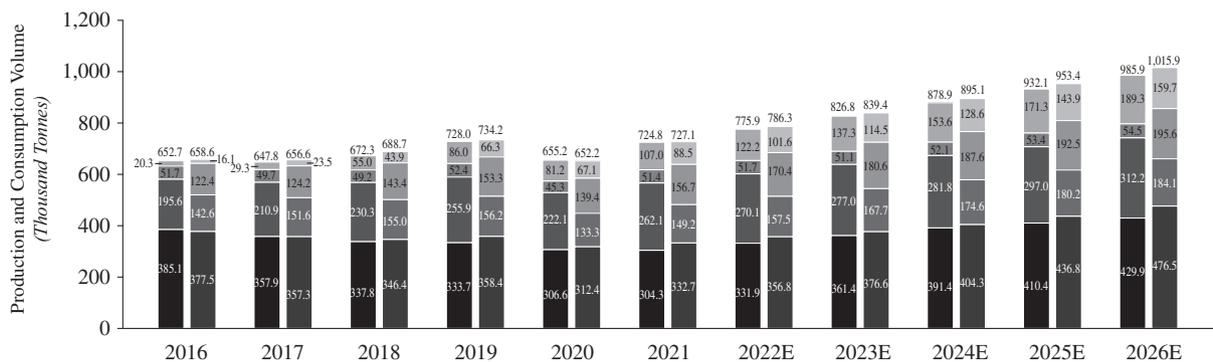
According to IMF, the global nominal GDP is projected to reach approximately USD129.7 trillion by the end of 2026, growing at a CAGR of approximately 6.1% from 2021 to 2026. Furthermore, with the stable growth of the global economy, the global per capita nominal GDP is expected to maintain a steady growth, increasing from approximately USD12,295 in 2021 to approximately USD15,795 in 2026 with a CAGR of approximately 5.1%. As an essential material in industrial production, the demand for graphite electrodes is largely influenced by the development of industrial productivity. Economic development will promote the development of the global graphite electrode market;

- the global crude steel production has maintained steady growth in recent years. With the wider applications of steel in the automotive, construction, packaging, and rail industries, the global consumption of steel has experienced stable growth. Meanwhile, with the improvement of the quality of steel products and growing requirements for environmental protection, steel manufacturers have been focusing on EAF steel manufacturing, raising higher requirements for the quality of graphite electrodes, which is essential for EAFs. The global production volume of crude steel is expected to reach approximately 2,272.9 million tonnes in 2026, with a CAGR of approximately 3.1% from 2021 to 2026; and
- graphite electrode manufacturers have committed to increasing capacity utilisation by phasing out excess capacities and improving production efficiency. In future, leading enterprises in the global graphite electrode market will continue to improve capacity utilisation as one of their main objectives, continuously integrate backward production capacity, optimise production technologies and improve production efficiency, which are expected to increase the production volume of UHP graphite electrodes.

INDUSTRY OVERVIEW

Geographical Distribution of UHP Graphite Electrode Production and Consumption (Global), 2016–2026E

Production Volume	2016–2021	2021–2026E	Consumption Volume	2016–2021	2021–2026E
China	39.4%	12.1%	China	40.7%	12.5%
Americas	-0.1%	1.2%	Americas	5.1%	4.5%
EMEA	6.0%	3.6%	EMEA	0.9%	4.3%
Asia excluding China and Others	-4.6%	7.2%	Asia excluding China and Others	-2.5%	7.5%
Total	2.1%	6.3%	Total	2.0%	6.9%



Source: Frost & Sullivan Analysis

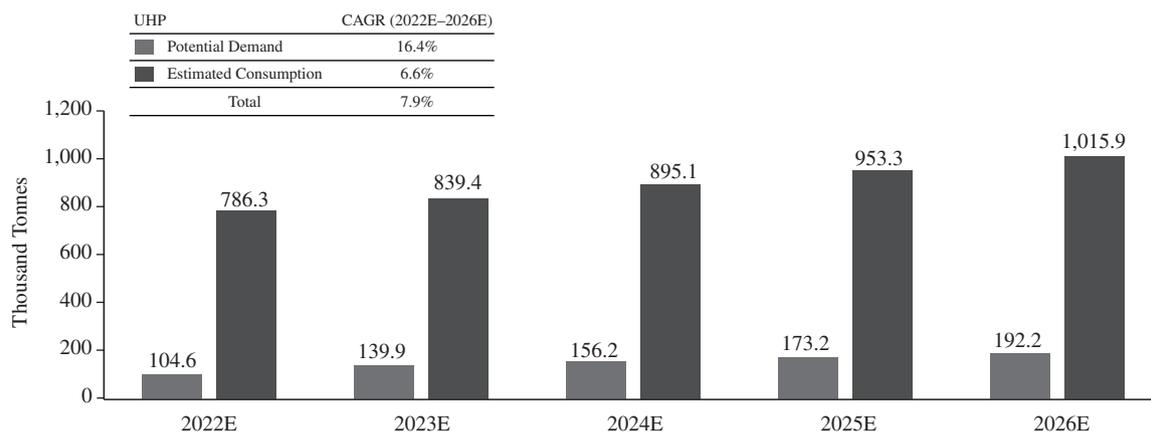
Except for a temporary drop in the production and consumption during 2020 due to the outbreak of COVID-19, the global production and consumption volume of UHP graphite electrodes have been increasing since 2016 and are estimated to continue to increase from 2021 to 2026. In particular, during 2016 to 2018, the global production volume (excluding the PRC) had continuously decreased from approximately 632.5 thousand tonnes in 2016 to approximately 617.3 thousand tonnes in 2018 which indicated a shortage in the production capacity. Furthermore, the surge in demand for graphite electrodes due to the recovery of the global EAF steel market in 2017 has further led to market imbalance as well as significant price fluctuations at the material time. Please refer to the paragraph headed “Price Trends of Graphite Electrodes” in this section for further details.

The principal manufacturers of UHP graphite electrodes are based in Asia and EMEA. Asia is the largest production area of UHP graphite electrodes in the world and the production volume mainly concentrated in Japan and India. In 2021, the production volume of UHP graphite electrodes in China accounted for approximately 14.8% of the total global production volume of UHP graphite electrodes, and is expected to reach approximately 19.2% of the total global production volume of UHP graphite electrodes in 2026.

The consumption of UHP graphite electrodes is mainly concentrated in Asia, EMEA and Americas. Asia is the largest consumption area of UHP graphite electrodes in the world. In 2021, the consumption volume of UHP graphite electrodes in China accounted for approximately 12.2% of the total global consumption volume of UHP graphite electrodes, and is expected to reach approximately 15.7% of the total global consumption volume of UHP graphite electrodes in 2026.

INDUSTRY OVERVIEW

Demand for UHP Graphite Electrodes (Global), 2022E–2026E



Note: Potential demand refers to the unmet hypothetical demand. This is estimated by assessing historical utilization rate of EAF steel, and the gap between the optimal production utilisation rate and the actual production utilisation rate of EAF steel. The above optimal production utilisation rate is estimated by referring to sources from World Steel Association and Frost & Sullivan Analysis.

Estimated consumption refers to the actual amount consumed. This is estimated by assessing the historical growth rate of estimated consumption, downstream demands from the EAF steel, in particular, the real estate and automobile industry and the development of steel industry with the carbon neutrality. For details, please refer to the paragraph headed “Recent Development of Global and China Steel and Graphite Electrode Market amid the COVID-19 and Market Drivers” in this section.

In future, with the implementation of a series of policies regarding carbon neutrality, the proportion of EAF steel in the total crude steel is expected to rise, stimulating the demand for graphite electrodes. The global supply, excluding China, cannot satisfy the demand for graphite electrodes due to the limitation of production capacity.

The gap between supply and demand is expected to be fulfilled by the exported graphite electrodes from China. However, due to rapid development of China’s EAF industry, the demand for graphite electrodes in China is expected to increase rapidly, the supply of graphite electrodes in China cannot completely satisfy the demand from both China and the countries outside China. From 2022 to 2026, the potential demand of UHP graphite electrodes from other countries which cannot be satisfied is expected to increase from approximately 104.6 thousand tonnes to 192.2 thousand tonnes with a CAGR of approximately 16.4%. Furthermore, it is expected the aggregate volume from the global consumption and the potential demand of UHP graphite electrodes will continuously exceed the global production volume during 2022 to 2026, of which such difference will increase from approximately 115.0 thousand tonnes in 2022 to approximately 222.2 thousand tonnes in 2026.

The shortage of graphite electrodes in the global market will be filled up by the export of graphite electrodes from the PRC. However, it will not be completely filled up by the over-supply of graphite electrodes in the PRC as the demand for graphite electrodes in the PRC is also expected to grow in the future. Under these circumstances, some PRC graphite electrode manufacturers plan to expand their capacity so as to satisfy the demand from other countries and its domestic market.

INDUSTRY OVERVIEW

The market share in the future can be captured by the leading market players with mature technologies, overseas sales networks and stable overseas customer relationships, and the qualification approved by global reputable EAF steel manufacturers, such as our Group. In 2026, the proportion of EAF steel production in the total crude steel production is expected to reach approximately 38.0% from approximately 31.8% in 2021.

Almost all UHP graphite electrodes in China and more than 90% UHP graphite electrodes in Americas and EMEA are used in EAFs.

In China, the main downstream application of UHP graphite electrodes is EAF steel manufacturing. The PRC government has been vigorously promoting the structural reform on the supply side of the steel industry by prohibiting the launch of new production capacities which cannot meet the requirements of environmental protection and resolving the problem of overcapacity. The PRC government encouraged the replacement of blast furnace steel manufacturing with EAF steel manufacturing. At present, almost 90% of the PRC steel manufacturers use blast furnaces and only 10% of them using EAF. The proportion of steel manufacturers using EAF in the US and other developed countries has reached 70%. In addition, the PRC government has planned to strengthen the macro-control in the transformation of industrial structure and environmental protection to promote the healthy and sustainable development of the graphite electrode market by eliminating backward production capacities and improving production efficiency. According to Frost & Sullivan, it is estimated that by 2026, the proportion of PRC's EAF steel production to the total crude steel production will exceed 20%. Therefore, the domestic demand for graphite electrodes is expected to rapidly grow in the foreseeable future.

Market Drivers

- **Steady Growth of Global Macro Economy**

As an essential material in industrial production, the demand for graphite electrodes is largely influenced by the development of industrial productivity. Therefore, economic development will promote the development of the global graphite electrode market. In recent years, with the sustainable growth of the global macro economy, the global graphite electrode market has also enjoyed a stable development. In future, the continuous growth of the global macro economy is expected to support the further development of the global graphite electrode market.

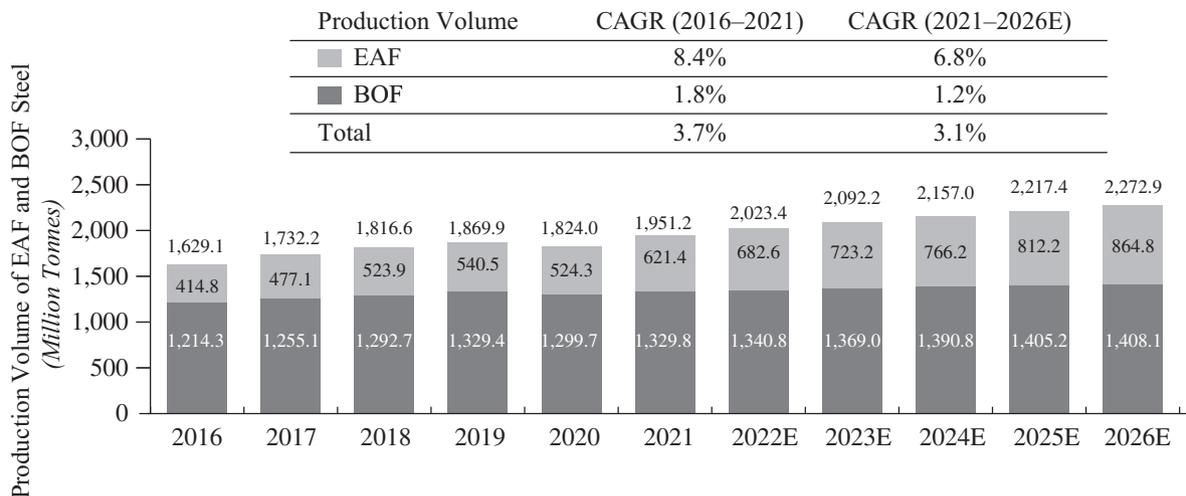
- **Development of Steel Industry**

The steel industry is one of the pillar industries for social development and progress. Global crude steel production has maintained steady growth in recent years. With the wider applications of steel in the automotive, construction, packaging and rail industries, the global consumption of steel also experienced a stable growth. Meanwhile, with the improvement of the quality of steel products, steel manufacturers have been focusing on EAF steel manufacturing, raising higher requirements for the quality of graphite electrodes, which is essential for EAFs.

INDUSTRY OVERVIEW

Furthermore, carbon neutrality and carbon peak became the main topics over the world. The United States is formally committed to cutting its carbon pollution approximately 50% from 2005 levels by 2030. The PRC government expects to hit peak carbon emissions before 2030 and aims to achieve carbon neutrality by 2060. Along with the growing popularity of carbon neutrality, steel manufacturers are likely to focus on increasing the adoption rate of electric arc furnace in steel manufacturing. Among the main downstream applications, approximately 80% of the consumption volume of all graphite electrodes is applied in the steel industry. Therefore, the development of the steel industry has promoted the development of the global graphite electrode market.

Production Volume of Steel by Production Methods (Global), 2016–2026E



Source: World Steel Association and Frost & Sullivan Analysis

We did not observe any cyclical factors of the demand in the global UHP graphite electrode industry and the global EAF steel industry in the past six years. The EAF steel industry has recovered since the downturn from 2011 to 2015. Since 2016, the EAF steel industry began to recover. Such recovery has taken place as China began to restructure its steel industry in 2015 by encouraging consolidation and shutting down outdated capacity. Most of the small BOFs with volume less than 1,000 cubic meters were eliminated or replaced with EAFs. China has also begun to implement increased environmental regulations to improve air quality, which has been impacted by CO₂ emissions associated with the burning of coal in BOF steelmaking.

In addition, developed economies, such as North America and Western Europe, have implemented trade decisions against BOF steel-producing countries to protect their domestic steel industries against imports. The production volume of EAF steel in those economies has experienced growth since 2016. The development of the global EAF steel industry has stimulated the demand for UHP graphite electrodes which began to increase from 2017. In future, in the context of carbon neutrality, the demand for EAF steel is expected to increase due to the obvious advantages of EAF steelmaking over BOF steelmaking in terms of carbon emissions, the production volume of EAF steel is expected to increase, reaching approximately 864.8 million tonnes and account for approximately 38.0% in the total steel production. In the forthcoming years, we estimate that the global EAF steel industry will maintain growth in the forthcoming years. The demand for UHP graphite electrodes is expected to increase in our Company's major markets.

Future Opportunities

- **Requirements for Improving Production Efficiency of Steel**

The global steel industry has maintained a steady growth, EAF steel manufacturing is one of the major modes of production in crude steel manufacturing industry. Therefore, there is a continuous demand for graphite electrodes. Meanwhile, the growing requirements for improving production efficiency of steel enterprises will further promote the technological innovation and product upgrading in the global graphite electrode market to provide downstream applications with graphite electrodes of higher performances.

- **Increasing Capacity Utilisation**

The global graphite electrode market was facing the problem of overcapacity during the last few years production resources could not be effectively and reasonably allocated. The graphite electrode manufacturers have committed to increasing capacity utilisation by phasing out excess capacities and improving production efficiency. In future, leading enterprises in the global graphite electrode market will continue to improve capacity utilisation as one of their main objectives, continuously integrate backward production capacity, optimise production technologies and improve production efficiency, which will promote the efficient development of global graphite electrode market.

- **Potential Demand from Other Countries**

The ongoing conflict between Russia and Ukraine has led to the imposition of international sanctions on Russia by the US and the EU, which is likely to disrupt the import and export of graphite electrode by Russia. According to Metal Expert, the US and the EU accounted for more than 50% of Russia's graphite electrode export market in 2021. The EU is the second largest graphite electrode supplying region to Russia and accounted for approximately 30% of Russia's total import volume of graphite electrode. Given Russia is one of the world's major graphite electrode exporters, the international sanctions on Russia will lead to non-Russian manufacturers having to meet the market shortfall due to the ongoing Russia-Ukraine conflict.

Challenges

- **Long Production Cycle**

The production cycle of graphite electrodes is very long and the manufacturing of UHP graphite electrodes has an even longer production cycle. Therefore, graphite electrode manufacturers cannot respond quickly to the changes of downstream demands, which will result in a large gap between supply and demand due to rapid fluctuations in market demand. Understanding how to adjust the inventory according to the production cycle and market conditions of graphite electrodes is one of the major challenges in the global graphite electrode market.

INDUSTRY OVERVIEW

- **Expansion of Production Capacity**

Expanding production capacity of graphite electrodes requires huge capital and technology. Instead of establishing new production facilities, graphite electrode manufacturers can expand production capacity through acquisitions of existing graphite electrode plants which have stable production volume and good track record. However, as there are only a few graphite electrode plants which can produce high-grade performance graphite electrodes that meet the international standards, Indeed, finding appropriate graphite electrode plants for acquisitions is one of the challenges in the global graphite electrode industry.

- **Impact of COVID-19**

With the global outbreak of COVID-19, the postponed work resumption of enterprises in the manufacturing industry in the PRC has resulted in the disruption of supply chain and dramatic decline of the imports and exports in the PRC, This decreased the downstream demand for graphite electrodes from the PRC market. Furthermore, the outbreak of COVID-19 in early 2020 has resulted in a decline in the growth rate of the EAF steel manufacturing industry due to the temporary suspension of operation and stagnation of logistics. Accordingly, the demand for UHP graphite electrodes in our Group’s major markets was affected, representing a decreased growth rate for the consumption volume in those markets. Meanwhile, the spread of COVID-19 in the U.S. and Europe has affected the normal production of graphite electrodes. The stagnation of logistics and transportation will increase the inventory of graphite electrode manufacturers. However, when the epidemic is effectively controlled, the supply and demand of graphite electrodes are expected to recover.

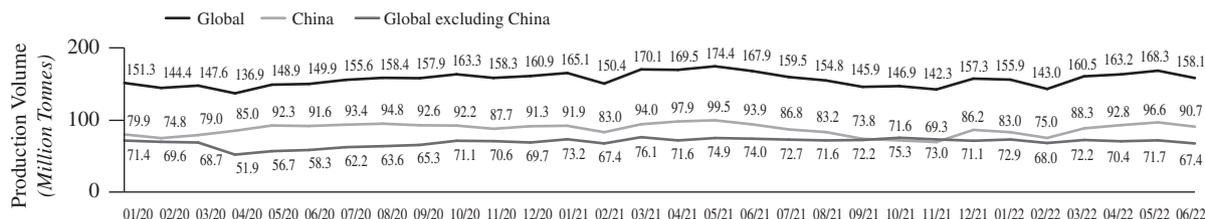
- **Major Factors Affecting Business of Graphite Electrode Manufacturers**

In the graphite electrodes industry, some factors are likely to affect the business of graphite electrode manufacturers, which are beyond the manufacturer’s control, such as the general supply and demand of needle coke and graphite electrodes as well as the resultant market prices, the demand of downstream commodities such as EAF steel. The profitability of graphite electrode manufacturers mainly depends on the price difference between graphite electrodes and needle coke.

Recent Development of Global and China Steel and Graphite Electrode Market amid the COVID-19

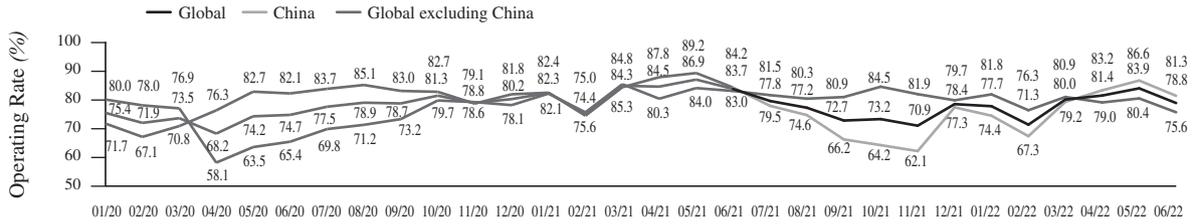
Monthly Production and Operating Rate of Crude Steel

Monthly Production Volume of Crude Steel (Global), 2020.1–2022.6



INDUSTRY OVERVIEW

Operating Rate of Crude Steel (Global), 2020.1–2022.6



Source: World Steel Association and Frost & Sullivan Analysis

The global steel industry passed the lowest point for the year of 2020 in April 2020 and has been recovering since mid-May 2020. However, the recovery is uneven across countries depending on their success in containing the virus, the national industry structure, and economic support measures. China has shown a surprisingly resilient rebound. The growth rate of the steel industry in China rebounded from the second quarter in 2020. Disrupted by the outbreak of COVID-19, the global (excluding China) production volume and operating rate of crude steel bottomed at approximately 51.9 million tonnes and approximately 58.1% in April 2020. The global (excluding China) steel industry has since picked up quickly with the returning operating rate and production volume. Both the operating rate and the production volume in 1H2021 have exceeded the level to those of 1H2020 which indicated that the global steel industry has recovered.

Crude steel includes BOF steel and EAF steel. With the recovery of both operating rate and the production volumes of crude steel, the EAF steel industry recovered accordingly. In the first two months of 2022, with the recurring effects of the pandemic in China and the influence of the Russia-Ukraine conflict, the China and Global (excl. China)'s operating rate of crude steel has dropped to approximately 67.3% and approximately 76.3%. The operating rate of crude steel has since recovered gradually.

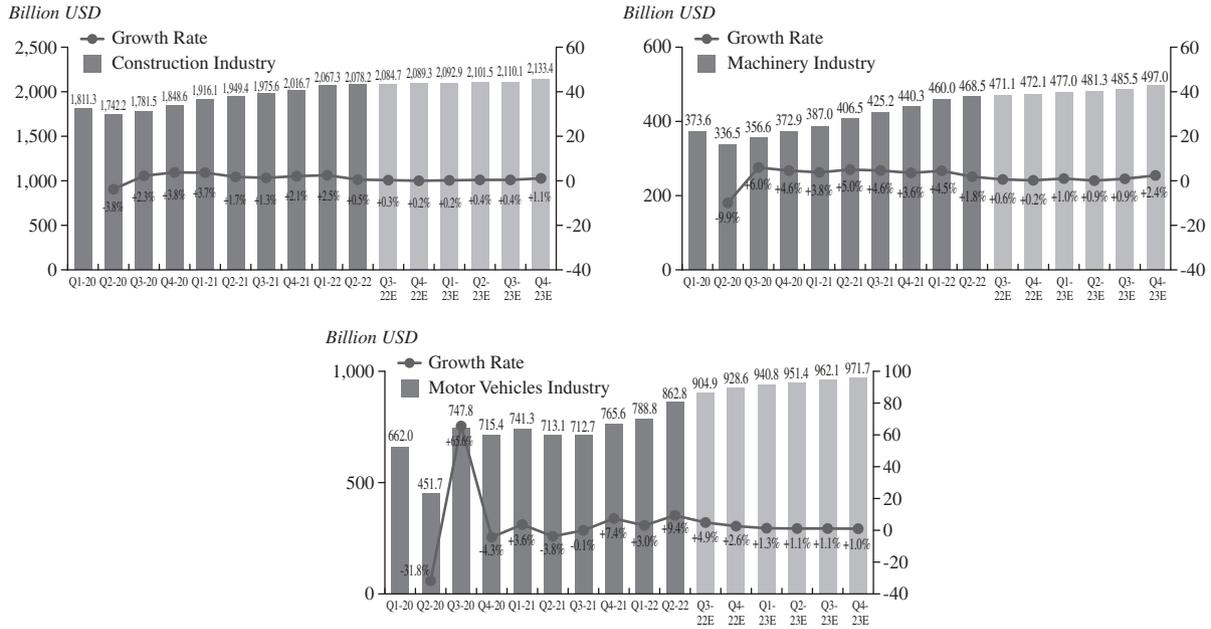
The World Steel Association (World Steel) released the 2020 Annual Report of World Steel Industry in June 2021. In 2020, the global steel demand contracted by -0.2%, a decrease of approximately 1,772 million tonnes due to the COVID-19 pandemic. Strong recovery in China mitigated the decrease in the global steel demand in 2020. In 2021, steel demand was approximately 1,874 million tonnes, an increase of approximately 5.8 % from 2020.

Downstream Industries of Steel Industry in the U.S.

The demand from the downstream industries that the EAF steel manufacturing industry serves, such as public infrastructure, construction industry and automobile industry, began to recover in late 2020 and early 2021. This helps the recovery of the global EAF steel market.

INDUSTRY OVERVIEW

Quarterly Gross Output of Construction, Machinery and Motor Vehicles Industry (U.S.), 2020.Q1–2023.Q4E

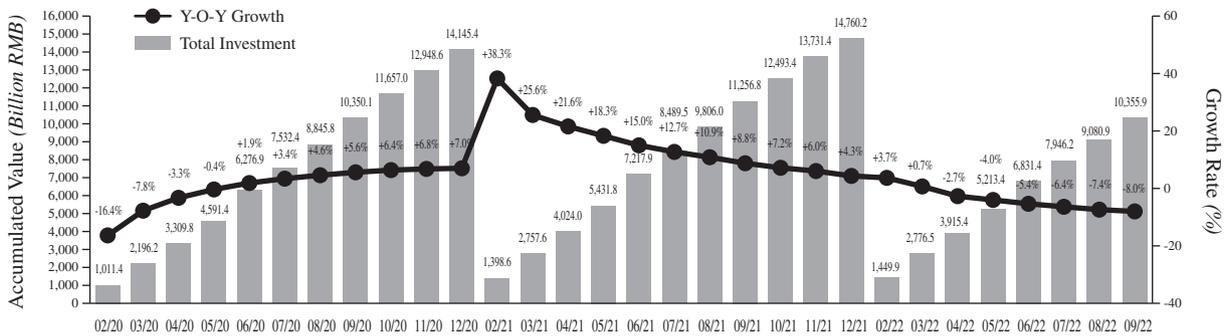


Source: Organisation for Economic Cooperation and Development; Census Bureau of the U.S. and Frost & Sullivan Analysis

Impacted by the outbreak of COVID-19, the construction, machinery and motor vehicles industries in the U.S. experienced a drop in the second quarter of 2020. The industries in the U.S. has since began to recover and their gross output has also accordingly rebounded.

Downstream Industries of Steel Industry in China

Total Investment in Real Estate (China), 2020.2–2022.9



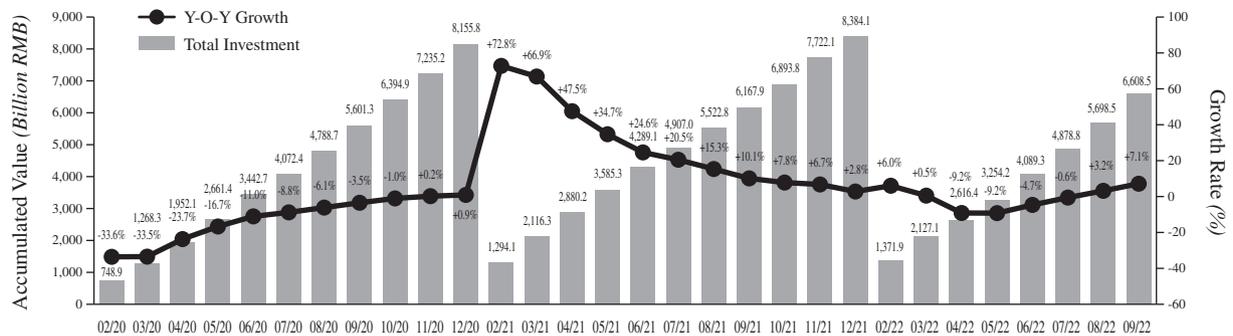
Source: National Bureau of Statistics of China and Frost & Sullivan Analysis

INDUSTRY OVERVIEW

In 2021, investment in real estate increased by 4.3% compared with 2020. In the first quarter of 2020, investment in real estate industry experienced a sharp decrease due to the outbreak of COVID-19. Since June 2020, investment in real estate showed a positive year-on-year growth of approximately 1.9%. From February 2021 to December 2021, the accumulated value of the total investment increased compared with 2020. As a major downstream application of the steel industry, the growth in real estate stimulated the demand for steel in China. With the recurring effects of the COVID-19 pandemic in China, the sales volume of the property has contracted greatly. In the first nine months of 2022, the accumulated value of total investment in real estate in China reached approximately RMB10,355.9 billion, with a year-on-year decrease of approximately 8.0%.

The PRC government plans to issue a series of favourable policies to promote the development of the real estate market. For example, in November 2022, the notice on the Current Financial Support for the Steady and Healthy Development of the Real Estate Market (《關於做好當前金融支持房地產市場平穩健康發展工作的通知》) was issued by the PBOC and the Banking and Insurance Regulatory Commission, which aims at stabilising lending for real estate development, supporting reasonable demand for individual housing loans, and other relevant financial supports. These favourable policies will further promote the development of the PRC real estate market. According to Frost & Sullivan, the total investment in real estate the PRC is expected to grow with a CAGR of 3.0% from 2022 to 2024.

Total Revenue in Automotive Industry (China), 2020.2–2022.9



Source: National Bureau of Statistics of China and Frost & Sullivan Analysis

In the first quarter of 2020, the revenue in the automotive industry dropped substantially due to the temporary suspension of operation and stagnation of logistics caused by COVID-19. Since April 2020, the data showed an obvious recovery with the increasingly small decrease. In 2021, the accumulated value of the total revenue in the automotive industry showed a slight increase compared with 2020. In the first nine months of 2022, with the recovery of the supply chain for automotive manufacturers and the rising demand for new energy vehicles, the accumulated value of the total revenue in the automotive industry reached approximately RMB6,608.5 billion, with a year-on-year increase of approximately 7.1%.

INDUSTRY OVERVIEW

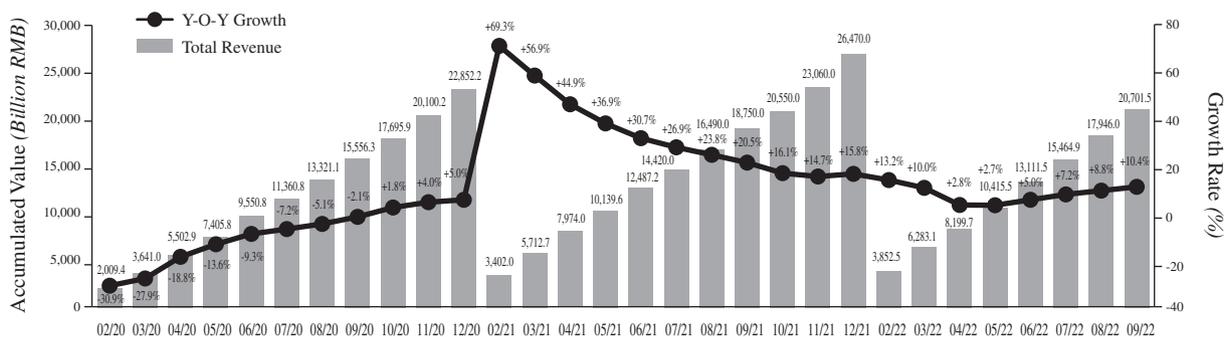
The development of the automotive industry is driven by the following reasons:

- rising demand for electric vehicles: Countries around the world have set targets to reduce vehicle emissions by 2030–2050, such as the United States, China, and other countries. This target pushes the development of electric vehicles and drives the overall development of the automotive industry. Many countries have started to promote the development and sale of electric vehicle markets and related charging infrastructure.

For example, according to the U.S. Departments of Transportation and Energy, starting in 2022, the U.S. government will invest nearly \$5 billion over five years to help states create a network of electric vehicle charging stations along designated Alternative Fuel Corridors, particularly along the Interstate Highway System. Driven by the rising demand of electric vehicles around the world, the development of the automotive industry will be further stimulated;

- technological innovation: Automobile manufacturers seek to take advantage of sophisticated technology to meet increased customer expectations. As customers’ expectations for automotive are changeable and many players try to meet customer expectations through technological innovations. For example, many consumers are interested in including features that improve navigation through technology, such as GPS, and features that enhance entertainment, including satellite radio and in-car access to digital music. Thus, continuous technological innovation will drive the demand for automotive; and
- accelerated urbanisation and continuous growth of per capita disposable income of urban households: From 2016 to 2021, with the steady development of China’s economy, the urbanization rate in China increased from approximately 58.8% to approximately 64.7%. Meanwhile, per capita annual disposable income of urban households observed an increase from approximately RMB33,616 to approximately RMB47,412 with a CAGR of approximately 7.1%. The accelerated urbanisation and continuous growth of per capita disposable income of urban households, especially in the second and third-tier cities, stimulated the demand for automotive and promoted the development of the automotive market in China.

Total Revenue in the Mechanical Industry (China), 2020.2–2022.9



Source: National Bureau of Statistics of China and Frost & Sullivan Analysis

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Similar to the trend of the automotive industry, the mechanical industry in China experienced a substantial drop in the first quarter of 2020 due to the outbreak of COVID-19. Since April 2020, with operations resumed, the mechanical industry began to recover. In 2021, the accumulated value of the total revenue in the mechanical industry showed an increase compared with 2020. In the first nine months of 2022, the accumulated value of the total revenue in the mechanical industry has increased continuously.

The development of the mechanical industry in China is driven by the following reasons:

- **Green Economy:** After the United Nations Climate Change Conference held in 2015, carbon neutrality and low-carbon economy have become the focus of global attention. For green manufacturing, enterprises plan to use low-carbon and environmentally friendly machinery to replace obsolete machinery which damages the environment. Thus, the avocation of a green economy promotes the development of the mechanical industry;
- **Favorable Policy Support:** The PRC government has enacted related favorable policies to encourage enterprises to actively innovate and drive the development of the machinery industry. For instance, the “Made in China 2025 《中國製造2025》” policy supports manufacturing enterprises to realise automation and mechanisation of the production process, thus improving labor productivity and mechanisation rate and reducing labor costs. Accordingly, the promotion and implementation of related favorable policies bring new opportunities for the development of the mechanical industry; and
- **Technological Advancement:** In order to achieve higher productivity, lower operating costs and higher margins, a large number of manufacturers, especially some leading ones, use advanced technologies extensively in manufacturing processes. The rapid development of advanced technology is expected to drive innovation in industrial machinery manufacturing, thus driving the development of the mechanical market.

The development of home appliances industry is driven by the following reasons:

- **Development of Online Sales Channel:** The development of online sales channels has boosted the retail sales value of home appliances globally over the past years. Attributable to the increasing internet penetration and the adoption of mobile device such as smartphones and tablets, consumers now rely more on digital channels to compare and purchase products. The development of online sales channel drives the sales volume of home appliances;
- **Rise of Smart Technology:** Smart technology in cooking and home environment appliances appeal to consumers. Manufacturers are introducing next-generation appliances that are more convenient and efficient than ever before. With better broadband and internet penetration, it is expected smart technology will be an upcoming trend in the home appliance industry and will stimulate the sales of home appliances; and

INDUSTRY OVERVIEW

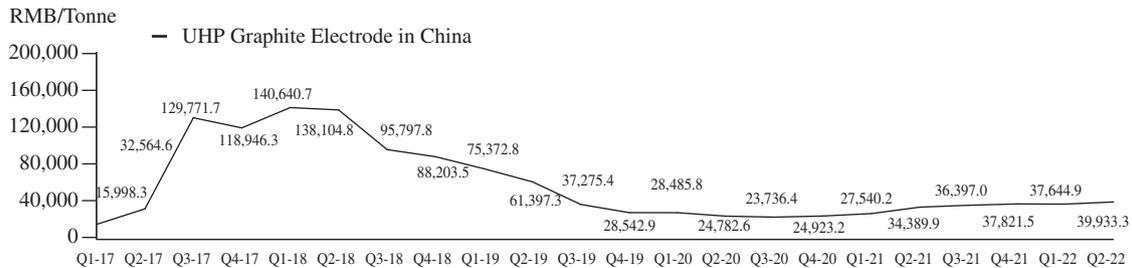
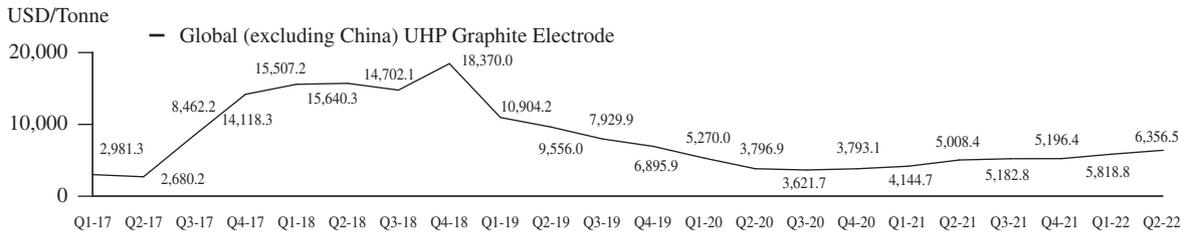
- **Trend Towards High-end Products:** Consumers are increasingly in pursuit of a healthier lifestyle and demanding revolutionary product designs for home appliances. Under such trend, consumer demand for home appliances are no longer restricted to basic functions. To address consumer preferences, home appliance manufacturers continue to launch new products with improved functions, which will promote the development of the home appliances industry.

Price Analysis of Global and China Graphite Electrodes

As a matter of the market practice, the delivery time of orders placed in the global market (excluding China) is substantially longer than that of the PRC market. The potential fluctuation in price and their sale forecasts during the intended delivery time will usually be taken into account in the price determination of orders placed in the global market (excluding China).

For orders placed in the PRC market, given a short delivery time, the focus during the price determination process is the “spot price” at the time of the order and the impact of potential fluctuation is usually considered immaterial and has little effect on the price determination process. In view of the above, the global market (excluding China) is an “order market” and the PRC market is a “spot sales market”.

Quarterly Average Price of Global and China UHP Graphite Electrodes, 2017–2022



Source: Frost & Sullivan Analysis

Notes:

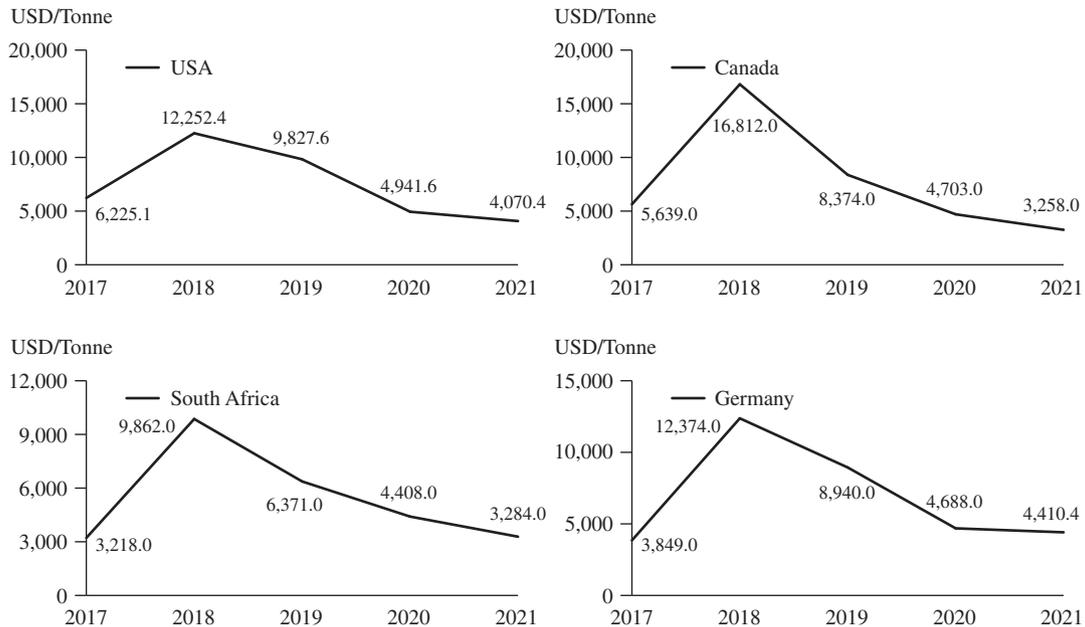
- (1) Frost & Sullivan verified the price data from third-party vendors, and such data are obtained and collated the transaction data directly from market players.

INDUSTRY OVERVIEW

- (2) As a matter of the market practice, the delivery time of orders placed in the global market (excluding China) is substantially longer than that of the PRC market. The potential fluctuation in price and their sale forecasts during the intended delivery time will usually be taken into account in the price determination of orders placed in the global market (excluding China).

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Average Price of UHP Graphite Electrodes (USA, Canada, South Africa and Germany), 2017–2021



Source: Metal Expert, Frost & Sullivan Analysis and United Nations Comtrade Database

In the global market, the price of UHP graphite electrodes increased continuously from 2017 to 2018 and reached the highest point approximately USD18,370.0 per tonne in Q4 2018. In China, the price of UHP graphite electrodes experienced a substantial increase from Q1 2017 to Q1 2018 and peaked at approximately RMB140,640.7 per tonne in Q1 2018. From Q1 2020 to Q3 2020, the price of UHP graphite electrodes in China and the global market decreased continuously. Since Q4 2020, the increasing demand for graphite electrodes resulted from the stable development of the steel industry and its downstream industries, such as real estate industry, the tension supply and the increasing sale price of raw materials of graphite electrodes boosted the price of graphite electrodes. In addition, the price of global (excluding China) UHP graphite electrodes increased slightly during Q4 2020.

In 2021, according to the World Steel Association, steel demand is expected to recover to 1,795.1 million tonnes, an increase of approximately 4.1% over 2020. The stable increase of the steel demand is expected to support the price of graphite electrodes. In 2021, the global economy gradually recovered. Due to carbon neutrality, the demand for EAF steel is expected to increase due to the obvious advantages of EAF steelmaking over blast furnace steelmaking in terms of carbon emissions.

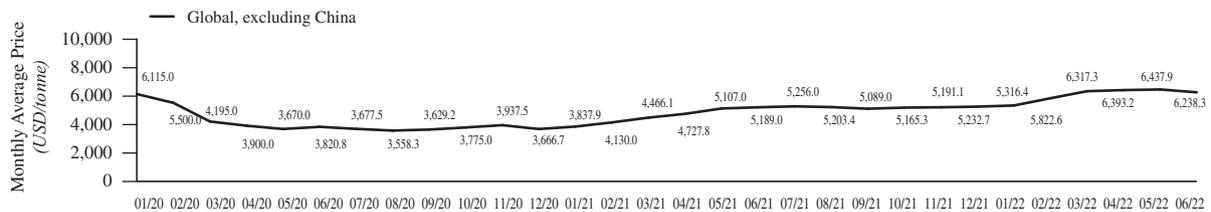
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In February 2021, the China Iron and Steel Association issued the “Proposal for Promoting Low-Carbon Action in the Steel Industry” (推進鋼鐵行業低碳行動倡議書), which proposes to orderly guide the development of short-process EAF steelmaking, and reduce the carbon emissions per ton of steel. As graphite electrode is the main material in EAF steel, the demand for graphite electrodes is expected to increase as a result of the demand of EAF steel and accordingly, the price of graphite electrodes will increase.

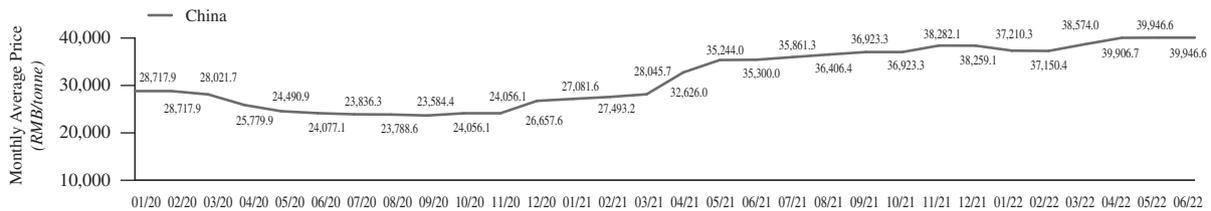
In May 2021, the Ministry of Industry and Information Technology issued the “Notice on the Implementation Measures for Capacity Replacement in the Steel Industry” (關於印發鋼鐵行業產能置換實施辦法的通知), which was formally implemented on June 1 2021. The implementation of the notice will accelerate the development of the EAF steel industry and the proportion of EAF steel will steadily increase, which will support the price of graphite electrodes in the second half of 2021.

In Q4 2021, the price of global (excluding China) UHP graphite electrodes and the price of UHP graphite electrodes in China was approximately USD5,196.4 and RMB37,821.5 per tonne, respectively. In 1H 2022, with the rising demand from the downstream industries and the rising cost of raw materials, the global (excluding China) and China’s quarterly UHP graphite electrodes have increased continuously.

Monthly Average Price of Graphite Electrodes (Global, excluding China), 2020.1–2022.6



Monthly Average Price of Graphite Electrode (China), 2020.1–2022.6



Source: Frost & Sullivan Analysis

Notes:

- (1) Frost & Sullivan verified the price data from third-party vendors, and such data are obtained and collated the transaction data directly from market players.
- (2) As a matter of the market practice, the delivery time of orders placed in the global market (excluding China) is substantially longer than that of the PRC market. The potential fluctuation in price and their sale forecasts during the intended delivery time will usually be taken into account in the price determination of orders placed in the global market (excluding China).

For orders placed in the PRC market, given a short delivery time, the focus during the price determination process is the “spot price” at the time of the order and the impact of potential fluctuation is usually considered immaterial and has little effect on the price determination process. In view of the above, the global market (excluding China) is an “order market” and the PRC market is a “spot sales market”.

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The monthly average price of graphite electrodes experienced a downward trend since the beginning of 2020 due to the decreased growth rate of the global steel industry, the global economic downturn and the transportation stagnation caused by the outbreak of COVID-19. In January 2020, the global (excluding China) and China's monthly average price of graphite electrodes reached approximately USD6,115.0 and approximately RMB28,717.9 per tonne, respectively. The global (excluding China) and China's monthly average price had since decreased continuously and reached the lowest point in August 2020 and September 2020, respectively. In 1H 2022, with the rising demand from the downstream industries, the rising cost of raw materials and the influence of high inflation, the global (excluding China) and China's monthly average price of graphite electrodes increased continuously.

The average price of global (excluding China) UHP graphite electrodes and the price of UHP graphite electrodes for 2021 in China was approximately USD4,883 and approximately RMB34,037 per tonne, respectively. Our Group's average selling price of approximately USD3,928 per tonne was lower than that of the industry in 2021. The prices of graphite electrode in China has started to recover in 2021 following the low point in 2020. As the global economy began to recover in 2021, the demand of steel has increased, which provided further support for graphite electrode prices. Notwithstanding the economic recovery, graphite electrodes prices in China has been supported by policies of carbon neutrality which encouraged the use and the development of electric arc furnaces in steelmaking. These have resulted in higher graphite electrode prices in China in 2021.

The global (excluding China) and China's average selling price of UHP graphite electrodes was approximately USD4,576.3 per tonne and approximately RMB30,965.1 per tonne, respectively, in 1H 2021, and was approximately USD6,087.6 per tonne and approximately RMB38,789.1 per tonne, respectively, in 1H 2022.

The graphite electrode is not a common commodity nor consumer product with a readily available market price. Furthermore, there is no authoritative benchmark price in the graphite electrode market for the market participants to follow. In addition, any market data on the market price trend of graphite electrodes was derived from a collection of historic data of concluded sales. The pricing of graphite electrodes of Graftech is determined through contract negotiations and spot transactions between producers and consumers. Pricing has historically been reflecting the demand trend of the global EAF steelmaking industry and the supply of graphite electrodes. The price of graphite electrodes in Graphite India is mainly determined by market forces.

It is industry norm that major industry players including, but not limited to, Graftech, Graphite India and Showa Denko, determine the final quotation price (i) with reference to the prevailing market price on a case-by-case basis, subject to negotiation process and after taking into consideration their own production cost, the availability, the prevailing market conditions and other various factors; or (ii) based on a pre-determined mutually agreed price over a certain period of time for customers entering into short or long term purchase agreements to lock in a fixed price.

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Comparison of Major Participants' Financial Performance

Company Name	Revenue (Million USD)						Operating Profit Margin (%)					
	2018	2019	2020	2021	1H2021	1H2022	2018	2019	2020	2021	1H2021	1H2022
Showa Denko <i>(Note 1)</i>	2,492.3	2,155.1	776.4	889.4	1,663.2	1,894.8	49.8%	38.8%	-39.0	14.10	10.1	5.8
Tokai Carbon <i>(Note 2)</i>	956.0	855.3	354.8	353.2	156.9	246.2	54.9%	43.1%	-15.2	-0.99	0.7	10.0
Graphite India <i>(Note 3)</i>	887.3	528.5	239.1	396.3	132.7	191.0	65.3%	16.8%	-4.0	24.46	29.5	15.9
Our Group	168.3	150.8	108.5	108.7	41.8	59.7	50.6%	5.3%	3.1	9.88	3.5	16.1

Company Name	Revenue (Million USD)						Gross Profit Margin (%)					
	2018	2019	2020	2021	1H2021	1H2022	2018	2019	2020	2021	1H2021	1H2022
Graftech <i>(Note 4)</i>	1,895.9	1,790.8	1,224.4	1,345.8	635.1	729.9	62.8%	58.1%	53.9	47.9	45.2	48.4
Yicheng New Energy <i>(Note 5)</i>	633.2	380.4	112.9	125.3	99.4	84.4	73.8%	69.5%	-9.5	19.2	10.1	5.2
Fangda Carbon New Material <i>(Note 6)</i>	1,701.0	856.6	450.3	687.2	N/A	N/A	75.7%	40.7%	24.3	31.1	N/A	N/A
Our Group	168.3	150.8	108.5	108.7	41.8	59.7	62.5%	22.7%	15.2	21.0	17.3	26.1

Notes:

Some participants' financial statements only present the operating income/segment results/segment income. They did not present the total cost of sales or gross profit separately. Therefore, the operating income/segment results/segment income are presented in the analysis. Except for Graftech which does not have non-graphite electrodes sector, other companies did not disclose their net profit by segments. The net profit of Graftech was approximately 45.1%, 41.6%, 35.5%, 35.9% and 20.0% in 2018, 2019, 2020, 1H2020 and 1H2021, respectively. Graftech can maintain such high profit margin mainly due to its long-term take-or-pay contracts strategy and the sales from its long-term take-or-pay contracts represented approximately 80%, 87%, 87% and 79% of its sales in 2019, 2020, 1H2020 and 1H2021, respectively.

The translation of Japanese Yen, Indian Rupee, and RMB into USD fluctuated during the Track Record Period.

- (1) Inorganics segment mainly contains graphite electrodes sector. Started from 2022, the graphite electrodes were re-classified into chemical segments, which include graphite electrodes.
- (2) This includes only graphite electrodes sector. Operating profit margin is calculated by segment income.
- (3) Graphite and carbon segment mainly contains graphite electrodes sector. Operating profit margin is calculated by segment results. The data is from its quarterly report as its accounting period is different from other companies.
- (4) The whole group's performance was without non-graphite electrodes sector.
- (5) This includes only graphite electrodes sector.
- (6) Carbon products mainly contains graphite electrodes sector.
- (7) Graftech generally entered into relatively long-term (three to five years) take-or-pay contracts (the "LTA contracts") with price locked in 2018 when the market price of graphite electrodes was at historical high level. Furthermore, the cost of Graftech decreased largely as a result of a decrease in the use of third-party needle cokes as it progressed through 2020. In 2021, the average selling price of LTA contracts was approximately US\$9,450/MT and the LTA contracts accounted for approximately 77.3% of GrafTech's total revenue. As a result, the average selling price for GrafTech of US\$8,059/MT was significantly higher than that our Group's US\$3,928/MT. This, in turn, led to a higher gross profit margin as compared to that of our Group in FY2021.

INDUSTRY OVERVIEW

From 2018 to 2020, due to the continuously decreasing graphite electrode price, all major participants' sales revenue experienced a decrease. The decrease rate of the sale revenue ranged from -10.4% to -57.7% in 2019 compared with the year of 2018. In 2020, impacted by the substantial decrease in the graphite electrode price and the outbreak of COVID-19, the major participants in graphite electrode market showed serious deterioration in their business sentiment. The sales revenue and gross margin of these companies were greatly affected by the slowdown in the global economy and a reduction in export due to the transportation stagnation caused by COVID-19. The decrease rate of sale revenue of those participants, ranged from -28.0% to -70.3% in 2020 compared with the year of 2019.

From 2018 to 2020, the gross margin of these market participants decreased dramatically, ranging from -39.0% to 35.5% in 2020. In 2020, with the COVID-19 pandemic affecting the world, facility upgrades were postponed and production cut measures were taken. This led to a slowdown in the steel industries and the decrease in the graphite electrodes' market price negatively impacted the sales revenue of some participants. In 2021, although demand for the graphite electrodes has began to rise, there were of a market reversal, the sale price of some participants remained low compared to the same period of the previous year, such as Tokai Carbon. Some participants took measures to maintain their profitability. For example, our Group strategically allocated our sales to regions with a higher market price and profit margin. However, some participants failed to maintain their profitability due to the high costs. For example, Showa Denko has a high level inventory produced with needle cokes purchased at high prices in the past years that, to a large extent, squeezed their profit in 2020. Different from other participants' performance, the gross margin of Graftech remained stable in 2020 as Graftech has generally entered into a relatively long-term take-or-pay contracts with price locked at previous high level. In addition, the cost of Graftech decreased largely as a result of a decrease in the use of third-party needle cokes they progressed through 2020. Our Group's financial performance was aligned with the overall industry and had outperformed some of its industry peers (in terms of operating or gross profit margin) despite of the market correction and impact of COVID-19 in FY2020.

However, in FY2019, our Group underperformed our industry peers (in terms of operating or gross profit margin) mainly attributable to (i) the significant decrease of average selling price by 49.9% in FY2019 from historical high in FY2018; and (ii) the provision for inventory of US\$16.2 million in FY2019.

As shown in the table above, our Group managed to maintain a positive operating profit margin and gross profit margin in FY2020, while some of the industry players, namely Showa Denko, Tokai Carbon, Graphite India and Yicheng New Energy recorded a negative operating profit margin or gross profit margin.

In 2021, sales of graphite electrodes increased due to higher sales volumes caused by increased global demand for steel and the economy rebounded from last year, thereby increasing the gross profit margin and operating profit margin of major participants in the market.

INDUSTRY OVERVIEW

In the first half of 2022, the major participants still remain a stable growth due to an increase in the market demand and the average selling prices. The gross profit margin and operating margin in our Group in 1H 2022 was higher than the same period in 2021 while some of the industry participants, namely Showa Denko, Graphite India, Graftech, and Yicheng New Energy recorded a lower gross profit margin or operating profit margin in 1H 2022. In 1H 2022, the financial performance of our Group, along with most of the major participants improved significantly in terms of revenue and operating/gross profit margin when compared to that of 1H 2021. As shown in the table above, our Group managed to achieve growth in gross margin and had a gross profit margin higher than that of Yicheng New Energy.

In terms of utilisation rate, which is calculated by the total production volume divided by the total production capacity in the graphite electrodes markets, the average utilisation rate during 2020 was approximately 70% in the global market outside the PRC. The overall utilisation rate of the top 15 leading market players in the PRC in 2020 in terms of production volume in 2020 reached approximately 76%. Furthermore, the proportion of some PRC leading players that are capable of manufacturing UHP graphite electrodes reaches approximately 80%.

As the industry characteristic, there is no consistent trend of gross profit margin, average selling price and average costs of sales of different geographical regions, major markets or even individual customers. The price of graphite electrodes is influenced by supply and demand, global and regional economic conditions, and the ability to negotiate between the supplier and customer. As a result, the price trends, the pattern of gross profit, average selling price, and average costs of sales vary by case. The price trend and the pattern of gross profit margin, the average selling price and the average costs of our Group's sales globally are generally in line with the market trend and within the range of its industry peers.

Comparison of Major Participants' Sales Volume and Average Selling Prices

Among the above participants, only three companies disclosed their sales volume. Our Group's average selling price is higher than Yicheng and Fangda as their product ranges include non-UHP graphite electrodes which can be attributed to different product images of the companies. For 1H2021 and 1H2022, our Group has outperformed Yicheng New Energy, Showa Denko and GrafTech in terms of revenue growth substantially, which was mainly attributed to the increase in sales volume by approximately 9.6% as compared with the same period of in the previous year and there was a significant improvement in terms of gross profit margin. On the average selling price, GrafTech has long been an outlier in the industry due to its relatively long-term take-or-pay contracts with prices locked in at previous high levels. In the case of Fangda, information on the average selling price is not available for comparison.

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The table below sets out the comparison of their sales volume and average selling prices:

Company Name	Sales Volume (Thousand Tonnes)						Sales Volume Variance (%)				Average Selling Price (USD/Tonne)					
	2018	2019	2020	2021	1H2021	1H2022	2018 v 2019	2019 v 2020	2020 v 2021	1H2021 v 1H2022	2018	2019	2020	2021	1H2021	1H2022
	Graftech ^(Note 1)	176.0	171.0	135.0	167.0	79.8	85.6	-2.8	-21.1	23.7	6.3	10,772	10,472	9,069	8,059	7,939
Yicheng New Energy ^(Note 2)	32.1	31.6	37.2	51.0	N/A	N/A	-1.6	17.7	37.1	N/A	19,710	12,021	3,038	2,468	N/A	N/A
Fangda Carbon New Material ^(Note 3)	178.6	194.1	184.4	197.9	N/A	N/A	8.7	5.0	7.3	N/A	9,524	4,414	2,442	2,596	N/A	N/A
Our Group	11.0	19.7	25.6	27.7	11.4	12.5	78.9	30.4	7.9	9.6	15,310	7,674	4,232	3,928	3,665	4,793

Notes:

The above average selling price is calculated by their sales revenue and sales volume. The translation of RMB into USD fluctuated during the Track Record Period.

- (1) Graftech generally entered into a relatively long-term (three to five years) take-or-pay contracts with price locked at the previous high level.
- (2) Yicheng's products included UHP graphite electrodes and non-UHP graphite electrodes as well as a small part of non-graphite electrodes products.
- (3) Fangda's products included UHP graphite electrodes and non-UHP graphite electrodes as well as a small part of non-graphite electrodes products. Further, information on the average selling price for comparison.

In terms of the growth in sales volume, we outperformed the industry peers in FY2019 mainly attributable to (i) the commencement of operations of the Italian Factory in June 2018, we became the qualified supplier to more EAF steel manufacturers and the secured purchase orders from these manufacturers and existing customers; and (ii) with the Italian Factory, having successfully secured six and 50 new customers for FY2018 and FY2019, respectively.

We outperformed the industry participants in FY2020 mainly attributable to the increase in the sales volume to our customers in the PRC and EMEA and the increase in the number of other customers that are distributors and industry traders.

In FY2021, our sales volume increased by approximately 7.9% while the industry participants increased by approximately 23.7%. We underperformed the industry participants, particularly, (i) GrafTech as it experienced stronger demand from its customers since the first quarter of 2021 due to an increase in the capacity utilisation of the steel producers and sold its carryover graphite electrode inventories from 2020; and (ii) Yicheng whose sales volume increased due to the second phase of construction of Kaifeng Carbon and an output increase with the increase in production capacity. For 1H2022, we outperformed the market participant as our sales volume increased by approximately 9.6% as compared with that of approximately 6.3% of the GrafTech.

Entry Barriers

- **Production Scale:**

In the global graphite electrode market, most of the production capacity is concentrated in large-scale graphite electrode manufacturers. Small-sized manufacturers with insufficient production capacity and low capacity utilisation face great challenges to maintain competitiveness. Scale of production improves production technologies and effectively controls costs. Therefore, production scale is one of the entry barriers for new entrants in global graphite electrode market.

- **Capital Investment:**

Initial capital and operation investment are significant for new entrants in the global graphite electrode market. The production of graphite electrodes involves complicated processes and a long production cycle which requires a large amount of capital investment. It is crucial for new entrants to have sufficient capital support and commitment to invest in the procurement of production equipment, environmental protection, staff recruitment, rental or construction of plants, and continuous expenditure on raw materials.

- **Mature Technologies:**

Connecting pin is an important joint component of graphite electrodes. Therefore, its quality is crucial in the steel production. For new entrants, it is a great challenge to acquire the production technologies of connecting pins to meet the requirements of high quality, low tolerance and good performance. Without know-how of mature technologies, new entrants are not able to produce high-quality graphite electrodes, especially UHP graphite electrodes, which make mature technologies one of the entry barriers in the global graphite electrode market.

- **Sales Network and Customer Bases:**

Sales network and customer bases are also one of the entry barriers for the new entrants to enter the global graphite electrode market. Industrial production of graphite electrodes in the world has a long history and is rather mature. Existing graphite electrode manufacturers have typically established a reliable and stable supply chain with upstream and downstream enterprises. Therefore, it is rather difficult for new entrants in the global graphite electrode market to establish their own sales networks and develop customer bases.

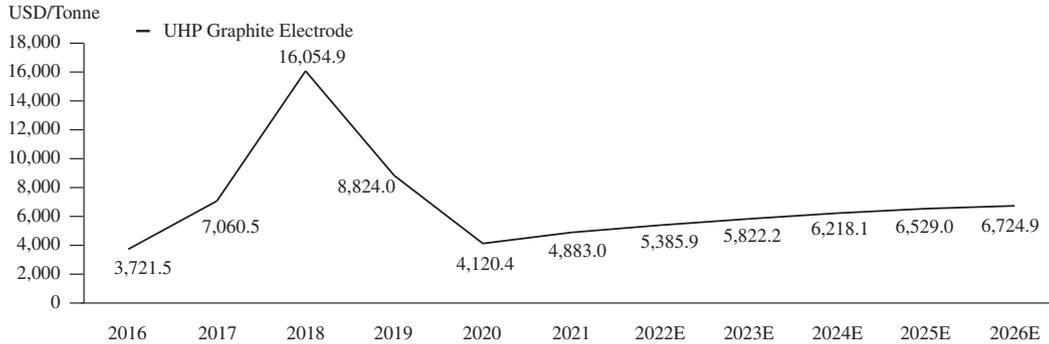
- **Qualified Supplier of EAF Steel Manufacturers:**

Prompted by increasing demand from the EAF steel manufacturing industry, graphite electrode manufacturers have committed to improving product quality and performances. To become a qualified supplier of EAF steel manufacturers, global graphite electrode manufacturers are required to have a stable supply of raw materials, sufficient production capacity with high efficiency, high-quality graphite electrode products and technological innovation capability. It may typically take up to two years to become a qualified supplier of reputable EAF steel manufacturers, being one of the entry barriers for new entrants in the global graphite electrode market.

INDUSTRY OVERVIEW

Price Trends of Graphite Electrodes

Average Price of UHP Graphite Electrodes (Global, excluding China), 2016–2026E



Source: Frost & Sullivan Analysis

Notes:

1. Frost & Sullivan verified the price data from third-party vendors, and such data are obtained and collated the transaction data directly from market players.
2. As a matter of the market practice, the delivery time of orders placed in the global market (excluding China) is substantially longer than that of the PRC market. The potential fluctuation in price and their sale forecasts during the intended delivery time will usually be taken into account in the price determination of orders placed in the global market (excluding China).

For orders placed in the PRC market, given a short delivery time, the focus during the price determination process is the “spot price” at the time of the order and the impact of potential fluctuation is usually considered immaterial and has little effect on the price determination process. In view of the above, the global market (excluding China) is an “order market” and the PRC market is a “spot sales market”.

During 2015 to 2018, the production capacity outside the PRC was reduced due to the demolition of low-capacity plants, long-term environmental remediation and re-purposing of lower capacity facilities. As it takes a long time to upgrade capacity, there is a continuous decrease of production volume outside the PRC.

During the market depression from 2016 to 2017, market players took the opportunity to further eliminate backward production facilities and investors and/or existing market players took advantage to acquire assets in the industry during such market depression, leading to an industry-wide reorganisation. Graftech was acquired by a hedge fund and SGL Carbon graphite electrode production capacity was acquired by SDK, Tokai Carbon, and Sangraf. Some leading graphite electrode manufacturers, such as SGL Carbon, sold their graphite electrode business due to the market depression at the time.

INDUSTRY OVERVIEW

During the course of the industry reorganisation under the market depression, the production facilities were further streamlined, which contributed to the lowered production capacity of graphite electrode. However, with the recovery of global EAF steel market, the demand for graphite electrodes outside the PRC increased largely in 2017 which could not be fulfilled within a short time, which, in turn, led to market imbalance.

Although the production and actual consumption have been increasing since 2016, the production of graphite electrodes cannot fulfil the huge unmet demand in this market. Thus, the price of graphite electrodes skyrocketed in 2017. In 2018, the price of graphite electrodes reached the highest point. However, each of 2018 and 2019 was an abnormal year where there was a sudden surge in demand for graphite electrodes in the global market starting from second half of 2017, causing the outrageous surge in the price of graphite electrodes and needle coke within few months' time, followed by over investment, production and purchase, this led to an over-stocking in the market and resulted in a market correction with a plunge in the average selling price in 2019.

In 2019, as the growth of global EAF steel market eased, the price of UHP graphite electrodes moderated to USD8,824.0 per tonne, which remained higher than the historical prices before 2016. In 1H2020, COVID-19 has caused further plunge in the average selling price.

In 2026, the price of UHP graphite electrodes outside the PRC is expected to reach USD6,724.9 per tonne. In 2017, 2018, 2019 and the first half of 2020, the sales price of UHP graphite electrodes of different manufacturers in the global market ranged from approximately USD4,000 per tonne to USD8,500 per tonne, USD12,000 per tonne to USD18,500 per tonne, USD6,500 per tonne to USD10,500 per tonne and USD4,500 per tonne to USD9,000 per tonne, respectively. Notwithstanding the price fluctuation during 2019 due to market correction, the overall price during 2016 to 2026 is an upward trend.

The main reasons attributable to the booming graphite electrode market in FY2018 are as follows:

- (i) reduced graphite electrodes production capacity from 2015 to 2018 — During 2015 to 2018, the production capacity outside the PRC was reduced due to the demolition of low-capacity plants, long-term environmental remediation and repurposing of lower capacity facilities, which take a long time to upgrade capacity, resulting in the continuous decrease of production volume outside the PRC.

During the market depression from 2016 to 2017, market players took the opportunity to further eliminate backward production facilities and investors and/or existing market players took advantage of the market low and acquired assets in the industry, leading to an industry-wide reorganisation. Graftech was acquired by a hedge fund and SGL Carbon graphite electrode production capacity was acquired by SDK, Tokai Carbon, and Sangraf. Some leading graphite electrode manufacturers, such as SGL Carbon, sold their graphite electrode business due to the market depression at the time.

INDUSTRY OVERVIEW

During the course of industry reorganisation under the market depression, the production facilities were further streamlined, which contributed to the lowered production capacity of graphite electrode. Furthermore, the imposition of new environmental restrictions on graphite electrode manufacturers in the PRC resulted in the shutdown of outdated production capacity of graphite electrodes in the PRC as the relevant manufacturers were not able to comply with the new restrictions. As a result, the graphite electrode production capacity was significantly reduced globally;

- (ii) Increasing demand of graphite electrodes driven by the increase in EAF steel production capacity — With the recovery of the global EAF steel market in 2017, the demand for graphite electrodes outside the PRC increased largely in 2017 and could not be fulfilled within a short period of time. The PRC authorities have encouraged EAF steel production, which is more environmentally friendly, driving the EAF steel production penetration rate to increase from 6.3% in 2016 to 11.6% in 2018. The aforementioned resulted in the market imbalance in 2018. While both of the production volume and actual consumption volume have increased since 2016, the increased production volume of graphite electrodes could not fulfil the huge unmet demand in the graphite electrode market; and
- (iii) Raw material supply shortage had driven needle coke price — Driven by the substantial increase in demand for lithium-ion battery graphite anode material for electric vehicles manufacturing, needle coke, being the most crucial raw materials for graphite electrodes, was in shortage. This resulted in the price spike of needle coke in 2018. While the cost of graphite electrode accounts for approximately 2% to 3% of the total costs for EAF steel production, graphite electrode is an irreplaceable consumable in the production process. Thus, driven by the continued recovery of demand of global EAF steel and the shortage of supply of needle coke, the price of graphite electrodes skyrocketed in 2017.

In 2018, the price of graphite electrodes continued to rise and reached its highest point. Due to its irreplaceable nature, graphite electrode users started to panic buy graphite electrodes in 2018 which resulted in an over-purchase in the supply chain, followed by the market correction in the second half of 2019.

The reasons for the increase in the market price of graphite electrodes from 2022 to 2026 are as follows:

- (i) stable growth of the macroeconomy — The global economy has gradually recovered from 2020 since COVID-19. The global nominal GDP is projected to reach approximately USD129.7 trillion by the end of 2026, growing at a CAGR of 6.1% from 2021 to 2026. In addition, the nominal GDP in China is forecast to continue growing at a CAGR of approximately 7.3% from 2021 to 2026 and would increase gently to RMB163.0 trillion in 2026;

INDUSTRY OVERVIEW

- (ii) growing demand for graphite electrodes — Graphite electrode products have been widely used in machinery, motor vehicles, home appliances, and marine industries.

The growing demand from the downstream industries both in the global and China markets will increase the price of graphite electrodes. In addition, the PRC government has been vigorously promoting structural reform on the supply side of the steel industry by prohibiting the launch of new production capacities which cannot meet the requirements of environmental protection and resolving the problem of overcapacity. The PRC government encouraged the replacement of blast furnace steel manufacturing with EAF steel manufacturing. The growing demand from the steelmaking industry will also lead to a rise in the price of graphite electrodes; and

- (iii) limited number of new entrants entered — Expanding production capacity of graphite electrodes has high requirements for capital and technology. Furthermore, the production cycle of graphite electrodes is very long and the manufacturing of UHP graphite electrodes has a longer production cycle. In the future, with limited number of new entrants entering the market, the price of graphite electrodes is expected to constantly grow in the following years.

The macro economy has been considered in the projected upward trend of the market price of graphite electrodes. The market price trend of graphite electrodes is mainly influenced by (i) the macro economy, and (ii) the supply and demand of its raw materials. In particular, it is subject to the market conditions of its downstream industries, such as real estate and automobile industries, which are affected by the macro economy and the characteristics of the industry, such as policies and new market trends.

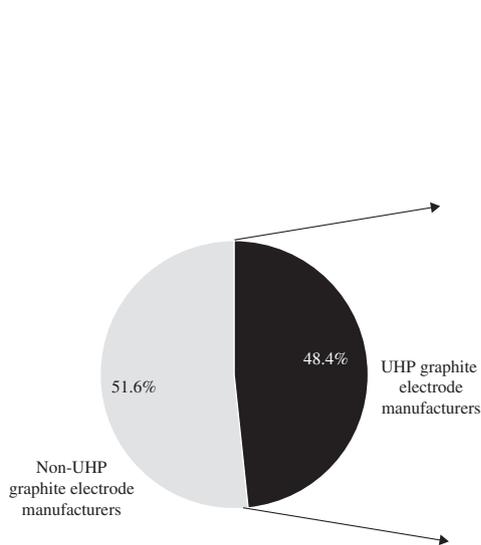
For example, real estate is a policy-driven industry. In addition to the macroeconomic effects, the development of real estate is driven by favourable policies. In November 2022, the PBOC and the Banking and Insurance Regulatory Commission of the PRC issued the notice on the Current Financial Support for the Steady and Healthy Development of the Real Estate Market (《關於做好當前金融支持房地產市場平穩健康發展工作的通知》) which aims at stabilising, lending for real estate development, supporting reasonable demand for individual housing loans, and providing other relevant financial supports. It will stimulate the development of the real estate industry. In addition, the automobile industry is also driven by the rising demand for new energy vehicles, such as electric vehicles and battery electric vehicles in recent years. It is a market trend to develop new energy vehicles due to environmental protection and policy subsidies. In future, along with a higher penetration rate the electric vehicles, the demand for automobiles is expected to rise.

INDUSTRY OVERVIEW

Competitive Landscape of UHP Graphite Electrode Manufacturers

Top 10 Global UHP Graphite Electrode Manufacturers by Production Volume, 2021

Proportion of Global UHP and Non-UHP Graphite Electrode Manufacturers, 2021



Rank	Company Name	Headquarter Location	Market Share (%)
1	Showa Denko Group	Japan	12.4
2	Grahtech International Ltd.	U.S.	10.2
3	Tokai Carbon Co., Ltd.	Japan	4.8
4	Graphite India Limited	India	4.0
5	HEG Limited	India	3.0
6	Energoprom Group	Russia	2.6
7	Our Group	Hong Kong	1.4
8	Nippon Carbon Co., Ltd.	Japan	1.3
9	SEC Carbon, Ltd.	Japan	1.3
10	JSC Ukrainsky Grafit	Ukraine	0.6
Total production volume of Top 10 global UHP graphite electrode manufacturers			41.6
Other			58.4
Total			100.0

Note: An UHP graphite electrode manufacturer refers to a manufacturer that mainly focuses on the production of UHP graphite electrodes, accounting for more than 50% of the total production volume of its graphite electrodes. As our Group focuses on the production of UHP graphite electrodes and sells its products worldwide, manufacturers which also focus on the production of UHP graphite electrode and have worldwide customer bases are selected for the above table.

Source: Frost & Sullivan Analysis

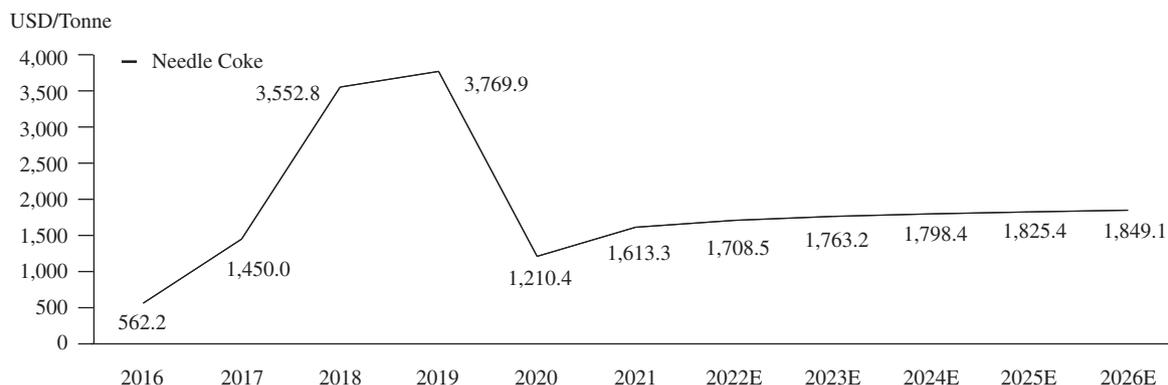
In 2021, the top 10 UHP graphite electrode manufacturers accounted for approximately 41.6% of the global UHP graphite electrode market in terms of production volume, representing a highly concentrated market.

Our Group ranked seventh, accounting for approximately 1.4% of the global UHP graphite electrode market in terms of production volume.

INDUSTRY OVERVIEW

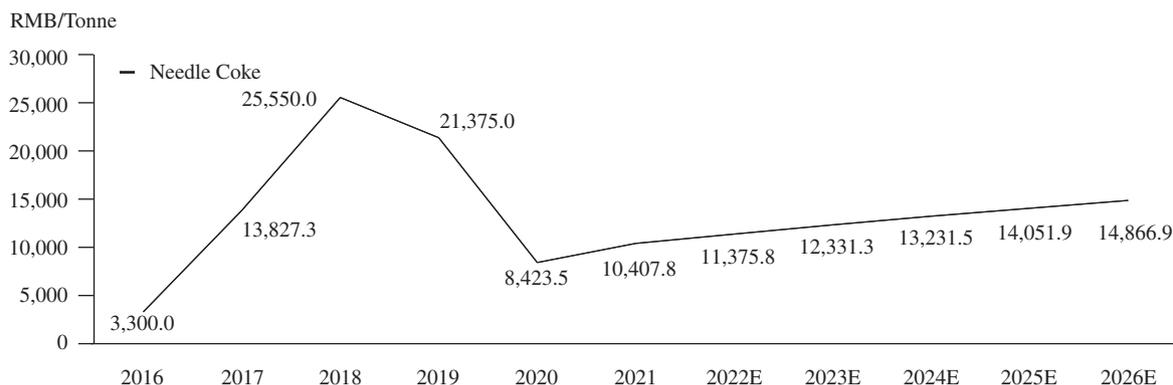
Analysis of Raw Material Price

Average Price of Needle Coke (Global, excluding China), 2016–2026E



Source: Frost & Sullivan Analysis

Average Price of Needle Coke (China), 2016–2026E



Source: Frost & Sullivan Analysis

Needle coke is a kind of carbon material with a series of advantages, such as low thermal expansion coefficient, low void fraction, low sulfur, low ash, low metal content, high electrical conductivity and easy graphitisation. According to different raw materials of needle coke, needle coke can be divided into petroleum needle coke and coal needle coke. Petroleum needle coke uses decant oil as its raw material. Its production is mainly in the United States, the UK and Japan. Coal needle coke uses coal tar pitch as raw material and the production is mainly in Japan and India. Needle cokes manufactured in the PRC are mainly coal needle cokes. Due to different raw materials of petroleum needle coke and coal needle coke, the production processes mainly differ in raw material pretreatments.

The price of needle coke was approximately USD562.2 per tonne in 2016. As the PRC is a net importer of needle coke, the demand from the PRC has a great impact on the price of needle coke outside the PRC. The graphite electrode industry in the PRC witnessed a sudden surge in demand in the second half of 2017 which resulted in the price of needle coke increasing substantially in 2017 and reached approximately USD3,769.9 per tonne in the global market outside the PRC and approximately RMB21,375.0 per tonne in the PRC market in 2019. In 2026, the price of needle coke outside and in the PRC is expected to reach approximately USD1,849.1 per tonne and approximately RMB14,866.9 per tonne, respectively.

INDUSTRY OVERVIEW

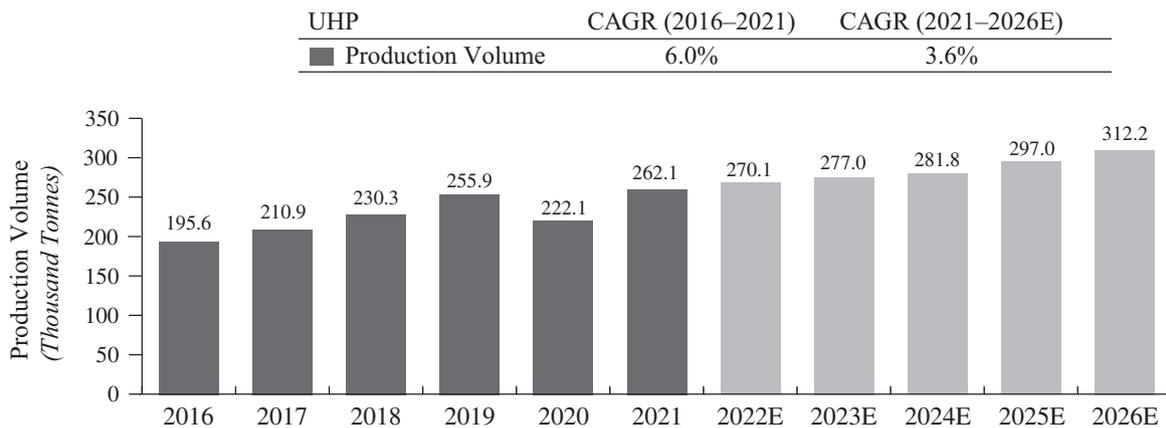
OVERVIEW OF GRAPHITE ELECTRODE MARKET IN EMEA

Overview

The UHP graphite electrode market in EMEA was the second-largest market in the world, after Asia in terms of production volume in 2021. The production volume is mainly contributed by European countries, such as Germany and Spain. The major market players in EMEA include Showa Denko, Tokai Carbon and Graphite India.

Market Size

Production Volume of UHP Graphite Electrode in EMEA, 2016–2026E



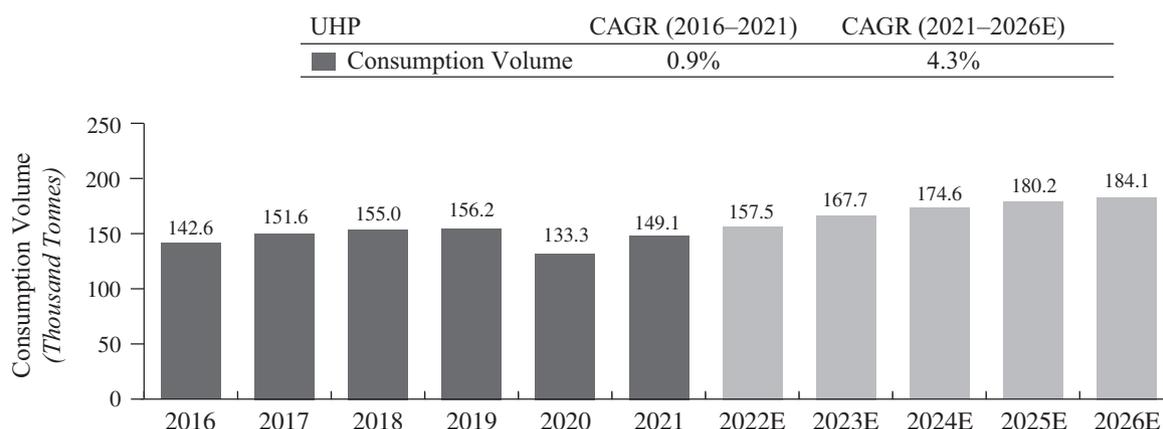
Source: Frost & Sullivan Analysis

In 2020, the production volume of UHP graphite electrodes in EMEA decreased to approximately 222.1 thousand tonnes. In order to face strict environmental protection policies and maintain stable profit growth, leading graphite electrode manufacturers gradually optimised their production capacity and eliminated their old production lines. For example, Showa Denko closed one of its production plants, which had 40 thousand tonnes of production capacity of graphite electrodes, to lower its production cost in 2020. In 2021, the production volume of UHP graphite electrodes in EMEA reached approximately 262.1 thousand tonnes.

Along with the completion of the optimisation of the production capacity of graphite electrodes and the rising demand from downstream industries, the production volume in EMEA is expected to have an upward trend reaching approximately 312.2 thousand tonnes in 2026, representing a CAGR of approximately 3.6% from 2021 to 2026.

INDUSTRY OVERVIEW

Consumption Volume of UHP Graphite Electrode (EMEA), 2016–2026E

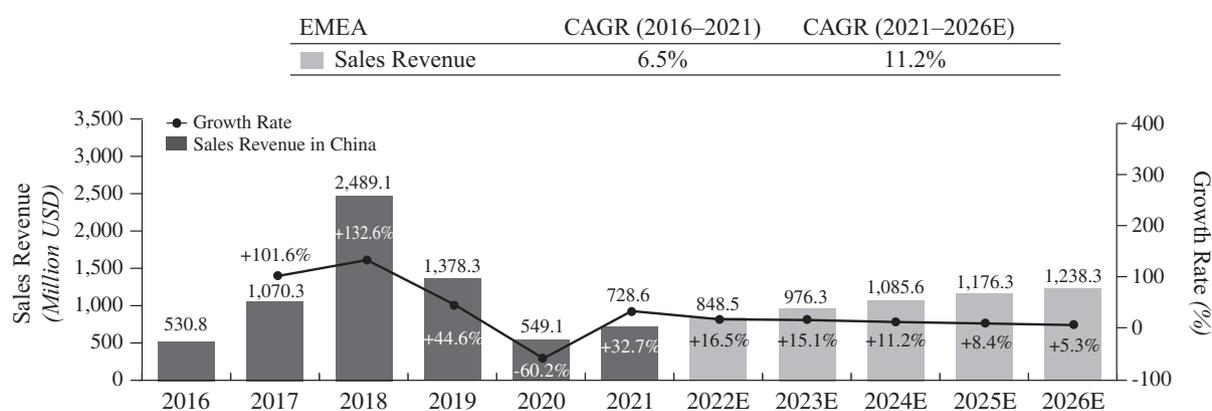


Source: Frost & Sullivan Analysis

In 2021, the consumption volume of UHP graphite electrodes in EMEA reached approximately 149.2 thousand tonnes, with a CAGR of approximately 0.9% from 2016 to 2021. In future, with the rising demand for steel from the downstream industries and EAF steel, the consumption volume of UHP graphite electrodes in EMEA is expected to reach approximately 184.1 thousand tonnes in 2026, representing a CAGR of approximately 4.3% from 2021 to 2026.

EMEA is a typical graphite electrode export region, especially in Europe. Since Europe contributed the most of production volume of graphite electrodes in EMEA. The surplus of graphite electrodes throughout the years in EMEA is mainly absorbed by exporting to other countries. The main regions that imports graphite electrode from EMEA is Americas and Asia, such as the United States, Canada and South Korea.

Sales Revenue of UHP Graphite Electrode (EMEA), 2016–2026E



Source: Frost & Sullivan Analysis

INDUSTRY OVERVIEW

From 2016 to 2018, the sale revenue of UHP graphite electrodes in EMEA experienced a substantial increase mainly due to the large increase in UHP graphite electrodes' prices in EMEA. In 2019 and 2020, due to the decrease in UHP graphite electrodes' prices and the outbreak of COVID-19, the sales revenue of graphite electrodes in the world decreased substantially. Going forward, due to the global recovery of UHP graphite electrodes' price and the downstream demand from EAF steel, the sale revenue of UHP graphite electrodes in EMEA is expected to grow at a CAGR of 11.2% from 2021 to 2026.

Market Drivers

- **Rising Demand for Steel from the Downstream Industry**

The rising demand for the steel in the construction, automotive, and mechanical industries is the primary driver of the graphite electrode market in EMEA.

According to the European Steel Association (EUROFER), the construction, automotive and mechanical industries accounted for approximately 37%, 16%, and 15% of the total consumption of steel in Europe, respectively. According to the Organisation Internationale des Constructeurs d'Automobiles, the production volume of automobiles accounted for approximately 20.4% of the global production volume in 2021.

In addition, in 2020, the European Commission published the strategy "A Renovation Wave for Europe-Greening our buildings, creating jobs, improving lives" to boost renovation in the EU, which aims at doubling annual energy renovation rates in the next 10 years and renovating 35 million inefficient buildings by 2030, which will stimulate the development of the construction industry in the EU. Furthermore, the partnership for global infrastructure initiative was launched in June 2022, that aims at raising US\$600 billion in the next five years to finance infrastructure projects in developing countries, especially in Africa. The initiative will promote the development of the infrastructure industry in Africa. The growing steel demand will further drive the demand for graphite electrodes.

- **Sufficient Scrap Steel Resources**

Scrap steel is the main raw material of EAF steelmaking. Europe has sufficient scrap steel resources and is the world's largest scrap steel export region. In 2021, according to the European Steel Association (EUROFER), the consumption volume of scrap steel in Europe was approximately 87,852 metric tonnes and the net export volume of scrap steel in Europe was approximately 14,012 metric tonnes. The sufficient scrap steel resources stimulate the development of the graphite electrode market in Europe and further drive the EMEA market.

INDUSTRY OVERVIEW

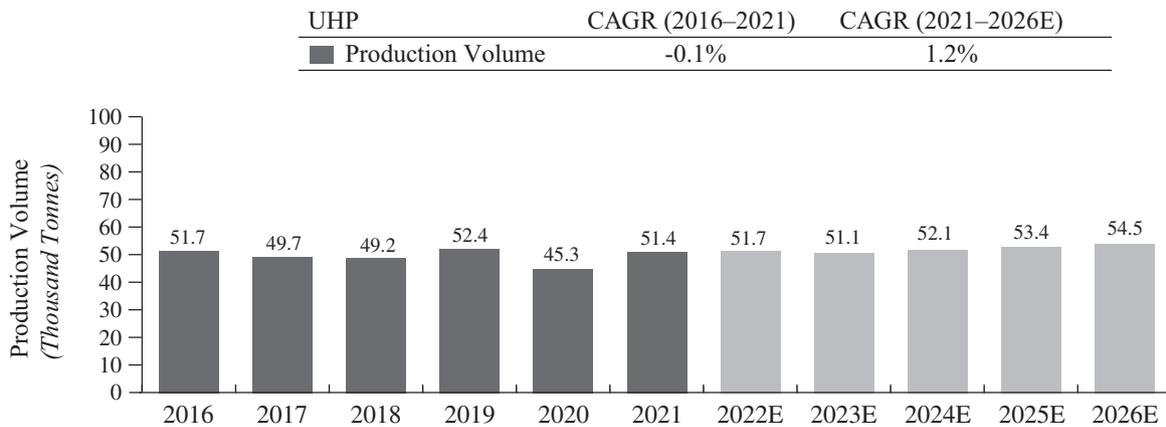
OVERVIEW OF AMERICA’S GRAPHITE ELECTRODE MARKET

Overview

The consumption volume of graphite electrodes in Americas relies on the import of graphite electrodes from other countries. In 2021, the production volume of graphite electrodes in Americas was approximately 51.4 thousand tonnes and the consumption volume of graphite electrodes was approximately 156.7 thousand tonnes. The consumption volume is mainly contributed by the U.S.. The major market players in Americas include Graftech, Showa Denko and Tokai Carbon.

Market Size

Production Volume of UHP Graphite Electrode in Americas, 2016–2026E

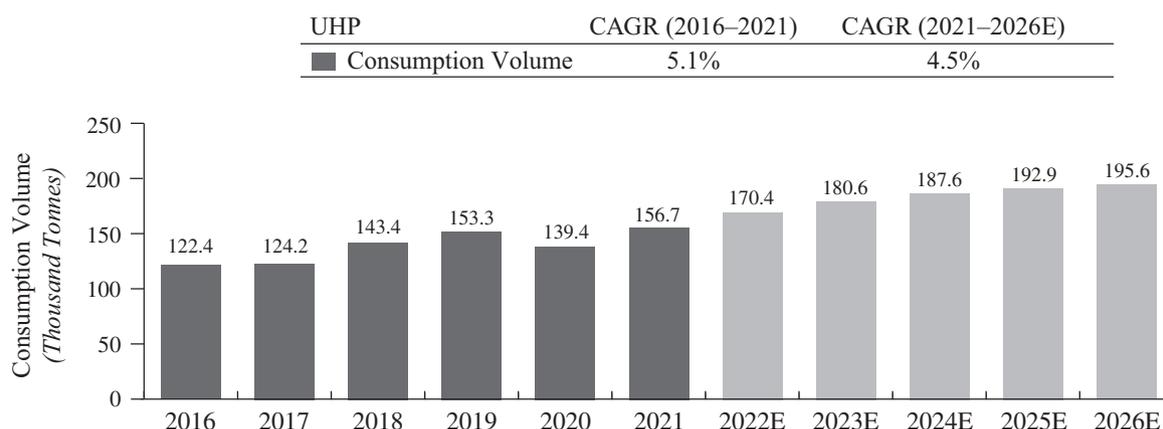


Source: Frost & Sullivan Analysis

The production volume of UHP graphite electrodes in Americas reached approximately 51.7 thousand tonnes in 2021, with a CAGR of -0.1% from 2016 to 2021. In future, the production volume of UHP graphite electrodes in Americas is expected to reach approximately 54.5 thousand tonnes in 2026, representing a CAGR of approximately 1.2% from 2021 to 2026.

INDUSTRY OVERVIEW

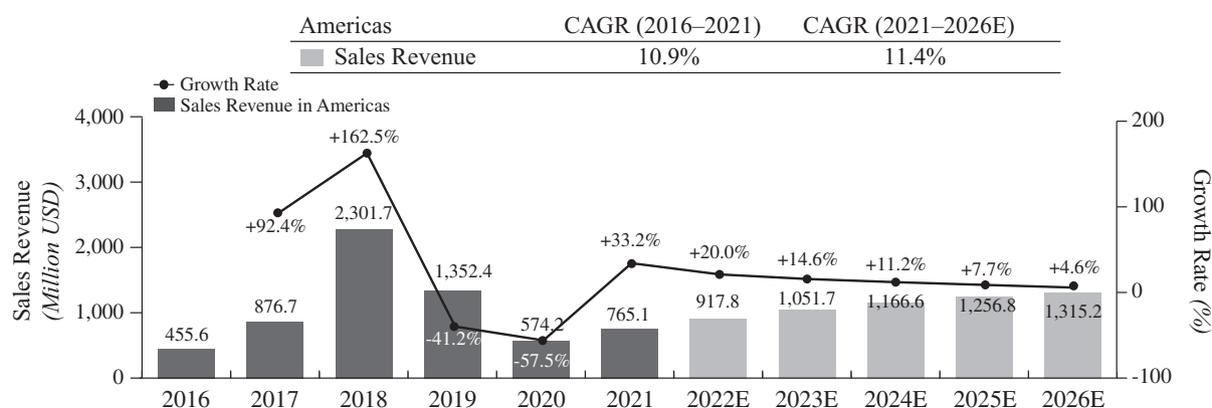
Consumption Volume of UHP Graphite Electrode in Americas, 2016–2026E



Source: Frost & Sullivan Analysis

In 2021, the consumption volume of UHP graphite electrodes in the Americas reached approximately 156.7 thousand tonnes, representing a CAGR of approximately 5.1% from 2016 to 2021. In future, with the rise in demand for graphite electrodes in end-use industries and growing demand for EAF steel, the consumption volume of UHP graphite electrodes in Americas is expected to reach approximately 195.6 thousand tonnes in 2026, representing a CAGR of approximately 4.5% from 2021 to 2026. The consumption volume of graphite electrode in the Americas is met with the total production volume of graphite electrodes in the PRC and EMEA.

Sales Revenue of UHP Graphite Electrode in Americas, 2016–2026E



Source: Frost & Sullivan Analysis

INDUSTRY OVERVIEW

From 2016 to 2018, the sale revenue of UHP graphite electrodes in Americas experienced a substantial increase mainly due to a large increase in UHP graphite electrodes' prices in Americas. In 2019 and 2020, due to the decrease in UHP graphite electrodes' prices and the outbreak of COVID-19, the sales revenue of graphite electrodes in the world decreased substantially. In future, due to the global recovery in the price of UHP graphite electrodes and the downstream demand from EAF steel, the sale revenue of UHP graphite electrodes in Americas is expected to grow at a CAGR of approximately 11.4% from 2021 to 2026.

Market Drivers

- **Rise in Demand for Graphite Electrode in End-Use Industries**

High demand for graphite electrodes in the steel industry is expected to drive the demand for graphite electrodes in the Americas. The steel industry is driven by an increased demand from its downstream industries, such as the construction, mechanical and automobile industries.

The U.S. is the largest economy in the world, accounting for approximately 24.2% of the global nominal GDP in 2021. In the second quarter of 2022, the gross output of the construction, mechanical and automobile industries in the U.S. has greatly increased due to economic recovery with a year-on-year basis growth of approximately 6.6%, 15.3%, and 21.0%, respectively. In addition, on 15 November 2021, the President of U.S., Joe Biden, signed the Infrastructure Investment and Jobs Act (IIJA) into law. The US\$1.2 trillion package includes the investment of US\$550 billion in the infrastructure sector, such as roads and bridges, rail, transit, and ports, which directly boosts the demand for steel.

- **Growing Demand for EAF Steel**

The U.S. is the first tier of developing EAF steel due to its sufficient scrap steel sources and developed industrial level. The percentage of EAF steel in the total crude steel has reached approximately 70% in the U.S., which is much higher than the developing countries, such as China. Furthermore, the U.S. is the largest scrap steel expert country. Sufficient scrap steel sources and advanced technologies drive the demand for EAF steel and graphite electrodes.

OVERVIEW OF THE GRAPHITE ELECTRODE MARKET IN THE PRC

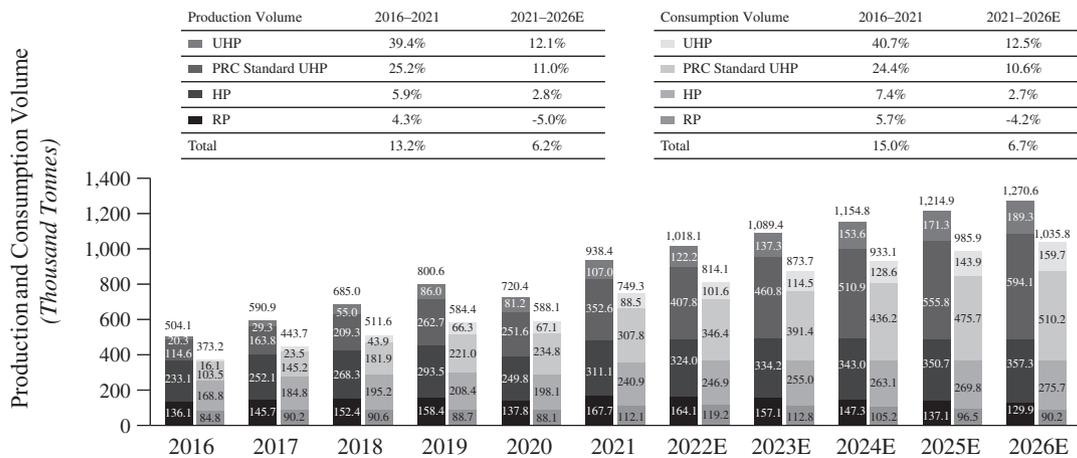
Definition and Introduction

Compared with UHP graphite electrodes in the global market, PRC standard UHP graphite electrodes, a term used in the PRC graphite electrode market, can generally withstand current densities between 20 ampere per square centimeter to 25 ampere per square centimeter with lower grade performance, which are well accepted as EAF steel manufacturers normally do not have stringent performance requirements for PRC standard UHP graphite electrodes. However, some EAF steel manufacturers, such as the steel manufacturers of stainless steel, have high requirements for PRC standard UHP graphite electrodes, which include physical and chemical indicators such as density, electrical resistivity and ash content. There are only several manufacturers in the PRC that can produce UHP graphite electrodes used in the EAFs of those EAF steel manufacturers.

INDUSTRY OVERVIEW

Market Size

Production and Consumption Volume of Graphite Electrode by Grades (China), 2016–2026E



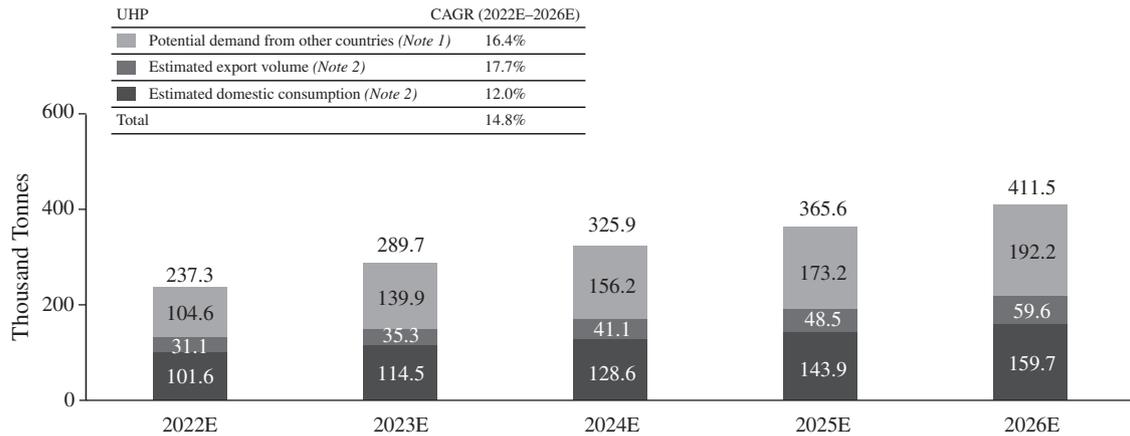
Source: Frost & Sullivan Analysis

In 2020, the outbreak of COVID-19 adversely affected manufacturers' operation due to the government restrictions in, among others, operating hours, workforce disruptions and changes in operating procedures. As a result, there was a large decrease in the production volume of graphite electrodes in the PRC. In 2021, the production volume of graphite electrodes has rebounded to the pre-COVID-19 level with a growth rate of approximately 30.2%. The growth was contributed by an increase in the production volume of UHP and PRC standard UHP graphite electrodes, a recovery of trade and a rebound in the steel operating rate of EAF steel. In the future, with the recovery of operating rate and the government policies supporting the development of EAF steel, the production volume is predicted to reach to approximately 1,270.6 thousand tonnes in 2026, representing a CAGR of approximately 6.2% from 2021 to 2026.

From 2016, the consumption volume of graphite electrodes in the PRC had started to rise, reaching approximately 0.74 million tonnes in 2021 with a CAGR of approximately 15.0% from 2016 to 2021. In 2026, the consumption volume of graphite electrodes is expected to reach approximately 1.04 million tonnes.

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Demand for UHP Graphite Electrode (China), 2022E–2026E



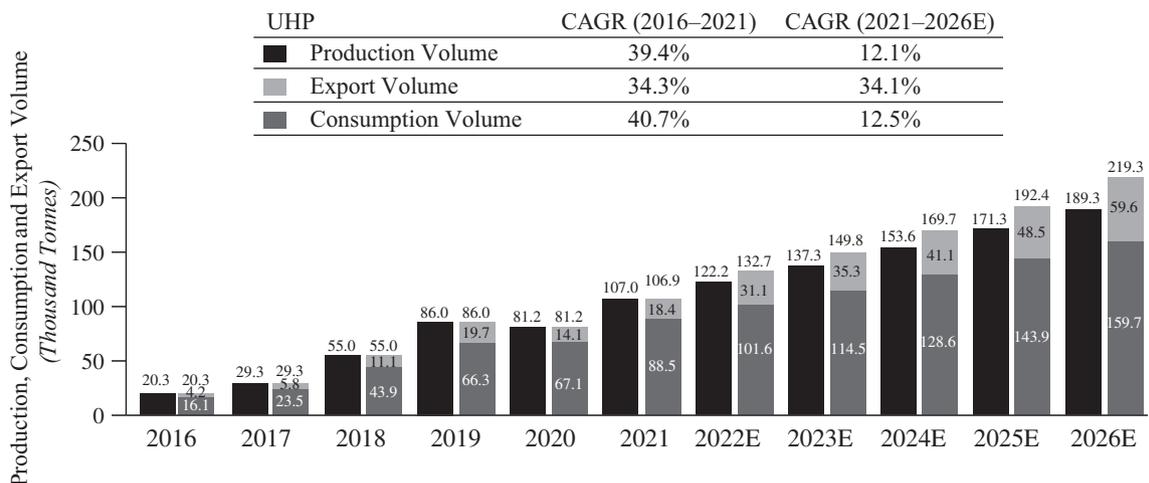
Source: World Steel Association; Frost & Sullivan Analysis

Note:

- (1) Potential demand refers to the unmet demand which is estimated by assessing the gap between the optimal production utilisation rate and the actual production utilisation rate of EAF steels. The above optimal production utilisation rate is estimated by referring to sources from World Steel Association and Frost & Sullivan Analysis.
- (2) Estimated export volume and estimated domestic Consumption refer to the actual amount exported and consumed.

In 2021, the global economy has gradually recovered, especially in the context of carbon neutrality. The demand for EAF steel is expected to increase due to the obvious advantages of EAF steelmaking over BOF steelmaking in terms of carbon emissions. However, the production capacity of graphite electrodes outside China is expected to maintain stable and it is expected that the graphite electrodes produced cannot meet the demand from EAF production. Thus, the shortage of graphite electrodes outside China is expected to be supplemented by PRC manufacturers. From 2022 to 2026, the potential demand for UHP from other countries is expected to reach approximately 192.2 thousand tonnes with a CAGR of approximately 16.4%.

Production and Consumption Volume of UHP Graphite Electrode (China), 2016–2026E



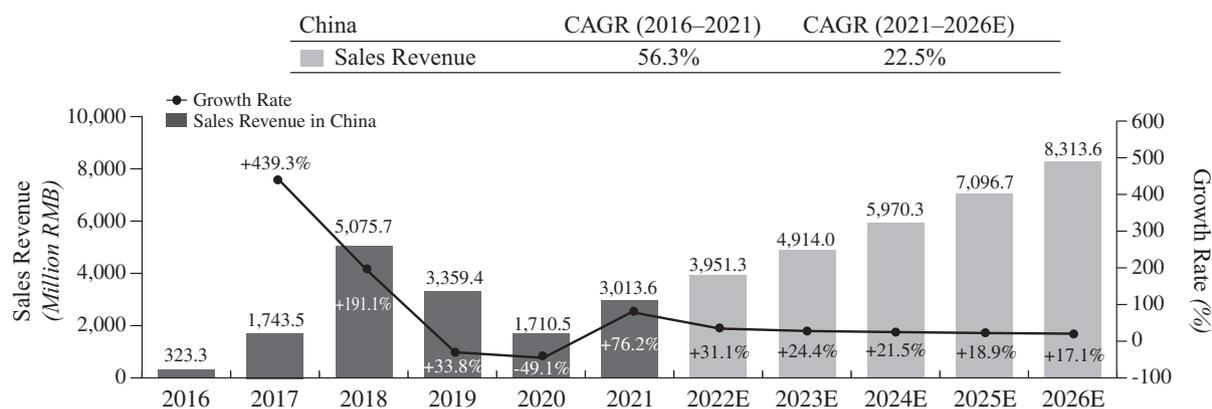
Source: Frost & Sullivan Analysis

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UHP graphite electrodes are mainly used in the large capacity EAFs and the EAFs used to produce special steel. Those EAFs have very stringent requirements on the performance of PRC standard UHP graphite electrodes. In the PRC, only a few manufacturers, such as our Group, can produce the UHP graphite electrodes. From 2017, the gradual elimination of backward production capacity in the steel market in the PRC, the increasingly high proportion of EAF steel and increasing amount of high-end EAFs used by steel manufacturers increased the demand of UHP graphite electrodes.

The production volume and consumption volume of UHP graphite electrodes in the PRC reached 107.0 thousand tonnes and 88.5 thousand tonnes, respectively, in 2021. In future, (i) the production volume and consumption volume in the PRC is expected to have an upward trend reaching 189.3 thousand tonnes and 159.7 thousand tonnes in 2026, respectively, representing a CAGR of 12.1% and 12.5% from 2021 to 2026, and (ii) with the continuous increase of the graphite electrodes production capacity of the PRC manufacturers, the production volume of graphite electrodes is expected to grow rapidly. In order to meet the demand for graphite electrodes outside the PRC, an increasing number of the PRC manufacturers are expected to actively expand the production capacity and increase the production volume of UHP graphite electrodes.

Sales Revenue of UHP Graphite Electrode (China), 2016–2026E



Source: Frost & Sullivan Analysis

From 2016 to 2018, the sale revenue of UHP graphite electrodes in China experienced a substantial increase mainly due to the large increase in UHP graphite electrodes' prices in China. In 2019 and 2020, due to the decrease in UHP graphite electrodes' prices and the outbreak of COVID-19, the sales revenue of graphite electrodes in the world decreased substantially. In the future, due to the global recovery of UHP graphite electrodes' price and the downstream demand from EAF steel, the sale revenue of UHP graphite electrodes in China is expected to grow at a CAGR of 22.5% from 2021 to 2026.

Market Drivers

- **Stable Industrial Development**

From 2016 to 2021, the PRC's industrial added value, which refers to the total market value of newly added products and services in the production process of industrial enterprises, increased from approximately RMB24.5 trillion to RMB34.3 trillion, representing a CAGR of 7.0%, indicating the good momentum of the PRC's industrial development. The industrial development in the PRC has promoted the stable development of downstream applications of graphite electrodes, such as the EAF steel market, industrial silicon market and yellow phosphorus market. Thus, stable industrial development is one of the major drivers of the graphite electrode market in the PRC.

- **Strict Regulations and Policies on Environmental Protection**

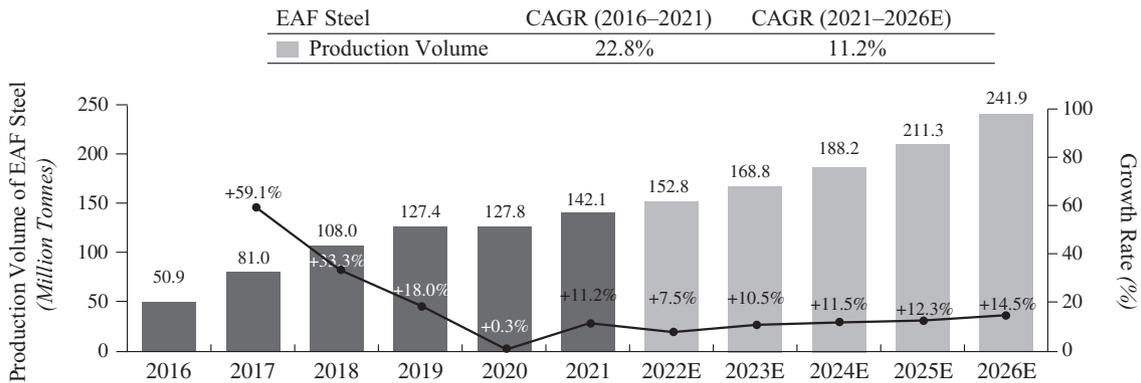
In recent years, the PRC government has introduced a series of regulations and policies to accelerate the technological innovation of graphite electrode manufacturers with the aim of promoting industry integration and eliminating backward production capacity. For example, the “Action Plan for Comprehensive Control of Air Pollution in Beijing — Tianjin — Hebei Region and Surrounding Areas in Autumn and Winter from 2019 to 2020 (《京津冀及周邊地區2019–2020年秋冬季大氣污染綜合治理攻堅行動方案》)”, which was issued in October 2019, stipulated that carbon manufacturers that fail to meet the specific emission limits will have to suspend their production. Affected by this policy, those graphite electrode manufacturers in the PRC that cannot meet the environmental protection requirements will have to shut down their production facilities, this is beneficial for leading graphite electrode manufacturers with environmentally-friendly production process and the capability to manufacture high-quality graphite electrodes, such as our Group, to further increase their market shares and enhance market competitiveness.

- **Growing Demands from the Steel Industry**

Since the main downstream application of graphite electrode is EAF steel manufacturing, the graphite electrode market is affected by the development of the steel industry. In recent years, the PRC government has promulgated a series of policies to reduce excessive steel production capacity, such as the “Opinions on Resolving Overcapacity and Realizing the Development out of Difficulty in Iron and Steel Industry (《關於鋼鐵行業化解過剩產能實現脫困發展的意見》)”. The policy issued in 2016 was aimed to replace backward crude steel capacities such as steel manufacturing by blast furnaces of 400 cubic meters and below by EAF steel manufacturing. Such policies promoted the development of the EAF steel manufacturing industry in China. As graphite electrodes are the necessary consumables used in the EAF steel manufacturing, the development of the EAF steel manufacturing industry in China has stimulated the demands for graphite electrodes.

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Production Volume of EAF Steel (PRC), 2016–2026E



Source: China Steel Association; Frost & Sullivan analysis

- **Advanced and Mature Technologies**

Technological innovation has greatly improved the industrial transformation and upgrading of the graphite electrode industry in the PRC. Most graphite electrode manufacturers, especially some leading ones, focus on the application of environmental protection technologies in the production of graphite electrodes. Advanced and mature technologies play an important role in the manufacturing quality graphite electrodes and reducing energy consumption in the production process of graphite electrodes. Accordingly, advanced and mature technologies have contributed to the healthy development of the graphite electrode market in the PRC.

Future Opportunities

- **Green and Low-Carbon Economy**

In 2020, the PRC government took pragmatic actions to strive for carbon peaking before 2030 and achieve carbon neutrality before 2060. Under the background of the green and low-carbon economy in China, promoting “high-quality growth” of the steel industry is one of the core pillars of decarbonisation. In particular, the Guidelines on Promoting High-quality Development of Steel Industry (《關於促進鋼鐵工業高質量發展的指導意見》) released on 20 January 2022 set out a series of quantitative targets to be met “by 2025”. It directs the steel industry to complete “super-low-emission” renovations for more than 80% of its production capacity, reduce its “comprehensive energy consumption” per tonne of steel by more than 2% and cut water consumption by more than 10%.

According to Energy Transitions Commission, every MT of steel manufactured by (i) blast furnace led to the release of two metric tons of CO₂ and (ii) EAF steel manufacturing led to the release of only 0.6 tons CO₂. Compared with blast furnace steel manufacturing, EAF steel manufacturing can also reduce 86% of emissions, 76% wastewater discharge, and 92% solid waste discharged.

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In addition, the PRC is likely to impose a carbon tax on traditional steelmaking enterprises in the future, such as blast furnace steelmaking enterprises. The carbon tax will reduce the cost difference between EAF steelmaking and blast furnace steelmaking, and result in more steel enterprises shifting to use EAF steelmaking in the future. The green and low-carbon economy will further drive the development of the graphite electrode market in the PRC.

- **Development of UHP Graphite Electrodes**

With the increasing number of UHP EAF with large capacity, high working efficiency and low comprehensive costs, higher requirements have been put forward for the maximum allowable current of graphite electrodes, which has promoted the development of UHP graphite electrodes. In the future, UHP graphite electrodes with a large diameter will be the leading product and have wide applications in the graphite electrode market in the PRC.

- **Growing Demand of UHP Graphite Electrodes from EAF Steel Manufacturing**

The main downstream application of UHP graphite electrodes is EAF steel manufacturing. The PRC government has been vigorously promoting the structural reform on the supply side of the steel industry by prohibiting the launch of new production capacities which cannot meet the requirements of environmental protection thereby resolving the problem of overcapacity. The government encouraged the replacement of blast furnace steel manufacturing with EAF steel manufacturing given that during the pre-processing of raw materials, such as iron ore and coking coal, in blast furnace steel manufacturing, large amounts of pollutant is generated. On the other hand, the production process by using scrap steel to produce steel in EAF steel manufacturing is simplified. On the other hand, can better meet the requirements of environmental protection.

In 2020, carbon dioxide emission in the steel industry accounted for approximately 15% of the total carbon dioxide emission in China. Every MT of steel manufactured by (i) blast furnace led to the release 2 metric tons of CO₂ released, and (ii) EAF steel manufacturing led to the release of only 0.6 tons carbon dioxide.

Compared with blast furnace steel manufacturing, according to ESG report from Ascent Partners, EAF steel manufacturing can also reduce 99% of sulphur dioxide and 97% of nitrogen oxides emissions. Also, it is estimated that EAF plant could achieve up to 74% in energy reduction and 72.3% in carbon reduction in the steel industry. However, approximately 90% of the PRC steel manufacturers use blast furnaces and only approximately 12% of the PRC steel manufacturers use EAF. In the US and other developed countries, the portion of steel manufacturers using has reached 70%.

According to China Iron & Steel Association, the total scrap steel resources in the PRC will be approximately 260 million tonnes in 2020. It is expected that the PRC's scrap steel resources will reach 338 million tons in 2025. It is estimated that by 2025, the proportion of the PRC's EAF steel production to the total crude steel production will increase to approximately 15%–20% and the scrap steel ratio will reach 30%. The process of structural adjustment in steelmaking and the higher scrap steel ratio will increase the pace of the proportion of EAF steelmaking by steel enterprises in the future to boost graphite electrode demand.

INDUSTRY OVERVIEW

- **Vertical Integration**

Owing to the high costs of raw materials in the production of graphite electrodes, the PRC's graphite electrode manufacturers, especially the leading ones, have committed to maintaining competitive advantages and improve their profitability through vertical integration including the construction of production facilities of needle coke or the acquisition of needle coke manufacturers. Vertical integration is beneficial to offering a secure and high-quality supply of raw materials and reduce the costs of graphite electrode production.

Challenges

- **Shortage of Needle Coke Supply**

Needle coke is the main raw material for the production of graphite electrodes, especially UHP graphite electrodes. However, the supply and the product qualities of needle coke manufactured in the PRC cannot meet the requirements of the PRC's graphite electrode market. Therefore, the graphite electrode manufacturers in the PRC have to import needle coke, which has increased the production costs of graphite electrodes. In the future, in the face of the surge of demand for graphite electrodes, the shortage of needle coke supply will be one of the main challenges in the PRC's graphite electrode market.

- **Impact of COVID-19**

As logistics and transportation stagnated due to the outbreak of COVID-19, the inventory of graphite electrode manufacturers which was reserved before the PRC's new year stayed at a high level. Furthermore, the postponed work resumption of enterprises in construction industry, real estate industry, machinery industry and automobile industry caused a decreased demand for steel products, thereby affecting the demand for graphite electrodes from steel manufacturers. Therefore, those graphite electrode manufacturers may face high pressures in reducing their inventory in the short term. However, as the domestic epidemic is gradually controlled and upstream and downstream enterprises as well as logistics companies resume work, the demand for graphite electrodes is expected to recover.

Entry barriers

- **Environmental Protection**

In 2019, the "Emission Standard for Air Pollution of Carbon Industry (《炭素工業大氣污染排放標準》)" was issued by the PRC Carbon Industry Association, which has further strengthened the requirements of environmental protection in the carbon industry in the PRC. In recent years, the PRC government has shut down or reduced part of existing production capacities of graphite electrodes which cannot meet the requirements of environmental protection and raised industry access thresholds by introducing related policies such as pollutant emission standards.

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- **Production Experience**

The graphite electrode market in the PRC is undergoing transformation and upgrading of product structures to UHP graphite electrodes owing to the increasing demands for high power EAF. The production of UHP graphite electrodes requires sufficient production experience to effectively control all the production processes. New entrants without sufficient production experience may face the problem of large fluctuations in batch quality, which cannot be accepted by downstream customers.

- **Capital Turnover**

The production of graphite electrodes has a long cycle. In particular, due to more complex production processes and higher requirements for processing accuracy, the production of UHP graphite electrodes has a higher raw material cost, labour cost and manufacturing cost due to a longer production cycle compared with regular power graphite electrodes. Therefore, the production of graphite electrodes requires a large amount of capital investment and strong capability of capital turnover, which is one of the main entry barriers for new entrants in the PRC's graphite electrode market.

- **Production Technologies**

Existing graphite electrode manufacturers, especially leading ones in the PRC, have mature production technologies throughout the production processes including screening, milling and mixing, extrusion, baking, pitch impregnation, graphitisation and machining. Meanwhile, leading manufacturers have been dedicated to overcoming technical problems such as the production of connecting pins for UHP graphite electrodes. It is rather difficult for new entrants to have mature production technologies of graphite electrodes or recruit relevant technical talents in a short time.

- **Production of UHP Graphite Electrodes**

The production of UHP graphite electrodes in the PRC uses 100% needle coke imported from the international market. However, leading global manufacturers of premium-grade needle coke normally have high requirements of payment terms and requires their customers to have stable and large order volumes, which is an entry barrier for new entrants to produce UHP graphite electrodes in the PRC.

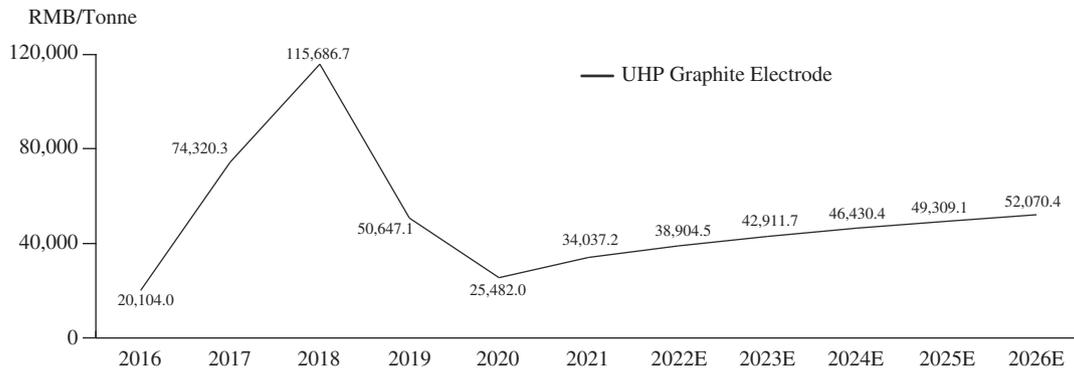
- **Qualified supplier of EAF Steel Manufacturers**

In the PRC, EAF steel manufacturing is mainly applied in the production of special steel and high alloy steel products, which normally have stringent requirements in the quality of steel. Furthermore, most leading EAF steel manufacturers in the PRC are state-owned enterprises who have strict requirements in supplier selection and it usually takes more than one year to become a qualified supplier. Therefore, leading global graphite electrode manufacturers tend to engage distributors which have already established cooperation with EAF steel manufacturers in the PRC. For new entrants who cannot provide high-quality graphite electrodes and do not have any customer bases, it is rather difficult for them to become qualified suppliers of EAF steel manufacturers in the PRC.

INDUSTRY OVERVIEW

Price Trends of Graphite Electrodes

Price Trends of UHP Graphite Electrodes (China), 2016–2026E



Source: Frost & Sullivan Analysis

Note: The PRC price is the spot sales price. Due mainly to a short time of delivery within China, most of the customers in the PRC place orders based on the spot market price.

The recovery of the global EAF steel market and the increasing demand for graphite electrodes outside the PRC since 2017 resulted in a global shortage of graphite electrodes. However, the shutting down of the PRC's graphite electrode plants and tighter supply in the PRC due to strict environmental norms dictated by the PRC's government from February 2017 caused a more severe shortage for graphite electrodes both in and outside the PRC in 2017. The price of UHP graphite electrode witnessed a sharp rise in 2017.

In the foreseeable future, the demand from EAF steels, the supply and the price of raw material are likely to maintain stable and the supply of graphite electrodes is anticipated to maintain stable. Furthermore, the concentration rate in the graphite electrode market is relatively high and the main market players in China will maintain stable operation in the future. Thus, we estimate that there will not be any material change in the graphite electrode market in the PRC in the foreseeable future and the price of UHP graphite electrodes is likely to maintain stable growth.

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Competitive Landscape

There are only a few manufacturers in the PRC that can produce UHP graphite electrodes. The UHP graphite electrode industry is quite concentrated. The top five UHP graphite electrode manufacturers in the PRC based on their market share in the PRC in terms of UHP production volume in 2021 is set out below:

Top 5 PRC's Graphite Electrode Manufacturers by UHP Production Volume ^(Note) in 2021

Rank	Company Name	Market Share (%)
1	FangDa Carbon New Material Co., Ltd.	26.5
2	Zhongze Group	22.8
3	Showa Denko Sichuan Carbon Inc.	12.4
4	Our Group	7.1
5	Nantong Yangzi Carbon Co., Ltd.	6.9
	Total production volume of Top 5 UHP graphite electrode manufacturers in the PRC	75.7
	Other UHP graphite electrode manufacturers in the PRC	24.3
	Total	100.0

Source: Annual Report; Frost & Sullivan Analysis

Note: The production volume includes only the factories in the PRC operated by these companies. Manufacturers which have the capability of producing UHP graphite electrodes in the PRC are selected for the above table.

Our Group ranked fourth, accounting for approximately 7.1% of the UHP graphite electrode market in the PRC in terms of the UHP production volume.

In recent years, the PRC government has promulgated a series of policies to reduce excessive steel production capacity, including the “Opinions on Resolving Overcapacity and Realizing the Development out of Difficulty in Iron and Steel Industry (《關於鋼鐵行業化解過剩產能實現脫困發展的意見》)” (the “**Policy**”) issued in 2016 which aims at replacing backward crude steel capacities such as steel manufacturing by blast furnaces of 400 cubic meters and below by EAF steel manufacturing. The above policies promoted the development of the EAF steel manufacturing industry in China.

From the implementation of the Policy in 2016 to 2021, approximately 90 steel manufacturers replaced their backward crude steel production capacity with that of EAF and/or expanded their EAF production capacity.

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As at December 2021, the information above is as follows:

	The global market (excluding the PRC market)	The PRC market
Total number of graphite electrode manufacturers	Around 15	Around 35
Total number of steel manufacturers (<i>Note</i>)	Around 200	No more than 2,000
Total number of steel manufacturers using the EAF to produce steel	Over 120	Nearly 300

Source: World Steel Association; Metal Expert; China Carbon Industry Association; Frost & Sullivan Analysis

Note: The number of steel manufacturers (Global excl. China) refers to the number of steel groups. In general, large-sized steel manufacturers have more than 30 plants whereas small-medium-sized steel manufacturers have no more than five plants.

REGULATORY OVERVIEW

This section sets out a summary of the most significant aspects of laws and regulations in Hong Kong, Italy, the PRC, the U.S., Switzerland, South Africa, Macau and the EU that are material to our business operations.

HONG KONG LAWS AND REGULATIONS

Taxation

Pursuant to the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), profits tax shall be charged for each year of assessment at the standard rate on every person carrying on a trade, profession or business in Hong Kong in respect of his assessable profits arising in or derived from Hong Kong for that year from such trade, profession or business. As at the Latest Practicable Date, the standard rate of profits tax for corporations was 16.5%.

Employment

The main piece of legislation governing conditions of employment in Hong Kong is the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the “**Employment Ordinance**”). It provides for various employment-related benefits and entitlements to employees. Pursuant to the Employment Ordinance, all employees covered, irrespective of their hours of work, are entitled to basic protection including payment of wages, restrictions on wages deductions and the granting of statutory holidays. Employees who are employed under a continuous contract are further entitled to benefits such as rest days, paid annual leave, sickness allowance, severance payment and long service payment.

A no-fault, non-contributory employee compensation system for work injuries is established under the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the “**Employees’ Compensation Ordinance**”). The Employees’ Compensation Ordinance in general applies to employees who are employed under a contract of service or apprenticeship. Employees employed in Hong Kong by local employers are also covered if they are injured while working outside Hong Kong. An employer is liable to pay compensation in respect of occupational diseases specified in the Employees’ Compensation Ordinance suffered by the employees; or in respect of injuries sustained by his employees as a result of an accident arising out of and in the course of employment.

Mandatory Provident Fund

The Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) provides an employment-based retirement protection system, the Mandatory Provident Fund scheme (“**MPF**”), a defined contribution retirement scheme administered by independent trustees. Except for exempt persons, both regular or casual employees and self-employed persons who are at least 18 but under 65 years of age and are normally residing and working in Hong Kong are required to join the MPF scheme. Mandatory contributions made by both the employer and employee are fully and immediately vested in the employee once they are paid to the trustee. Under the MPF scheme, the employer and, where the monthly income is HK\$7,100 or more, the employees are both required to contribute 5% of the employee’s monthly relevant income as mandatory contributions for and in respect of the employee, subject to a statutory maximum cap of HK\$1,500 per month.

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Transfer pricing

The Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**IRO**”) sets out certain provisions in relation to transfer pricing. Section 20A of the IRO provides the Inland Revenue Department of Hong Kong (the “**IRD**”) with wide powers to collect taxes from non-residents. Section 20(2) of the IRO provides that where a resident person conducts transactions with a “closely connected” non-resident person in such a way that if the profits arising in Hong Kong are less than the ordinary profits that might be expected to arise, the business performed by the non-resident person in pursuance of his or her connection with the resident person shall be deemed to be carried on in Hong Kong, and the non-resident person shall be assessable and chargeable with tax in respect of his or her profits from such business in the name of the resident person. The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO and challenging the entire arrangement under general anti-avoidance provisions, such as sections 61 and 61A of the IRO.

On 13 July 2018, the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the “**Amendment Ordinance**”) was gazetted and became effective. Section 20 of the IRO was repealed as a result of the Amendment Ordinance becoming effective. The Amendment Ordinance includes major changes to codify transfer pricing regulations in Hong Kong. It implements various minimum standards arising from The Organisation for Economic Co-operation and Development’s latest requirements on base erosion and profit shifting and introduces mandatory transfer pricing documentation requirements. According to the Amendment Ordinance, the arm’s length principle is the fundamental transfer pricing rule in Hong Kong. Where a transaction between two related persons does not comply with the arm’s length principle and creates a tax advantage, the IRD is empowered to adjust the profits or losses of that person. The fundamental transfer pricing rule and major provisions under the Amendment Ordinance apply retrospectively to the years of assessment on or after 1 April 2018.

ITALIAN LAWS AND REGULATIONS

Environmental

The main regulation concerning the environment and emission into air, land and water is provided by Legislative Decree no. 152/2006 (the “**Environmental Code**”).

Pursuant to such regulation, an Environmental Integrated Authorization (the “**AIA**”) has to be obtained before the commencement of productive activities. The AIA has the purpose of preventing and reducing the integrated pollution arising from the activities listed in Annex VIII of the Environmental Code and provides measures to avoid, where possible, or to reduce emissions into air, water and land, including measures concerning waste, in order to achieve a high level of environmental protection.

The AIA is the main authorisation required to operate a plant that exercise one of the activities listed in Annex VIII (among which it is mentioned “*Installations for the production of carbon (hard-burnt coal) or electrographite by means of incineration or graphitisation*”).

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Violations of the prescription provided by the AIA are potentially subject to administrative and criminal penalties and fines and, in case of reiterated violations, the AIA might be suspended or revoked.

Labour law

Employment relationships are subject to mandatory rules that cover some aspects related to (among other) the working time, holidays and the conditions of health and safety to be granted in the workplace. Generally, an employment relationship is governed by laws, employment contracts and the national collective bargaining agreement (“**NCBA**”) if it applies to a company.

A summary of the relevant labour laws and regulations is set out below:

- working hours and holidays — pursuant to the Legislative Decree no. 66 of April 8th, 2003, the normal duration of daily working hours is fixed at 40 hours and the maximum duration of the weekly working hours, including overtime working hours, is fixed at 48 hours. In any case, the total number of overtime working hours performed by each employee cannot exceed, during a year, 250 hours. Limitations that are not applicable to those employees whose working time duration is not predetermined or is determined by themselves (such as executives and other employees who are allowed to autonomously decide their business and their working time). Furthermore, each employee has at least four weeks of holiday per year (or more, if NCBA applied by the company provides for additional days of holidays), of which two weeks are mandatory to be enjoyed by the employee during the year of accrual (also consecutively if requested by the employee). The other two weeks of holidays instead (or the additional days, according to NCBA applied) have to be enjoyed in the next 18 months from the year of accrual;
- minimum wage — in Italy, there is no a general minimum wage set by law but wages are set in NCBA. According to Article 36 of the Italian Constitution, such wages must be proportionate to the quality and quantity of work done and also high enough to provide a minimum subsistence for the worker and his family;
- health and safety — an employer is required to adopt a system of precautionary measures. Pursuant to the Legislative Decree no. 81 of 2008 of April 4th, 2008, which regulates the health and safety in the workplace in Italy, an employer is required to identify within the company the risk factors and to eliminate or reduce them. Furthermore, an employer has to pay an insurance premium against injury and death occurred to its employees plus, among others, retirement, unemployment, illness and maternity. In this respect, each employee has to be registered in the National Social Security Body and in the National Insurance Body. Furthermore, the employer works as withholding agent in respect of the taxes that the employee has to pay on his/her income; and

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- termination of the employment relationship — generally speaking, a dismissal must be communicated in writing and must be justified with a proper reason. The consequences of an unfair dismissal may change based on the employee’s seniority, such as being executive or non-executive employee, and length of service as well as in relation to the employer’s size, (such as number of employees it employs at the time the dismissal took place) although except for some exceptions, it typically results in the payment of a compensation indemnity. Due to COVID-19 and pursuant to the emergency laws, under the Law no. 178 dated 30 December 2020, an employer cannot dismiss its employees because of an organisational reason up to 31 March 2021.

Tax

Taxes in Italy is collected by the Italian Revenue Agency (Agenzia delle Entrate). The most important taxes are (i) corporate income tax (the “**IRES**”); (ii) regional production tax (the “**IRAP**”); (iii) VAT; (iv) personal income tax — IRPEF; (v) stamp duty tax — Imposta di registro; (vi) withholding tax; and (vii) social security tax (regulated by the INPS). All of these are collected at national level with some of those differ across regions, such as IRAP. Personal income taxation in Italy is progressive.

Other taxes are municipal taxes on real estate owned in Italy, namely (i) IMU, a wealth tax on real estate properties owned outside of Italy; (ii) IVIE, a wealth tax on financial investments owned outside of Italy; (iii) IVAFE, inheritance, estate and gift taxes.

Italian taxation is regulated by the following laws: decree of the president 22.12.1986 n. 917 — income and corporate income tax; DLgs. 15.12.1997 n. 446 — IRAP; decree of the president 26.10.1972 n. 633 — VAT; D.P.R. 26 aprile 1986, n. 131 — stamp duty tax (imposta di registro).

- ***Transfer Pricing Rules***

Italian taxation requires related parties to transact with each other using arm’s length pricing. In effect, this prohibits multinationals from avoiding corporate income tax on Italy-generated profits by overcharging their Italian subsidiaries for foreign-made products. In the event that this occurs, Italian tax authorities will “readjust” the prices charged by the non-Italian entity to its wholly owned Italian subsidiary. Italian transfer pricing is regulated by the Italian law decree of the president 22.12.1986 n. 917 art.110, sub-section 7.

- ***VAT***

VAT (or *Imposta sul Valore Aggiunto* in the Italian language) is a consumption tax that applies to the supply of goods and services carried out in Italy by entrepreneurs, professionals, or artists and on importations carried out by anyone. In some cases, Intra-Community acquisitions are subject to VAT.

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In Italy, the standard VAT rate is 22% and reduced rates are provided for several supplies of goods and services, such as 4% for listed food, drinks and agricultural products or 10% for electric power supplies for listed uses and listed drugs. Specific supplies of goods and services expressly listed in Presidential Decree n. 633/72 are exempt from VAT such as education, insurance services, specific financial services, supply, leasing of particular immovable property. Once registered in Italy for VAT purposes, non-residents must declare the transactions (annual VAT return) and pay over any tax due.

- **IRES**

The tax rate of the IRES is 24%. In Italy, the following are liable to the IRES:

- (i) joint-stock companies and partnerships limited by shares, limited liability companies, cooperative companies and mutual insurance companies, European companies (EC regulation No. 2157/2001) and European cooperatives (EC regulation No. 1435/2003) which qualify as tax residents in Italy;
- (ii) public and private entities resident in Italy, including consortia, trusts and undertakings for collective investment and non-profit organisations; and
- (iii) all types of companies and other legal entities, including trusts, which are not tax resident in Italy, only with respect to the Italian sourced items' income.

The entities that are considered tax resident in Italy are:

- (i) companies or entities that, for the majority of a relevant tax period, have (i) their legal seat registered in Italy, (ii) their place of effective management located in Italy, or (iii) the main object of their business located in Italy;
- (ii) undertakings for collective investment set-up in Italy;
- (iii) trusts (and similar institutions) established or organised in a country with which Italy does not exchange information on tax matters, if at least one of the settlors and one of the beneficiaries are tax resident in Italy; and
- (iv) trusts established or organised in a country with which Italy does not exchange information on tax matters, if subsequent to their establishment, a resident taxpayer of Italy transfers to the trust (all or part of) real estate properties located in Italy or (all or part of) real estate property rights with respect to real estate properties located in Italy.

Under Italian tax law, all income derived by companies and other business entities always qualify as business income. To determine the tax base for the IRES purposes, the starting point is the profit or loss calculated for accounting purposes, as shown in the entity's financial statements. Such an amount must be increased or decreased in accordance with the tax provisions governing the determination of the tax base for the IRES purposes. IRES taxpayers must e-file their tax return (*Redditi SC form*) prior to or on the last day of the eleventh month following that of the closing date of the previous accounting period.

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- **IRAP**

The IRAP is a local tax on productive activities realised within a regional territory. The standard rate is 3.9% but higher IRAP rates are, for example, applicable to banks and financial institutions (4.65%) and insurance companies (5.90%). Regional authorities have the right to increase or decrease the IRAP rates within the limit of 0.92%. The IRAP taxpayers must e-file their tax return (IRAP form) prior to or on the last day of the eleventh month following that of the closing date of the previous accounting period.

PRC LAWS AND REGULATIONS

Laws and regulations relating to foreign investment

- *Law of the PRC on Wholly Foreign-owned Enterprises*

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was promulgated on 29 December 1993, last revised and became effective on 26 October 2018. A foreign-invested company is also subject to the PRC Company Law, unless otherwise provided by the foreign investment laws.

Before 1 January 2020, the establishment and operation of wholly foreign-owned enterprises are mainly governed by the Law on Wholly Foreign-Owned Enterprises of the PRC (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986, last revised on 3 September 2016 and became effective on 1 October 2016, and governed by the Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-Owned Enterprises (《中華人民共和國外資企業法實施細則》) issued by the Ministry of Foreign Economy and Trade (《對外經濟貿易部》) (now integrated into MOFCOM on 12 December 1990 and last revised by the State Council on 19 February 2014 and became effective on 1 March 2014).

Since the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) was promulgated and came into force on 1 January 2020, the PRC Equity Joint Venture Law (《中華人民共和國中外合資經營企業法》), the PRC Cooperative Joint Venture Law (《中華人民共和國中外合作經營企業法》) and the PRC Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》) were repealed by the Foreign Investment Law simultaneously. The Foreign Investment Law sets out the definition of foreign investments and the framework for promotion, protection and administration of foreign investment activities.

According to the Measures for the Security Review of Foreign Investment (《外商投資安全審查辦法》) promulgated by the NDRC and MOFCOM on 19 December 2020 and became effective on 18 January 2021, any foreign investment that has or possibly has an impact on state security shall be subject to security review in accordance with the provisions hereof. A foreign investor or a party concerned in China shall take initiatives to make a declaration to the working mechanism office prior to making the investment in any important infrastructure, important transportation services and other important fields that concern state security while obtaining the actual control over the enterprises invested in.

REGULATORY OVERVIEW

- *Catalogue of Industries for Guiding Foreign Investment*

On 27 December 2021, the NDRC and MOFCOM promulgated the Special Entry Management Measures (Negative List) for the Access of Foreign Investment (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》), or the Negative List, which took into effect on 1 January 2022. In addition, the NDRC and MOFCOM promulgated the Catalogue of Industries for Encouraging Foreign Investment (2020 Version) (《鼓勵外商投資產業目錄(2020年版)》) (the “**Encouraging Catalogue**”) which were promulgated on 27 December 2020 and became effective on 27 January 2021. Pursuant to the Encouraging Catalogue and the Negative List, foreign-invested projects are categorised as encouraged, restricted and prohibited. Foreign-invested projects that are not listed in the Encouraging Catalogue and the Negative List are permitted foreign-invested projects. As the UHP graphite electrodes industry is listed in the Encouraging Catalogue and related enterprises may enjoy preferential treatment in, among others, taxation, finance and land use in accordance with laws, administrative regulations or provisions, it shall be considered as a permitted industry.

- *Records of Foreign-Owned Enterprises*

On 3 September 2016, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the PRC Wholly Foreign-owned Enterprise Law were revised, such that foreign-invested enterprises which are not subject to the special administrative measures for admission need only file a record of its establishment, operation period, extension, separation, merger or other major changes to the delegated commercial authorities.

The special administrative measures for admission shall be issued or approved to be issued by the State Council. Pursuant to Announcement No. 22 issued by the NDRC and MOFCOM on 8 October 2016, which became effective on the same day, the special administrative measures for admission shall be implemented with reference to the relevant regulations as stipulated in the Catalogue in relation to the restricted foreign-invested industries, prohibited foreign-invested industries and encouraged foreign-invested industries which have requirements as to shareholding and the qualifications of senior management.

Pursuant to the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises (《外商投資企業設立及變更備案管理暫行辦法》) (the “**Interim Measures**”), which was issued by MOFCOM on 8 October 2016, last revised on 29 June 2018 and became effective on 30 June 2018, foreign-invested enterprises not subject to approval under the special administrative measures for admission shall file their establishment and modification with the delegated commercial authorities. Since 8 October 2016, foreign-invested enterprises that fall within the record-filing scope as stipulated in the Interim Measures shall submit an application and the relevant documents for record-filing of the establishment and changes and undergo the required record-filing procedures.

REGULATORY OVERVIEW

The Interim Measures were repealed by the Measures for the Reporting of Foreign Investment Information 《外商投資信息報告辦法》 issued jointly by MOFCOM and the State Administration for Market Regulation (國家市場監督管理總局) on 30 December 2019 and became effective on 1 January 2020. According to the Measures for the Reporting of Foreign Investment Information 《外商投資信息報告辦法》, where foreign investors that carry out investment activities, directly or indirectly, within China, such foreign investors or foreign funded enterprises shall report investment information to commerce departments in accordance with these Measures. A foreign investor who forms a foreign-funded enterprise within China shall submit an initial report through the enterprise registration system when undergoing formation registration of the foreign-funded enterprise. In the case of any modification of the information in the initial report, which involves the enterprise's modification registration (recordation), the foreign-funded enterprise shall submit the modification report through the enterprise registration system when undergoing the enterprise's modification registration (recordation).

Laws and regulations relating to intellectual property

- **Patent**

Pursuant to the currently effective Patent Law of the PRC 《中華人民共和國專利法》 promulgated on 12 March 1984, last revised on 17 October 2020 and became effective on 1 June 2021, and the Detailed Rules for the Implementation of the Patent Law of the PRC 《中華人民共和國專利法實施細則》 promulgated on 19 January 1985, last revised on 9 January 2010 and became effective on 1 February 2010, there are three types of patents in the PRC, namely invention patents, utility model patents and design patents. Invention patents are valid for 20 years from the date of application, and utility model patents and design patents are each valid for 10 years from the date of application. Patent owners pay annual fees from the year they are granted the patent. Persons or entities who use patents without the consent of patent owners, counterfeit patented products or engage in activities that infringe upon patent rights will be held liable to the patent owner for compensation and may be subjected to fines and even criminal punishment.

- **Trademark**

According to the Trademark Law of the PRC 《中華人民共和國商標法》, which was promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019, trademarks approved and registered by the trademark bureau are registered trademarks, including commodity trademarks, service marks and collective trademarks, certification marks and trademark registrants enjoy exclusive rights to use trademark and are protected by the law. A trademark registration applicant shall, according to the prescribed classification of goods, enter the class and designation of goods on which the trademark is to be used, and file an application for registration. Matters declared and materials provided for an application for trademark registration shall be true, accurate, and complete.

Laws and regulations relating to foreign exchange

According to the Regulation on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) promulgated on 29 January 1996, last revised on 5 August 2008 and became effective on the same day, foreign exchange income and expenditure and foreign exchange business operations of Chinese institutions and individuals, as well as the foreign exchange income and expenditure and foreign exchange business operations conducted within the territory of the PRC by overseas institutions and individuals, shall be subject to foreign exchange administration. The Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments. However, it is not freely convertible for capital expenditure items, such as direct investment, loans or investments in securities outside of the PRC, unless approval from SAFE or its local counterpart is obtained in advance.

According to the Circular of SAFE Concerning Reform of the Administrative Approaches to Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), which was issued on 30 March 2015, became effective on 1 June 2015 and last revised on 30 December 2019, a voluntary settlement mechanism for foreign exchange capital funds to foreign-invested enterprises shall be implemented, and RMB funds from voluntary settlement of capital funds shall be deposited into and managed under an “account for foreign exchange fund settled and to be paid”.

Pursuant to The Notice of State Administration of Foreign Exchange on Relevant Issues of Management of Overseas Investment, Financing, Return Investment in Foreign Exchange of Domestic Resident via the Company Having Special Purpose (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), which was issued on 4 July 2014, a domestic corporate entity and individual domestic resident, which/who, for the purposes of investment and financing, directly establishes or indirectly controls a special purpose vehicle, and directly or indirectly undertakes domestic direct investment activities through such special-purpose vehicle using legitimately held domestic company assets or equities or using legitimately held overseas company assets or equities, namely the activity of establishing a domestic foreign investment enterprise or project by merger and acquisition or incorporating a new entity while acquiring ownership title, rights of control, rights of business operation and management and other similar activities must apply to SAFE for registration of foreign exchange for overseas investment.

According to The Notice about Further Simplification and Improvement of Management Policy of Direct Investment in Foreign Exchange (《關於進一步簡化和改進直接投資外匯管理政策的通知》), which was issued by SAFE on 13 February 2015 and came into effect on 1 June 2015, the foreign exchange administration policies for direct investment are further simplified. This includes (i) the cancellation of two administrative approvals, namely the foreign exchange registration approvals under domestic and overseas direct investments, which shall be verified directly by banks instead; (ii) the simplification of confirmation registration and administration over a foreign investor’s capital contribution under domestic direct investment; and (iii) the cancellation of annual foreign exchange inspection of direct investment.

REGULATORY OVERVIEW

Laws and regulations relating to property

According to the Land Administration Law of the PRC 《中華人民共和國土地管理法》, which was issued on 25 June 1986 and recently amended on 26 August 2019, the PRC government implemented the system of compensated use of state-owned land and the system of control over the usages of land. The ownership and use right of land registered according to law shall be protected by law. Any units and individuals, who need to use the state-owned land for construction purpose, shall apply for the use of state-owned land in accordance with the law, and obtain the state-owned land use right by way of paying land use right assignment fees and other fees and expenses according to the standards and ways prescribed by the State Council.

On the basis of the Urban and Rural Planning Law of the PRC 《中華人民共和國城鄉規劃法》 issued on 28 October 2007 and recently amended on 23 April 2019, the construction unit shall submit the approval, ratification, archival filing and the contract for assignment of the right to use state-owned land relating to the construction project to apply for the Permit for Construction Land Planning from the urban and rural planning authority at municipal planning authority after signing the land use right assignment contract. After obtaining such permit, the construction unit shall organise the necessary planning and design work in accordance with planning and design requirements and a planning and design proposal in respect of the building project shall be submitted to the municipal planning authority.

In addition, a construction unit shall apply for a Construction Commencement Permit from the construction administrative authority under the local people's government above the county level pursuant to the Measures for the Administration of Construction Work Permit of Construction Projects (《建築工程施工許可管理辦法》) issued by the Ministry of Construction of the PRC, being the predecessor of the Ministry of Housing and Urban-Rural Development of the PRC, on 15 October 1999, which was recently amended on 30 March 2021.

Laws and regulations relating to taxation

- *EIT*

Pursuant to (i) the EIT Law, promulgated on 16 March 2007, effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and (ii) the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC 《中華人民共和國企業所得稅法實施條例》 (the “**EIT Regulations**”), promulgated on 6 December 2007 and effective on 1 January 2008 and amended on 23 April 2019, enterprises shall be divided into resident enterprises and non-resident enterprises.

A resident enterprise means an enterprise lawfully incorporated in China or an enterprise that is lawfully incorporated pursuant to the laws of a foreign country (region) but where actual management functions are conducted in China. A non-resident enterprise means an enterprise that is lawfully incorporated pursuant to the law of a foreign country (region) with an office of premises established in China with no actual management functions performed in China, or an enterprise that has income derived from or accruing in China although it does not have an office or premises in China.

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A non-resident enterprise shall pay corporate income tax at the rate of 25% by for (i) income derived from or accruing in China by its office or premises established in China and (ii) income derived from or accruing outside China but having real connection with such office or premises established in China.

- **VAT**

According to the Interim Regulation on VAT of the PRC 《中華人民共和國增值稅暫行條例》 promulgated on 13 December 1993, last revised on 19 November 2017 and became effective on the same day, and the Detailed Rules for the Implementation of the Interim Regulation on VAT of the PRC 《中華人民共和國增值稅暫行條例實施細則》 promulgated on 25 December 1993, last revised on 28 October 2011 and became effective on 1 November 2011, entities and individuals that sell goods in the PRC or provide processing services, repair services and importation services should be subject to VAT, and the payable tax amount shall be calculated by deducting input tax for the current period from output tax for the current period.

According to the Notice of Taxation on Implementing the Pilot Programme of Replacing Business Tax with VAT in an All-round Manner 《關於全面推開營業稅改徵增值稅試點的通知》 issued on 23 March 2016, last revised on 20 March 2019 and became effective on 1 April 2019, the countrywide pilot practice of levying VAT in lieu of business tax (the “**Pilot Practice**”) has been carried out since 1 May 2016. According to the specific regulatory documents for the Pilot Practice, including the Implementation Measures for the Pilot Practice of Levying VAT in lieu of Business Tax 《營業稅改徵增值稅試點實施辦法》, the VAT rates vary from 17%, 11%, 6% to 0% for taxpayers incurring taxable activities.

According to the Notice of Taxation on Adjusting Value-added Tax Rates 《關於調整增值稅稅率的通知》 issued on 4 April 2018 and became effective on 1 May 2018, the tax rates of 17% and 11% applicable to any taxpayer’s VAT taxable sale or import of goods shall be adjusted to 16% and 10%, respectively. As for exported goods to which the tax rate of 17% applies and whose export tax refund rate is 17%, the export tax refund rate shall be adjusted to 16%. As for exported goods and cross-border taxable sales to which the tax rate of 11% applies and whose export tax refund rate is 11%, the export tax refund rate shall be adjusted to 10%. The above exported goods sold by and the cross-border taxable sales conducted by a producer before 31 July 2018 shall be subject to the export tax refund rate before adjustment.

According to the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform 《關於深化增值稅改革有關政策的公告》 issued on 20 March 2019 and became effective on 1 April 2019, VAT tax rates on sales and imported goods that were previously subject to 16% and 10% have been adjusted to 13% and 9%, respectively. As for exported goods to which the tax rate of 16% applies and whose export tax refund rate is 16%, the export tax refund rate shall be adjusted to 13%. As for exported goods and cross-border taxable sales to which the tax rate of 10% applies and whose export tax refund rate is 10%, the export tax refund rate shall be adjusted to 9%. The above exported goods sold by and the cross-border taxable sales conducted by a producer before 30 June 2019 shall be subject to the export tax refund rate before adjustment, if VAT thereon has been collected at the tax rate before adjustment at the time of purchase. Where the VAT thereon has been collected at the adjusted tax rate at the time of purchase, the adjusted export tax refund rate shall apply.

REGULATORY OVERVIEW

- ***Environmental Protection Tax***

According to the Environmental Protection Tax Law of the PRC 《中華人民共和國環境保護稅法》(the “EPT Law”) promulgated on 25 December 2016, last revised on 26 October 2018 and became effective on the same day, enterprises that discharge taxable pollutants, such as air pollutants, water pollutants, solid waste and noise, shall file and pay environmental protection tax to the authorities on a quarterly basis from 1 January 2018 based on the List of Items and Amounts of Environmental Protection Tax 《環境保護稅稅目稅額表》 and the List of Taxable Pollutant and Relevant Equivalent under the Environmental Protection Law 《應稅污染物和當量值表》. The environmental protection tax will be collected and managed by tax authorities in accordance with the Law of the PRC on the Administration of Tax Collection 《中華人民共和國稅收徵收管理法》 and the EPT Law, and the environmental protection tax shall be collected instead of the pollutant discharge fees after the EPT Law takes effect.

- ***Withholding Income Tax***

According to the EIT Law and the EIT Regulation, dividends generated after 1 January 2008 and dividends payable by foreign enterprises in the PRC to foreign investors shall be subject to a 10% withholding tax unless a tax treaty with different withholding tax arrangements has been made between the PRC and the jurisdiction where any of those foreign investors are registered. According to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income 《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》 issued by the State Administration of Taxation (“SAT”) on 21 August 2006, and last revised on 19 July 2019 and became effective on 6 December 2019, if shareholders are Hong Kong residents holding at least 25% of the registered capital of the PRC company, a withholding tax rate of 5% applies to any dividends declared by the PRC company or if shareholders are Hong Kong residents holding less than 25% of registered capital, a withholding income tax rate of 10% applies.

- ***EIT for Indirect Transfer of Properties by Non-resident Enterprise***

Pursuant to the Announcement on Several Issues concerning EIT on Income from the Indirect Transfer of Assets by Non-Resident Enterprises 《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》 issued on 3 February 2015, last revised on 29 December 2017 and became effective on the same day, an indirect transfer by a non-resident enterprise of its properties, such as equity investments in a PRC resident enterprise by implementing arrangements without reasonable commercial purposes to evade the EIT, shall be re-defined and recognised as a direct transfer of equity interest in a PRC resident enterprise and other properties.

REGULATORY OVERVIEW

- *Transfer Pricing Adjustment*

According to the EIT Law and the EIT Regulation, where a transaction between an enterprise and its affiliated enterprises fails to comply with the independent transaction principle, and reductions are made to the taxable income or the amount of income of the enterprise or its affiliated enterprises, the tax authorities have a right to make adjustments according to a reasonable method within 10 years from the tax year in which the transaction occurs. If the tax authorities have made tax adjustments and the taxpayer is required to make up outstanding tax payments, the additional tax amount shall be levied and collected with interest pursuant to the provisions of the State Council.

According to the Announcement of SAT on Promulgation of the Administrative Measures on Special Tax Investigation, Adjustment and Mutual Agreement Procedure 《國家稅務總局關於發布《特別納稅調查調整及相互協商程序管理辦法》的公告》 promulgated on 17 March 2017 and partly revised on 15 June 2018, the tax authorities shall focus on enterprises with the following risk characteristics while implementing special tax investigation:

- (i) enterprises with large transaction amount of affiliated transactions, or varied types of affiliated transactions;
- (ii) enterprises with long-term losses, low profits or non-linear profits;
- (iii) enterprises with profit lower than the industry's level;
- (iv) enterprises whose profit level does not match the functional risks they perform, or whose earnings shared do not match the costs shared;
- (v) enterprises which carry out affiliated transactions with affiliated parties located at low tax countries (or regions);
- (vi) enterprises which fail to declare affiliated transactions or prepare contemporaneous documentation pursuant to the provisions;
- (vii) enterprises whose ratios of debt investments and equity investments accepted from the affiliated parties exceed the stipulated standards;
- (viii) an enterprise controlled by a resident enterprise or by a resident enterprise and a Chinese resident which is established in a country (or region) with actual tax burden lower than 12.5% does not distribute profit or reduces profit distribution for reasons other than reasonable needs for business operation; or
- (ix) enterprises that implement other tax planning or arrangements which do not have a reasonable business purpose.

Laws and regulations relating to labour

- *Labour Law*

The Labour Contract Law of the PRC 《中華人民共和國勞動合同法》, promulgated on 29 June 2007, last revised on 28 December 2012 and became effective on 1 July 2013, requires every employer to enter into a written contract of employment with each of its employees. No employer may force its employees to work beyond the time limit and each employer must pay overtime compensation to its employees. The wage of each employee is to be no less than the local standard on minimum wages. According to the Labour Law of the PRC 《中華人民共和國勞動法》 promulgated on 5 July 1994, last revised on 29 December 2018 and became effective on the same day, every employer must ensure workplace safety and sanitation in accordance with national regulations and provide relevant training to its employees.

Laws and regulations relating to social insurance and housing provident funds

Pursuant to the Social Insurance Law of the PRC 《中華人民共和國社會保險法》 promulgated on 28 October 2010, last amended on 29 December 2018 and became effective on the same day, as well as other relevant provisions, an employee shall participate in five types of social insurance funds, including pension, medical, unemployment, maternity and occupational injury insurance.

While the premiums for maternity insurance and occupational injury insurance are paid by the employer, the premiums for pension insurance, medical insurance and unemployment insurance are paid by both the employer and the employee. If an employer fails to fully contribute to social insurance funds on time, the collection agency for such social insurance may demand the employer to make full payment or pay the shortfall within a prescribed period and collect a late charge. If the employer fails to pay after the due date, the relevant government administrative body may impose a fine on the employer.

Pursuant to the Regulation on the Administration of Housing Provident Funds 《住房公積金管理條例》(the “**Housing Provident Fund**”) promulgated on 3 April 1999, last revised on 24 March 2019 and became effective on the same day, an employer must register with the competent managing centre for housing funds and shall contribute to the Housing Provident Fund for any employee on its payroll. Where an employer fails to pay up housing provident funds within the prescribed time limit, the employer may be fined and ordered to make payment within a certain period.

Laws and regulations relating to prevention and control of occupational diseases

Pursuant to the Law of the PRC on the Prevention and Control of Occupational Diseases 《中華人民共和國職業病防治法》, promulgated on 27 October 2001, effective on 1 May 2002 and recently amended on 29 December 2018, occupational diseases prevention and control work shall be carried out in accordance with the principle of “focusing on prevention while combining prevention with control” by establishing a mechanism which features employers taking responsibilities, administrative departments establishing regulations, industry self-discipline, employees participation and social supervision to ensure classified management and comprehensive control. Workers are entitled to occupational hygiene protection. Employers shall create working environments and conditions that meet the occupational health standards and health requirements of the state and take measures to ensure occupational health protection for the workers. Where an employer’s work site has any occupational

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disease hazard factors as listed in the catalogue of occupational diseases, the employer shall promptly and truthfully declare the hazardous project to the local health administrative department and accept supervision.

In addition, employers shall purchase social insurance for industrial injury, adopt effective protective facilities against occupational diseases, provide protective articles to the labourers for personal use against occupational diseases, set up alarm equipment, allocate on-spot emergency treatment articles, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place, and inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labor contract with employees.

Pursuant to the above law, for construction projects, including projects to be constructed, expanded or reconstructed, and projects for technical renovation and introduction which may incur occupational disease hazards, the unit responsible for the construction project shall (i) conduct a preliminary assessment report on such hazards during the period of feasibility study, and (ii) assess the effect of the control on occupational disease hazards before the construction project is completed for inspection and acceptance.

Laws and regulations relating to production safety

Pursuant to the Work Safety Law of the PRC 《中華人民共和國安全生產法》 promulgated on 29 June 2002, last revised on 10 June 2021 and became effective on 1 September 2021, production and operation entities must comply with the relevant work safety laws and regulations. Enterprises should establish relevant work safety rules, perfect the conditions for safe production, and ensure safety during production. Enterprises that do not meet the requirements for safe production are prohibited from engaging in production or other business activities. An entity engaged in mining, metal smelting, building construction, or road transportation or an entity manufacturing, marketing, or storing hazardous substances shall establish a work safety management body or have full-time work safety management personnel. Any business entity other than those mentioned above shall establish a work safety management body or have full-time work safety management personnel if the number of its employees exceeds 100; or shall have full-time or part-time work safety management personnel if the number of its employees is 100 or below. Where an enterprise fails to comply with the relevant work safety requirements, it may be subject to fines and ordered to discontinue production. Where a crime is constituted, the person in charge of the enterprise may be subject to criminal liabilities.

According to Notice of the State Council on Further Strengthening Work Safety of Enterprises (《國務院關於進一步加強企業安全生產工作的通知》), which was promulgated on 19 July 2010 by the State Council, enterprises shall formulate strict work safety rules and stick to the principle of *no safety and no production*. Enterprises shall reinforce the on-site supervision and examination of production, strictly investigate and punish the *three types of violations*, namely acts of giving instructions that violate the relevant rules, failure to observe the relevant rules and violation of labour disciplines. Any enterprise that organises production in excess of its capacity, labour intensity and manpower, shall be ordered to suspend the production for rectification. Such enterprise and its major responsible persons shall be imposed with financial penalties at a prescribed higher limit in accordance with law.

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Laws and regulations relating to promoting clean production

Pursuant to the Law on Promoting Clean Production of the PRC 《中華人民共和國清潔生產促進法》 promulgated on 29 June 2002 and became effective on 1 January 2003 and amended on 29 February 2012 for construction, alteration and expansion projects, environmental impact assessments shall be conducted on the use of raw materials, the consumption of resources, the overall utilisation of resources and the generation and disposal of pollutants. Priority shall be placed on the adoption of clean production technologies, techniques and equipment that have high resource efficiency and generate few pollutants.

Laws and regulations relating to industry of graphite

Pursuant to the Market Access Conditions for Graphite Industry 《石墨行業准入條件》 (the “**Market Access Conditions**”) issued on 21 November 2012 and became effective on 1 January 2013, relevant departments and enterprises shall comply with the standards for admittance in investment management, land supply, environmental impact assessment, production safety supervision, energy conservation assessment, credit financing, construction, production and operation on graphite projects.

To accelerate the transformation and upgrade of the graphite industry, according to the relevant national laws, regulations and industrial policies, the Ministry of Industry and Information Technology revised the Market Access Conditions for Graphite Industry and issued the Standard Conditions for the Industry of Graphite 《石墨行業規範條件》 (the “**Standard Conditions**”) on 24 June 2020, which became effective on the same date. After the implementation of the Standard Conditions, the Market Access Conditions was repealed at the same time. The Standard Conditions, which apply to existing and newly built, renovated and expanded graphite mining and processing projects, being the guiding document that encourages technological progress and standardised development in the industry, and do not have the prerequisite and mandatory effect of administrative approval.

Laws and regulations relating to environmental protection

Pursuant to:

- the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》 promulgated on 13 September 1979, became effective on the same date and last revised on 24 April 2014 and became effective on 1 January 2015, the construction of projects that cause environmental pollution shall comply with the requirements of the environmental protection administration for the respective construction projects. Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned simultaneously with the principal project. The PRC government implements the pollution discharge license management system in accordance with the law. Enterprises, public institutions and other producers and operators that possess the pollution discharge license shall discharge pollutants in accordance with the requirements of the pollution discharge license. If they fail to obtain the pollution discharge license, they shall not discharge pollutants.

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- the Law on Environmental Impact Assessment of the PRC 《中華人民共和國環境影響評價法》 promulgated on 28 October 2002, last revised on 29 December 2018 and became effective on the same day, a construction entity shall, based on the Classified Administration Catalogue for Environmental Impact Assessment of Construction Projects 《建設項目環境影響評價法分類管理名錄》 issued by the Ministry of Ecology and Environment of the PRC, carry out procedures for its construction project in accordance with the following stipulations: (i) if the environmental impact is potentially significant, it shall produce a report with an all-round assessment of the environmental impact; (ii) if the environmental impact is expected to be slight, it shall produce a report to include an analysis or special assessment of the environmental impacts; and (iii) if the environmental impact is expected to be minor, it should submit a registration form on the environmental impact, and it is not necessary to conduct an assessment. Where the environmental impact assessment document of a construction project fails to undergo the examination of the approval department in accordance with the law or is disapproved after examination, the construction entity shall not commence construction.
- the Regulations on the Administration of Construction Project Environmental Protection 《建設項目環境保護管理條例》 promulgated on 29 November 1998, last revised on 16 July 2017 and became effective on 1 October 2017, the evaluation of environmental effects of construction projects shall be conducted prior to construction. Based on the extent of effects to the environment, the construction unit shall submit, to the relevant administrative departments of environmental protection, (i) a report on the environmental effects; (ii) a report form for the environmental effects, which shall be prepared by institutions with corresponding qualifications, or (iii) a registration form for the environmental effects as stipulated and obtain approvals from such administrative departments. Environmental protection facilities shall be designed, built and put into operation together with the main body of the construction project. Upon completion of the construction projects, the construction units shall apply to the administrative departments of environmental protection for acceptance check of the environmental protection facilities before the construction projects can be put into operation.
- the Circular on Issuing the Implementing Proposals for the Reform of Environmental Impact Assessment during the 13th Five-Year Plan Period 《「十三五」環境影響評價改革實施方案》 issued by the Ministry of Environmental Protection of the PRC, being the predecessor of the Ministry of Ecology and Environment of the PRC, on 15 July 2016, the requirement of administrative permission for completion and acceptance of environmental protection 《環保竣工驗收行政許可》 was explicitly cancelled and it requires the establishment of a management mechanism for transition among environment impact assessment, and the “Three-Simultaneity” 《三同時》, including simultaneously design, construct, and use the environmental protection facilities with the principal part of a construction project and the emission approval. The relevant requirements for pollutant emission control in the environmental impact assessment document and its official reply are set out in pollutant discharge licenses. Before a construction project is put into operation, the construction unit shall, based on the environmental impact assessment document and its approval opinion, entrust a third party body to prepare a completion and acceptance report for environmental protection facilities of the construction project for disclosing to the public and filing with environmental protection department.

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- the Law on the Prevention and Control of Environment Pollution Caused by Solid Wastes of the PRC 《中華人民共和國固體廢物污染環境防治法》, which was promulgated on 30 October 1995, last revised on 29 April 2020 and became effective on 1 September 2020, construction projects where solid waste will be generated or projects for the storage, utilisation or treatment of solid waste shall be subject to environmental impact assessment according to law. The necessary supporting facilities for the prevention and control of environmental pollution by solid waste as specified in the statement of the environmental effect of the construction project shall be designed, constructed and put to use in production simultaneously with the body of the project. No construction projects shall be permitted to be put into operation or to be used before its facilities for the prevention and control of environmental pollution by solid waste have been inspected and accepted by the competent environmental protection administrative authorities.
- the Law on Prevention and Control of Water Pollution of the PRC 《中華人民共和國水污染防治法》, promulgated on 11 May 1984, became effective on 1 November 1984 and amended on 15 May 1996, 28 February 2008 and 27 June 2017, new construction projects and reconstruction or expansion projects and other installations on water that directly or indirectly discharge pollutants into water bodies shall be subject to an environmental impact assessment in accordance with the law. The facilities for prevention and control of water pollution shall be designed, constructed and put to use simultaneously with the commencement of a construction project. Enterprises that directly or indirectly discharge industrial waste water into water bodies shall discharge waste water or sewage only after obtaining a pollutant discharge permit according to the relevant provisions. Discharged water pollutants shall not exceed the national or local standards for the discharge of water pollutants and the indices for control of the total discharge of major water pollutants.
- the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) 《排污許可管理辦法(試行)》, promulgated and became effective on 10 January 2018, amended on 22 August 2019, a pollutant discharging entity shall hold a pollutant discharge license in accordance with law and discharge pollutants in compliance with the pollutant discharge licence. Any entity that fails to obtain a pollutant discharge licence as required shall not discharge pollutants. A pollutant discharge licence shall be valid from the date on which the decision on the granting of the licence is made. A discharge licence issued for the first time shall be valid for three years and a renewed licence for five years.

REGULATORY OVERVIEW

Laws and regulations relating to product quality

The principal legal provisions governing product liability are set out under the Product Quality Law of the PRC 《中華人民共和國產品質量法》 (the “**Product Quality Law**”) issued on 22 February 1993 and was recently amended on 29 December 2018. The Product Quality Law requires that producers shall have their own proper regulations for the management of product quality and rigorously implement quality regulations, quality liabilities and relevant measures for their assessment. As prescribed under the Product Quality Law, producers shall be responsible for the quality of products they produce and they shall be liable for failing to meet the prescribed quality standards. Products shall meet the following quality requirements: (i) not having unreasonable threats to safety of people and property, and conforming to the national standards or the industrial standards for ensuring human health, personal safety and safety of property, where there are such standards; (ii) possessing the properties as required, except for those with directions stating their functional defects; and (iii) conforming to the product standards marked on the products or on the packages thereof, and to the quality conditions indicated by way of, among others, product directions and samples. Producers and sellers shall be liable for compensation for damages which are caused by the defects of their products. Producers or sellers that violate the Product Quality Law may be subject to fines and be ordered to cease production or sale of their unlawfully produced products, and their illegal earnings may be confiscated. If the circumstances are serious, the business licence shall be revoked by the competent authorities. If the case constitutes a crime, the producer and/or seller shall be prosecuted for criminal responsibility.

Pursuant to the Civil Code of the PRC 《中華人民共和國民法典》 issued on 28 May 2020 and became effective on 1 January 2021, a producer shall be responsible for the quality of the products it produces. If a seller fails to identify the manufacturer or the supplier of the defective products, the relevant seller shall bear tort liability. In the event of damage being caused by a defective product, the victim shall be entitled to demand compensation from either the manufacturer or the seller. Sellers shall assume tort liability where the defects in relevant products causing damage to others are attributable to the sellers. Where any harm is caused by a defective product, the victim may claim for compensation either from the producers or sellers and the sellers have the right to recover their losses from the producers. If the liability lies on the sellers while the compensation has been paid by the producers, the producers have the right to recover their losses from the sellers.

Laws and regulations relating to consumer protection

Under the Law of the PRC on Protection of Consumer Rights and Interests 《中華人民共和國消費者權益保護法》 (the “**Consumer Law**”) issued on 31 October 1993 and recently amended on 25 October 2013, “consumer” is defined as any person who purchases or uses commodities or receives services for the purpose of consumption, and all manufacturers, distributors and service providers are required to guarantee that their provided commodities or services meet the requirements on personal and property safety. According to the Consumer Law, consumers whose lawful rights and interests are infringed upon the purchase or use of commodities may claim compensation from sellers, which shall, after paying compensation, have the right to be reimbursed by manufacturers or other sellers that are liable for supplying the commodities to them.

REGULATORY OVERVIEW

Laws and regulations relating to customs, imports and exports

Pursuant to the Customs Law of the PRC 《中華人民共和國海關法》 promulgated on 22 January 1987, last revised on 29 April 2021 and became effective on the same date, recipients and senders of imported and exported goods completing customs declaration formalities must undergo recordation formalities with the customs in accordance with laws.

Pursuant to the Administrative Provisions for Registration of Customs Declaration Agents of the PRC 《中華人民共和國海關報關單位注冊登記管理規定》, which were issued by the General Administration of Customs of the PRC on 13 March 2014, last revised on 29 May 2018 and became effective on 1 July 2018, after registration with customs, recipients and senders of imported and exported goods may complete customs declaration formalities at customs territory ports or at the centralised customs surveillance place within the territory of the PRC. On 19 November 2021, the Administrative Provisions for Recordation of Customs Declaration Agents of the PRC 《中華人民共和國海關報關單位備案管理規定》 was promulgated and became effective on 1 January 2022, which repealed the Administrative Provisions for Registration of Customs Declaration Agents of the PRC 《中華人民共和國海關報關單位注冊登記管理規定》.

Pursuant to the Import and Export Commodity Inspection Law of the PRC 《中華人民共和國進出口商品檢驗法》 promulgated on 21 February 1989, last revised on 29 April 2021 and became effective on the same day, as well as its implementation ordinance, recipients and senders of imported and exported goods may complete the application formalities of customs inspection by themselves or authorise an agent to complete this procedure. The government maintains a documentary record and registration system for application formalities of customs inspection completed by the recipient and sender of imported and exported goods by themselves. The recipient and sender of imported and exported goods completing quarantine formalities must submit documentary records to the relevant entry and exit quarantine inspection body in accordance with the laws.

Pursuant to the Foreign Trade Law of the PRC 《中華人民共和國對外貿易法》 promulgated on 12 May 1994, last revised on 7 November 2016 and became effective on the same day, foreign trading enterprises engaged in import and export of goods or the technology shall register with and submit documentary record to the responsible foreign trade department under the State Council or governmental body authorised by it. Customs shall not process customs declarations submitted by foreign trading enterprises not registered in accordance with laws.

REGULATIONS RELATING TO DATA SECURITY

On 10 June 2021, the Standing Committee of the National People's Congress issued the PRC Data Security Law 《中華人民共和國數據安全法》 (the “**Data Security Law**”), which became effective on 1 September 2021. The Data Security Law provides a national data security review system, pursuant to which data processing activities that affect or may affect national security shall be reviewed. In addition, it clarifies the data security protection obligations of organisations and individuals that carry out data activities and implement data security protection responsibility. Data processors shall establish and improve the whole-process data security management rules, organise and implement data security trainings as well as take appropriate technical measures and other necessary measures to protect data security. Any organisational or individual data processing activities that violate the Data Security Law shall bear the corresponding civil, administrative or criminal liabilities depending on specific circumstances.

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On 30 July 2021, the State Council promulgated the Regulations for the Security Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》) (the “**CII Regulations**”), which became effective on 1 September 2021. Under the CII Regulations, “critical information infrastructures” means important network facilities and information systems in important industries, including public communications and information services, as well as those that may seriously endanger national security, national economy, people’s livelihood, or public interests in the event of damage, loss of function, or data breach. Pursuant to the Regulations, the relevant government authorities are responsible for stipulating rules for the identification of critical information infrastructures with reference to several factors set out therein and further identifying the critical information infrastructure in the related industries in accordance with such rules. The relevant authorities must also notify operators of the determination as to whether they are categorized as critical information infrastructure operators.

On 14 November 2021, the CAC published a draft of the Administrative Regulations for Internet Data Security (《網絡數據安全管理條例 (徵求意見稿)》), which provides that data processors conducting the following activities must apply for cybersecurity review: (i) any merger, reorganisation, or division of internet platform operators that have acquired a large number of data resources related to national security, economic development, or public interests affects or may affect national security; (ii) any foreign listing by data processors processing over one million users’ personal information; (iii) any listing in Hong Kong that affects or may affect national security; or (iv) other data processing activities that affect or may affect national security. The CAC solicited comments until 13 December 2021 but there is no timetable as to when it will be enacted.

On 28 December 2021, the CAC, the NDRC, the MIIT, and several other PRC governmental authorities jointly promulgated the Cybersecurity Review Measures (《網絡安全審查辦法》) (the “**Cybersecurity Review Measures**”), which took effect on 15 February 2022 and replaced the Measures for Cybersecurity Review (《網絡安全審查辦法》) promulgated in April 2020 and effective in June 2020. According to the Cybersecurity Review Measures, critical information infrastructure operators that intend to purchase internet products and services and internet platform operators engaging in data processing activities that affect or may affect national security must be subject to cybersecurity review, and an internet platform operator possessing personal information of over one million users and pursuing a foreign listing (國外上市) must also be subject to cybersecurity review.

In addition, pursuant to Article 10 of the Cybersecurity Review Measures, the following factors shall be taken into account in assessing national security:

- (i) risks of illegal control, interference or destruction of critical information infrastructure brought about by the use of products and services;
- (ii) harm caused by supplying products and services that interrupt business continuity of critical information infrastructure;
- (iii) security, openness, transparency and diversity of sources of products and services, reliability of supply channels, and risks of supply interruption due to political, diplomatic, trade or other factors;

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- (iv) compliance with PRC laws by product and service providers;
- (v) risks of theft, disclosure, damage, illegal use or cross-border transfer of core data, important data or large amounts of personal information;
- (vi) risks of influence, control or malicious use of critical information infrastructure, core data, important data or large amounts of personal information by foreign governments after listing overseas; and
- (vii) other factors that may endanger critical information infrastructure security, cybersecurity and data security.

Regulations Related to Overseas Listings

On 6 July 2021, the General Office of the State Council and General Office of the Central Committee of the Communist Party of China issued Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》). The opinions emphasised the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by PRC-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by PRC-based overseas-listed companies.

On 24 December 2021, the CSRC published the draft Regulations of the State Council on the Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草稿徵求意見稿)》), or the Administrative Provisions and the draft Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic companies (Draft for Comments) (《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》) (the “**Administrative Provisions**”) for public comments. Pursuant to these drafts, PRC domestic companies that directly or indirectly offer or list their securities in an overseas market, including a PRC company limited by shares and an offshore company whose main business operations are in the PRC and intends to offer shares or be listed in an overseas market based on its onshore equities, assets, incomes or other similar interests, are required to file with the CSRC within three business days after submitting their listing application documents to the regulator in the place of intended listing. Failure to complete the filing under the Administrative Provisions may subject the domestic enterprise to a warning or a fine of RMB1 million to RMB10 million. If the circumstances are serious, a domestic enterprise may be ordered to suspend its business or suspend its business pending rectification, or its permits or businesses licence may be revoked. Pursuant to these drafts, when determining whether an offering and listing shall be deemed as “an indirect overseas offering and listing by a PRC company,” the principle of “substance over form” shall be followed, and if an issuer meets the conditions below, its offering and listing shall be determined as an “indirect overseas offering and listing by a PRC company” and is therefore subject to the filing requirement:

- (i) the operating income, total profits, total assets or net assets of domestic enterprises in the latest financial year account for more than 50% of the respective data in such issuer’s audited consolidated financial statements for the same period and

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- (ii) a majority of the senior management personnel in charge of the business operations and management of such issuer are PRC citizens or have habitual residences in the PRC, and such issuer's principal place of business is located in the PRC or the business operations of such issuer are mainly conducted in the PRC.

U.S. LAWS AND REGULATIONS

Sangraf US operates from its offices in the State of California and is principally engaged in trading and sales of graphite electrodes in the U.S. and certain other countries. During the Track Record Period, Sangraf US imported the graphite electrodes from our facilities in Italy and China for sale to customers, and as such our U.S. operations and our products must comply with certain laws and regulations.

A summary of the laws, rules and regulations that are expected to be material to our operations in the United States are set out below. However, other United States federal, state and local laws may also impose certain obligations on us and affect our products and operations in the United States.

Labour and Employment Laws

The employment of individuals in the United States is governed by federal, state and sometimes local laws, the full scope of which are beyond the scope of this disclosure. National laws set the minimum legal standard for employee rights; state and local laws may set different standards (e.g., California laws often materially enhance employee rights). Most employees in the United States are hired "at-will," meaning that their employment can be terminated at any time, with or without notice or cause. At-will employment can be modified by an employment agreement between an employee and employer, but in no event may an employee be terminated for an illegal reason (such as discrimination or harassment), nor may an employee be terminated or retaliated against for engaging in a legally protected activity. Individual verification of eligibility to work in the United States is required.

- ***Equal Employment Opportunity Laws***

An employer cannot discriminate against or harass job applicants, employees or independent contractors based on age, physical or mental disability, race, color, national origin, religion, sex or gender (which includes gender identity, pregnancy, childbirth, or related medical conditions), sexual orientation, veteran status, marital status, citizenship, political activity or affiliation, ancestry, medical condition (defined under state law), taking or requesting statutorily protected leave or any other basis protected by law. Discrimination or harassment may include, among other things: (i) refusal to hire, employ, or promote; (ii) demotions, discipline, or termination; and (iii) compensation and benefit discrepancies.

Harassment can be verbal, physical or visual. California state law specifically requires that employers post specific anti-harassment policies. Employers with five or more employees must provide one hour of sexual harassment prevention training to nonsupervisory employees and two hours of training to supervisors within six months of hire or promotion and every two years thereafter.

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Discrimination and harassment claims may be pursued through state and federal governmental agencies and the court. Aggrieved individuals may be awarded compensatory and punitive damages.

- ***Wage and Hour Obligations***

An employee must be paid at least the federal minimum wage for hours worked up to 40 hours in a workweek. The federal minimum wage may be increased by state and local laws.

There are two basic types of employees: exempt and non-exempt. Exempt employees are not entitled to overtime pay, while non-exempt employees are. Generally, “exempt” employees are paid by salary (not hourly) and must perform executive, administrative or professional duties. These exemptions are narrowly construed. Federal overtime pay is 1.5 times an employee’s regular rate of pay for all hours worked over 40 in a workweek. State and local laws may impose additional requirements. In California, non-exempt employees earn 1.5 times their regular rate of pay for all hours worked beyond eight in a single workday, and the first eight hours worked on the seventh consecutive day worked in a workweek. Furthermore, an employer must pay double the employee’s regular rate of pay for both: (i) all hours worked beyond 12 in a single workday, and (ii) the hours worked beyond eight on the seventh consecutive day worked in a workweek.

The definition of “hours worked” varies based on the activity, such as (i) donning and doffing; (ii) travel time to/from work; (iii) walk-time to/from the time clock; (iv) waiting or on-call time; and (v) preliminary and postliminary activities. Federal courts tests for determining what work-related activities are compensable may be altered by state and local laws.

This section only includes a brief overview of wage and hour laws. The failure to comply with federal, state, and local laws can result in litigation. Prevailing employees are eligible to recover their attorneys’ fees and costs, as well as the actual underpaid wages and penalties.

- ***Workplace Safety***

The Federal Occupational Safety and Health Act (the “**OSHA**”) sets minimum standards for workplace safety in the United States. California has its own version of the OSHA. Both the U.S. federal and California state OSHA laws require employers to furnish employees with a place of employment that is safe and healthful. California employers are required to adopt and maintain an Injury and Illness Prevention Program. The details of such programs and the measures required under both the U.S. federal and state regulatory schemes will vary substantially by industry and location. Failure to comply with OSHA laws can result in awards of fines and damages. While workplace injuries in California typically are covered by Workers’ Compensation Insurance programs, the failure to follow appropriate workplace safety standards may be alleged to constitute an intentional tort that may create a substantial separate right of recovery for the employee or employees involved in a workplace accident.

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- ***Independent Contractors***

There are important differences between hiring an individual as an independent contractor or as an employee. Mislabeling a worker as an independent contractor creates potential liability for employment taxes and penalties, and liability for failure to fulfil the many legal obligations owed to an employee, such as wage and hour requirements. Using an independent contractor can relieve an employer of the many burdens of California and federal employment laws, but simply calling someone an independent contractor does not make him or her one in the legal sense.

Laws regarding whether a worker is an independent contractor or employee are in a recent state of flux, and will continue to change as states develop new laws and refine existing laws. In California, a worker is presumed to be an employee, unless the hiring company can prove the worker is: (i) free from control and direction of the hiring entity in connection with work performance, both under contract and in fact; (ii) performs work that is outside the usual course of the hiring entity's business; and (iii) is customarily engaged in an independently established trade, occupation, or business of the same nature as the work performed. Failure to satisfy each of the three elements will result in an individual being classified as an employee. There are exceptions, so whether a worker should be classified an independent contractor or employee must be considered on a case-by-case basis.

Product Liability

Manufacturers, suppliers, distributors and retailers of defective products are subject to being sued in the United States for injuries and damages caused by their products under consumer-friendly products liability laws. Each of the 50 states in the United States offers different laws on product liability and judicial precedents can vary vastly between states. Additional differences can arise between the federal judicial system and a particular state's court system. While jurisdictions can differ in significant ways, the following is a broad overview of product liability within the United States.

Product defects fall into three broad categories: (i) manufacturing defects, which occur during the construction or production of the particular item; (ii) design defects, which are inherent to the item and exist before the item is manufactured; and (iii) inadequate product warnings or instructions.

Plaintiffs generally assert claims against a manufacturer premised on theories of liability based on negligence, breach of an express or implied warranty or strict liability. Regardless of the theory a plaintiff chooses to pursue, the burden is generally on the plaintiff to prove (i) that the product in question was defective; (ii) an injury; and (iii) a causal relationship between the defect and the injury.

Negligence is the failure of a manufacturer to do something that a manufacturer exercising reasonable care under the circumstances would have done in similar circumstances. Generally, a negligence claim requires the plaintiff to demonstrate that the defendant owed a legal duty of care, the defendant breached that duty and such breach caused the plaintiff's injury. In evaluating whether the defendant's act was reasonable, courts will consider industry custom, standards imposed by state and U.S. federal regulations, the foreseeability and likelihood of an injury, the seriousness and frequency of injury and the expense and feasibility of eliminating or warning against the anticipated injury.

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A claim for breach of warranty is governed by contract law. The vast majority of states have adopted Article 2 of the Uniform Commercial Code (the “UCC”) which governs the sale of goods. Under Article 2 of the UCC, there are express warranties and implied warranties. An express warranty can be created by a representation by the seller, a description of the good, or by showing a sample or model of a product to the buyer where the buyer reasonably assumed that the whole of the goods would conform to the sample. An implied warranty covers those expectations common to all products (e.g., that the product is fit for its ordinary purpose) and is presumed to have been made by the seller unless it is clearly and unambiguously disclaimed in writing as part of the sales agreement.

Strict liability is a theory of liability adopted by most states. Such a claim does not depend on the fault or lack of care by the manufacturer. Rather, it is based solely on the presence of a defect that renders the product unreasonably dangerous and that causes injury.

Product liability suits may be brought by individual plaintiffs who have sustained injury, death or property damage due to a defective product, or by groups of plaintiffs who have suffered similarly-situated claims relating to a product and who are certified by a court as a proper class of plaintiffs to act together to bring a class action suit in the United States. Manufacturers may also be subject to cross-claims or third-party claims for indemnity or contribution brought by other defendants in a product liability suit.

If a product liability claim is proven, the following types of damages, among others, may be recoverable by the plaintiff depending on the particular facts and the specific jurisdiction: (i) money damages for pain and suffering; (ii) money damages for lost earnings or medical expenses; (iii) long-term care expenses; (iv) loss of consortium; (v) damage to property; and (vi) punitive damages in the event the plaintiff can demonstrate reckless or intentional behavior on the part of the manufacturer. Punitive damages awards can be many times higher than the amount of compensatory damages and they are not awarded to compensate an injured party but rather to punish past and deter future misconduct. In some jurisdictions, plaintiffs may also be able to recover statutory damages and attorneys’ fees if a state or U.S. federal statute permits such recovery.

Import, Export, and Economic Sanction Laws and Regulations

- ***Importation***

Importation of goods into the customs territory of the United States is governed principally by the Tariff Act of 1930, as amended, the Customs Modernization Act of 1983, and the regulations of U.S. Customs and Border Protection (“CBP”).

Under these laws and regulations, U.S. importers have primary legal responsibility for initially valuing, classifying, determining country of origin, determining the rate of duty and determining any other restrictions or conditions applicable to imported merchandise. An importer of goods and commodities into the United States is responsible for exercising reasonable care to confirm that all information declared to CBP is complete and accurate.

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Civil penalties may be assessed against any person who uses false or misleading statements to enter goods into the United States. In determining the applicable penalty for such a wrongdoing, CBP first determines the applicable degree of culpability of the offending party. In general, higher penalties are assigned to more egregious offenses, which are classified according to degree of culpability as due to negligence, gross negligence or fraud.

Section 301 of the Trade Act of 1974 authorises the President of the United States to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce. The law does not require that the U.S. government wait until it receives authorisation from the World Trade Organisation to take enforcement actions.

As part of a number of escalating trade actions against China, the United States implemented a series of Section 301 tariffs on Chinese-origin products. The first list (“**List 1**”) went into effect in July 2018 and imposed 25% tariffs on US\$34 billion worth of goods from China. The second list (“**List 2**”) imposed 25% tariffs on US\$16 billion worth of Chinese products and went into effect in August 2018. The third list (“**List 3**”) went into effect in September 2018 and originally imposed a 10% tariff on US\$200 billion worth of goods from China. The List 3 tariffs were increased to 25% in May 2019. The fourth list (“**List 4A**”) went into effect in September 2019 and originally imposed a 15% tariff on US\$112 billion worth of goods from China. The rate was lowered to 7.5% following the signing of the Phase One trade deal between the United States and China in January 2020. Another list (“**List 4B**”) was announced but never implemented. List 4B would have imposed a 15% tariff on US\$160 billion worth of goods from China. The level and number of products subject to additional tariffs may change over time, depending on the status of U.S.-China trade relations. The Biden Administration has yet to take any action significantly modifying the 301 tariffs. The Administration has at least so far opted to continue with the program, with only limited exclusions under consideration so far. The Biden Administration is also reportedly considering a new Section 301 investigation into China’s industrial subsidies, which could result in further actions, including additional tariffs.

- ***Export Controls***

U.S. export control laws and regulations govern the export of goods, production equipment, materials, software and technology from the United States and any subsequent re-export from one non-U.S. country to another of such items or transfers (in-country) of such items. These laws and regulations consist primarily of the International Traffic in Arms Regulations (the “**ITAR**”), which implement the Arms Export Control Act and regulate defense articles and defense services, and the Export Administration Regulations (the “**EAR**”), which implement the Export Administration Act of 1979 (the “**EAA**”), as amended, and apply to all items that are not controlled under the ITAR or other regimes of special jurisdiction. As products and technology at issue are subject to the EAR, the ITAR are not further discussed below.

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The EAR, administered by the U.S. Department of Commerce, Bureau of Industry and Security (“BIS”), govern the export, re-export, or transfers (in-country) of items “subject to the EAR.” More specifically, items “subject to the EAR” include (i) all items in the U.S. (except publicly available technology and software); (ii) all U.S.-origin items located outside the U.S.; (iii) certain foreign-made items that include more than de minimis amounts of controlled U.S. content; (iv) certain foreign-made items that are the direct product of U.S.-origin technology or software when certain conditions are satisfied; and (v) certain commodities produced by a plant or major component of a plant located outside the United States that is a direct product of U.S.-origin technology or software when certain conditions are satisfied.

The EAR set out different levels of restrictions on exports based on the item and its corresponding reasons for control. The Commerce Control List (the “CCL”) identifies items that are subject to specific licensing requirements under the EAR. For each item, the CCL identifies the reasons for control and the precise specifications for the controlled item. Depending on the country of destination and reasons for control, the EAR may require a license by BIS to conduct the export transaction. Failure to obtain a required export license, or to comply with any conditions or order issued in connection with an export license, is a violation of the EAR.

The EAR define broadly transactions that constitute exports. These include actual shipments or transmissions of items subject to the EAR out of the United States, and releases or other transfers of technology or software source code subject to the EAR to a foreign person in the United States. A release of technology to a non-U.S. person is deemed to be an export to the non-U.S. person’s home country.

In addition to CCL-based controls, the EAR provide certain prohibitions applicable to all items subject to the EAR and certain activities by U.S. persons. These restrictions include restrictions on entering into transactions with prohibited end-users such as parties that have been identified by BIS as having engaged in export violations or activities contrary to the national security or foreign policy interests of the United States (including parties listed on the Denied Persons List, the Entity List, and the Unverified List). They include also restrictions on engaging in export transactions where the exporter knows or has reason to know that the products to be exported (or re-exported or transferred (in-country)) are destined for a prohibited end-use.

Violations of the EAA or EAR are subject to potential criminal and civil penalties, as set out in the Export Control Reform Act of 2018.

The EAR also include U.S. anti-boycott laws that prohibit U.S. and certain non-U.S. persons from complying with or agreeing to comply with a request where the purpose of the request is to support, give effect to or comply with a boycott of any country in contravention of the laws or policies of the U.S., including the Arab League boycott of Israel. These rules and regulations administered by BIS apply to U.S. persons, with respect to activities in the interstate or foreign commerce of the United States.

The EAR require U.S. persons to report quarterly requests they have received that relate to an unsanctioned foreign boycott. A request is reportable if the recipient “knows or has reason to know that the purpose of the request is to enforce, implement, or otherwise further, support, or secure compliance with an unsanctioned foreign boycott or restrictive trade practice.” Failure to report to BIS boycott-related requests is a violation of the EAR.

REGULATORY OVERVIEW

- *Antidumping and Countervailing Duty Regulations*

The U.S. government provides remedies for imports into the United States that are at unfairly low prices that injure or threaten to injure a U.S. industry. In this regard, the U.S. Department of Commerce determines if import prices are unfairly low, including (i) below cost or home or third-country prices, so dumped; or (ii) due to foreign government subsidies. The U.S. International Trade Commission determines injury or threat of injury from the subject imports. If both unfair prices and injury are found, the Department of Commerce issues an antidumping duty and/or countervailing duty order, which describes the merchandise subject to the orders and outlines the remedial antidumping or countervailing duties imposed on subject imports to offset the dumping and subsidies, respectively. These duties are collected by CBP at the time of importation. Both antidumping and countervailing duty orders are subject to annual reviews by the Department of Commerce and five-year sunset reviews by the Department of Commerce and US International Trade Commission. For example, U.S. antidumping import duties are imposed on certain Chinese (i) small diameter graphite electrodes and (ii) graphite pin joining systems.

- *Economic Sanctions*

The U.S. imposes various economic sanctions against targeted countries, groups, and individuals (collectively, the “**U.S. Sanctions Programs**”). The U.S. Treasury Department’s Office of Foreign Assets Control (“**OFAC**”), administers and enforces U.S. economic sanctions programs. Export-related aspects of restrictions against certain countries are also under the jurisdiction of the EAR and administered by BIS.

The U.S. Sanctions Programs include both comprehensive trade restrictions, i.e. embargos, against countries and regimes, and targeted sanctions measures. In some cases, sanctions are directed against designated groups, including terrorist organisations, narcotics traffickers, weapons proliferators, and others and include blocking and asset freeze requirements related to sanctioned parties.

- a. Comprehensive Sanctions Programs*

The U.S. currently maintains comprehensive embargoes against Cuba, Iran, North Korea, Syria as well as the Crimea, Donetsk, and Luhansk regions of Ukraine. Each Sanctions Program has its own set of regulations, the prohibitions of which are dependent on specific Sanctions Program. For example, the Cuba and Iran Sanctions Programs prohibit foreign subsidiaries of U.S. companies from most commercial trade transactions involving Cuba and Iran. U.S. individuals and entities are generally prohibited from most transactions and dealing involving these countries, including exports, imports, sales, services, and financial transactions involving the sanctioned country or persons in or ordinarily resident in a comprehensively sanctioned country. In addition, the U.S. Sanctions Programs against these countries include blocking provisions that generally prohibit U.S. persons from dealing in any property or property interest of certain designated persons or entities in each country.

REGULATORY OVERVIEW

b. Targeted Sanctions

In addition to the comprehensive sanctions programs, the U.S. maintains “list-based” sanctions programs against targeted regimes, entities and individuals that have been found to have taken actions contrary to the foreign policy or national security interests of the United States.

In the United States, sanctions lists are maintained by OFAC. The most extensive is the List of Specially Designated Nationals and Blocked Persons. U.S. Persons are prohibited from virtually all transactions with SDNs or their property (absent an OFAC authorisation or exemption).

Under the Ukraine-related sanctions program, OFAC maintains a separate list of parties that are subject to certain debt and equity restrictions, as well as goods, technology and services related to certain oil projects. The entities subject to these restrictions are included on the Sectoral Sanctions Identification List (the “**SSI List**”).

Tax Law

- ***Federal Government***

The U.S. federal government can impose a variety of taxes on U.S. and non-U.S. businesses. Non-U.S. businesses are generally only subject to U.S. federal taxes if they are engaged in a “U.S. trade or business” or if they earn U.S. sourced income. The type of taxes that apply depend on the structure and activity of the business, but examples of common U.S. federal taxes include corporate income tax, social security tax, capital gains tax, withholding tax, and excise tax. The U.S. federal income tax rate is currently 21%, and businesses subject to this tax are required to file annual returns. Failure to file a return or pay the tax can result in interest and penalties.

Some U.S. income tax treaties exempt non-U.S. businesses from U.S. federal income taxes if such business does not have a “permanent establishment” in the United States. Actions that can create a permanent establishment include renting office space, hiring U.S. employees, sending non-U.S. employees to the U.S. to set up or manage the business and hiring a U.S. agent with authority to bind the non-U.S. company. If a non-U.S. business has a permanent establishment in the U.S., the business profits allocable to that permanent establishment will generally be taxed in the U.S. and other treaty benefits can be affected.

- ***State and Local Government***

In addition to the U.S. federal taxes, each of the 50 U.S. states and their respective local, county, and city governments can impose taxes on business activity within their jurisdictions. For example, many state and local governments impose franchise taxes, income taxes, payroll taxes, sales taxes and property taxes. In order to avoid double taxation, most state and local governments apportion business income based on the percentage of income, number of employees or value of property located within the jurisdiction.

Importantly, state and local governments in the U.S. are generally not bound by U.S. federal income tax treaties with other countries.

REGULATORY OVERVIEW

- ***Transfer Pricing Rules***

The U.S. federal government requires related parties to transact with each other using arm's length pricing. In effect, this prohibits multinationals from avoiding income tax on U.S.-generated profits by overcharging their U.S. subsidiaries for foreign-made products. In the event that this occurs, U.S. federal tax authorities will “readjust” the prices charged by the non-U.S. entity to its wholly-owned U.S. subsidiary.

Intellectual Property Law

The United States has federal and state laws that govern intellectual property rights (IPRs). Copyrights and patents are governed primarily by federal law; trademarks and service marks are governed by both federal and state law.

A patent is a government grant providing the patent owner with the right to exclude others from using, manufacturing or selling a claimed invention or practicing a claimed method. A patent is obtained by filing an application with the U.S. Patent and Trademark Office (the “USPTO”) claiming a useful, novel and non-obvious invention. The application must comply with various requirements set out in the Patent Act (codified at 35 U.S.C. §1 *et seq.*) and regulations established by the USPTO, which is an agency within the U.S. Department of Commerce.

A “mark” is any one or more words, logos or other symbols used to identify and distinguish the mark owner's goods and/or services. A trademark is a mark used for goods; a service mark is a mark used in connection with providing services. U.S. trademarks and service marks generally must (i) be different from prior marks used for similar goods or services, so as to avoid consumer confusion; (ii) not be generic; and (iii) not be descriptive. U.S. federal trademark law is governed by the Lanham Act, codified at 15 USC §1051 *et seq.* The USPTO is responsible for examining trademark and service mark applications and either granting or rejecting applications to register marks. Once granted, a trademark or service mark provides its owner with nationwide exclusivity within one or more particular fields of use.

State law is an alternative basis for trademark and service mark rights, either under specific state laws or under common law. Some states have registries for trademarks and service marks. The rights inherent in such marks are limited to the state where they are used.

A trade secret is information that (i) has independent economic value from being generally unknown by the public; and (ii) is the subject of reasonable efforts under the circumstances to maintain its secrecy. Trade secrets are governed by both federal and state law.

The Defend Trade Secrets Act, codified at 18 USC §1836, *et seq.* (the “DTSA”), is the federal trade secret law. Enacted in 2016, the DTSA applies only to trade secrets related to products or services that are used in interstate or foreign commerce. The DTSA provides specific remedies for trade secret misappropriation, including ex parte seizure in specific and generally rare instances.

The DTSA is similar to the Uniform Trade Secret Act (the “UTSA”), a model set of laws enacted by almost all fifty states within the U.S. A trade secret owner may often have a choice in enforcing its trade secret rights under the DTSA or a relevant state's version of the UTSA.

REGULATORY OVERVIEW

Competition and Antitrust Laws

The U.S. antitrust laws were developed in response to unfair business practices and anticompetitive conduct by companies, corporate monopolies and trusts. The U.S. Sherman Antitrust Act (the “**Sherman Act**”) prohibits agreements that unreasonably restrain trade and the unilateral abuse of monopoly power. Conduct such as price-fixing, bid-rigging, limitation of output, allocation of territories or customers and exclusionary conduct to achieve monopoly are prohibited under the Sherman Act. The Federal Trade Commission Act bans unfair and deceptive acts and practices, and the Clayton Act prohibits unlawful mergers and acquisitions, as well as certain discriminatory prices, services and allowances in dealings between merchants. Violation of the Sherman Act and other antitrust laws and regulations may lead to criminal and/or civil sanctions for the company and its employees. In addition, most states have similar statutes which likewise prohibit arrangements in restraint of trade, unfair or deceptive practices and unfair or discriminatory pricing practices. These state statutes are enforced by State Attorneys General and other state regulators. Violations of federal and state antitrust laws can also be a basis of action by private litigants.

The U.S. antitrust laws apply to businesses and individuals alike. Certain laws and regulations also have an extraterritorial reach. Pursuant to the U.S. Foreign Trade Antitrust Improvement Act of 1982, the Sherman Act would apply to conduct that occurs outside of the United States if such conduct (i) has a direct, substantial and reasonably foreseeable effect on U.S. commerce, including U.S. import or export commerce; and (ii) gives rise to a claim under the Sherman Act. Our trade and commerce with our U.S. clients are therefore subject to the U.S. antitrust laws.

SWISS LAWS AND REGULATIONS

Taxation

- **Federal taxes**

- (i) *VAT*

As a matter of principle, proceeds of sales made and services provided in Switzerland are subject to VAT at the standard rate of 7.7% (except for specific goods for which a reduced rate applies).

Any person, regardless of legal form, objects and intention to make a profit, is liable to VAT if that person carries on a business and is not exempt from the tax liability. A registered taxpayer generally is entitled to offset the amount of VAT charged by suppliers or paid on imports against the VAT payable.

- (ii) *Federal securities transfer stamp tax*

Securities transfer stamp tax is payable on the transfer of taxable securities for consideration provided a securities dealer is involved, either as a party or as an intermediary. Certain types of transactions or parties are exempt. Securities dealers are banks, actual dealers in securities and among others, Swiss companies that hold securities with a tax book value of more than CHF10 million, according to their latest balance sheet.

REGULATORY OVERVIEW

(iii) Federal securities issuance stamp tax

Securities issuance stamp tax is triggered when a shareholder contribution to a Swiss resident company's equity exceeds CHF1 million. The rate is the higher of either (a) 1% of the nominal value of shares issued; or (b) 1% of the total amount contributed to the company. Exemptions apply for certain restructurings.

(iv) Dividend withholding tax

A withholding tax of 35% is chargeable on dividends payment made by a Swiss company to its shareholders, interest payment for any bonds or similar collective debt fund-raising instruments, and to payments which qualified as constructive dividends for tax purposes.

(v) Customs duties

All goods imported in Switzerland are generally subject to customs duty and import VAT.

Federal, cantonal and communal taxes

- ***Corporate income taxes***

Federal, cantonal and communal corporate income taxes are levied on the profit of Swiss resident companies. Switzerland applies an all income approach. The taxable profit is in principle determined according to the Swiss generally accepted accounting principles (GAAP) accounts of the Swiss resident company. Under Swiss tax law, the tax base comprises the company's entire worldwide profit, except for foreign permanent establishments and non-Swiss-sited real estate.

As a general rule, the overall approximate range of the maximum corporate income tax rate on profit before tax for federal, cantonal and communal taxes is between 11.9% and 21.6%, depending on the company's location of corporate residence in Switzerland. Following the entry into force of the Tax Reform and AVS Financing project (the "RFFA") on 1 January 2020, most cantons reduced their corporate income tax rate with a resulting effective tax rate of some 12% to 14% in the majority of the cantons and introduce internationally accepted replacement measures such as an Organisation for Economic Cooperation and Development compliant patent box, a research & development super-deduction, and other measures.

As a result of the RFFA, privileged regimes for status companies (holding companies, domiciliary companies, base companies, Swiss finance branches and principal companies) have been abolished.

Sangraf International SA has been benefiting from a tax ruling and a preferable tax rate for 2017, 2018 and 2019. The tax ruling expired in 2020 as a result of the tax reform.

REGULATORY OVERVIEW

- ***Capital tax***

Corporate capital tax is only levied at the cantonal and the communal levels. It is based on a company's equity (and, according to Swiss thin capitalisation rules, potentially existing deemed equity). The ordinary capital tax rates vary between 0.001% and 0.508%, depending on the company's location of corporate residence in Switzerland.

- ***Cantonal Taxes***

Some cantons levy a separate real estate capital gains tax on the disposal of real estate or on the sale of the majority of the shares in a real estate company and/or a professional tax.

- ***Transfer Pricing***

Switzerland has implemented no unilateral transfer pricing guidelines. Instead, the Organisation for Economic Cooperation and Development Guidelines on Transfer Pricing for Multinational Enterprises and Tax Administrations are applied directly. The Swiss Federal Tax Administration and the cantonal tax administrations thus follow the arm's-length principle.

- ***Wage tax withholding (tax at source)***

Employees meeting certain criteria, such as Swiss tax resident foreign nationals without a permanent residence permit and non-Swiss tax resident individuals, are subject to wage tax withholdings. In such case, it is the employer's obligation to withhold the appropriate wage tax on the employee's gross salary.

Labour Law

The Swiss labour market is generally considered one of the world's most liberal. Swiss labour law is set out in the Swiss Code of Obligations, the Labor Act as well as the Accident Prevention Law (occupational health and safety).

The Swiss Code of Obligations and the Labor Act provide, among others, for the conditions of safety in a workplace, the rules to be complied with in relation to shift work and night work and the maximum number of work hours per day, per week and per year.

Overtime is defined as any work undertaken beyond normal working hours and up to the permitted weekly maximum. By law, overtime must be paid at a premium of 25%. Instead of overtime pay, employees may be compensated with time in lieu of at least the same duration, provided the employer and employee agree. Employees in managerial positions can also be compensated for overtime in general through their normal salary.

REGULATORY OVERVIEW

If the weekly maximum number of working hours is exceeded, this is referred to as excess hours. Under the Labor Act, excess hours may not exceed two hours per day for an individual employee. In total, excess hours may not exceed 170 hours per year for employees with a weekly maximum working time of 45 hours, or 140 hours for employees with a weekly maximum working time of 50 hours. Unless compensated by time in lieu within a reasonable timeframe, excess hours must be paid at a premium of 25%.

An employment contract can be terminated in writing or verbally at any time by either party and without any reason provided a notice period (usually between one to three months) is respected and provided the ground for termination is not deemed abusive. Only in the case of mass layoffs does the employee representation committee have the right to be consulted by the employer. Termination without notice is only possible under certain restrictive conditions such as where the continuation of the individual employment relationship may no longer be acceptable, including fraud, refusal to work or competition with the employer. In most cases, a warning is required in advance.

Social security contributions and pension fund

The Swiss pension system is based on a three pillars principle aimed at maintaining the standard of living for the insured persons or their dependants during retirement or in case of disability or death, details of which are set out below:

- the first pillar is mandatory contribution consisting of old age and survivors' insurance (the "AVS"), invalidity insurance (the "AI"), income compensation allowances in the event of service or of maternity (the "APG") and unemployment insurance (the "AC"). Employers and employees are required to jointly contribute to the AVS, AI, APG and AC. Furthermore, an employer must fully contribute to the mandatory occupational accident insurance;
- the second pillar (occupational pension scheme) consists of company pension schemes mandatory for all employees above the age of 17 and having an annual income in excess of CHF21,510 as of 1 January 2021. The contributions are usually borne by the employers and employees on a 50/50 basis at a rate determined individually based on the age, sex and annual income of the employees, but the employers may bear a higher percentage of the contributions; and
- the third pillar is on a private and voluntary basis. It does not involve the payment of any contribution by the employers.

New reporting and due diligence obligations

As of 1 January 2021, Switzerland adopted new legal provisions pursuant to which companies subject to mandatory ordinary audit and directly or indirectly active in the production of ores, oils, natural gas or in the exploitation of primary forests have an obligation to establish and release a yearly report with respect to payments made in favour of Governments (article 964a of the Swiss Code of Obligations).

REGULATORY OVERVIEW

Furthermore, new non-financial reporting obligations are expected to enter into force for large firms of “public interest” which include companies that have equity securities listed on a stock exchange or have bonds outstanding as well as certain entities subject to the Swiss FINMA’s supervision, which had during two consecutive financial years, jointly with one or several Swiss or foreign companies under their control, an average of 500 employees full time, and which exceeded, during two consecutive financial years, jointly with one or several Swiss or foreign companies under their control, a balance sheet of total CHF20 million or revenue of CHF40 million. The non-financial reporting obligations will relate to environmental, social and employees matters, respect for human rights and fight against corruption matters. The report will have to extend to all Swiss and foreign companies controlled, in whole or jointly, by the reporting company.

Additional due diligence and transparency rules are also expected to enter into force for companies which seat, headquarter or main establishment are in Switzerland and which introduce into circulation in Switzerland, smelt, refine etc. ores or metals containing tin, tantalum, tungsten or gold originating from conflict zones or high-risk areas as well as for companies which offer goods or services for which it can legitimately be suspected that child labour may have been involved. Such companies will, amongst other, have to implement management systems laying out their policy relating to their supply chain, whether in relation to ores and metals potentially coming from conflict zones or high-risk areas or suspicions of child labour, as well as a system to establish the traceability of their supply chain and a risk management plan. Their management system and risk management plan will be subject to independent audit and the subject company will have to release an annual report.

SOUTH AFRICAN LAWS AND REGULATIONS

Exchange Control

South African residents, such as Sangraf International (PTY), are subject to exchange controls in terms of the Exchange Control Regulations promulgated by Government Notice R.1111 of 1 December 1961 and amended up to Government Notice No. R.445 in Government Gazette No. 35430 of 8 June 2012 (the “**Regulations**”), issued under the Currency and Exchanges Act 9 of 1933. Exchange controls do not apply to non-residents, but non-residents may be impacted indirectly as acquisitions of South African assets and transactions with residents may require exchange control approval. The Currency and Exchanges Manual for Authorised Dealers (“**C&E Manual**”) define:

- a “resident” as any person (i.e. a natural person or legal entity) who has taken up permanent residence, is domiciled or registered in South Africa. This excludes any approved offshore investments held by South African residents outside the Common Monetary Area consisting of Lesotho, Namibia, South Africa and eSwatini (the “**CMA**”). Such entities are, however, still subject to the exchange control rules and the Regulations; and
- a “non-resident” as a person (i.e. a natural person or legal entity) whose normal place of residence, domicile or registration is outside the CMA.

The Financial Surveillance Department (the “**FinSurv**”), previously known as the Exchange Control Department, of the South African Reserve Bank is responsible for the day-to-day administration of exchange controls.

REGULATORY OVERVIEW

The purpose of exchange controls is, among other things, to regulate inflows and outflows of capital from South Africa. In terms of the C&E Manual, South African residents may not export capital from South Africa except as provided for in the C&E Manual. No South African resident is thus entitled to enter into any transaction in terms of which capital (whether in the form of funds or otherwise, including intellectual property) or any right to capital is directly or indirectly exported from South Africa without the approval of either FinSurv or, in certain cases, any of the major South African banks, all of which have been appointed to act as authorised dealers in foreign exchange).

To the extent that the shares in a South African resident company are held by a non-resident shareholder, the share certificates must be endorsed non-resident, in order for the South African company to distribute any profits to its non-resident shareholder(s), and if the shares are sold by the non-resident to a South African resident for the proceeds to be paid offshore.

Shareholder loans from non-resident shareholders to a South African resident company also require exchange control approval.

Regulation of Imports

Under South African law, any person, whether located in South Africa or not, who imports goods into or from South Africa must apply for registration/a licence on the prescribed DA 185 Form and respective annexures, in accordance with the Customs and Excise Act 91 of 1964, as amended (the “**Customs Act**”).

The Customs Act imposes customs duties on the importation of goods. The rules are contained in schedules to the Customs Act and are listed according to the World Customs Organisation (the “**WCO**”)’s Harmonised System of Tariff Classification. Import duties and tariffs are usually calculated as a percentage of the value of the goods.

The Customs Act also makes provision for the imposition of quotas or safeguard duties. To the extent that any safeguard measures are in place, South Africa can (and does) impose quotas on certain goods for limited periods of time.

The movement of goods into South Africa as well as compliance with the Customs Act is policed by the South African Revenue Service (“**SARS**”). The function that SARS performs at the points of entry into South Africa is to detect and detain goods.

In addition to the Customs Act and SARS’ role in policing compliance with the Act, the International Trade Administration Act 71 of 2002 (the “**ITA Act**”) gives the International Trade Administration Commission (“**ITAC**”) the authority to control the movement of goods into and out of South Africa by way of permits.

In terms of the ITA Act, the Minister of Trade, Industry and Competition may, amongst other things, prescribe, by notice in the Government Gazette, that no goods of a specified class or kind, or no goods other than goods of a specified class or kind may be imported into South Africa, except under the authority of, and in accordance with the conditions stated in a permit issued by ITAC.

REGULATORY OVERVIEW

Tax

- *Income tax and capital gains tax*

South Africa applies a residence-based system of taxation. In essence, this means that residents of South Africa are subject to income tax on their worldwide income. In terms of the tax legislation, a company will be tax resident in South Africa if it is incorporated in South Africa or if it has its place of effective management in South Africa.

The ordinary corporate income tax rate of 28% is calculated on the taxable income of a corporate taxpayer, after considering all available exemptions, deductions and other relevant provisions. South African residents are also subject to capital gains tax (“CGT”) on their worldwide capital gains. Companies are subject to CGT at an effective rate of 22.4%, being the corporate CGT inclusion rate of 80% multiplied by the corporate income tax rate of 28%.

Non-residents are subject to CGT only on immovable property which is situated in South Africa or assets of a “permanent establishment” (e.g. branch) which is located in South Africa. Certain indirect interests in immovable property such as shares in a property company are treated as immovable property.

- *Withholding taxes*

South Africa levies various types of withholding taxes, including dividends’ tax, interest withholding tax and a withholding tax in respect of royalties paid to non-residents. The rate of withholding tax on both royalties and interest is 15%, though this may be reduced in terms of the provisions of an applicable double tax agreement (the “DTA”). There is currently a DTA in place between South Africa (the place of Sangraf International (PTY)’s incorporation) and Switzerland (the place of incorporation of the parent company of Sangraf International (PTY)).

- *Dividends tax*

Dividends declared by a South African tax resident company are subject to dividends tax at a rate of 20%. The company declaring the dividend or a regulated intermediary (these include long-term insurers, a portfolio of a collective investment scheme in securities, brokers and a central securities depository participant) is required to withhold the dividends tax.

In addition, dividends paid to regulated intermediaries (these include long-term insurers, a portfolio of a collective investment scheme in securities, brokers and a central securities depository participant) are exempt. Dividends are also exempt where the beneficial owner forms part of the same group of companies as the company paying the dividend.

The rate at which dividends tax is levied can be reduced in terms of DTA, subject to compliance with prescribed administrative steps. The DTAs that South Africa has with other countries generally do not provide for the dividends tax rate to be reduced to less than 5%. Exemptions from, and the application of reduced rates of dividends tax require the submission of a declaration.

REGULATORY OVERVIEW

- *VAT*

South Africa has an indirect tax known as VAT. This is levied in terms of the Value-Added Tax Act 89 of 1991 (the “**VAT Act**”). VAT is imposed in respect of the supply of goods and services by a vendor in the course and furtherance of an enterprise carried on by him or her; the importation of any goods into South Africa; and the supply of any “imported services”.

The requirement to register as a VAT vendor applies irrespective of whether the person is a resident or non-resident, but an ‘enterprise’ is defined to include any enterprise or activity which is carried on continuously or regularly by any person in South Africa or partly in South Africa and in the course or furtherance of which goods or services are supplied to any other person for a consideration, including electronic services.

VAT is charged at a rate of 15%, subject thereto that the supply of certain goods or services, such as financial services, will qualify as exempt supplies for VAT purposes. In addition, the supply of certain goods and services are zero-rated, such as the export of goods, the sale of an enterprise or part thereof as a going concern and services rendered outside of South Africa. VAT vendors may claim the VAT paid by them as an input deduction if the VAT was incurred for the purposes of making taxable supplies.

- *Transfer pricing rules*

South Africa’s transfer pricing rules (which are contained in section 31 of the ITA) effectively empower SARS to adjust prices on the transfer of goods and services between related resident and non-resident entities if the prices are found to be artificially high or low and result in tax benefits for either party. In order to prevent triggering these rules, transactions and agreements between a South African subsidiary and any non-resident related parties must be entered into on an arm’s length basis. The rules also apply to the provision of financial assistance.

In applying the transfer pricing rules to transactions involving the provision of financial assistance, each funding structure is considered on its own merits, taking into account all relevant factors, such as the (proposed) funding structure, the financial strategy of the business, the business strategy and the use of comparable data.

According to SARS, the arm’s length amount of a debt is the lesser of the amount that could have been borrowed and the amount that would have been borrowed in a transaction between independent persons. SARS will consider a taxpayer to be thinly capitalised if, among other factors:

- (i) the taxpayer is carrying a greater quantity of interest-bearing debt than it could sustain on its own;
- (ii) the duration of the lending is greater than would be the case at arm’s length; and
- (iii) the repayment or other terms are not what would have been entered into or agreed to at arm’s length.

REGULATORY OVERVIEW

- *Employees' tax*

Resident employers or representative employers of non-resident employers are required to withhold employees' tax (**pay as you earn or PAYE**) from remuneration paid or payable to employees. An employer's employees' tax liability may be reduced in terms of the Employment Tax Incentive Act 26 of 2013, which is intended to support employment growth by focusing on labour market activation.

Employees' tax is not a separate form of income tax, but an advance payment of normal tax payable by employees. It is not a final tax, but is a collection mechanism in terms of which the employer is required to deduct employees' tax at source and to pay the deducted amount directly to SARS.

“Remuneration” for the purposes of PAYE is widely defined to include not only cash payments, but also non-cash benefits i.e. taxable (fringe) benefits. The Seventh Schedule to the ITA deals with the taxation of taxable benefits. It stipulates to which extent benefits provided to employees will be taxable. It also deals with how such benefits should be valued. To the extent that a benefit constitutes a taxable fringe benefit, it will be included in the employee's remuneration and will be subject to income tax at normal income tax rates. An employer is obliged to withhold employees' tax in respect of taxable fringe benefits.

Allowances provided to employees to enable them to incur business expenses, such as using their own vehicles for business purposes or paying for meals and incidental costs while on business trips away from home, are subject to different tax rules. The full amount of these allowances is not subject to employees' tax at the time when they are paid. The final income tax liability in respect to allowances is determined on assessment.

MACAU LAWS AND REGULATIONS

Taxation

Pursuant to the article 12/1 (a) and (b) of the Decree-Law no. 58/99/M, offshore companies had been exempted from the corporate tax and the complementary income tax since 3 July 2003. However, according to article 9/2 of the Regulation of Complementary Tax approved by the Law no. 21/78/M, such tax exemption did not apply to distribution of dividend to shareholders. Therefore, dividend distributed to shareholders is taxable.

The above Decree-Law no. 58/99/M was revoked by article 6 of Law no. 15/2018. Offshore companies are no longer entitled to any tax exemption from 1 January 2021 and their income will be taxable. Accordingly, offshore companies are required to declare corporate tax and complementary income tax to the Macau Financial Services Bureaus.

Under Macau's complementary income tax provisions — Law No. 21/78/M, a company with capital of not less than MOP1 million or the average taxable profit is more than MOP1 million in the recent three years will be taxed, which belongs to Group A while the others belong to Group B, regardless of its business nature, its domicile; and applicable deductions and allowances. Furthermore, pursuant to article 23 of Law No. 27/2020 — budget for the 2021 fiscal year, the first MOP600,000 of a company's taxable income will be exempted from income complementary tax, and that the excess will be taxed at the tax rate of 12%.

Employment

The Law no. 7/2008 — Labour Relations Law and law no. 8/2020 — modifications of Labour Relations Law governs conditions of employment in Macau. It regulates the benefits, protection and the obligations of employees. For example, employees are entitled to overtime working hour's remuneration, continuing 24 hours paid rest day weekly, statutory holidays, at least six days annual leaves. The Labour Law in Macau follows the most favourable principle which means the labour contract cannot include conditions less favourable than the Labour Relations Law.

Save for some public servants whose relevant compensation is provided for in other legislation, compensation for personal injuries resulting from work accidents and occupational diseases suffered by employees is regulated by Decree-law no. 40/95/M. Furthermore, employees employed in Macau by local employers, who are working outside Macau at the time of injury, are also protected by such legislation, unless the legislation of the place where the accident takes place provides the employees and their family members the right of compensation.

Social security system

Legislation of social security system was established under Law no. 4/2010 which aims to provide basic social security for residents of Macau (including old-age security) and improve the quality of life of residents. The social security system includes a mandatory system and an arbitrary system. All residents who meet the requirements stipulated in the law mentioned above have equal rights to participate in the social security system.

Pursuant to item 1 of paragraph 1 of article 10 of Law no. 4/2010, the legislation of social security system also applies to Macau resident who works under the control and leadership of an employer under a contract and receive remuneration. All employers who establish labour relations with any employees must register with the Social Security Fund and fulfil their contribution responsibilities. Pursuant to the Chief Executive's Instructions no. 357/2016, the contribution to the Social Security Fund is MOP90 per month and the employers share two thirds of the contribution.

Transfer Pricing Policy

Pursuant to article 18-A of Law No. 21/2019 — amendment of Income Supplementary Tax Regulation and Administrative Regulation No.1/2020, the implementation framework for Country-by-Country Reporting was introduced in Macau. The ultimate parent entity of a multinational enterprise group is required to fulfil the Country-by-Country reporting requirements in relation to an accounting period where (i) the consolidated group revenue for the preceding accounting period is at least MOP7 billion; and (ii) the group has constituent entities or operations in two or more jurisdictions. A fine of MOP100 to MOP10,000 will be imposed for a breach of paragraph 1 of article 18-A.

Currently, Macau does not have specific transfer pricing rules or requirements. In particular, there is no such regulation related to transactions between Macau subsidiaries and relevant companies in other countries or regions. The Macau Finance Services Bureau may, however, review related-party transactions to ensure that the transactions are conducted on an arm's length basis and are commercially justifiable. In case of violation of other illegal acts in the "Income Supplementary Tax Regulation", according to the third paragraph of article 66, the Macau Financial Bureau will impose a fine from MOP100 to MOP2,000.

REGULATORY OVERVIEW

General Liability

According to the Macau Commercial Code, the financial liability of a limited company is limited to the amount of capital of the company. However, its administrator, being the representative of the company, is responsible for the loss of the company when there is any action or omission violating the law or the obligation regulated by the articles of association according to the Macau Commercial Code.

EUROPEAN UNION LAWS AND REGULATIONS

Anti-dumping regulation

On 7 April 2022, the European Commission published its decision made on 6 April 2022 in adopting definitive anti-dumping duties concerning graphite electrode systems originating in China, ranging between 23.0% and 74.9%.

Having a production site at China, Sangraf Henan was being recognized as a Chinese exporting producer which is subject to a 33.8% ad valorem anti-dumping duty for a period of five years from the date of imposition of duties, i.e. until 5 April 2027. Therefore, our Group will need to pay 33.8% anti-dumping duty upon importation of graphite electrodes of a kind used for electric furnaces with specific specifications (other than connecting pins which were specifically excluded from the definition of the product concerned) into European Union countries. In the end of that period, an expiry review may be initiated, if the relevant conditions are met, to assess whether the duties should be renewed for an additional period of five years or not.

SANCTIONS LAWS AND REGULATIONS

Hogan Lovells, our International Sanctions Legal Advisors, have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the U.S., the European Union, the United Nations and Australian sanctions in their entirety.

U.S.

Treasury regulations

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. “Primary” U.S. sanctions apply to “U.S. persons” or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and “secondary” U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organized under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity’s domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies’ foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens (“green card” holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

REGULATORY OVERVIEW

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to “block” (freeze) any assets/property interests owned, controlled or held for the benefit of a Comprehensively Sanctioned Country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorisation or license from OFAC.

OFAC’s comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, the Crimea region of Russia/Ukraine and the self-proclaimed Luhansk People’s Republic and self-proclaimed Donetsk People’s Republic regions (comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

United Nations

The United Nations Security Council (the “UNSC”) can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

REGULATORY OVERVIEW

European Union

Under European Union sanction measures, there is no “blanket” ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

United Kingdom and United Kingdom overseas territories

As of 1 January 2021, the United Kingdom is no longer an EU member state, EU law including EU sanctions measures continued to apply to and in the United Kingdom until 31 December 2020. EU sanctions measures had also been extended by the United Kingdom on a regime by regime basis to apply in the United Kingdom overseas territories, including the Cayman Islands. Starting from 1 January 2021, the United Kingdom applies its own sanctions programs and has extended its autonomous sanctions regimes to apply to and in the United Kingdom overseas territories.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

HISTORY, REORGANISATION AND GROUP STRUCTURE

OUR HISTORY AND DEVELOPMENT

Introduction

We are a global manufacturer of UHP graphite electrodes with a worldwide customer base in over 25 countries comprising major global EAF steel manufacturers in Americas, EMEA, APAC and the PRC that sell their products in the automotive, infrastructure, construction, appliance, machinery, equipment and transportation industries.

Our Group's business commenced upon the establishment of Sangraf US in the United States in 2012, targeting to sell UHP graphite electrode products to the international markets. Since commencement of business, Sangraf US has set up its own office and sales centre in the United States, and sold graphite electrode products that fulfilled the needs of the customers in the global markets under the brand of "SANGRAF".

At the time of incorporation, Sangraf US was wholly-owned by Henan Sanli, a graphite electrode manufacturer in the PRC which then marketed its products under the "SANLI" brand and conducted manufacturing activities at its own production plant (the "**Sanli Factory**") before it ceased operation in November 2013. For more information, please refer to "Relationship with Controlling Shareholders — Entities Historically Related to Mr. Hou and/or His Family Members — Henan Sanli" in this prospectus. Given that the financial performance of Sangraf US was unsatisfactory in the first few years of its operations due to the then market condition and Henan Sanli's own financial difficulties, Henan Sanli did not further pursue the global markets while Mr. Hou was willing to continue to explore such markets, Mr. Hou acquired 100% interest of Sangraf US from Henan Sanli in August 2016.

During the early stage of its operations around 2012 to 2013, Sangraf US sold solely graphite electrodes manufactured at the Sanli Factory and has started to principally sell graphite electrodes manufactured at the PRC Factory since 2014 when the PRC Factory officially commenced full operations. The PRC Factory was first constructed in 2009 by Henan Sanli and Sihai, further background of which is set out in "Relationship with Controlling Shareholders — Entities Historically Related to Mr. Hou and/or His Family Members — Sihai" in this prospectus, with an aim to tap into the production and sale of UHP graphite electrodes. Henan Kefeng had been sold and owned by Independent Third Parties since August 2013. Nevertheless, having considered the premium products manufactured by the advanced technology and equipment possessed by the PRC Factory, after the PRC Factory officially commenced full operation in 2014, Sangraf US continued to source graphite electrodes manufactured at the PRC Factory from various suppliers.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Background of our Group's production facilities

In around 2018, our Group decided to pursue vertical expansion by seeking to develop our own manufacturing capability. To this end, we (i) acquired the Italian Factory which commenced operation in June 2018 to serve as our global production base; (ii) leased the PRC Factory from Henan Kefeng for a term of 10 years from December 2018 and the PRC Factory commenced operation in January 2019 to serve as our production base in the PRC. Our Group had not owned nor leased any production facilities in the PRC prior to December 2018; (iii) acquired the Extrusion Facilities in December 2018 from Xinxiang Longhui; and (iv) entered into an asset purchase agreement in October 2019 with Shanxi Taigu, being one of our subcontractors during the Track Record Period, to acquire the Taigu Assets which we believe will enable us to improve our production efficiency by debottlenecking some of our productions processes of the PRC Factory, which acquisition was pending completion as at the Latest Practicable Date.

In June 2020, our Group acquired the PRC Factory and the Sanli Assets. Given that (i) the advanced technology and equipment at the PRC Factory are the most suitable for producing UHP graphite electrode products offered by our Group; (ii) we have leased the PRC Factory from Henan Kefeng for a term of 10 years from December 2018 to serve as our production base in the PRC; (iii) the PRC Factory was available at a discounted tender price under a judicial auction ordered by the PRC court (the “**Judicial Auction**”), our Directors considered that it would be a good opportunity to acquire the PRC Factory under the Judicial Auction. Since the Sanli Assets and the PRC Factory were ordered by the PRC court to be auctioned together, considering that the Sanli Assets could also be utilized by our Group to expand our production capacity, in June 2020, our Group decided to participate in the Judicial Auction to acquire the Sanli Factory and the PRC Factory and their respective land and equipment at an aggregate consideration of RMB187.1 million. As confirmed by our PRC Legal Advisers, the Judicial Auction was validly held and completed and we validly acquired the title of such assets in August 2020.

Over the years, our Group continued to expand our sales network and increase our production capacity. We have established offices in the United States, Switzerland, South Africa, Macau, Hong Kong and the PRC. For details of the business operation of our Group, please refer to the “Business” section in this prospectus.

Our business milestones

Set out below is a list of key milestones in the founding and development of our Group:

Year	Business milestones
2012	Sangraf US was incorporated in the United States, specialising in selling premium graphite electrodes products in the global markets and establishing strong footholds through trial orders from major steel smelting producers.
	Grafworld International was incorporated to facilitate the provision of goods and services to the greater American continent.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Year	Business milestones
2013	<p>We expanded our business into Latin America through collaboration with the leading producer of long steel in Latin America.</p> <p>We initiated projects with U.S. and Canadian factories of a company listed on the London Stock Exchange.</p> <p>Our Group started collaboration with various steel manufacturers under one of the top five largest producers of carbon steel products in the U.S..</p>
2014	<p>We incorporated Sangraf International SA in Switzerland and expanded our markets into Turkey, the Middle East and South Africa by accepting trial orders from customers in those regions.</p>
2015	<p>We established our presence in South Africa by incorporating Sangraf International (PTY) and started selling graphite electrodes to the largest mineral sands producer in South Africa.</p> <p>We further expanded our business in Europe through collaboration with the world's largest hardened bearing producer and the largest rebar producer in Europe.</p>
2016	<p>We entered into a long-term supply contract with one of the largest global mining groups that has operations in South Africa.</p>
2017	<p>We entered into long-term supply agreements with U.S.-based steel manufacturers, cementing our market presence in North America.</p>
2018	<p>We acquired the Italian Factory, our first production centre located in Italy, and commenced our production in the Italian Factory, with an annual production capacity of approximately 16,500 MT.</p> <p>Sangraf Henan, our subsidiary in Henan, the PRC, was established and we commenced production in the PRC by leasing the PRC Factory, with an annual production capacity of approximately 14,000 MT.</p>
2019	<p>We entered into an asset purchase agreement with Shanxi Taigu to acquire the Taigu Assets.</p>
2020	<p>We participated in a judicial auction and successfully acquired the Sanli Assets and the PRC Factory and its associated land and equipment.</p>

HISTORY, REORGANISATION AND GROUP STRUCTURE

CORPORATE HISTORY

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act on 26 June 2018, with an authorised share capital of US\$50,000 divided into 50,000 Shares of nominal value of US\$1.00 each. Upon the completion of the Reorganisation, the details of which are set out in “Reorganisation” in this section below, our Company became the holding company of our Group, with 20 subsidiaries in total.

Our Group conducts its businesses principally through its major operating subsidiaries. A brief corporate history of the major operating subsidiaries of our Company, which made material contribution to our Group during the Track Record Period and up to the Latest Practicable Date, is set out below.

Sangraf US

Sangraf US is primarily engaged in the trading and sales of graphite electrode in the United States, Brazil and Canada. It was incorporated as a corporation for profit under the laws of the State of Ohio in the United States on 27 February 2012, with 10,000 authorised common shares, par value US\$0.01 per share. On 1 August 2012, 10,000 shares were allotted and issued to Henan Sanli as its sole shareholder. On 9 August 2016, Henan Sanli transferred all the 10,000 issued shares of Sangraf US to Mr. Hou at a consideration of US\$100. Such consideration was determined based on the nominal value per share and was fully settled on 9 May 2016. In connection with the preparation for the Listing, on 13 May 2020, Mr. Hou and Sangraf International SA entered into a stock purchase agreement, pursuant to which Mr. Hou agreed to sell, and Sangraf International SA agreed to purchase, all the 10,000 issued shares of Sangraf US at a consideration of US\$5.7 million. Such consideration was determined based on arm’s length negotiations between the parties and taking into account a reasonable return to Mr. Hou for his contribution in the management and development of Sangraf US before such transfer, and was fully settled on 8 June 2020. Our Directors confirm that the acquisition of Sangraf US has been properly and legally completed and settled. Upon completion of the said transfer, Sangraf US became wholly-owned by Sangraf International SA and an indirect wholly-owned subsidiary of our Company.

Sangraf International (PTY)

Sangraf International (PTY) is primarily engaged in the trading and sales of graphite electrodes to South Africa, Turkey and Canada. Sangraf International (PTY) is a private company which was incorporated in South Africa on 6 March 2015 under its former name, Sangraf South Africa Proprietary Limited in accordance with its constitutional documents, Sangraf International (PTY) is authorised to issue a maximum of 2,000 ordinary shares with no par value. Upon its incorporation, Sangraf International (PTY) allotted and issued 1,000 fully-paid shares to Sangraf International SA. On 12 March 2015, Sangraf International (PTY) changed its name from “Sangraf South Africa Proprietary Limited” to “Sangraf International Proprietary Limited”. On 5 November 2016, 1,000 fully-paid shares were allotted and issued to Grafworld International at an issue price of ZAR25.00 per share. As a result, 50% of Sangraf International (PTY) was owned by each of Sangraf International SA and Grafworld International. On 31 December 2016, Sangraf International SA and Grafworld International entered into a share purchase agreement, pursuant to which Sangraf International SA agreed to sell, and Grafworld International agreed to purchase, the 1,000 shares of Sangraf International (PTY) held by Sangraf International SA at a consideration of ZAR25,000. Such consideration was determined based on the

HISTORY, REORGANISATION AND GROUP STRUCTURE

issue price per share and was completed on the same day. In order to take advantage of the preferential tax treatment under the tax treaty between Switzerland and South Africa for dividend tax payable by a Switzerland incorporated shareholder from a South African incorporated entity, on 31 March 2020, Grafworld International and Sangraf International SA entered into a deed of sale and purchase of shares, pursuant to which Grafworld International agreed to sell, and Sangraf International SA agreed to purchase, 2,000 shares of Sangraf International (PTY) at a consideration ZAR10,000,000. Such consideration was determined based on the net asset value of Sangraf International (PTY) and was fully completed on 24 April 2020. As advised by our South African Legal Advisers, the said transfers have been properly and legally completed and settled. Upon the said transfers, Sangraf International (PTY) became wholly-owned by Sangraf International SA.

Sangraf International SA

Sangraf International SA was primarily engaged in the trading and sales of graphite electrode to certain parts of the European market countries including Belgium, France, Germany, Greece, Italy, Slovenia, Sweden and Russia. It was incorporated under the laws of Switzerland on 18 November 2014 with a share capital of CHF820,000 divided into 820 registered common shares of CHF1,000 each with restricted transferability. Upon incorporation, 800 and 20 fully paid-up registered shares were allotted and issued to Grafworld International and a former employee of Sangraf International SA, respectively. Subsequent to such former employee leaving Sangraf International SA, in November 2016, the former employee sold all his 20 shares to Grafworld International at a consideration of CHF6,685.8 in January 2018. Such consideration was fully settled on 14 February 2018. On 17 June 2019, Grafworld International and Sangraf International (HK) entered into a share purchase agreement, pursuant to which Grafworld International agreed to sell, and Sangraf International (HK) agreed to buy, all the 820 shares of Sangraf International SA at par value. The total consideration of such transfer was CHF820,000 which was fully settled on 21 June 2019. Upon completion of the above transfers, Sangraf International SA became wholly-owned by Sangraf International (HK).

Sangraf Italy

Sangraf Italy is primarily engaged in the manufacture of graphite electrodes. Our Group acquired the Italian Factory from SGL Carbon S.p.A., in liquidation, an Independent Third Party, in 2018 at a total consideration of EUR5,000,000, which included settlement of rental expenses payable to SGL Carbon S.p.A. prior to the acquisition and was determined based on arm's length negotiation between the parties. Sangraf Italy is a limited liability company incorporated under the laws of Italy on 17 November 2017 under its former name, Gosource Italy S.R.L., with an authorised corporate capital of EUR50,000. Upon incorporation, its corporate capital equivalent to EUR50,000 was fully subscribed by Gosource Group, an indirect wholly-owned subsidiary of our Company. Since then, Sangraf Italy has been 100% wholly-owned by Gosource Group. On 29 June 2018, the authorised corporate capital of Sangraf Italy was increased by a further EUR50,000, following which Sangraf Italy's corporate capital totalled EUR100,000. Upon completion of the Reorganisation, Sangraf Italy became an indirect wholly-owned subsidiary of our Company. On 27 March 2020, its name changed from "Gosource Italy S.R.L." to "Sangraf Italy S.R.L."

HISTORY, REORGANISATION AND GROUP STRUCTURE

Sangraf Energy

Sangraf Energy is primarily engaged in the sales of graphite electrode in the PRC. It was established in the PRC on 25 December 2013 by Zhongxingrun Holdings Company Limited (中興潤控股有限公司) (“**Zhongxingrun Holdings**”) (formerly known as Shengrui Holdings Company Limited (昇瑞控股有限公司)), a company incorporated in the PRC and owned as to 16.67% by Mr. Ding Jiebin, a nephew of Mr. Hou and 83.33% by an Independent Third Party, with a registered capital of RMB50.0 million. During the period from 2017 to 2018, since we have not yet had operations in the PRC, we engaged Sangraf Energy to source finished graphite electrodes from manufacturers new to us. Having considered the inventories possessed by Sangraf Energy and with a view to expanding our footprint in the PRC by setting up a sales centre in the PRC, we decided to acquire Sangraf Energy. On 26 October 2018, Zhongxingrun Holdings and Gosource (China), an indirect wholly-owned subsidiary of our Company, entered into a share purchase agreement, pursuant to which Zhongxingrun Holdings agreed to sell, and Gosource (China) agreed to purchase, 100% shareholding in Sangraf Energy for a total consideration of approximately RMB130.4 million, comprising (i) cash consideration of approximately RMB99.4 million; and (ii) an assignment of loan of approximately RMB31.0 million. Such consideration was determined based on the net asset value of Sangraf Energy as at 30 September 2018. As at the Latest Practicable Date, the consideration of RMB130.4 million has been settled in full in accordance with the terms of the share purchase agreement and supplemental agreements dated 28 June 2020 and 15 September 2021. As advised by our PRC Legal Advisers, completion of change of ownership of Sangraf Energy and registration of such change has been completed on 30 October 2018. Upon completion of the said acquisition, Sangraf Energy became wholly-owned by Gosource (China).

Sangraf Henan

Sangraf Henan was established in the PRC on 1 November 2018 with a registered capital of RMB50 million, primarily engaged in the research and development, technology promotion, production and sale of graphite and carbon materials. On 19 July 2019, Gosource Capital injected a sum of RMB70 million into the registered capital of Sangraf Henan and Sangraf Henan was held as to 58.33% by Gosource Capital, an indirect wholly-owned subsidiary of our Company, and 41.67% by Gosource (China), a direct wholly-owned subsidiary of Gosource Capital. In December 2018, Sangraf Henan entered into a lease agreement with Henan Kefeng for a term of 10 years to lease the PRC Factory and acquired the Extrusion Facilities from Xinxiang Longhui, at a consideration of approximately RMB77.9 million. Since then, we have developed our production capabilities in the PRC. For further details, please refer to “Relationship with Controlling Shareholders — Entities Historically Related to Mr. Hou and/or His Family Members — Xinxiang Longhui” in this prospectus. In June 2020, Sangraf Henan participated in a judicial auction ordered by the PRC courts to acquire the Sanli Assets and the PRC Factory and its associated land and equipment for a total consideration of approximately RMB187.1 million. On 11 December 2020, Gosource Capital injected a further sum of RMB72 million into the registered capital of Sangraf Henan. Since then, Sangraf Henan has been held as to 73.96% by Gosource Capital and 26.04% by Gosource (China) accordingly.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Sangraf International (HK)

Sangraf International (HK) is primarily engaged in the trading of graphite electrodes. It was a limited private company incorporated in Hong Kong on 11 June 2018. Upon its incorporation, one issued share was allotted to the initial subscriber, who was an Independent Third Party. On 20 June 2018, the initial subscriber transferred the one issued share to Sangraf Global at a nominal consideration of HK\$1.00. Upon the said transfer, Sangraf International (HK) became an indirect wholly-owned subsidiary of our Company.

ESTABLISHMENT OF THE OTAUTAHU TRUST

The Otautahi Trust is a discretionary family trust established by Otautahi Enterprises in its capacity as the trustee. The beneficiaries of the Otautahi Trust included Mr. Hou and his direct family members. Upon completion of the Reorganisation and immediately prior to the Capitalisation Issue and the Global Offering, the entire issued share capital of our Company was held by Otautahi Capital which in turn was 100% owned by Otautahi Enterprises, with Otautahi Enterprises continuing to act as the trustee of the Otautahi Trust.

PRE-IPO INVESTMENTS

Investment by Everbright Financial Holding

On 28 April 2020, an investment agreement was entered into between (i) our Company as issuer; (ii) Otautahi Capital as the Controlling Shareholder; and (iii) Everbright No. 2 Private Equity Investment Fund, represented by Everbright Financial Holding Capital Co., Ltd. (now known as Zhongguang Holdings Co., Ltd.* (中光控股有限公司)) as subscriber.

Everbright Financial Holding Capital Co., Ltd. is a fund manager and is primarily engaged in investment management businesses. The largest investor of Everbright No. 2 Private Equity Investment Fund is an Independent Third Party.

Investment by Liaoning Jinhao

On 15 June 2021, an investment agreement was entered into between (i) our Company as issuer; (ii) Otautahi Capital as the Controlling Shareholder; and (iii) Liaoning Jinhao as subscriber. On 23 September 2021, a share transfer agreement was entered into between (i) our Company; (ii) Otautahi Capital; (iii) Liaoning Jinhao; and (iv) ZhengNan Enterprise. Pursuant to such agreement, Liaoning Jinhao agreed to assign all the shares it held in our Company to ZhengNan Enterprise. The transfer of our Shares from Liaoning Jinhao to ZhengNan Enterprise has completed on the same date.

Liaoning Jinhao is a private company established in the PRC on 15 March 2021 primarily engaged in the manufacturing of coal chemical products in the PRC. As at the Latest Practicable Date, the equity interest of Liaoning Jinhao was owned as to 50.5% by Liu Zheng, 45% by Liu Yanan, 3% by Li Jiming and 1.5% by Chen Wandong, all are Independent Third Parties.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Investment by Hexagon

On 5 August 2021, an investment agreement was entered into between (i) our Company as issuer; (ii) Otautahi Capital as the Controlling Shareholder; and (iii) Hexagon as subscriber.

Hexagon is a segregated portfolio company incorporated under the laws of Cayman Islands on 13 September 2018, and managed by Venture Smart Asia Limited which is a licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO. Hexagon is primarily engaged in private equity investment and capital investment in companies from various industries in both Hong Kong and PRC. The largest investor of Hexagon is an Independent Third Party.

Investment by Kiu Yeung Asset Management

On 5 August 2021 and 18 August 2021, two investment agreements were entered into between (i) our Company as issuer; (ii) Otautahi Capital as the Controlling Shareholder; and (iii) Kiu Yeung Asset Management as subscriber.

Kiu Yeung Asset Management is a private company limited by shares incorporated under the laws of Hong Kong on 28 January 2008 and is primarily engaged in investment holding. As at the Latest Practicable Date, the equity interest of Kiu Yeung Asset Management was owned as to 99.95% by Mr. Tang Wai Po, 0.025% by Mr. Yu Ka Hay, and 0.025% by Mr. Co Hon Jesse, all are Independent Third Parties.

Investment by ZhengNan Enterprise

On 23 September 2021, a share transfer agreement was entered into between (i) our Company; (ii) Otautahi Capital; (iii) Liaoning Jinhao; and (iv) ZhengNan Enterprise. Pursuant to such agreement, Liaoning Jinhao agreed to assign all the shares it held in our Company to ZhengNan Enterprise. The transfer of our Shares from Liaoning Jinhao to ZhengNan Enterprise has completed on the same date.

ZhengNan Enterprise is a private company limited by shares incorporated under the laws of Hong Kong on 26 February 2016 and is primarily engaged in the manufacturing of coal chemical products in the PRC. As at the Latest Practicable Date, the equity interest of ZhengNan Enterprise was beneficially owned as to 100% by Mr. Liu Qingqiu, who is an Independent Third Party.

To the best knowledge and belief of our Directors and having made all reasonable enquiries, Everbright Financial Holding, Liaoning Jinhao, Hexagon, Kiu Yeung Asset Management and ZhengNan Enterprise are private investors who from time to time participate in various investment opportunities in different target companies encompassing various industries. They decided to invest in our Group in view of the prospects of our business growth. All of them, to the best knowledge and belief of our Directors, are Independent Third Parties.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The table below sets forth a summary of the Pre-IPO Investments:

Name of Pre-IPO Investor	Everbright Financial Holding	Liaoning Jinhao	Hexagon	Kiu Yeung Asset Management	ZhengNan Enterprise
Date of the agreement in relation to the Pre-IPO Investment	28 April 2020	15 June 2021	5 August 2021	5 August 2021 and 18 August 2021	23 September 2021
Amount of consideration involved	Approximately RMB70.7 million (equivalent to approximately HK\$81.3 million)	RMB65.0 million (equivalent to approximately HK\$74.7 million)	HK\$10.0 million	HK\$8.0 million in aggregate	US\$1.00 as consideration paid to Liaoning Jinhao for acquisition of all the Shares held by Liaoning Jinhao. US\$9.55 million (equivalent to approximately HK\$73.5 million) as investment amount paid to our Company.
Basis of consideration	Determined following arm's length negotiations with Everbright Financial Holding with reference to an agreed valuation of our Company upon completion of the investment by Everbright Financial Holding. It was agreed between Everbright Financial Holding and us that such valuation shall be based on the historical financial performance of our Group. The implied valuation of our Group of approximately RMB1.49 billion (equivalent to approximately HK\$1.6 billion) was calculated based on the price-to-earnings ratio of our Company agreed between us and Everbright Financial Holding and the average of the total net profit of our Group recorded in the financial year ended 31 December 2017, FY2018 and FY2019	Determined following arm's length negotiations with Liaoning Jinhao with reference to an agreed valuation of our Company of RMB1.59 billion (equivalent to approximately HK\$1.83 billion) upon completion of the investment by Liaoning Jinhao. The valuation of RMB1.59 billion agreed between Liaoning Jinhao and us was determined with reference to the historical financial performance of our Group and the parties' assessment of the development and growth potential of the graphite electrode and related industry and the performance of that of our Group, as well as the valuation determined by Everbright Financial Holding and other industry peers.	Determined following arm's length negotiations with Hexagon with reference to an agreed valuation of our Company of HK\$2.19 billion upon completion of the investment by Hexagon. The valuation of HK\$2.19 billion was calculated based on the price-to-earnings ratio of our Company agreed between us and Hexagon and the average of the total net profit of our Group recorded in the financial year ended 31 December 2018, FY2019 and FY2020 and with reference to the parties' assessment of the development and growth potential of the graphite electrode and related industry and the performance of that of our Group.	Determined following arm's length negotiations with Kiu Yeung Asset Management with reference to an agreed valuation of our Company of HK\$2.19 billion upon completion of the investment by Kiu Yeung Asset Management. The valuation of HK\$2.19 billion was calculated based on the price-to-earnings ratio of our Company agreed between us and Kiu Yeung Asset Management and the average of the total net profit of our Group recorded in the financial year ended 31 December 2018, FY2019 and FY2020 and with reference to the historical financial performance of our Group and the parties' assessment of the development and growth potential of the graphite electrode and related industry and the performance of that of our Group.	As Liaoning Jinhao has not settled investment amount to our Company as consideration for the issuance and allotment of Shares to it, ZhengNan Enterprise acquired all the Shares which our Company issued to Liaoning Jinhao for a nominal consideration of US\$1.00. ZhengNan Enterprise agreed to pay, after acquiring the Shares from Liaoning Jinhao, an investment amount of US\$9.55 million to our Company, which was determined following arms' length negotiations with ZhengNan with reference to an agreed valuation of our Company of US\$234.1 million (equivalent to approximately HK\$1.83 billion) upon completion of the investment by ZhengNan Enterprise. The valuation of US\$234.1 million agreed between ZhengNan Enterprise and us was determined with reference to the historical financial performance of our Group and the parties' assessment of the development and growth potential of the electrode and related industry and the performance of that of our Group, as well as the valuation determined by Everbright Financial Holding and industry peers.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Settlement date of the consideration in full	1 June 2020	Liaoning Jinhao has not settled its investment amount and transferred all its Shares to ZhengNan Enterprise on 23 September 2021.	10 August 2021	1 September 2021	28 September 2021
Shareholding in our Company and cost per Share	<p>Upon completion of the Pre-IPO Investments, Everbright Financial Holding will be interested in approximately 4.508% of the then total issued share capital of our Company. Upon the Listing, Everbright Financial Holding will hold 37,308,208 Shares, representing approximately 3.731% of the then total issued share capital of our Company (assuming the Over-allotment Option is not exercised). On such basis, upon the Listing, the effective cost per Share paid by Everbright Financial Holding is approximately RMB1.90 (equivalent to approximately HK\$2.18), which represents a premium of approximately 36.3% to the low end of the stated Offer Price range of HK\$1.60, and a discount of approximately 0.9% to the high end of the stated Offer Price range of HK\$2.20.</p>	<p>Liaoning Jinhao ceased to hold any interest in our Company upon completion of transfer of all Shares to ZhengNan Enterprise on 23 September 2021.</p>	<p>Upon completion of the Pre-IPO Investments, Hexagon will be interested in approximately 0.457% of the then total issued share capital of our Company. Upon the Listing, Hexagon will hold 3,782,132 Shares, representing approximately 0.378% of the then total issued share capital of our Company (assuming the Over-allotment Option is not exercised). On such basis, upon the Listing, the effective cost per Share paid by Hexagon is approximately HK\$2.64, which represents a premium of approximately 65.0% to the low end of the stated Offer Price range of HK\$1.60, and a premium of approximately 20.0% to the high end of the stated Offer Price range of HK\$2.20.</p>	<p>Upon completion of the Pre-IPO Investments, Kiu Yeung Asset Management will be interested in approximately 0.365% of the then total issued share capital of our Company. Upon the Listing, Kiu Yeung Asset Management will hold 3,020,740 Shares, representing approximately 0.302% of the then total issued share capital of our Company (assuming the Over-allotment Option is not exercised). On such basis, upon the Listing, the effective cost per Share paid by Kiu Yeung Asset Management is approximately HK\$2.65, which represents a premium of approximately 65.6% to the low end of the stated Offer Price range of HK\$1.60, and a premium of approximately 20.5% to the high end of the stated Offer Price range of HK\$2.20.</p>	<p>Upon completion of the Pre-IPO Investments, ZhengNan Enterprise will be interested in approximately 4.046% of the then total issued share capital of our Company. Upon the Listing, ZhengNan Enterprise will hold 33,484,696 Shares, representing approximately 3.348% of the then total issued share capital of our Company (assuming the Over-allotment Option is not exercised). On such basis, upon the Listing, the effective cost per Share paid by ZhengNan Enterprise is approximately US\$0.29 (equivalent to approximately HK\$2.20), which represents a premium of approximately 37.5% to the low end of the stated Offer Price range of HK\$1.60, and approximates to the high end of the stated Offer Price range of HK\$2.20.</p>

HISTORY, REORGANISATION AND GROUP STRUCTURE

Special rights	<p><i>Anti-dilution rights (applicable to Everbright Financial Holding and ZhengNan Enterprise only)</i></p> <p>If our Company (i) conducts any fund-raising activity with an investment amount lower than the investment amount of the ZhengNan Pre-IPO Investment (the “Lower Amount”); or (ii) allots and issues additional Shares (or any other convertible securities) at an effective price per Share lower than the price per Share of the Pre-IPO Investment (the “Lower Unit Price”), the relevant Pre-IPO Investor shall be entitled to subscribe for new Shares or request Otautahi Capital to transfer the Shares held by it at nil consideration or the lowest consideration permissible under the applicable laws, so that the average purchase price per share for the Shares then held by the relevant Pre-IPO Investor is equal to the Lower Amount or the Lower Unit Price.</p> <p>As at the Latest Practicable Date, the anti-dilution right of Everbright Financial Holding and ZhengNan Enterprise had already been terminated one day preceding the submission of the Listing application to the Stock Exchange.</p> <p><i>Pre-emptive rights</i></p> <p>The Pre-IPO Investors shall have the pre-emptive right to purchase up to a pro rata Share of any new securities which our Company may propose to issue.</p> <p>As at the Latest Practicable Date, all the pre-emptive rights had already been terminated one day preceding the submission of the Listing application to the Stock Exchange.</p> <p><i>Information and inspection rights</i></p> <p>The Pre-IPO Investors are entitled to inspect or request our Company to provide, amongst others, our monthly, quarterly and annual financial statements, audit reports, annual budget forecast, annual business plan, and progress of the Listing.</p> <p>As at the Latest Practicable Date, all the information and inspection rights had already been terminated one day preceding the submission of the Listing application to the Stock Exchange.</p>				
Use of proceeds	<p>Our Group has applied the proceeds from the investment of Everbright Financial Holding towards the payment of the purchase price of the Sanli Assets and the PRC Factory and its associated land and equipment through the judicial auction. As at the Latest Practicable Date, such proceeds have been fully utilised.</p>	<p>Our Company has not received any investment amount from Liaoning Jinhao thus no proceeds was applied.</p>	<p>Our Group has applied the proceeds from the investment of Hexagon as our Group’s general working capital. As at the Latest Practicable Date, such proceeds have been fully utilised.</p>	<p>Our Group has applied the proceeds from the investment of Kiu Yeung Asset Management as our Group’s general working capital. As at the Latest Practicable Date, such proceeds have been fully utilised.</p>	<p>Our Company has applied the proceeds from the investment of ZhengNan as our Group’s general working capital.</p>
Lock-up and public float	<p>The Shares held by Everbright Financial Holding and ZhengNan Enterprise will be subject to a six-month lock-up period upon the Listing. The Shares held by the Pre-IPO Investors will be counted towards the public float of our Company and will rank <i>pari passu</i> with the Shares then in issue and to be listed on the Stock Exchange.</p>				
Strategic benefit	<p>Our Directors are of the view that our Group can benefit from the Pre-IPO Investments as it provided financial resources for our business development and it serves as an endorsement of our Group’s performance, strength and prospects.</p>				

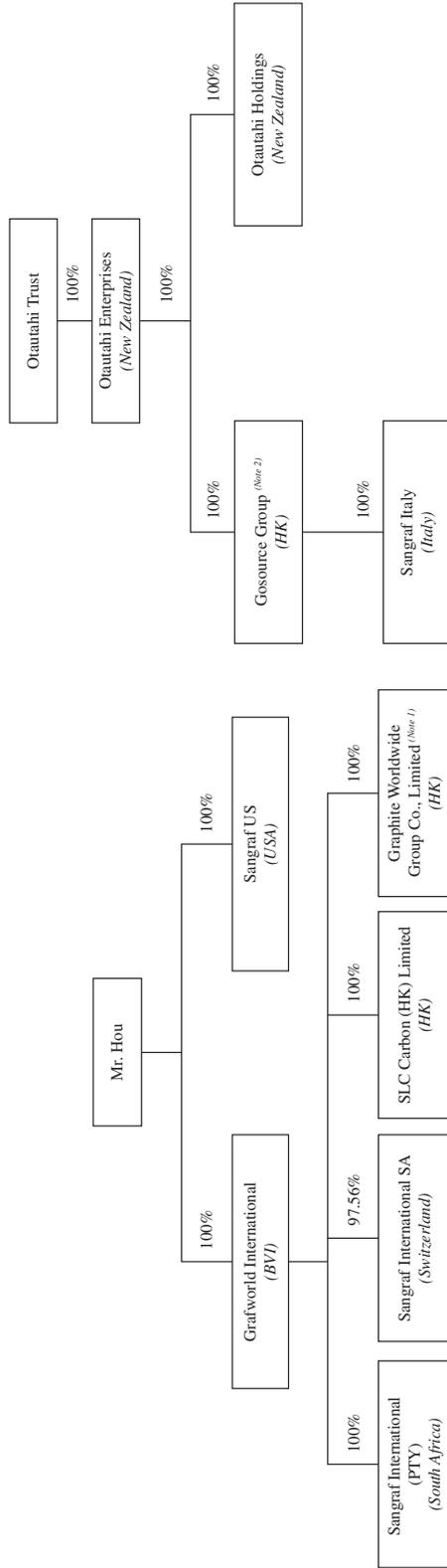
Confirmation from the Sole Sponsor

The Sole Sponsor has confirmed that the Pre-IPO Investments are in compliance with the Interim Guidance on Pre-IPO Investments (HKEX-GL29-12) and the Guidance on Pre-IPO Investments (HKEX-GL43-12) issued by the Stock Exchange whereas the Guidance on Pre-IPO investments in convertible instruments (HKEX-GL44-12) issued by the Stock Exchange is not applicable.

HISTORY, REORGANISATION AND GROUP STRUCTURE

GROUP STRUCTURE BEFORE REORGANISATION

The corporate structure of the companies of our Group prior to the Reorganisation is set out below:



Notes:

- (1) Graphite Worldwide Group Co., Limited had no actual operation since its incorporation. On 31 July 2018, Grafworld International disposed of all the shares of Graphite Worldwide Group Co., Limited to the brother of Mr. Peter Brendon Wylie, a director of certain of our subsidiaries.
- (2) Gosource Group was indirectly wholly-owned by the Otautahi Trust through GoSource Holdings Ltd., a company incorporated under the laws of the Republic of Seychelles on 10 March 2016 and dissolved on 17 January 2020 as such company had never commenced operation.

HISTORY, REORGANISATION AND GROUP STRUCTURE

REORGANISATION

For the purpose of the Listing, we underwent the Reorganisation as a result of which our Company became the holding company of our Group.

The Reorganisation involves the following major steps:

Incorporation of offshore subsidiaries

Sanergy Global is a limited liability company incorporated under the laws of the BVI on 11 June 2018 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. The business of Sanergy Global is investment holding. Upon its incorporation on 11 June 2018, Sanergy Global allotted and issued one fully-paid share to Otautahi Holdings, a wholly-owned subsidiary of Otautahi Enterprises which is the trustee of the Otautahi Trust. As a result, Sanergy Global became wholly-owned by Otautahi Holdings.

Sanergy Asia is a limited liability company incorporated under the laws of the BVI on 11 June 2018 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. The business of Sanergy Asia is investment holding.

Sanergy Holding is a limited liability company incorporated under the laws of the BVI on 11 June 2018 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. The business of Sanergy Holding is investment holding.

Sangraf Global is a limited liability company incorporated under the laws of the BVI on 11 June 2018 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. The business of Sangraf Global is investment holding.

Sanergy Europe is a limited liability company incorporated under the laws of the BVI on 11 June 2018 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. The business of Sanergy Europe is investment holding.

Upon its incorporation on 11 June 2018, each of Sanergy Asia, Sanergy Holding, Sangraf Global and Sanergy Europe allotted and issued one fully-paid share to Sanergy Global, respectively. As a result, Sanergy Asia, Sanergy Holding, Sangraf Global and Sanergy Europe each became wholly-owned by Sanergy Global.

Incorporation of offshore holding vehicle

Otautahi Capital is a limited liability company incorporated under the laws of the BVI on 11 June 2018 and is authorised to issue a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. The business of Otautahi Capital is investment holding.

Upon its incorporation on 11 June 2018, Otautahi Capital allotted and issued one fully-paid share to Mr. Peter Brendon Wyllie, a director of Otautahi Enterprises which is the trustee of the Otautahi Trust. As a result, Otautahi Capital became wholly-owned by Mr. Peter Brendon Wyllie.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Incorporation of our Company

Our Company is an exempted company with limited liability incorporated under the laws of the Cayman Islands on 26 June 2018 with an authorised share capital of US\$50,000 divided into 50,000 Shares with a par value of US\$1.00 each. Our Company is the vehicle for the proposed Listing.

At the time of incorporation, one fully-paid Share was held by the initial subscriber. On the same day, the said one fully-paid Share was transferred to Otautahi Capital for a consideration at a nominal value.

Upon completion of the said transfer, our Company became wholly-owned by Otautahi Capital.

Transfer of shares of Gosource Group to Sanergy Europe

On 23 June 2018, GoSource Holdings Ltd., a company incorporated under the laws of the Republic of Seychelles on 10 March 2016 and dissolved on 17 January 2020, transferred the entire issued share capital of Gosource Group to Sanergy Europe at a consideration of approximately US\$6.44 million.

Upon completion of the said transfer, Gosource Group, together with its subsidiary, Sangraf Italy, became wholly-owned subsidiaries of Sanergy Europe.

Transfer of shares of Grafworld International to Sanergy Holding

On 20 July 2018, Mr. Hou transferred the entire issued share capital of Grafworld International to Sanergy Holding at a consideration of US\$50,000.

Upon completion of the said transfer, Grafworld International, together with its subsidiaries, namely Sangraf International (PTY), Sangraf International SA, SLC Carbon (HK) Limited and Graphite Worldwide Group Co., Limited, became a wholly-owned subsidiary of Sanergy Holding.

Incorporation of Sanergy Group (HK)

Sanergy Group (HK) was incorporated as a limited liability company in Hong Kong on 26 July 2018. Sanergy Group (HK) is an investment holding company.

At the time of incorporation, one fully-paid share was held by the initial subscriber. On 3 August 2018, the said one fully-paid share was transferred to our Company for a consideration at a nominal value.

Upon completion of the said transfer, Sanergy Group (HK) became a wholly-owned subsidiary of our Company.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Transfer of shares of Otautahi Capital to Otautahi Holdings

On 4 November 2019, Mr. Peter Brendon Wyllie transferred the entire issued share capital of Otautahi Capital to Otautahi Holdings at a consideration of HK\$1.00.

Upon completion of the said transfer, Otautahi Capital became a wholly-owned subsidiary of Otautahi Holdings.

Transfer of shares of Sanergy Global to Sanergy Group (HK)

On 5 November 2019, Otautahi Holdings transferred the entire issued share capital of Sanergy Global to Sanergy Group (HK) at a consideration of HK\$1.00.

Upon completion of the said transfer, Sanergy Global became a wholly-owned subsidiary of Sanergy Group (HK) and an indirect wholly-owned subsidiary of our Company.

Transfer of shares of Sangraf US to Sangraf International SA

On 13 May 2020, Mr. Hou and Sangraf International SA entered into a stock purchase agreement, pursuant to which Mr. Hou agreed to sell, and Sangraf International SA agreed to purchase, all the 10,000 issued shares of Sangraf US at a consideration of US\$5.7 million.

Upon completion of the said transfer, Sangraf US became a wholly-owned subsidiary of Sangraf International SA and an indirect wholly-owned subsidiary of our Company.

Deregistration of a former subsidiary

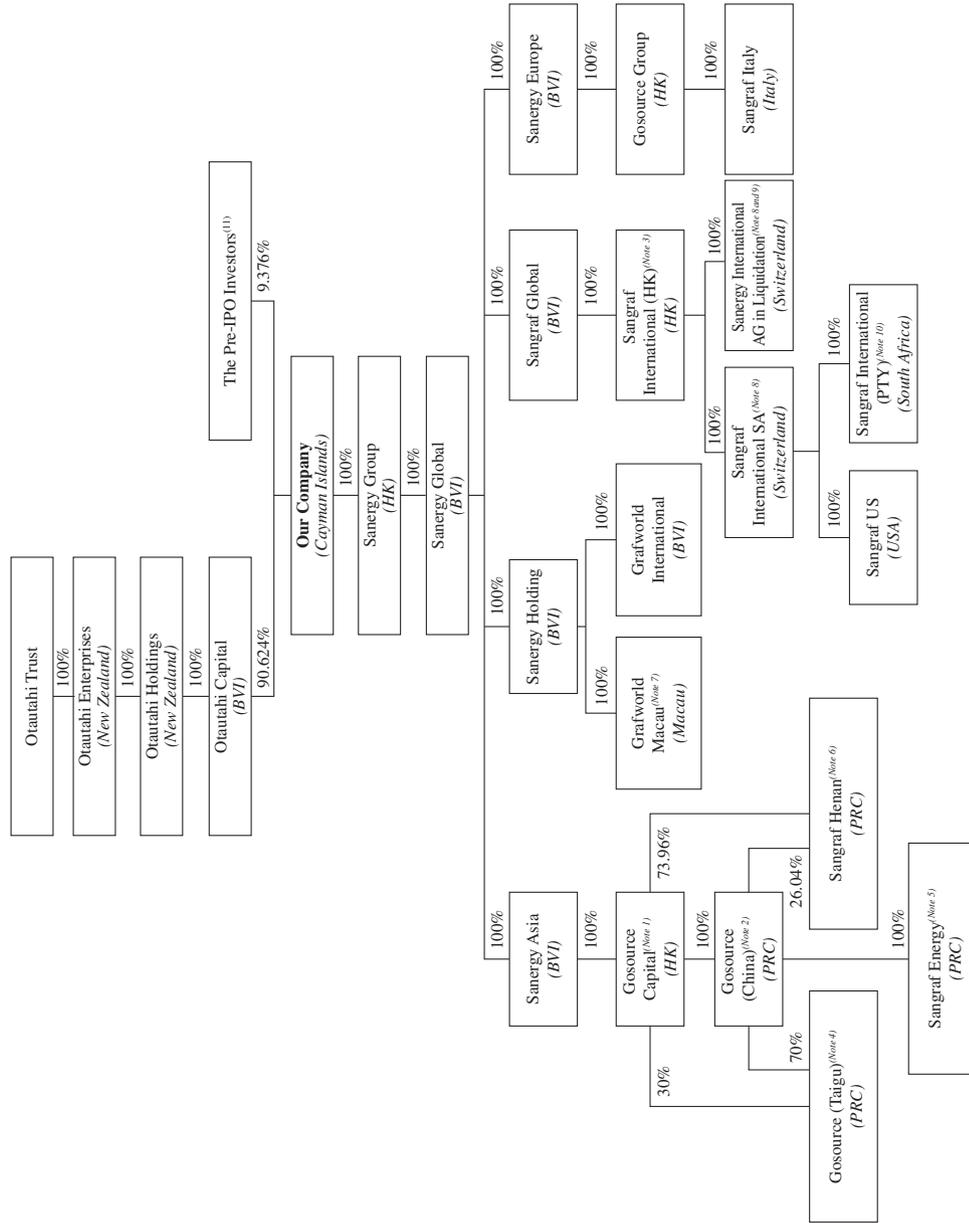
In order to streamline the structure, our Group deregistered SLC Carbon (HK) Limited, a former subsidiary which ceased to have any business operation.

On 9 April 2020, SLC Carbon (HK) Limited filed an application to the Inland Revenue Department for “Notice of No Objection” to deregister SLC Carbon (HK) Limited. On 2 July 2021, SLC Carbon (HK) Limited was deregistered.

HISTORY, REORGANISATION AND GROUP STRUCTURE

GROUP STRUCTURE AFTER REORGANISATION AND PRE-IPO INVESTMENTS AND BEFORE LISTING

The structure of our Group immediately after completion of the Reorganisation and the Pre-IPO Investments as described in the above steps is set out below:



HISTORY, REORGANISATION AND GROUP STRUCTURE

Notes:

- (1) Gosource Capital was incorporated as a limited liability company in Hong Kong on 11 June 2018 as part of the business expansion of our Group. The principal business of Gosource Capital is investment holding.
- (2) Gosource (China) was established in the PRC on 18 July 2018 as part of the business expansion of our Group. The principal business of Gosource (China) is investment holding. On March 2019, Gosource (China) established a wholly-owned subsidiary, namely Gosource (Nan Yang) Carbon Technology Co. Limited, in the PRC as part of the business expansion of our Group. As no business operations have ever been commenced by such subsidiary, it was dissolved by deregistration on 23 December 2021.
- (3) Sangraf International (HK) was incorporated as a limited liability company in Hong Kong on 11 June 2018 as part of the business expansion of our Group. For details, please refer to the paragraph headed “Corporate History — Sangraf International (HK)” in this section.
- (4) Gosource (Taigu) was established as part of the business expansion of our Group and had not yet commenced actual operation as at the Latest Practicable Date.
- (5) Gosource (China) has acquired all the shares of Sangraf Energy on 30 October 2018 from Zhongxingrun Holdings at a consideration of RMB130.4 million as part of the business expansion of our Group. For details, please refer to the paragraph headed “Corporate History — Sangraf Energy” in this section.
- (6) Sangraf Henan was established in the PRC on 1 November 2018 as part of the business expansion of our Group. For details, please refer to the paragraph headed “Corporate History — Sangraf Henan” in this section.
- (7) Sanergy Holding acquired all the shares of Grafworld Macau from Cambridge Assets Limited, an Independent Third Party, on 20 March 2019 at a consideration of HK\$1.3 million. Such consideration was determined based on arm’s length negotiation between the parties and was fully settled on 15 November 2019. As advised by our Macau Legal Advisers, the acquisition of Grafworld Macau has been properly and legally completed and settled. Grafworld Macau, being a Macau offshore company, was incorporated on 3 July 2003 with a registered capital of MOP\$100,000. Prior to the acquisition by Sanergy Holding, its principal business was commercial agency and intermediary services with minimal operation and had two employees who were both Macau local residents. Due to its minimal operation status, Grafworld Macau was in a loss-making financial condition immediately prior to the acquisition. To the best knowledge and information of our Directors, at the time of the acquisition, Cambridge Assets Limited was wholly-owned by Mr. Long Hak Kan, a Macau local resident and an Independent Third Party who has no relationship (employment, family, financing or otherwise) with our Company, including our shareholders, subsidiaries, Directors and senior management, and their respective associates. Our acquisition of Grafworld Macau was primarily driven by tax planning purpose based on the recommendations provided by our then tax advisers. Subsequently, our tax advisers referred us to the Macau Legal Advisers who later introduced us to the shareholder of Grafworld Macau. Upon conducting due diligence against Grafworld Macau, our Group decided to acquire it in order to be entitled for tax exemption benefit. Our Directors confirm that there were no transactions or fund flows between Grafworld Macau and our Group prior to the acquisition. Upon completion of our acquisition, Grafworld Macau has been engaged in the business of trading of graphite electrodes.
- (8) On 21 June 2019, there was an intragroup transfer of (a) Sangraf International SA from Grafworld International to Sangraf International (HK); and (b) Sanergy International AG in Liquidation from Sangraf International SA to Sangraf International (HK) at a consideration of CHF820,000 and CHF100,000, respectively.
- (9) Sanergy International AG in Liquidation was incorporated in Switzerland as a wholly-owned subsidiary of Sangraf International SA on 13 August 2018 as part of the business expansion of our Group. Sanergy International AG in Liquidation was primarily engaged in the sourcing of needle coke. Since October 2019, the sourcing function was switched to Sanergy International SA and Sanergy International AG in Liquidation became inactive. Sanergy International AG in Liquidation commenced voluntary winding up proceedings on 8 September 2022.
- (10) On 31 March 2020, there was an intragroup transfer of Sangraf International (PTY) from Grafworld International to Sangraf International SA at a consideration of ZAR10,000,000.
- (11) The Pre-IPO Investors include (i) Everbright Financial Holding holding 4.508% shareholding interest; (ii) ZhengNan Enterprise holding 4.046% shareholding interest; (iii) Hexagon holding 0.457% shareholding interest; and (iv) Kiu Yeung Asset Management holding 0.365% shareholding interest in our Company.

HISTORY, REORGANISATION AND GROUP STRUCTURE

CAPITALISATION ISSUE AND THE GLOBAL OFFERING

On 19 December 2022, the authorised share capital of our Company was increased from US\$300,000 to US\$50,000,000. Conditional upon the crediting of the share premium account of our Company as a result of the allotment and issue of the Offer Shares pursuant to the Global Offering, our Directors are authorised to capitalise a sum of US\$8,166,000 and apply such sum in paying up in full at par a total of 816,600,000 Shares for allotment and issue to the Shareholder immediately prior to the issue of Shares under the Global Offering.

BUSINESS

OVERVIEW

We are a global manufacturer of UHP graphite electrodes with a worldwide customer base in over 25 countries comprising major global EAF steel manufacturers in Americas, EMEA, APAC and the PRC that sell their products to the automotive, infrastructure, construction, appliance, machinery, equipment and transportation industries. In order to better serve and support our customers, we have sales presence in Americas, EMEA, APAC and the PRC.

The dual carbon goals, namely carbon peaking before 2030 and carbon neutrality before 2050, have brought global momentum towards the transformation of our downstream industry of steel manufacturing by shifting from blast furnace steelmaking to EAF steel manufacturing. Currently, blast furnace steelmaking predominates the steel production with 70% in worldwide and even 90% in the PRC. Using EAF is more environmental friendly in terms of pollutants emissions and energy consumptions and regarded as a core pillar of decarbonisation to complete “super-low-emission” renovations within the steel industry. With our commitments to offer high quality UHP graphite electrode which serves as a key industrial material to EAF steel manufacturers and our continuous efforts to strive for a cleaner production process to reduce emissions and wastes as well as energy consumption, we believe, together with our downstream customers, we would be able to contribute to a green and sustainable economy in the long run.

According to the F&S Report, we ranked seventh among the global UHP graphite electrode manufacturers in 2021 with a market share of approximately 1.4%, and ranked fourth in the UHP graphite electrode manufacturers in the PRC in 2021 with a market share of approximately 7.1%, in terms of production volume.

We have our production facilities in Italy and the PRC with annual effective production capacities of 16,500MT and 14,000MT, respectively, which enable us to flexibly meet the demand for graphite electrodes from our customers located in different parts of the world and provide them support and technical services. We source finished graphite electrodes and needle coke from various suppliers. Please refer to the section headed “Business — Production” in this prospectus for further details.

During the Track Record Period, the global graphite electrodes industry was at the peak in terms of the average selling price in 2018 and experienced market correction during 2019 and the impact of COVID-19 since early 2020. Driven by the recovery of the demand from its downstream steel industry, namely the global EAF steel industry, the global demand for graphite electrodes surged starting from second half of 2017 and in turn caused an upsurge in the price of UHP graphite electrodes globally, excluding the PRC, within a short period in 2018, reaching approximately USD16,054 per tonne. Followed by over investment, production and purchase, which resulted in an over-stocking in the market, there was a plunge in the average selling price of graphite electrodes in 2019 to approximately USD8,824 per tonne globally (excluding the PRC) and approximately RMB50,647.1 per tonne in the PRC. In 2020, the global outbreak of COVID-19 further affected the demand for UHP graphite electrodes and led to a slight decrease in the consumption volume globally.

BUSINESS

Despite the market correction during 2019 and the impact of COVID-19 since early 2020, our Group had been able to maintain growth in its sales volume from approximately 10,994MT in FY2018 to 19,656MT in FY2019, to 25,647MT in FY2020 and to 27,669MT in FY2021. We managed to achieve a gross profit margin of approximately 62.5%, 22.7%, 15.2% and 21.0% during the corresponding periods, respectively, which aligned with the overall industry trend. As compared 1H2022 to 1H2021, the sales volume increased from approximately 11,402MT to 12,456MT while the gross profit margin increased from 17.3% to 26.1%. Our revenue amounted to approximately US\$168.3 million, US\$150.8 million, US\$108.5 million, US\$108.7 million and US\$59.7 million for FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. During the same corresponding periods, we generated net profits of approximately US\$72.0 million, US\$5.2 million, US\$4.2 million, US\$4.4 million and US\$6.5 million, respectively.

The average selling price of UHP graphite electrodes has bottomed out in the second half of 2020 and along with the recovery of the global EAF steel industry in 2021, the graphite electrode market has resumed its long-term growth trajectory. While our average selling price per MT decreased by approximately 7.2% or approximately US\$304 from approximately US\$4,232 in FY2020 to approximately US\$3,928 in FY2021, the market price of graphite electrodes and our average selling price have bottomed out in August 2020 and resumed gradual trajectory in 2021. Our average selling price per MT of each quarter of 2020 and 2021 was approximately US\$4,786, US\$4,626, US\$3,595, US\$3,679, US\$3,690, US\$3,645, US\$3,970 and US\$4,230, respectively. For details, please refer to the section headed “Financial Information — Gross profit and gross profit margin — The market price of graphite electrodes resumed gradual trajectory in 2021”.

According to Frost & Sullivan, the re-opening from lockdowns and the gradual recovery of the downstream industries of the EAF steel market were fundamental contributing factors to the rebound of the global graphite electrodes industry since late 2020. Numerous indicators for the recovery and growth drivers have been found in the UHP graphite electrodes industry, including but not limited to (i) a continuous increase in the monthly average price of graphite electrodes from approximately USD3,838 in January 2021 to approximately USD5,233 in December 2021 globally, excluding the PRC, and from approximately RMB27,082 in January 2021 to approximately RMB38,259 in December 2021 in the PRC; (ii) a moderate growth in the estimated revenue of UHP graphite electrodes among our Group’s major markets, of which a CAGR from 2021 to 2026 ranges from approximately 11.2% to 22.5%; (iii) various initiatives for dual carbon goals and more stringent environmental policies and regulations which encourage environmental friendly production process and further spur the development of the global EAF steel industry.

BUSINESS

COMPETITIVE STRENGTH

Our Directors believe that our historical success and future prospects are underpinned by a combination of competitive strengths including:

We have worldwide presence and diversified customer base with reputable customers

Over the years, we have established a solid and stable customer base with worldwide presence in Americas, EMEA, APAC and the PRC. During the Track Record Period, we had developed a customer base in over 25 countries and our customers include some of the major global renowned EAF steel manufacturers, such as the largest steel manufacturer in the world, the largest steel manufacturers in the U.S. and one of the leading steel manufacturers in Europe.

Based on our experience, it typically takes a graphite electrode manufacturer up to two years to become a qualified supplier to reputable EAF steel manufacturers. Notwithstanding this, we have successfully qualified as an approved supplier to these global reputable EAF steel manufacturers and have since established stable business relationships. As at the Latest Practicable Date, the length of our business relationship with our major customers ranged from three to 10 years. For further details regarding our customers, please refer to the section headed “Business — Our Customers” in this prospectus.

We believe our success is mainly due to our production facilities in Italy, which has over 30 years of history, and the PRC, which has over eight years of history, that enable us to flexibly meet the demand for graphite electrodes from our customers in different parts of the world and provide them support and technical services. With our relentless efforts to meet our customers’ requirements, we have successfully forged a solid partnership with our customers.

Furthermore, as part of our marketing strategy, we are dedicated to “providing local services to our global customers” and staying closer to our customers. To this end, we have regional sales teams focusing on the markets of Americas, EMEA, APAC and the PRC to serve and support our customers located in different parts of the world. Our global reach through our strong sales and distribution network ensures that our products are readily available to our customers. Our commitment to customer service helps us better understand our customers’ requirements. We can communicate with them on a timely basis and can provide the necessary on-site technical support on a short notice.

Our Directors believe that by leveraging our worldwide presence, established stable relationships with reputable EAF steel manufacturers and capability to provide regional support, we are well-positioned to seize new opportunities in the ever changing market and excel in this competitive industry to further grow our customer base.

We offer premium quality graphite electrodes manufactured by our factories under our close oversight of high environmental standards

We are a manufacturer of UHP graphite electrodes for global markets. We believe that the quality, consistency and reliability of our products are essential to maintain customer loyalty and to uphold our reputation which contribute to our success and business expansion. As a result, our customers value our high quality graphite electrodes and customer service and have provided us with opportunities to expand our business with them. In addition, according to the F&S Report, as a result of pragmatic actions for dual carbon goals and changes in environmental policies, the PRC government will promote high-quality growth for steel industry and continue to phase out steel operations which are less environmentally friendly, pushing steel manufacturers to shift from the use of blast furnaces or induction furnaces to the more environmentally friendly EAF. By supplying our UHP graphite electrodes to our downstream customers, we can achieve up to 74% in energy reduction and 72.3% in carbon reduction in the steel industry. Furthermore, the EAF plant that uses our UHP graphite electrodes can achieve up to 99% of sulphur dioxide and 97% of nitrogen oxides emission reduction compared to blast furnaces plant. This will, in turn, drive the demand for our UHP graphite electrodes.

As part of our commitment to stringent and consistent product quality, we have implemented a quality control system covering the whole production process, from selection of suppliers, procurement of raw materials, production and quality assurance to maintenance and reliability of production equipment. For instance, we use state of the art production processes to ensure consistent product quality and performance. In addition, we have implemented MES in the Italian Factory to enhance our production management which allows us to assess production data in a more efficient manner and to optimise our production planning. Furthermore, our production team deploys its expertise and experience to enhance our efficiency and quality in production scheduling which enables us to satisfy our customers' needs in a timely manner. For details of our quality control procedures, please refer to the section headed "Business — Quality Control" in this prospectus for further details.

Owing to our stringent quality control system, we have received various accreditations in relation to our production management system which demonstrate our quality control commitments and reinforce our customers' confidence in our products, including GB/T190011-2016/ISO 9001:2015 certification for our quality management systems in our technical development, production and sales of graphite electrodes and GB/T24001-2016/ISO 14001:2015 certification for our environmental management system.

Amid carbon and other pollutants generated during the manufacturing processes, our Group acknowledges about environmental protection responsibilities and is committed to complying with the ESG (such as establishment of ESG policy and alignment with certain sustainable development goals by Union Nations ("UN SDGs")) as well as environmental laws and regulations in Italy and the PRC.

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Our Group has obtained the necessary licenses, permits and approvals from local authorities to discharge pollutants and wastes. Our pollutant discharge level during the Track Record Period was below the approved annual maximum level of emission. Followed by the implementation of the emission upgrade construction in November 2018, the flue gas particulates, sulphur dioxide and nitrogen oxides emission intensity of the baking furnace system in the PRC Factory were below 10, 35 and 100 mg/m³, respectively, which were far lower than the respective levels of 30, 200 and 300 mg/m³ prescribed under the “Action Plan for Comprehensive Control of Air Pollution in Beijing — Tianjin — Hebei Region and Surrounding Areas in Autumn and Winter from 2019 to 2020” (《京津冀及周邊地區2019–2020年秋冬季大氣污染綜合治理攻堅行動方案》).

Furthermore, despite of the strict grading procedures conducted for enterprises in key industries for dynamic management in the PRC, the PRC Factory is one of the few industry players in Henan which is classified as Class B. There was less than 20% of the industry players in the PRC that obtained such classification. In other words, our production in the PRC Factory would not be forced to shut down due to the Technical Guide of Emission Reduction Contingent Measures for Focused Industry under Heavily Polluted Weather (《重污染天氣重點行業應急減排措施指定技術指南》) during autumn and winter. Please refer to the paragraph headed “Environmental protection” in this section for further details.

We have strong technical capability to deliver optimised products

We pride ourselves in our strong technical capabilities as one of our core competencies. As at 30 June 2022, our technical team consisted of 6 staff and was headed by Mr. Feng Jianguo, our chief technology officer, who has over 24 years of experience in the graphite electrode industry, and supported by Mr. Luiz Freitas, our executive vice president of operations, who has approximately 46 years of relevant industry experience. Other core members include our plant manager for the Italian Factory, and our general manager for Sangraf Henan, who have approximately 24 and 23 years of relevant industry and technical experience, respectively.

We believe our commitment to technical development distinguishes ourselves from our peers in that we keep abreast of our customers’ commercial needs as well as with the technology of our customers’ furnaces. As at the Latest Practicable Date, we had 22 registered patents in the PRC, including patents in respect of dust filtering systems and enhancement of production flow. For further details of our registered patents in the PRC, please refer to the section headed “Statutory and General Information — C. Further Information about our Business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus.

Our technical team strives to enhance our manufacturing process continuously to improve our production efficiency by lowering our production cost and reducing overall production time. Furthermore, we have a team of technical experts who are based in the U.S. and Europe. Our technical experts are knowledgeable in the product requirements of our customers to the extent feasible to gain insight into the technology of our customers’ furnaces and technical specifications. With such technical knowledge, we are able to optimise graphite electrodes according to the application requirements, operating conditions and technical needs of our customers. This helps optimise the performance of our customers’ EAF furnaces. Through such collaboration, we are able to efficiently integrate our technical capabilities and know-how into the optimisation of products that meet our customers’ needs.

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For further details regarding our technical capabilities, please refer to the section headed “Business — Our Production” in this prospectus.

We have stable raw material supply

Our major raw materials include needle coke and binder pitch. Properties, such as density, electrical resistivity, flexural strength, stiffness and coefficient of thermal expansion, of our graphite electrodes highly depend on the quality of the raw materials we source. Stable supply of quality raw materials, particularly needle coke, is considered one of the keys to the success of our business. We have maintained a stable relationship with our major raw material suppliers, which are mainly located in the U.K., Germany, Japan, South Korea, the PRC and Czech Republic, for over two years since our commencement of production at the Italian Factory. Leveraging on the established business relationships with our major raw material suppliers, we are able to source quality raw materials to match our prescribed standards for production at reasonable terms with acceptable credit periods.

During the Track Record Period, we mainly sourced our needle coke from four major suppliers which have been on our approved qualified supplier list. In the event that any of our raw material suppliers fail to meet our needs on time or at all, our Directors believe that it is not difficult for our Group to procure similar raw materials from alternative suppliers in our approved qualified suppliers list in a timely manner.

We have an experienced management team with extensive knowledge of the graphite electrode industry and markets

We are led by an experienced management team with extensive industry experience and a proven track record in the management and manufacturing of UHP graphite electrodes which position us for profitable growth in any environment.

Our senior management team comprising (i) Mr. Adriaan Johannes Basson, our executive Director and technical service projects director, (ii) Dr. Shen, our executive Director and chief executive officer, (iii) Mr. Hou Haolong, our executive Director and executive vice president of business development, (iv) Mr. Feng Jianguo, our chief technology officer, and (v) Mr. Luiz Freitas, our executive vice president of operations, who have more than 47, 39, 19, 24 and 47 years of experience in the graphite electrode industry, respectively.

To enhance the efficiency of our Group, we have employed a team of senior managers with vast experience in various aspects, including but not limited to sales and marketing, production and technical capabilities to optimise our products to meet our customers’ requirements, to assist our Board in the daily management and operation of our Group. For instance, our strong and highly motivated sales teams with presence in Americas, EMEA, APAC and the PRC, possess relevant experience and technical knowledge to handle customers’ requests and to recommend value-added and suitable products and services to meet their needs. This, in turn, enables us to sustain good business relationship with our existing customers and develop new business relationship with potential customers. For the biographical details of our management team, please refer to the section headed “Directors and Senior Management” in this prospectus.

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In addition, we place great emphasis on investment in people. We encourage continuous professional development of our staff at all levels. We are selective in our hiring process with focus on recruiting and training employees who have the potential to become long-term members of our management. Training programmes on technical knowledge are provided as and when required to ensure that our employees are updated on the latest developments in the industry where we operate. Regular discussion with employees on how they are meeting their targets and refresher trainings are also provided.

We believe that our Directors and senior management possess the necessary leadership capabilities, industry knowledge and qualifications to strengthen our presence in the graphite electrode industry, capture market opportunities, sustain our business and ensure our continued growth and success.

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Our aim is to reinforce our position as a global manufacturer to supply UHP graphite electrodes to facilitate our downstream customers to contribute to a green and sustainable economy in the long run. To achieve such goal, we have to maintain and/or increase our sales volume and profitability so as to sustain our business development and maintain our financial performance. Our Directors, are of the view that graphite electrode manufacturing business is subject to various market changes beyond our control, such as environmental and trade protection policies of different countries, the market prices of graphite electrodes and needle coke as well as the market conditions of the downstream industries.

Despite that the graphite electrode market started to resume its long-term growth trajectory in 2021, between 2019 and 2020, the market price of graphite electrodes decreased continuously, and accordingly, the financial performance of all manufacturers and suppliers of graphite electrodes was materially and adversely affected. Notwithstanding the above, our Group's financial performance was aligned with the overall industry and had outperformed some of our industry peers (in terms of gross profit margin) despite the market correction and impact of COVID-19. For the comparison of the financial performance of other industry peers, please refer to the section headed "Industry Overview — Recent development of global and China Steel and graphite electrode market amid the COVID-19 — comparison of major participants' financial performance", which demonstrate that the business strategies and measures we have adopted to counter the dire market changes and business conditions during the Track Record Period were effective and successful.

We plan to implement the following strategies in order to achieve our goals:

Strategies to expand customer base and sales volume

Strengthen established customer relationship and further expand our customer base

We have a strong and stable relationship with our current major customers, a majority of which are major global steel manufacturers. We believe that these close relationships, which reflect an important validation of our production capabilities for potential new customers and provide us with opportunities to further develop our current and new customers.

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According to the F&S Report, in 2026, (i) the global production volume and the consumption volume of graphite electrodes (excluding the PRC) is expected to reach approximately 0.86 million tonnes and approximately 1.09 million tonnes with a CAGR of approximately 5.0% and approximately 4.9% from 2021 to 2026, respectively, and (ii) the production volume and the consumption volume of UHP graphite electrodes in the PRC are expected to reach approximately 189.3 thousand tonnes and approximately 159.7 thousand tonnes at a CAGR of approximately 12.1% and approximately 12.5% from 2021 to 2026, respectively.

In view of the potential growth of the EAF steel industry and the resulting growth in demand for graphite electrodes and leveraging our stable relationship with reputable EAF steel manufacturers as well as our worldwide presence and regional support capabilities, we plan to further expand our business scale and market share in order to solidify and continuously enhance our global competitiveness and market position. To achieve this, we intend to:

- continue to develop and strengthen close collaborations with our existing and future customers — knowing our customers' application requirements, technical needs and operating conditions so that we can assist them to optimise their furnaces, efficiency, and establishing SANGRAF as a partner through the supply of high quality products and complimentary services. We entered into a non-binding memorandum of understanding with a steel manufacturer to explore the possibility of establishing a co-controlled joint venture company to setup and operate a plant to produce graphite electrodes in Europe and supply to both this steel manufacturer and other customers. Our Directors consider that such cooperation is mutually beneficial to both our Group and this steel manufacturer as our Group could build up a stable revenue stream from such steel manufacturer and the steel manufacturer is able to maintain a reliable source of supply from us;
- strive to become qualified suppliers of more major steel manufacturers, in particular steel manufacturers in the regions with shortage of graphite electrodes, and expand our share of supply to our existing customers. During the Track Record Period, we had 20 customers in FY2018 which increased to 45 customers in 1H2022, of which 37 customers were repeating customers and 28 customers among the repeating customers were steel manufacturers outside the PRC. In view of the potential growth of the EAF steel industry and the resulting growth in demand for graphite electrodes, and with a view to accelerating our Group's organic growth, we intend to leverage our stable relationships with reputable EAF steel manufacturers by encouraging our existing customers to place purchase orders with purchase volume proliferating each year and proactively engaging in the graphite electrode market with shortage so as to enhance our profitability in the long run;

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- enhance our development capabilities so that we can expand our business with our existing customers and offer new customers optimised products that meet their technical specifications. Answering to the increased emphasis on environment-friendly and sustainable practices by the steel industry, we are in the process of recruiting experienced technical specialists to provide technical advice to our customers on various aspects of steel manufacturing such as process efficiency and general melting practices. For this purpose, we will invest in specialised equipment to help our customers optimise and improve their productivity. We believe the knowledge and experience of these technical specialists along with the specialised equipment will be recognised by our customers as value-added services provided in addition to the supply of quality graphite electrodes. We also plan to explore the research and development of synthetic graphite anode. Please refer to the section headed “Business — Business Strategies — Strengthen our research and development capability and expand product portfolio” in this prospectus for further information; and
- target and grow with potential new customers in the market segments where we operate by monitoring industry trends, tracking and assessing potential customers we intend to secure. For this purpose, we aim to expand our existing regional sales teams in Americas, EMEA, APAC and the PRC by recruiting two to three sales staff/agents with a view to further strengthening our close business relationship with existing customers as well as approaching new customers across these regions.

We believe the efforts outlined above will help enlarge our market share and further promote “SANGRAF” brand recognition in the EAF steel community.

Expand our production capacity

As mentioned above, given the expected growth in the demand for graphite electrodes globally, particularly the demand for UHP graphite electrodes in the PRC, we expect that there will be an increasing demand for our graphite electrode products in line with the market trend.

Based on the data from the Organisation of Economic Cooperation and Development, while the outbreak of COVID-19 has resulted in the near-term recession in the early 2020, the global economy has begun to recover in the third quarter of 2020. According to IMF, the global economy is expected to strengthen gradually over 2021 with a growth rate of 5.2%. In addition, given the demand from downstream industries that the EAF steel manufacturing industry serves, such as the public infrastructure industry, the construction industry and the automobile industry, has started to recover in late 2020 and early 2021, F&S considers that this will help the recovery of the global EAF steel market.

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During the Track Record Period, our sales volume increased from approximately 10,994MT in FY2018 to approximately 19,656MT in FY2019, approximately 25,647MT in FY2020 and approximately 27,669MT in FY2021, representing a CAGR of approximately 36.0%. Notwithstanding the outbreak of COVID-19, (i) our sales volume in FY2021 was approximately 27,669MT, which represented an increase of approximately 7.9% compared with the sales volume of approximately 25,647MT in FY2020 and (ii) our sales volume in FY2020 was approximately 25,647MT, which represented an increase of approximately 30.5% compared with the sales volume of approximately 19,656MT in FY2019. Despite the challenging environment faced by the graphite electrode industry subsequent to 2018 and the outbreak of COVID-19, we delivered organic growth and expanded our customer base. Please refer to the section headed “Industry Overview — Comparison of Major Participants Financial Performance” in this prospectus for further information.

Further, our Group has a strong and stable relationship with our current major customers, a majority of which are major global steel manufacturers. In view of the potential growth of the EAF steel industry and the resulting growth in demand for graphite electrodes, to accelerate our organic growth, we intend to leverage our stable relationships with reputable EAF steel manufacturers to secure more sales orders and/or sales orders with higher sales volume with an aim to encourage our existing customers to place purchase orders with purchase volume proliferating each year. According to the market research conducted by us, the aggregate annual consumption of graphite electrode in FY2021 by steel manufacturers, which were also our top five customers during the Track Record Period, was no less than approximately 134,000MT which was approximately 12 times of our sales volume of graphite electrodes sold to these customers in FY2021 and approximately 4.9 times our total sales volume in FY2021, indicating further room for our growth.

Having considered the above, we are keen to increase our own production capacity and capability. If our expansion plan is carried out as anticipated, we will be equipped with more extensive and comprehensive production capability, resulting in greater economic of scale and enabling us to capture more demand of our existing customers and become qualified suppliers of other top tier new customers. Our Directors are of the view that the upward trend in our sales volume throughout the Track Record Period is a solid proof of our capability to capture demand of our new and existing customers. During FY2020 and 1H2022, our Group’s financial performance was aligned with the overall industry and had outperformed some of its industry peers (in terms of gross profit margin) despite the market correction and impact of COVID-19. Please refer to the sections headed “Business — Competitive Strengths” and “Business — Business Strategies” in this prospectus for further information. For a comparison of the financial performance among our Company and other industry peers, please refer to the section headed “Industry Overview — Recent development of global and China steel and graphite electrode market amid the COVID-19 — Comparison of major participants’ financial performance”.

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In order to capture such growth, we plan to expand our production capacity in Italy and the PRC by acquiring the Taigu Assets as well as upgrading the production systems of the PRC Factory, the Sanli Assets and the Italian Factory. Details of the Italian Factory, the PRC Factory, the Sanli Assets and the Taigu Assets, together with our expansion plan, are summarised below:

	Description of the properties	Approximate total land area (m ²)	Graphite electrode production capabilities	Expansion plan (Note)	Total estimated cost (HK\$)	Use of proceeds from the Global Offering (HK\$)/percentage
The Italian Factory	<ul style="list-style-type: none"> Located in Narni, Umbria, Italy Land, building and production facilities 	345,971	Complete manufacturing processes	<ul style="list-style-type: none"> Upgrade of production system through the purchase of new machinery and modification of existing machinery 	69.0 million, of which 44.0 million will be funded by proceeds from the Global Offering and the remaining by internal funding	44.0 million (18.5%)
The PRC Factory	<ul style="list-style-type: none"> Located in Hongzhou Town, Huixian City, Henan Province, the PRC Land, building, and production facilities 	198,362	Complete manufacturing processes except graphitisation	<ul style="list-style-type: none"> Purchased the PRC Factory (excluding the Extrusion Facilities) and the Sanli Assets by way of a judicial auction sale which was completed in June 2020 and the title to the PRC Factory and the Sanli Assets were transferred to us in August 2020 pursuant to the final conclusion rulings issued by the relevant local PRC court Upgrading production system through the purchase of machinery and modification of existing machinery 	205.8 million for the purchase of the PRC Factory (excluding the Extrusion Facilities) and the Sanli Assets. 56.0 million, of which 35.6 million will be funded by proceeds from the Global Offering and the remaining by internal funding	Nil 35.6 million (14.9%)
The Sanli Assets	<ul style="list-style-type: none"> Located in Huixian City, Henan Province, the PRC Land, building, plant and machinery 	95,538	Complete manufacturing processes	<ul style="list-style-type: none"> Purchased the PRC Factory (excluding the Extrusion Facilities) and the Sanli Assets by way of a judicial auction sale which was completed in June 2020 and the title to the PRC Factory and the Sanli Assets were transferred to us in August 2020 pursuant to the final conclusion rulings issued by the relevant local PRC court. Re-start and upgrade of production system 	<ul style="list-style-type: none"> Please refer to the total estimated cost in respect of the purchase of the PRC Factory above 81.0 million, of which 52.0 million will be funded by proceeds from the Global Offering and the remaining by internal funding 	<ul style="list-style-type: none"> Please refer to the use of proceeds in respect of the purchase of the PRC Factory above 52.0 million (21.8%)

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Description of the properties	Approximate total land area (m ²)	Graphite electrode production capabilities	Expansion plan (<i>Note</i>)	Total estimated cost (HK\$)	Use of proceeds from the Global Offering (HK\$)/percentage
<p>The Taigu Assets</p> <ul style="list-style-type: none"> • Located in Taigu County, Jinzhong City, Shanxi Province, the PRC • Land, building and manufacturing plant and machinery used in the re-baking, pitch impregnation and graphitisation of graphite electrodes • Currently owned and operated by Shanxi Taigu, which we will own upon the completion of the asset purchase agreement dated 10 October 2019, which was supplemented by the supplemental agreements dated, 15 October 2019, 26 June 2020, 25 June 2021 and 7 June 2022, entered into between Shanxi Taigu and us 	73,333	<ul style="list-style-type: none"> • Pitch impregnation • Re-baking • Graphitisation 	<ul style="list-style-type: none"> • Purchase of the Taigu Assets through the asset purchase agreement dated 10 October 2019, which was supplemented by the supplemental agreements dated 15 October 2019, 26 June 2020, 25 June 2021 and 7 June 2022, entered into between Shanxi Taigu and us which was pending completion as at the Latest Practicable Date 	83.0 million	83.0 million (34.8%)

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(a) *The PRC Factory and the Sanli Assets*



The PRC Factory



The Sanli Assets

Having considered the premium products manufactured by the advanced technology and equipment possessed by the PRC Factory, which Sangraf US considered to be able to satisfy the needs of its international customers, after the PRC Factory officially commenced full operation in 2014, we endeavoured to source graphite electrodes manufactured at the PRC Factory.

In December 2018, with a view to establishing our own production capability in the PRC, our Group leased the PRC Factory from Henan Kefeng for a term of 10 years to serve as our production base in the PRC, and acquired the Extrusion Facilities. For further details on the background of our Group's production facilities in the PRC, please refer to the sections headed "Our History and Development — Introduction" and "Relationship with our Controlling Shareholders — (b) Our Group's rationale for acquiring the Extrusion Facilities" in this prospectus.

In June 2020, the PRC court ordered a judicial auction to be held in respect of the PRC Factory and the Sanli Assets. Having considered that (a) we have been selling products principally manufactured in the PRC Factory since 2014; (b) we have leased the PRC Factory to develop our own manufacturing capability since December 2018; (c) we plan to further expand our production capacity to suit our production needs; and (d) the consideration of the judicial auction represents a discount of approximately 44% to the valuations relied on by the PRC court, we participated in the judicial auction of the PRC Factory and the Sanli Assets in June 2020 to purchase:

- (i) the PRC Factory, and
- (ii) the Sanli Assets,

at a total purchase price of HK\$205.8 million (equivalent of RMB187.1 million), of which HK\$60 million was financed by a loan from a related company which was fully repaid as at the Latest Practicable Date, and the remaining HK\$145.8 million was paid by internal funding.

As at the Latest Practicable Date, (i) we had fully paid the purchase price and obtained the title of the PRC Factory and the Sanli Assets pursuant to the final conclusion rulings issued by the relevant local PRC court in August 2020, (ii) we had obtained the land use rights certificates, and were in the process of applying for the building ownership certificates in respect of the PRC Factory; and (iii) we were in the process of applying for the land ownership certificate in respect of the Sanli Assets.

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According to our PRC Legal Advisers, as we had obtained the final conclusion rulings issued by the relevant local PRC court, there is no legal impediment in substance for us to obtain the above building ownership certificates and land ownership certificate under the judicial auction provided that we submit relevant registration documentation required by the relevant local real estate registration administrative authority.

(b) The Taigu Assets



The manufacturing of graphite electrodes involves various production steps. At present, we subcontract part of our production processes to third party subcontractors, including Shanxi Taigu, being the owner of the Taigu Assets, in order to better manage our overall production schedule. We consider that it will be beneficial to us in the long term to have our own complete production process capability in the PRC which will shorten our production cycles given that we will not be subject to the production schedules of these subcontractors, such as lining up with others in the production schedules and the addition of the Taigu Assets and its graphitisation, impregnation and re-baking capacities to our existing facilities will complement our existing production capabilities of the PRC Factory. This, in turn, will increase our overall production efficiency and enable us to meet and better manage our customers' demands. After the acquisition of the Taigu Assets, we will discontinue all subcontracting of our production processes to our subcontractors, the cost of which amounted to approximately US\$10.8 million, US\$3.5 million, US\$6.4 million and US\$3.0 million in FY2019, FY2020, FY2021 and 1H2022, respectively, and will instead perform the subcontracted production processes at the PRC Factory on our own. For further details on our production processes, please refer to the section headed "Business — Production" and the section headed "Business — Our Suppliers — Subcontracting" in this prospectus.

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In view of the above, we entered into an asset purchase agreement dated 10 October 2019, which was supplemented by the supplemental agreements dated 15 October 2019, 26 June 2020, 25 June 2021 and 7 June 2022 (collectively, the “**Asset Purchase Agreements**”) with Shanxi Taigu to acquire the Taigu Assets at a total purchase price of HK\$83.0 million (equivalent of RMB75.0 million), of which RMB15.0 million shall be settled within three months after the Listing, RMB30.0 million shall be settled within nine months after the Listing and RMB30.0 million shall be settled within 15 months after the Listing. In the courses of negotiation in relation to the terms of supplemental agreements, given Shanxi Taigu is one of our subcontractors, our Group, as one of their major customers, leveraged on our business relationship with Shanxi Taigu in persuading it to agree to the extended completion timetable. The above purchase price was determined on an arm’s length basis with reference to a valuation report prepared by an independent valuer.

Our Board was advised that as Shanxi Taigu did not have a full production process capability for the production of graphite electrodes and the above purchase price represented a fair price to Shanxi Taigu based on the above valuation, it decided to dispose of the Taigu Assets to us and focus on the development of its other businesses, such as carbon cathode production.

The salient terms of the Asset Purchase Agreements are summarised below:

- (a) the completion of the above acquisition will take place within three months after the Listing;
- (b) the completion of the above acquisition is subject to, amongst others, (i) the Taigu Assets being free from any pledges, charges and/or other restrictions, and (ii) obtaining by us relevant environmental related documents, including environmental assessment, the land use rights certificate in respect of the land involved and the building certificates in respect of the buildings erected on the land; and
- (c) if:
 - (i) there is an indication that Shanxi Taigu is not able to procure the obtaining of the relevant environmental related documents, land use rights certificate and/or the building certificate referred to in paragraph (b)(ii) above, we can terminate the Asset Purchase Agreements without any liability; or
 - (ii) it transpires within six months after the completion of the acquisition that there are defects in the Taigu Assets or the Taigu Assets do not conform to their conditions as at the date of the Asset Purchase Agreements, we can reduce the purchase price and return some of the Taigu Assets or terminate the Asset Purchase Agreements whereupon Shanxi Taigu must return any purchase price paid by us.

As at the Latest Practicable Date, the first notice of the environmental assessment had been published. The remaining assessment procedures and the completion are expected to take place within three months after the Listing. We had not paid any purchase price to Shanxi Taigu nor had we obtained the land use right certificate and the building certificates as at the Latest Practicable Date.

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If the acquisition of the Taigu Assets does not materialise as a result of not obtaining the necessary land use rights certificate and the building certificates in respect of the land and buildings erected thereon by us, we intend to use the proceeds from the Global Offering allocated for the acquisition of the Taigu Assets to acquire assets similar to the Taigu Assets in the PRC which can handle impregnation, re-baking and graphitisation production processes.

(c) Upgrade of our production facilities

If our forecast sales volume exceeds our production capacity, we can only increase our production capacity, by upgrading our existing machines. For further details on the utilisation rates of our production capacity, please refer to the sub-section headed “(d) Benefits of our expansion plan” in this prospectus.

In view of this, we intend to upgrade our production systems in the Italian Factory, the PRC Factory and the Sanli Assets with the purchase and installation of additional machines and equipment so that we will be able to capture new business opportunities by maintaining sufficient spare production capacity to satisfy potential increases in sales orders from our customers.

For instance, we occasionally use our existing furnace and equipment designed for baking (first baking) at the PRC Factory for both baking (first baking) and re-baking processes. Due to these processes competing for the same furnace, we do not have enough capacity to carry out both processes and will have to subcontract some of our baking and re-baking processes to third party subcontractors. The purchase of new furnaces and equipment for re-baking processes at the PRC Factory as part of our expansion plan will eliminate the current constraints we face in using the same machines and equipment for both baking and re-baking processes. By designating different furnaces to carry out the baking and re-baking processes separately, we will be able to better manage our production scheduling.

Furthermore, in order to achieve optimisation of the Sanli Assets which have been idle for a period of time before we acquired them, we need to restart the furnaces and upgrade the graphitisation processing line after relocating the same to the PRC Factory.

For the Italian Factory, as at the Latest Practicable Date, our Group was in the process of performing upgrades to existing graphitizing furnaces and installation of new machining line for supersede electrodes. We will enter into the next phase of upgrading process, such as the purchase and installation of the new graphitising furnaces, and the refractory construction of the baking furnaces.

We estimate that the total cost of upgrading the production systems of our production facilities in the Italian Factory, the PRC Factory and the Sanli Assets will be approximately HK\$240.9 million, of which approximately HK\$131.6 million will be funded by the proceeds from the Global Offering and the remaining of approximately HK\$109.3 million will be funded by internal funding. Each of the following implementation activities shall commence at the beginning of the respective year and in accordance with the payment schedule, details of which and the implementation plan are set out below:

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For the 12 months ending 31 December 2023

Production facilities	Implementation activities	Detail of activities	Number of machines	Type of machines	Production process	Payment schedule ^(Note) (HK\$ million)			Estimated capital expenditure to be funded by proceeds from the Global Offering (HK\$ million)			
						Paid during the Track Record Period	For the 6 months ending 30 June 2023	For the 6 months ending 31 December 2023				
The Italian Factory	To implement manufacturing upgrade project including equipment purchase and furnaces modification	Purchase and installation of new machinery Modification to existing machinery Refractory reconstruction of 22 chambers ring furnaces Cleaning machine for super-size electrodes Purchase and install 3 new LWG furnaces Machining line for super-size graphite electrodes	1 3 1 1 3 1	270kA rectifier system Graphitising furnaces components 22-chamber ring furnaces Impregnation cleaning machine LWG graphitisation furnaces Multi-station machine for 600-800 diameter electrodes	Graphitisation Graphitisation Baking Impregnation Graphitisation Machining	28.7	6.2	64.7	4.3	103.9	44.0	
		Trolley for graphitisation process	1	Trolley for graphitisation process	Graphitisation	—	—	—	—	20.0	—	12.9
The Sani Assets	To modify and restart furnaces for capacity enhancement	Modification to existing machinery Modification to existing machinery	1 1	270kA rectifier system Baking furnace components	Extrusion Baking	—	—	20.0	—	—	—	20.0
The Sani Assets	To relocate and upgrade the graphitisation processing line from the Sani Assets	Relocation and upgrade of existing machinery	1	LWG graphitisation furnace	Graphitisation	—	—	42.7	18.3	61.0	39.1	
The PRC Factory	To purchase and install new furnaces for impregnation	Purchase and installation of new machinery	1	Impregnation tank	Impregnation	—	—	6.0	—	6.0	3.9	
The PRC Factory	To purchase and install new furnace for rebaking	Purchase and installation of new machinery	1	Tunnel kiln	Rebaking	—	—	15.4	6.6	22.0	14.1	
The PRC Factory	To purchase and install new furnaces for re-baking	Purchase and installation of new machinery	3	One 18-chamber furnace; two car-bottom furnaces	Baking and re-baking	—	—	19.6	8.4	28.0	17.6	
Sub-total						28.7	6.2	168.4	37.6	240.9	131.6	

Note: The payment schedule is determined based on the assumption, with reference to our previous similar activities, that the fee for each implementation activity will be paid by instalment with a milestone date falling within each period of six months.

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Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

As at 30 June 2022, we had 209 full-time employees. With the expansion plan and in addition to the expansion of our sales teams as mentioned above, we plan to recruit approximately 20 employees in Italy and 50 employees in the PRC. The staff cost in connection with such recruitment is estimated to be approximately HK\$9.3 million per year and will be funded by internal funding.

(d) Benefits of our expansion plan

Our expansion plan above has the following benefits:

- capacity to secure sizeable orders — according to Frost & Sullivan, a majority of the production capacity in the global graphite electrode market is concentrated in large-scale graphite electrode manufacturers. Small-sized manufacturers with insufficient production capacity and low utilisation rate face great challenges to maintain competitiveness. As such, scale production is conducive to improving production technologies and control on costs. By implementing our expansion plan, we will be able to enhance our economies of scale and remain competitive in the industry.

As we only commenced production at the Italian Factory in June 2018 and our production cycle is approximately three to five months, this resulted in a low utilisation rate at the Italian Factory of approximately 14.6% in 2018. In FY2019, being the first full financial year during which we commenced the production of our products at both the Italian Factory and the PRC Factory, the utilisation rate of the Italian Factory and the PRC Factory were approximately 62.0% and 91.2%, respectively.

For FY2020, the utilisation rate of the Italian Factory was approximately 57.5% and the PRC Factory was approximately 60.8%, after taking into account a period of 40 days without production as a result of an extension of the Chinese New Year in the PRC due to the outbreak of COVID-19.

For FY2021, the utilisation rate of the Italian Factory and the PRC Factory was approximately 91.7% and 65.2%, respectively.

For further details of our production capacity, please refer to the section headed “Business — Our Production — Production Capacity”.

BUSINESS

Our production capacity based on the maximum capacity (not adjusted by unforeseeable events) in the production processes in these factories and assets is summarised below:

	FY2021 (MT)
The Italian Factory	16,500
The PRC Factory	<u>14,000</u>
Total:	<u><u>30,500</u></u>

If our forecasted sales volume exceeds our production capacity, we may have to give up new production orders for graphite electrodes and may lose potential customer orders or sales opportunity.

With the full implementation of the above production capacity expansion plan and acquisitions, our estimated total production capacity based on the effective capacity in the production processes in these factories and assets is summarised below:

	FY2024 (MT)
The Italian Factory	30,000
The PRC Factory and the Sanli Assets	<u>38,000</u>
Total:	<u><u>68,000</u></u>

The above increase in the effective production capacity will enable us to grow our business, particularly in the PRC market which, in turn, enables us to take in more customers and purchase orders.

- better management of our production output and lower production costs — the production of graphite electrodes involves various different production processes. Any step to improve or complete our production processes will help improve our production output. The acquisition of the Sanli Assets and the Taigu Assets will complete our production processes at the PRC Factory, and enable us to carry out the complete production process of our products in the PRC. Before such acquisition, we subcontracted to our subcontractors, such as the baking processes to Shanxi Taigu. This will increase our production efficiency as our production cycles will be shortened through better management of the entire production processes; and

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- long term development and sustainability — the graphite electrode industry, especially the premium graphite electrode market, is capital-intensive and requires heavy investment in production facilities and equipment. In addition, as the industry has been subject to increasingly stringent regulatory requirements of environmental protection as well as various initiatives to achieve for dual carbon goal around the globe, we may be required to modify and optimise our production facilities to comply with new regulations from time to time. The processes of optimisation of production facilities and upgrading production systems are time consuming and require sophisticated technical skills.

If we were to continue to lease the PRC Factory instead of owning it, the then lease agreement of the PRC Factory would have expired in less than 10 years, which is too short for us to implement any long term business development strategies. More importantly, there is no assurance that the lessor of the PRC Factory would agree to extend our lease for another 10 years upon the expiry of the lease of the PRC Factory or would not otherwise terminate our lease before its expiry or dispose it to third parties. Accordingly, for our long term business sustainability and with a view to achieving profitability, we considered that it was critical for us to eliminate the above risks and uncertainties by owning instead of leasing the PRC Factory.

(e) Breakeven and payback analysis

For illustration purposes only, we expect that the breakeven period, being the length of time required for the upgrading the production systems of our production facilities in the Italian Factory, the PRC Factory and the Sanli Assets to generate sufficient additional revenue for our Group to cover its additional operating cost during the same financial year, to be approximately 12 months after the completion of the above upgrades of our production systems.

In addition, we estimate that the payback period, being the number of years we need to cover the relevant capital expenditures to be incurred in connection with the above production facility upgrades (including the purchase of new machines and equipment) calculated based on our Group's additional forecasted earnings after tax which exclude non-cash expenses (depreciation and amortisation), will be approximately 6.6 years after the completion of the above upgrades of our production systems.

The above is subject to a number of risks and uncertainties, including the difficulty in forecasting the level of customer orders with certainty. For further details, please refer to the section headed "Risk Factors — There is no assurance that our business strategies and future plans will be successfully implemented" in this prospectus.

BUSINESS

The breakeven and payback period are determined based on the assumptions that:

- (i) the utilisation rate of upgraded production facilities in the Italian Factory, the PRC Factory and the Sanli Asset will reach 70%, and such an increase in the production volume will help to generate our sales income;
- (ii) our gross profit margin after the upgrade will be at the level of the average gross profit margin achieved by our existing production facilities for FY2019, FY2020 and FY2021;
- (iii) the ratio of our selling expenses to our revenue after the upgrade will be the same as the average of that for FY2019, FY2020 and FY2021;
- (iv) the ratio of our administrative expense to our revenue after the upgrade will be the same as the average of that for FY2019, FY2020 and FY2021;
- (v) our tax rate after the upgrade will be the same as the our tax rate for FY2018; and
- (vi) the useful life of our upgraded production facilities will be 20 years and its residual value of 20% will be consistent with our depreciation treatment of plant and machinery.

Maintain and enhance profitability

Strategic allocation of sales to regions with shortage of graphite electrodes

We would strategically allocate our sales to regions with higher market price and profit margin. According to our experience, the profit margin in the market of Americas has generally been the highest among other regions, followed by EMEA.

Based on the prevailing market price information available to us such as:

- (i) the agreed price of recently confirmed purchase orders;
- (ii) information received during the negotiations with different customers as the customers may counter-offer prices based on quotations they received from other suppliers;
- (iii) market intelligence of our sales team personnel and customer representatives; and
- (iv) graphite electrode market news,

we will allocate our products to purchase orders with the highest margins available at the relevant time and/or pursue negotiation with our customers.

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Since our customers are spread in Americas, EMEA, the PRC and APAC regions, we have taken and will continue to take advantage of such diversity and flexibly allocate our sales, to the extent possible, to more lucrative regions. For instance, we have increased our sales volume to EMEA by two folds from 3,114MT in FY2018 to 8,343MT in FY2020. Such approach has also enabled us to avoid impacts arising from any exceptional adverse market development, such as COVID-19, as we will be able to work around the market landscape and retain more sales in better performing markets to play down the adverse effect brought to our financial performance.

According to Frost & Sullivan, the shortage of the global supply of UHP graphite electrodes is expected to be filled up by the export of UHP graphite electrodes from the PRC. The table below illustrates the global production volume and the consumption volume of graphite electrodes (excluding the PRC) between 2021 and 2026:

	Global (excluding the PRC) (in million tons)						CAGR
	2021	2022E	2023E	2024E	2025E	2026E	2021–2026E
Production volume	0.67	0.71	0.75	0.79	0.82	0.86	5.0%
Consumption volume	0.86	0.92	0.97	1.01	1.05	1.09	4.9%

Source: Frost & Sullivan

From the above, the global production volume and the consumption volume of graphite electrodes (excluding the PRC) is expected to reach approximately 0.86 million tons and approximately 1.09 million tons, respectively, by 2026 with a CAGR of approximately 5.0% and approximately 4.9% from 2021 to 2026, respectively.

As advised by Frost & Sullivan, most of the EAF steel manufacturers outside the PRC use UHP graphite electrodes from the global market, including the PRC. As such, while there is an over-production of the UHP graphite electrodes in the PRC which is expected to continue between 2022 to 2026, there is at the same time a short supply of UHP graphite electrodes outside the PRC arising from the demolition, long-term environmental remediation and repurposing of lower capacity facilities.

According to Frost & Sullivan, compared with other major graphite electrode suppliers outside the PRC, such as graphite electrode manufacturers in India, PRC manufacturers have more comprehensive and sophisticated logistics and manufacturing systems. In addition, the supply of graphite electrodes in the PRC is more stable since PRC graphite electrode manufacturers, especially the leading ones, have committed to maintaining competitive advantages and ensuring production stabilities through vertical integration including the construction of production facilities for its raw material, such as needle coke. The vertical integration of supply chain in this market is beneficial to offer a stable and high-quality supply of raw materials and ensuring the stable supply of graphite electrode.

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Furthermore, the graphite electrode industry in developed countries, such as Japan, has reached a mature stage of development. The industry has experienced consolidation, mergers and acquisitions, and structural optimization, mainly leaving medium and large-sized companies in the industry. As old production lines of graphite electrodes costing a lot to maintain and in order to face strict environmental protection policies and maintain stable profit growth, those enterprises gradually optimised their production capacity and eliminated their old production lines. For example, Showa Denko closed one of its production plants in 2020 with 40 thousand tonnes of production capacity of graphite electrodes so as to lower their production cost.

The supply of graphite electrodes might not be stable in the future. The gap between the global production volume and the consumption volume of the global market of UHP graphite electrodes (excluding the PRC) is expected to be fulfilled by the export of UHP graphite electrodes from the PRC. As such, it is expected that an increasing number of the PRC graphite electrode manufacturers will actively expand the production capacity and increase the production volume of UHP graphite electrodes in order to meet the demand of UHP graphite electrodes outside the PRC.

We will take advantage of our knowledge, experience and networks gained from our previous dealings with international customers and our operational experience in the PRC and become more sophisticated in exporting graphite electrodes from the PRC to worldwide customers and grasp more market shares in the PRC export market. During the Track Record Period, our Group mainly focused on the international market. For FY2018, FY2019, FY2020, FY2021 and 1H2022, our sales of graphite electrodes to international customers accounted for approximately 96.1%, 87.9%, 67.5%, 73.7% and 73.7%, respectively, of the total revenue.

Reinforce inventory management policy

Against a background of high volatility of the graphite electrode markets and further decline in the UHP graphite electrode market price in 2019 and to minimise our potential exposure to the provision for inventories in the future, we strategically adjusted our inventory management and purchase policies with an aim to exerting strict control upon our inventory level and sourcing cost of raw materials.

We also monitor the market price trend of raw materials closely so as to strategically adjust the quantity and timing of each raw material purchase from time to time. This approach enables us to flexibly react to fluctuations in the market price of raw materials. For instance, in FY2020, we were able to purchase needle coke at an average price of approximately US\$829/MT, which was below the average needle coke market price of approximately US\$1,210/MT. The benefit of this approach was evidenced in the reduction in our cost of raw materials from approximately US\$2,898/MT in FY2019 to approximately US\$2,185/MT in FY2020 to approximately US\$1,174/MT in FY2021 and further to approximately US\$1,079/MT in 1H2022.

Based on our analysis of the market price trend, we were able to capture the low price of needle coke in the fourth quarter of FY2020 and the first quarter of FY2021 ahead of an increase in needle coke prices and acquired approximately 53% of our demand of needle coke for 2021 at below-average price levels. We purchased approximately 4,000MT of needle coke at approximately US\$650/MT in the fourth quarter of FY2020 and approximately 4,500MT of needle coke at approximately US\$900/MT in February to April 2021, which was below the average needle coke market price of approximately US\$1,301/MT in the first quarter of 2021.

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Our inventory management policy was designed to minimise the risk of shortage of raw materials and to optimise inventory levels pursuant to which we will perform regular checks of our inventory levels at the end of each month regarding aged inventories and analysis of historical trends. Our provision for inventories decreased from approximately US\$16.2 million in FY2019 to approximately US\$2.4 million in FY2020 to nil in FY2021 and nil in 1H2022. For further details on our inventory management and purchase policy, please refer to the section headed “Business — Inventory Management” in this prospectus.

Enhance production efficiency

We strive to reduce production costs by enhancing production efficiency and reduce scrap rate of our production processes. Each of our production processes is clearly governed by detailed internal procedures and guidelines. We monitor our scrap rates closely. Our technical team strives to enhance our manufacturing process continuously to improve our production efficiency by lowering our production cost and reducing overall production time. By enhancing our overall production efficiency, we are able to reduce our production costs and hence create more profit potential.

During the Track Record Period, our Group had implemented different measures to enhance production efficiencies. The table below set outs the measures we implemented in the Italian Factory:

Measures	Implementation and estimated effect(s)
Modification of eight bake furnace chambers	<ul style="list-style-type: none">• Enabled to process graphite electrodes with diameter up to 750mm• Increased the individual chamber capacity increased by 19%• Estimated annual cost for fuel would be reduced by approximately US\$62,000
Installation of 30MW rectifier system in graphitizing	<ul style="list-style-type: none">• Increased our rectified capacity and efficiency as more pieces could be fired per run and reduced power consumption.• Estimated annual cost for energy would be reduced by approximately US\$104,000

BUSINESS

The table below set outs the measures we implemented in the PRC Factory following our Group's acquisition in 2020:

Measures	Implementation and estimated effect(s)
<p>Reduction of scrap rate through:</p> <ul style="list-style-type: none"> — Upgrading the electrode extrusion system, coke milling and screening equipment; and — Updating the process control procedures 	<ul style="list-style-type: none"> ● The scrap rate decreased from approximately 5.7% in 2020 to approximately 1.6% in 2021 ● The production yield increased from approximately 51.7% in 2020 to approximately 58.7% in 2021 ● Such increase in production yield will result in an estimated reduction of approximately 5.3% in the PRC Factory for FY2020 production cost per MT, assuming all else being equal ● Assuming the efficiency is realised in FY2020, the cost savings is estimated to be approximately US\$1.7 million

Strengthen our research and development capability and expand product portfolio

We plan to explore the research and development of synthetic graphite anode. Synthetic graphite anode material is a critical component for Li-ion battery and is used as its anode. In particular, the same graphitisation technology used in our existing products, such as graphite electrodes is also used in the manufacturing of synthetic graphite anode and process as well as raw material, such as needle coke. Li-ion battery is commonly adopted as a versatile energy storage application for electrical vehicles, stationary energy storage and consumer electronics.

Taking into account, among others, (i) governments' encouraging policies in relation to science and technology innovation and the global context of carbon neutrality; (ii) our advanced technology and equipment possessed by the PRC Factory, and (iii) the rapid growth in the global market of Li-ion battery industry driven by electrical vehicles where, according to Frost & Sullivan, a CAGR of sales volume from 2026 is estimated to be approximately 34.6%, our Directors believe that such plan is feasible and the success of the research and development of the special graphite material is expected to expand our product portfolio as well as our customer base across the market spectrum, and therefore, will broaden our income sources and reinforce our profitability.

As at the Latest Practicable Date, we had completed the production of the trial lot of synthetic graphite anode material in both of the PRC Factory and Italian Factory. Based on the quality and performance tests conducted by a qualified third-party laboratory engaged by us, our testing samples are qualified for the use of Lithium-ion batteries manufacturing where these batteries are used in electric vehicles and power storage battery fields. We have produced the first lot of synthetic graphite anode material which will be delivered to potential power battery manufacturers for trial. Our Group intends to use internal resources to finance such preparation works.

BUSINESS

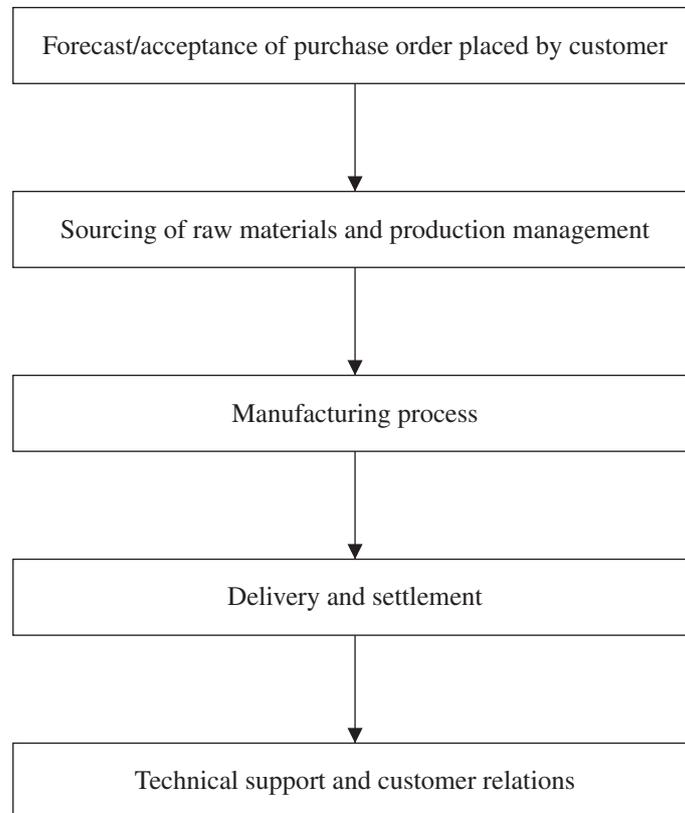
BUSINESS MODEL AND BUSINESS OPERATIONS

Business model

We mainly manufacture and sell our products to steel manufacturers. Steel manufacturers maintain a list of qualified suppliers for graphite electrodes based on the quality of the products and price quotations provided by potential suppliers. To be qualified as an approved supplier of these steel manufacturers, our graphite electrodes are subject to quality review and must meet their technical specifications and perform efficiently in their furnaces. Leveraging upon the location of our production facilities in Italy and the PRC, and on our sales teams in Americas, EMEA, APAC and the PRC, we are able to ship our products to our customers' facilities across the globe.

Business operations

The chart below depicts the key phases of our business operations in a chronological order:



Forecast/acceptance of purchase order placed by customer

Based on our communication with our customers, we forecast sales for each year and develop the production plan for our products.

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Our production teams located in the Italian Factory and the PRC Factory would work with our supply chain team and sales teams to ensure that we meet the quantities, specifications and delivery schedules specified in the purchase orders before we determine our product price and accept orders from customers. For our pricing policy, please refer to the section headed “Business — Customers — Pricing policy” in this prospectus for further details.

Sourcing of raw materials and production management : We generally source our raw materials based on our production schedule and existing inventories.

We mainly source our major raw materials, such as needle coke and binder pitch, from suppliers located in the U.K., Germany, Japan, South Korea, the PRC and the Czech Republic. We also compare our production plan (which is based on confirmed orders), consignment by our customers and expected orders forecasted by our sales team with our inventory on a bi-weekly basis.

Manufacturing process : We manufacture our products at the Italian Factory and the PRC Factory. Depending on the type of product and subcontracting arrangements, the production cycle of our graphite electrode products is approximately three to five months.

Please refer to the section headed “Business — Our Production” in this prospectus for further details.

We have implemented stringent quality control systems and procedures throughout our manufacturing process. Please refer to the section headed “Business — Quality Control” in this prospectus for further details.

Delivery and settlement : We engage external logistics companies, which are Independent Third Parties, to transport and deliver our products to the steel manufacturers’ factories or warehouses.

Our customers generally settle payments within a credit period of 30 days to 60 days upon receipt of our products.

Please refer to the section headed “Business — Sales and Marketing” for further details.

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Technical support and customer relations

: We value our relationships with our customers.

We have a dedicated technical team which provides technical support to our customers and when required, we assign appropriate personnel to the production facilities of the steel manufacturers to attend to their requirements and enquiries.

In addition, we have a detailed complaint handling policy to ensure all complaints are timely and properly handled as well as documented.

Please refer to the section headed “Business — Sales and Marketing” for further details.

OUR PRODUCTS

Our graphite electrode products are used for steel manufacturing and can be used in EAF and ladle furnaces for manufacturing of special steel and in smelting furnaces for production of titanium dioxide, silicon metals and other ferrous and non-ferrous metals. They range in size from 300 to 800 mm in diameter, 1,500 to 2,800 mm in length and each of them weighs up to approximately 1.5 MT. Our graphite electrode products comprise two components, namely the graphite electrode and the connecting pin which is fitted to one of the sockets of each graphite electrode to facilitate the use in our customer’s furnace.

The photos below are components of our graphite electrode products for illustrative purpose.



Graphite electrodes



Connecting pins

BUSINESS

The table below sets out the breakdown of our revenue, sales volume and average selling price of our products during the Track Record Period:

Year/period	Revenue <i>(US\$'000)</i>	Sales volume <i>(MT)</i>	Average selling price <i>(US\$)</i>	Industry average selling price (The PRC) <i>Notes (1) and (2)</i> <i>US\$/MT</i>	Industry average selling price (Global excluding the PRC) <i>Note (2)</i> <i>US\$/MT</i>
FY2018	168,319	10,994	15,310	16,527	16,055
FY2019	150,844	19,656	7,674	7,235	8,824
FY2020	108,540	25,647	4,232	3,640	4,120
FY2021	108,694	27,669	3,928	4,862	4,883
1H2021 <i>(unaudited)</i>	41,786	11,402	3,665	4,424	4,576
1H2022	59,706	12,456	4,793	5,541	6,088

Notes:

- (1) The translation of RMB into USD was approximately 7.0 during the Track Record Period.
- (2) The industry average selling price only took into account UHP graphite electrodes.

During the Track Record Period (save for FY2020), our average selling price was generally lower than that of the industry average selling prices (only related to UHP graphite electrode) mainly due to the fact that we sold some HP and RP graphite electrodes to fulfil customers' orders, which represented approximately 27.8%, 24.6%, 13.6%, 22.0% and 15.5% of our revenue in FY2018, FY2019, FY2021 and 1H2022, respectively. Since the average selling price of HP and RP was lower than that of UHP, our average selling price, which included the average selling price of UHP, HP and RP graphite electrodes, was generally lower than that of the industry average selling price of UHP graphite electrodes in the global market (excluding the PRC) and in the PRC market.

In FY2020, since there was a postponement of delivery of a purchase order with a relatively high average selling price amounted to approximately US\$6,063/MT from the original scheduled time in FY2019 to FY2020 upon the request of one of our major customers, Xinxiang Longhui. Such postponement of delivery from FY2019 to FY2020 led to our relatively higher average selling price compared with UHP graphite electrodes in the global market (excluding the PRC) and in the PRC market in FY2020. During the Track Record Period, our average selling price of UHP graphite electrodes was approximately US\$19,051/MT, US\$8,523/MT, US\$4,640/MT, US\$4,253/MT, US\$3,893/MT and US\$5,128/MT in FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively.

BUSINESS

During the Track Record Period (save for FY2018 during which we have not entered the PRC market and FY2020 during which the delivery of an order for 2,268MT of UHP graphite electrodes to Xinxiang Longhui was delayed from mid-2019 to June 2020), our average selling price of UHP graphite electrodes was generally lower than that of the industry average selling prices mainly due to the fact that the industry average selling price of the UHP graphite electrodes in the PRC has been generally lower than that of the UHP graphite electrodes sold in the global market (excluding the PRC). As such our average selling price of UHP is dragged down by our sales of UHP graphite electrodes in the PRC.

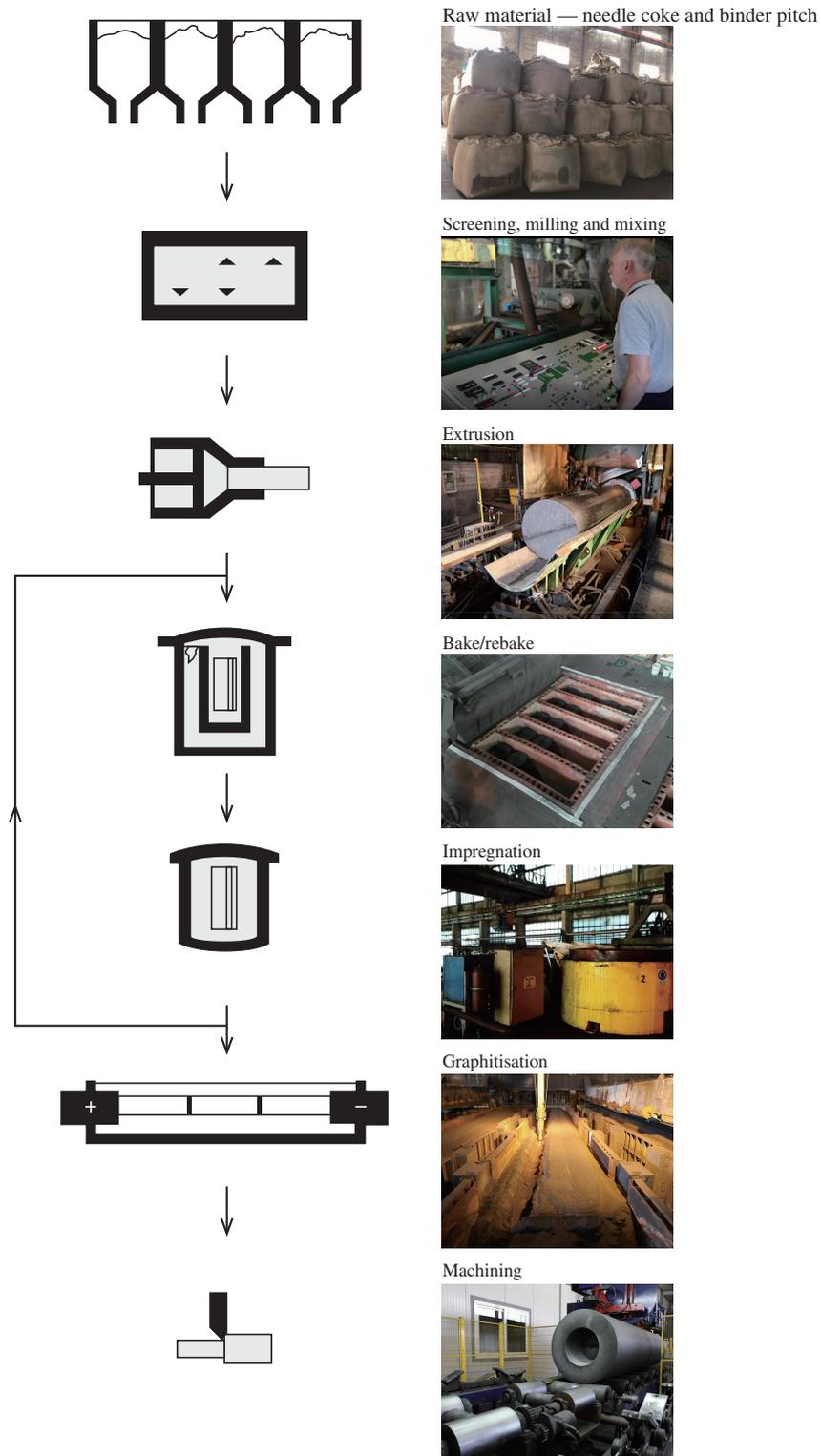
While our average selling price per MT decreased by approximately 7.2% or approximately US\$304 from approximately US\$4,232 in FY2020 to approximately US\$3,928 in FY2021, the market price of graphite electrodes and our average selling price have bottomed out in August 2020 and resumed gradual trajectory in 2021. Our average selling price per MT of each quarter of 2020 and 2021 was approximately US\$4,786, US\$4,626, US\$3,595, US\$3,679, US\$3,690, US\$3,645, US\$3,970 and US\$4,230, respectively. For details, please refer to the section headed “Financial Information — Gross profit and gross profit margin — The market price of graphite electrodes resumed gradual trajectory in 2021” in this prospectus.

OUR PRODUCTION

Our production teams, which comprise 53 and 61 operators at the PRC Factory and Italian Factory, respectively, carry out the production processes. The manufacturing of graphite electrodes involves various production processes. The Italian Factory has full capabilities to carry out all production process. While the PRC Factory has the capabilities to carry out a majority of the production processes, we subcontract part of them to our subcontractors, including Shanxi Taigu from whom we have agreed to acquire the Taigu Assets. Please refer to the section headed “Business — Suppliers — Subcontracting” in this prospectus for further details.

Production process

The production of our graphite electrode products involves the following principal processes:



BUSINESS

- *Screening, milling and mixing*

Needle coke is either screened to separate particles of different sizes or milled to become coke flour. Needle coke particles and coke flour are heated and mixed with binder pitch and other additives. We have different formulas to blend the coke particles, coke flour, binder pitch and other additives to manufacture our graphite electrodes of different grades and to optimise our costs of raw materials. We adjust the formulation of our graphite electrodes according to application requirements, technical needs and operating conditions of our customers. The resulting mix is then cooled to a pre-defined temperature. This process typically takes a few hours.

- *Extrusion*

The mix is filled into an extrusion press. During the extrusion process, air is extracted from the system and the mix, which is heated to the required temperature in order to attain the required fluidity, is compacted and pushed through a die that defines the diameter of the resulting graphite electrode. The extruded rods are cut to the desired length and placed in a water bath to cool down and solidify. This process typically takes approximately less than one day.

- *Baking*

The extruded rods are placed in either a ring furnace or car bottom furnace where they are baked by slowly heating up to the required temperature to remove volatile matters and form a solid carbon body. The extruded rods are packed with sand and metallurgical coke to avoid deformation. This process typically takes approximately 21 to 30 days.

- *Impregnation*

The baked rods are impregnated in vacuumed autoclaves filled with liquid binder pitch at the required temperature to reduce porosity and improve density, strength and electrical conductivity. Pressure is then applied with the injection of compressed air or pressurised nitrogen which forces the baked rods to absorb the liquid binder pitch and, hence, increase their weight. This process typically takes approximately one to seven days.

- *Re-Baking*

In the second baking cycle, the impregnating binder pitch volatiles are eliminated and the remaining binder pitch solids are carbonised. To manufacture electrodes, baked rods normally go through one cycle of impregnation and re-bake, while to manufacture connecting pins, baked rods go through the same cycle multiple times. This process typically takes approximately seven days for electrodes. Our furnace and equipment at our production facilities in the PRC Factory are designed and built for baking (first baking) and hence not cost-efficient to meet re-baking commitments with our customers. As such, we subcontract the re-baking process to our subcontractors which include Shanxi Taigu, from whom we have agreed to acquire the Taigu Assets.

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- *Graphitisation*

During the graphitisation process, the re-baked rods are placed in a special longitudinal furnace, covered with metallurgical coke and heated up to the required temperature by Joule effect as electric current passes through the rods in the furnace. The graphitisation process converts amorphous carbon rods into graphite, and thereby, improves their thermal and electrical conductivity and thermal shock resistance. Our patented technology enables us to filter fine particles in the dust created during graphitisation before discharge. The heating process takes approximately 12 to 20 hours, which is followed by days of cooling down so that the rods can be removed from the furnace. This process typically takes approximately seven to 25 days, depending on the furnace used. Currently, as we do not have the necessary machines and equipment at our production facilities in the PRC Factory to perform graphitisation, we subcontract this production process to our subcontractors, which include Shanxi Taigu, from whom we have agreed to acquire the Taigu Assets.

- *Machining*

The graphitised electrode rods are machined to final dimensions and tolerances by an automatic machining line. Graphitised electrode rods are threaded with sockets on both ends. Graphitised pin stock rods are cut into sections, each forming a connecting pin. A connecting pin is fitted to one of the sockets of each electrode. This process typically takes one day.

- *Inspection of finished products*

Before delivery to our customers, samples of our finished products are consistently checked to ensure compliance with the required properties and dimensions. This process typically takes one day.

- *Packaging and delivery*

Our products are packaged in wood pallets and protected with styrofoam caps before arranging third party logistics companies to deliver the products to our customers on various Incoterms, including FOB, CIF, CFR, DAP and DDP to designated ports or to warehouses of our customers.

Given that it takes about three to seven days of queueing time between each production process, the entire production process will typically take three to five months for our graphite electrodes and five to seven months for our connecting pins, the productions of which may take multiple cycles for impregnation and re-baking.

BUSINESS

Production facilities



The Italian Factory



The PRC Factory

Our production facilities are located in Italy and the PRC. We have implemented maintenance programs in all our production facilities, including preventive regular maintenance according to pre-determined schedules for early detection of wear and tear, which minimises downtime due to unplanned interruptions of operations. Maintenance costs incurred for the repair and maintenance of our machines and equipment were approximately US\$0.2 million, US\$2.8 million, US\$1.7 million, US\$2.1 million and US\$1.2 million, respectively, in FY2018, FY2019, FY2020, FY2021 and 1H2022. During the Track Record Period, there were no major disruptions of the business operations resulting from insufficient machine and equipment maintenance.

During the Track Record Period, we had implemented various measures to improve the efficiency of our production systems. We have modified eight bake furnace chambers and installed 30MW rectifier system in graphitisation for the Italian Factory and modified our grinding system in extrusion process for the PRC Factory.

The table below sets out the major machinery we owned and used in production as at the Latest Practicable Date:

Name of machines	Quantities	Production stage involved	Estimated operational life (Years) <i>(Note 1)</i>	Estimated remaining operational life (Years) <i>(Note 2)</i>	Location
Kneader, cooler and accessories	Two	Extrusion	20	17	Henan Province, PRC
Ring furnace	Two	Baking	33	30	Narni, Italy
Car bottom furnace	Three	Baking	33	30	Narni, Italy
35MN Extrusion Press	One	Extrusion	20	17	Henan Province, PRC
25MN Extrusion Press	One	Extrusion	20	17	Henan Province, PRC
Ring furnace	One	Baking	20	17	Henan Province, PRC

Notes:

- (1) The estimated operational life of our major machinery is based on the actual condition of the plant and machinery.
- (2) We believe we will be able to continue to use our machinery throughout their respective estimated remaining operational life as we have maintained our machinery in good condition.

BUSINESS

Notes:

- (1) Our production of our graphite electrode products involves six major processes. For details, please refer to the sub-section headed “Our Production — Production process”. The effective production capacity refers to the lowest production capacity, being the bottlenecked capacity, among all the production processes in each of our production facilities. Given the PRC Factory lacks the machines designed and built for re-baking and graphitisation and has subcontracted these two processes to our subcontractors, to present the effective production capacity of the PRC Factory in a sensible manner, we presented our effective production capacity of the PRC Factory on the basis that the PRC Factory utilised the subcontracted re-baking and graphitisation capacity to manufacture the relevant graphite electrodes. However, the production capacities of the subcontracted re-baking and graphitisation processes are higher than our bottlenecked capacity, and therefore, they do not inflate the calculation of our effective production capacity and accordingly, our utilisation rate.
- (2) For illustration purposes only, the utilisation rates are calculated based on the production volumes of the relevant period divided by the effective production capacity of the relevant period. The production volume represents the tonnage of products undergone the last production process, namely machining, during the relevant period and the effective production capacity refers to the lowest production capacity, namely the bottlenecked capacity, in the complete production processes of our products. Given the capacity of our last production process is higher than our bottlenecked capacity, it is possible for our utilisation rate to exceed 100%.
- (3) While our Group does not usually sell connecting pins as a standalone product but as an integral part of our graphite electrodes, the production of connecting pins takes up a portion of our production capacity. In view of that, for the purpose of presenting our utilisation status in more detail, the utilisation rates calculated with the production volume adjusted by the connecting pin are also set out.

During the production process, the quantities of raw materials required for production of a unit of graphite electrode and a unit of connecting pin are different. According to our internal policy, the quantity required for the production of a unit of connecting pin is 1.55 times that required for a unit of graphite electrode. Accordingly, when we calculate our adjusted production volume, each MT of connecting pins is taken to be equal to 1.55MT of graphite electrodes.

- (4) We only started to re-vamp the production at the Italian Factory in June 2018. The effective production capacity for FY2018 represents the pro rata portion from June 2018 to December 2018.
- (5) To present the effective production volume of the PRC Factory in a sensible manner, we presented our production volume of the PRC Factory on the basis that the PRC Factory used the subcontracted capacity, including first baking, impregnation, re-baking and graphitisation, to manufacture the relevant graphite electrodes.

Since its commencement of production in 2018, for all finished and work-in-progress graphite electrodes manufactured by the PRC Factory in FY2019, the PRC Factory has subcontracted approximately 39.2%, 68.5%, 86.6% and 100% first baking, impregnation, re-baking and graphitisation works, respectively, to subcontractors. For all finished and work-in-progress graphite electrodes manufactured by the PRC Factory in FY2020, the PRC Factory has subcontracted approximately nil, 8.8%, 30.4% and 100% first baking, impregnation, re-baking and graphitisation works, respectively, to subcontractors. For all finished and work-in-progress graphite electrodes manufactured by the PRC Factory in FY2021, the PRC Factory has subcontracted approximately 8.8%, 19.0%, 37.4% and 100% of first baking, impregnation, re-baking and graphitisation works, respectively, to subcontractors. For all finished and work-in-progress graphite electrodes manufactured by the PRC Factory in 1H2022, the PRC Factory has subcontracted approximately 18.2%, 13.8%, 36.0% and 100% of first baking, impregnation, re-baking and graphitisation works, respectively, to subcontractors.

- (6) We only commenced production at the PRC Factory in January 2019.
- (7) The effective production capacity for FY2020 represents the pro rata portion of approximately ten and a half months after taking into account a period of 40 days without production as a result of an extension of the Chinese Lunar New Year of the PRC Factory due to the outbreak of COVID-19. As confirmed by our Directors, the effective production capacity for FY2021 was calculated after taking into account a period of 10 days without production (save for quality control processes) as a result of the flooding in Henan in July 2021 and a period of 52 days without extrusion capacities due to upgrade of extrusion facilities.

BUSINESS

- (8) Our Directors confirmed that during the period from 2 January to 28 February 2022, the production at the PRC Factory was substantially suspended according to the order from the relevant local PRC government which mandated power rationing for the preparation of the Beijing 2022 Winter Olympics.

Following the mandatory power suspension, the PRC Factory recommenced operations from 1 March 2022. As all the baking furnaces were switched off since 2 January 2022, the PRC Factory had to restart the baking furnaces and took 380 hours (which were approximately 16 days) for the furnaces to reach the baking temperature of 1,200 degrees celsius. The production schedule for processes following baking was therefore delayed.

Therefore, certain production processes at the PRC Factory were partially suspended in March 2022 and gradually resumed normal in May 2022.

The effective production capacity for the six months ended 30 June 2022 represents the pro rata portion of approximately two months after taking into account a period of 59 days without or with limited production. Our Directors consider that the Winter Olympics is a one-off event and it would not have an ongoing impact on the operation of the PRC Factory.

We allocate our purchase orders between the PRC Factory and the Italian Factory based on the (i) the location of our customers and their delivery addresses, (ii) the preference of our customers on the country of origin of the graphite electrode, (iii) the availability of production resources, including the raw materials, (iv) the imposition of additional tariff on graphite electrode as a result of the Sino-US trade war, and (v) the consideration of and compliance with any applicable anti-dumping regulations.

We had a relatively low utilisation rate at the Italian Factory in 2018 as we started to re-vamp the production at the Italian Factory only in June 2018 and given the long production cycle of graphite electrodes, which was three to five months, we only produced a small quantity of products in FY2018. For FY2019, the utilisation rates at the Italian Factory and the PRC Factory were approximately 62.0% and approximately 91.2%, respectively, because we increased our production volume to meet our sales volume of 19,656MT. In FY2020, although our sales volume amounted to 25,647MT, the utilisation rate at the Italian Factory and the PRC Factory decreased to approximately 57.5% and approximately 60.8%, respectively. The decrease was primarily due to the outbreak of COVID-19, which resulted in (i) an extension of the Chinese Lunar New Year in the PRC for a period of more than one month; and (ii) the delay in orders of some of our customers and accordingly, the postponement in our delivery schedule.

Since the fourth quarter of 2019, the market price of graphite electrodes reflected a continued downward trend which was further worsened in 2020 due to the outbreak of COVID-19. Most graphite electrode manufacturers/suppliers in the PRC at the material time retained high level of inventories which had been sourced or manufactured at high costs with raw materials purchased in the 2018 bull market. As a result, all manufacturers/suppliers adopted a cut-throat strategy with an aim to de-stocking and cash in their inventories which caused the market price of graphite electrodes continued to fall. In addition, we made the commercial decision to reduce our production volume after taking into account our then existing inventory level and was engaged in an effort to de-stock our existing inventories. As a result of our de-stocking effort, the inventory level of raw materials, semi-finished graphite and finished graphite electrodes was reduced from approximately 24,410MT as at 31 December 2019 to approximately 17,125MT as at 31 December 2020.

Apart from de-stocking, we took one step further by leveraging our substantive global customer and PRC supplier networks to source graphite electrodes manufactured in the PRC at a low price and re-sold these graphite electrodes to customers outside the PRC with better margins. The profit we made from these transactions neutralised our loss resulting from our course of de-stocking.

BUSINESS

Due to the unusual market conditions in late 2019 and 2020, we took the above measures to counter the dire market conditions in FY2020. Both measures drove down the utilisation rates of the Italian Factory and the PRC Factory. During FY2020, among the 21,929MT graphite electrodes we manufactured and sold during the year, approximately 65.4% was from the then existing inventories and approximately 34.6% was manufactured during FY2020.

Starting from early 2021, the market price and demand of graphite electrodes in both of the global and PRC markets have remained stable and have been gradually increasing. During FY2021, our utilisation rate has increased gradually and the utilisation rate of the Italian Factory and the PRC Factory was approximately 91.7% and approximately 65.2%, respectively. As explained in the section headed “Industry Overview — Recent development of Global and China steel and graphite electrode market amid the COVID-19 — Price analysis of global and China’s graphite electrodes” in this prospectus, we expect that the market price and demand of graphite electrodes in the global and PRC markets will increase gradually.

During FY2021, as the price gap between global and the PRC markets has been narrowing down, we manufactured most of the graphite electrodes delivered in FY2021 and sourced graphite electrodes from suppliers to fulfil a small portion of our sales to certain international customers whose product specifications can be fulfilled by the products sourced from other suppliers, where such sourcing was made according to the then market conditions and availability of low-price graphite electrodes from our suppliers.

As we need to subcontract certain production processes, such as re-baking, impregnation and graphitisation, the conversion cost of our PRC Factory is higher than some industry peers which are able to complete all manufacturing processes in-house. We understand that in the long run, to bring our conversion cost into parity with our industry peers which have complete production lines, we have to possess facilities for manufacturing processes which we currently do not possess. Accordingly, we have entered into an agreement to acquire the Taigu Assets, which is pending completion. After the completion of the acquisition of the Taigu Assets, we expect that the portion of graphite electrodes sourced from suppliers will substantially decrease as we will be able to complete all manufacturing process in-house without reliance on outside subcontractors.

The production at the PRC Factory was substantially suspended according to the order from the relevant PRC local government which mandated power rationing for the preparation of the Beijing 2022 Winter Olympics. As all the baking furnaces were switched off during that period, we had to source more graphite electrodes from our suppliers in 1H2022 to fulfil some purchase orders which require short delivery time or we do not have production capacity to fulfil.

Sprang from our experience during the suspension, we adapted to sourcing graphite electrodes to fulfil purchase orders which require short delivery time or we do not have production capacity to fulfil. We hope we could broaden our income source by taking up these orders. To ensure we are able to deliver to our customers, before we accept the purchase orders, we will check whether we are able to use our inventories for the delivery and/or whether our suppliers are able to deliver products according to the specifications of the customers. While the margins of such transactions are usually lower than a typical sale of graphite electrodes manufactured by our Group, the time period for working capital lock-up is much shorter when compared to the production cycle of graphite electrodes that we manufacture.

BUSINESS

Going forward, while we will continue to manufacture graphite electrodes, we may nonetheless source graphite electrodes from suppliers instead to fulfil purchase orders under the following circumstances:

- (i) where we will source low-price graphite electrodes from our PRC suppliers if we can obtain a relatively high gross profit margin by purchasing from these suppliers;
- (ii) where we have to fulfil purchase orders from customers which require short delivery time or we do not have production capacity to fulfil these purchase orders; and
- (iii) where we have to fulfil purchase orders from customers during mandatory production suspension or the occurrence of certain events that are beyond our control, such as power rationing during the Beijing 2022 Winter Olympics.

SALES AND MARKETING

Our global sales and marketing department is responsible for our sales and marketing activities and is led by our chief executive officer for Sales who is supported by four sales directors. Our Executive Vice President for Sales, together with our senior management, is responsible for formulating our overall sales strategies, collecting and analysing market data, negotiating and management of our marketing activities and determining the price of our products.

We have established business relationships with many of our customers. During the Track Record Period, most of our major customers were our existing and repeating customers. These existing and repeating customers purchase graphite electrodes from us from time to time by placing purchase orders or entering into sales agreements.

In order to establish business contacts and explore new business opportunities, our sales directors and their respective regional sales teams visit the production facilities of, and deliver sales presentations to, potential customers whom we identify. We record these sales and marketing efforts in our customer relationship management system so as to keep track of the relevant potential opportunities.

For the PRC, our sales and marketing strategy is mainly selling to distributors and industry traders. Since we established a strategic partnership with our distributors and incentivise them to devote more resources into the promotion of our products in the PRC, we believe that this sales and marketing strategy will help to promote the sales in PRC.

BUSINESS

For the global market, the focus is on selling to end users through our sales team as well as through sales agents. We usually have to become the “qualified supplier” of the world reputable and leading EAF steel manufacturers before they purchase graphite electrodes from us. Steel manufacturers may invite us, as a graphite electrode manufacturer, to participate in their trial and qualification programme, passing of which will make us a qualified supplier of these steel manufacturers. The process will generally involve around two rounds of trials, where in each round, the steel manufacturer will purchase certain amount of graphite electrodes from us as trial products and the purchase amount will increase in the subsequent round(s). Through these trials, the potential customers do not only assess the quality and performance of our graphite electrode, but also our quality consistency. We would be admitted to their qualified supplier lists if we could consistently deliver products of good quality. We have established our reputation in the graphite electrode industry by meeting the technical requirements set by these steel manufactures during trial and qualifications. This allows us to have access to these steel manufactures.

In addition, we attend annual industry conferences and conventions, such as annual conferences and expositions organised by the Association for Iron & Steel Technology in the U.S., Made in Steel, a conference and exhibition for the steel industry held in Italy, and METEC, an international metallurgical trade fair with congresses held in Germany, and join trade association meetings, such as meetings of the Globe-Trotters Members of Association for Iron & Steel Technology and Electric Metal Makers Guild, to keep ourselves abreast of the latest technology and industry trend. We set up booths at these events and meetings with a view to advertising and promoting our products.

Our sales teams

Our sales directors are assisted by their respective regional sales teams which usually comprise sales employees and/or sales agents, who are Independent Third Parties. They take part in our sales and marketing activities in different geographical locations. While our sales staff and sales agents are responsible for establishing sales opportunities and negotiate pricing terms with our customers, all proposed agreement terms and conditions, including pricing, are subject to our internal approval procedure.

The remuneration package of our sales employees includes basic salary, bonuses and/or sales commissions; and the remuneration package of our sales agents includes fixed service fees and/or sales commissions. As at 30 June 2022, our five regional sales teams had 7 sales employees and 14 sales agents. The salaries and commission to these sales employees and agents amounted to approximately US\$2.2 million, US\$2.7 million, US\$3.1 million, US\$2.7 million and US\$1.4 million for FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. For details on the risk of engaging sales agents, please refer to the section headed “Risk Factor — Any misconduct of our sales agents may adversely harm our business reputation” in this prospectus.

BUSINESS

Americas

Our regional sales team for Americas comprises an executive vice president, one sales director, one sales manager, one sales employee and three sales agents, supported by three technical experts. Our Americas sales team covers the markets of the United States, Canada, Mexico as well as certain countries in the South America.

APAC

Our regional sales team for APAC comprises a sales director and six sales agents. Save for the PRC market, our APAC sales team covers the markets of the whole of Asia and Oceania.

EMEA

Our regional sales team for EMEA is led by a sales director and comprises a team of one sales manager, one sales employee and seven sales agents, supported by two technical experts. Our EMEA sales team covers the markets of the whole of Europe and certain countries in Africa and the Middle East.

The PRC

Our regional sales team for the PRC comprises a sales director and a sales manager.

Our sales agents

Our sales agents are all Independent Third Parties. They have extensive knowledge and experience in the graphite electrode market and maintain close connections and relationship with the steel manufacturers, distributors and industry traders in the relevant markets. We became acquainted with our sales agents through the personal networks of our management. The principal terms of the agreements with our sales agents during the Track Record Period are set out below:

Principal terms	Description
Scope of service	: To organise and promote marketing activities and sales of our products in designated territories, to collect customers' technical data and to build and maintain relationship with customers
Designated territories and/or targeted customers	: As specified in the relevant agreement
Term	: Mainly one to three years, subject to automatic renewal for two terms, where applicable
Remuneration	: Fixed service fee and/or sales commissions calculated based on a specific percentage of the invoice amounts minus transportation cost and tax

BUSINESS

We select our sales agents based on, among others, (i) the location of our selected markets, (ii) the terms and conditions proposed by the potential sales agents, (iii) the market size of the selected markets, (iv) the experience of the potential sales agents, and (v) the business relationship between the potential sales agents or our target customers.

As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, we engaged six, 15, 17, 16 and 14 sales agents, respectively, and our sales amount through our sales agents was approximately US\$77.9 million, US\$53.7 million, US\$26.8 million, US\$19.7 million and US\$9.7 million, respectively, which was attributed to approximately 46%, 36%, 25%, 18% and 16% of the revenue for the respective year/period.

For details on the risk of engaging sales agents, please refer to the section headed “Risk Factor — Any misconduct of our sales agents may adversely harm our business reputation” in the prospectus.

OUR CUSTOMERS

For FY2018, FY2019, FY2020, FY2021 and 1H2022, we had over 20, 72, 68, 71 and 45 customers, respectively. Our customers are located in more than 25 countries, mainly in Americas, EMEA, APAC and the PRC. Our major markets are the United States, Canada, the PRC and South Africa. We mainly sell our products to steel manufacturers, and distributor and industry traders. Our customers include the world’s reputable and leading EAF steel manufacturers. Our customers include some of the major global renowned EAF steel manufacturers, such as the largest steel manufacturer in the world, the largest steel manufacturers in the U.S. and one of the leading steel manufacturers in Europe. For details about our top five customers, please refer to the section headed “Business — Our customers — Top five customers”.

The steel manufacturers will use the graphite electrodes sourced from us for steel product manufacturing and sell the steel products mainly to customers in industries including the construction, automobile and marine. Their steel products are made of major kinds of steel available in the steel market, namely carbon steel, alloy steel, stainless steel and tool steel. The steel manufacturers will forge liquid steel into different shape and size according to their customers’ needs and specifications. For instance, some of our steel manufacturer customers will produce (i) steel components involved in car manufacturing, such as power train, car body-in-white, chassis and suspension, closures (doors and other panel), in-car equipments, for their automotive customers; (ii) steel products of different grades and specifications for construction customers, such as structural steel, façade, ceiling and floor systems, sheet and piles for foundations and underground infrastructures, steel plumbing solutions and reinforcement products, rebar developed for areas with high seismic activity; and (iii) steel fibres for tunnelling and other infrastructure projects, steel products used to build all varieties of ships, including general cargo carriers, container ships, cruise ships and large tankers that carry liquefied natural gas.

The distributor and industry traders will re-sell our products to steel manufacturers and other end users, such as metal manufacturers and customers in the chemical industry and other traders. As at the Latest Practicable Date, we had approximately three to 10 years of business relationship with our major customers. Based on the historical success we had in the global markets, we expanded our “SANGRAF” brand in the PRC.

BUSINESS

Due to the outbreak of COVID-19 in December 2019 and up to the Latest Practicable Date, certain countries or cities have been subject to lockdown to contain COVID-19. As a result, there have been cancellation and delay in orders of some of our customers and accordingly, postponement in the delivery of some of our products in the second and third quarters of 2020. Please refer to sections headed “Summary — Recent Developments” and “Risk Factors — Risks relating to Our Industry” in this prospectus for further details on the outbreak of COVID-19. In light of the Russian-Ukraine conflict, we stopped approaching or reaching out to the existing and potential customers in Russia since the conflict was instigated. Please refer to the section headed “Summary — Business Activities in Countries Subject to International Sanctions” for further details.

BUSINESS

The table below sets out the breakdown of revenue, gross profit and gross profit margin by customer types:

	FY2018			FY2019			FY2020			FY2021			IH2021 <i>(unaudited)</i>			IH2022								
	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue						
End users ^(Note 1)	163,778	97.3	104,018	63.5	156,535	90.5	54,806	40.1	66,566	61.3	12,261	18.4	73,943	68.0	13,704	18.5	29,351	70.2	4,455	15.2	42,675	71.5	12,001	28.1
Others ^(Note 2)	4,541	2.7	1,200	26.4	14,309	9.5	(4,384)	(30.6)	41,974	38.7	6,659	15.9	34,751	32.0	9,126	26.3	12,435	29.8	2,760	22.2	17,031	28.5	3,563	20.9
Inventory provision	—	—	—	(16,159)	—	(2,406)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	168,319	100.0	105,218	62.5	150,844	100.0	34,263	22.7	108,540	100.0	16,514	15.2	108,694	100.0	22,830	21.0	41,786	100.0	7,215	17.3	59,706	100.0	15,564	26.1

Notes:

- (1) Mainly included steel manufacturers, a mineral product manufacturer and a mining company.
- (2) Others comprise sales to distributor and industry traders.

The table below sets out a breakdown of revenue, gross profit and gross profit margin according to geographical locations of our customers during the Track Record Period:

	FY2018			FY2019			FY2020			FY2021			IH2021 <i>(unaudited)</i>			IH2022								
	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue	Revenue (US\$'000)	Gross profit margin (%)	Percentage of our total revenue						
Americas ^(Note 1)	125,077	74.3	82,891	66.3	73,355	48.6	29,403	40.1	36,025	33.2	3,606	10.0	34,358	31.6	9,733	28.3	13,610	32.6	3,674	27.0	12,989	21.8	4,640	35.7
EMEA ^(Note 2)	35,467	21.1	19,642	55.4	58,699	38.9	20,508	34.9	35,294	32.5	3,133	8.9	41,734	38.4	5,522	13.2	16,548	39.6	1,008	6.1	28,752	48.2	7,709	26.8
The PRC	6,386	3.9	2,182	33.1	18,187	12.1	190	1.0	35,238	32.5	12,400	35.2	28,602	26.3	6,534	22.8	9,916	23.7	2,142	21.6	15,698	26.3	2,448	15.6
APAC ^(Note 3)	1,189	0.7	503	42.3	603	0.4	321	53.3	1,983	1.8	(219)	(11.1)	4,000	3.7	1,041	26.0	1,712	4.1	391	22.9	2,267	3.7	767	33.8
Inventory provision	—	—	—	(16,159)	—	(2,406)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	168,139	100.0	105,218	62.5	150,844	100.0	34,263	22.7	108,540	100.0	16,514	15.2	108,694	100.0	22,830	21.0	41,786	100.0	7,215	17.3	59,706	100.0	15,564	26.1

Notes:

- (1) Mainly included Canada, the U.S., Peru and Brazil
- (2) Mainly included Kuwait, South Africa, Germany, Russia, Spain, Belgium, France, Finland, Italy, Turkey and Portugal
- (3) Mainly included Australia, Taiwan and Vietnam but excluded the PRC

The table below sets out a breakdown of revenue, gross profit and gross profit margin according to our major markets during the Track Record Period:

Countries/regions	FY2018			FY2019			FY2020			FY2021			1H2021 <i>(unaudited)</i>			1H2022							
	Revenue (US\$'000)	Gross profit margin (%) (US\$'000)	Percentage of our total revenue (%)	Revenue (US\$'000)	Gross profit margin (%) (US\$'000)	Percentage of our total revenue (%)	Revenue (US\$'000)	Gross profit margin (%) (US\$'000)	Percentage of our total revenue (%)														
United States	38,662	23,545	23.0	30,610	10,303	20.3	20,490	33.7	18.9	1,062	5.2	22,978	21.1	6,628	28.8	8,760	21.0	2,641	30.1	10,812	18.1	3,916	36.2
Canada	76,489	53,282	45.5	37,950	18,338	25.1	14,572	48.3	13.4	3,203	22.0	8,924	8.2	2,362	26.5	3,610	8.6	654	18.1	1,543	2.6	490	31.7
The PRC	6,586	2,182	3.9	18,187	1,900	12.1	35,238	1.0	32.5	12,400	35.2	28,602	26.3	6,534	22.8	9,916	23.7	2,142	21.6	15,698	26.3	2,448	15.6
South Africa	21,756	12,471	12.9	10,108	573	6.7	10,808	19.5	9.9	3,004	27.8	5,566	5.1	1,319	23.7	1,227	2.9	279	22.7	4,007	6.7	1,314	37.8
France	—	—	—	8,196	—	5.4	1,655	—	1.5	7	0.4	6,939	6.4	329	4.7	4,218	10.1	(6)	(0.1)	3,454	5.8	1,023	29.6
Russia ^(Note)	3,724	642	2.2	2,822	1.9	873	7,357	30.9	7.0	(680)	(9.0)	5,788	5.3	1,603	27.7	2,671	6.4	519	19.4	—	—	—	—
Others ^(Note)	21,082	13,096	12.5	42,991	15,154	28.5	18,240	35.2	16.8	(76)	(0.4)	29,897	27.6	4,055	13.6	11,384	27.3	986	8.7	24,192	40.5	6,173	25.5
Inventory provision	—	—	—	—	(16,159)	—	—	—	—	(2,406)	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	168,319	105,218	100.0	150,844	34,263	100.0	108,540	22.7	100.0	16,514	15.2	108,694	100.0	22,830	21.0	41,786	100.0	7,215	17.3	59,706	100.0	15,564	26.1

Note: Mainly included Brazil, Kuwait, Germany, Spain, Belgium, Finland, Italy, Turkey, Portugal, Australia and Taiwan.

BUSINESS

According to Frost & Sullivan, among our major markets, the graphite electrode users in Canada and the United States mainly depend on imported graphite electrodes with approximately 85% and 55% of UHP graphite electrodes consumed in Canada and the United States, respectively, in 2020 were imported from other countries. Our other markets, namely South Africa, Peru, and Kuwait, are in short supply of graphite electrodes and rely solely on imported graphite electrodes because they do not have their own graphite electrode manufacturers. In 2020, the amount of graphite electrodes shortage in Canada, the United States, South Africa, Peru and Kuwait was approximately 8,500MT, 55,000MT, 3,000MT, 2,000MT and 2,000MT, respectively. In 2019, approximately 8,600MT, 11,000MT, 8,700MT, 1,100MT and 40MT graphite electrodes were imported to these countries from the PRC.

For the commentary on our financial performance of this segment, please refer to the section headed “Financial Information — Results of Operations” in this prospectus.

BUSINESS

The table below sets out a breakdown of revenue according to the types of graphite electrodes ordered by the customers during the Track Record Period:

	FY2018		FY2019		FY2020		FY2021		1H2021 <i>(unaudited)</i>		1H2022	
	Revenue (US\$'000)	Percentage of our total revenue (%)	Revenue (US\$'000)	Percentage of our total revenue (%)	Revenue (US\$'000)	Percentage of our total revenue (%)						
UHP graphite electrodes	121,592	72.2	113,700	75.4	93,826	86.4	84,720	78.0	35,662	85.3	50,498	84.5
HP graphite electrodes	21,868	13.0	9,370	6.2	5,636	5.2	9,709	8.9	1,820	4.4	3,325	5.6
RP graphite electrodes	24,859	14.8	27,774	18.4	9,078	8.4	14,265	13.1	4,304	10.3	5,883	9.9
Total	168,319	100.0	150,844	100.0	108,540	100.0	108,694	100.0	41,786	100.0	59,706	100.0

Business Activities with Customers, Distributors and End-users in relation to Countries subject to International Sanctions

Certain countries or organizations, including the U.S., the European Union, the United Nation, and Australia, maintain economic sanctions and trade restrictions targeting certain industries or sectors within the Countries subject to International Sanctions.

During the Track Record Period, we had sales and deliveries of our graphite electrodes to the Relevant Regions. The revenue generated from such transactions related to the Relevant Regions was approximately US\$4.0 million, US\$10.0 million, US\$13.7 million, US\$9.6 million and US\$2.9 million, representing approximately 2.4%, 6.7%, 12.7%, 8.9% and 4.8% of our total revenue for FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. Balkans (Serbia), Belarus, Egypt, Libya, Russia (excluding Crimea region) and Turkey were subject to various sanctions during the Track Record Period but were not subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of a Relevant Jurisdiction (i.e., none of them was a Comprehensively Sanctioned Country).

In response to the Russian-Ukraine conflict, additional International Sanctions were imposed on Russia and Belarus. As of the Latest Practicable Date, the sales and deliveries of our non-U.S. origin graphite electrode to Russia during the Track Record Period did not implicate restrictions under the International Sanctions, and none of our customers, distributors and end-users is a SDN or Sanctioned Persons. As such, our Directors are not aware of material adverse impacts on our Group's business in light of the recent International Sanctions on Russia. Yet, to minimise our exposure to the risks relating to the Russian-Ukraine conflict, our Group stopped approaching or reaching out to existing and potential customers in Russia since the conflict was instigated. As a result, we generated no revenue from the Russia market during 1H2022. Our Group ceased to sell products to Balkans (Serbia), Belarus, Egypt and Libya since FY2021.

As at the Latest Practicable Date, our Group had ceased to sell products to Balkans (Serbia), Belarus, Egypt, Libya and Russia (excluding Crimea region) but continued to sell products to Turkey.

The revenue generated from the sales of our graphite electrodes to Turkey amounted to approximately US\$0.3 million, US\$7.2 million, US\$5.5 million, US\$3.8 million and US\$2.9 million in FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

As advised by our International Sanctions Legal Advisers after performing the procedures they consider necessary, our activities during the Track Record Period did not implicate restrictions under the International Sanctions. None of our customers, distributors and end-users in relation to the business to Relevant Regions were identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the European Union, Australia and the United Nations.

As advised by our International Sanctions Legal Advisers, our business nature with our customers, distributors and end-users in relation to the business to Relevant Regions did not implicate limited scope of restrictions that apply as (i) the products sold to the customer were not subject to export controls under to US or EU law; and (ii) our customers, distributors and end-users were not Sanctioned Persons.

BUSINESS

However, to minimize our exposure to the risks relating to the Russian-Ukraine conflict, we stopped approaching or reaching out to existing and potential customers in Russia since the conflict was instigated. Our Directors will continue to closely monitor the latest development and ensure that our Group will respond to any change in circumstances in a prudent and timely manner.

Furthermore, given the scope of the Global Offering and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Global Offering will not implicate any applicable International Sanctions on such parties, including our Company, our potential investors, Shareholders, the Stock Exchange and its listing committee and group companies and accordingly, the sanctions risk exposure to our Company, potential investors and Shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Shares (including the Stock Exchange, its listing committee and related group companies) is very low.

Top five customers

Our top five customers in aggregate accounted for approximately 77.9%, 47.2%, 54.7%, 46.7% and 43.6% of our total revenue in each year/period during the Track Record Period, respectively. Our largest customer accounted for approximately 27.6%, 16.9%, 24.3%, 12.3% and 14.5%, respectively, of our total revenue for the same periods.

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in this prospectus, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of our top five customers for the Track Record Period and all of them were Independent Third Parties.

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The tables below set out the background information about our top five customers for the periods indicated *(Note 1)*:

FY2018

Customer	Background	Product we provided	Revenue (US\$'000)	Approximate percentage of our total revenue (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)
Customer A	Companies of a group which are principally engaged in EAF steel manufacturing in the U.S. and Canada with a market share of approximately 0.7%. The holding company of Customer A is listed on the London Stock Exchange.	Graphite electrodes	46,394	27.6	9
Customer C	Companies of a group which are principally engaged in minerals and metal manufacturing in South Africa and Canada. The holding companies of Customer C are listed on the London Stock Exchange, the New York Stock Exchange and the Australian Securities Exchange.	Graphite electrodes	40,469	24.0	6
Customer E	Companies of a group which are principally engaged in EAF steel manufacturing in U.S., Mexico and Brazil with a market share of approximately 0.7%. The holding company of Customer E is listed on the São Paulo Stock Exchange, the New York Stock Exchange and the Madrid Stock Exchange.	Graphite electrodes	26,252	15.6	9.5
Customer F	A company which is principally engaged in EAF steel manufacturing in Canada.	Graphite electrodes	9,465	5.6	5
Customer D	Companies of a group which are principally engaged in EAF steel manufacturing in the U.S. with a market share of approximately 0.7%. The holding company of Customer D is dual-listed on the New York Stock Exchange (principal exchange) and the Chicago Stock Exchange.	Graphite electrodes	8,506	5.1	5.5
Top five customers in aggregate			131,086	77.9	

BUSINESS

FY2019

Customer	Background	Product we provided	Revenue (US\$'000)	Approximate percentage of our total revenue (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)
Customer C	Companies of a group which are principally engaged in minerals and metal manufacturing in South Africa and Canada. The holding companies of Customer C are listed on the London Stock Exchange, the New York Stock Exchange and the Australian Securities Exchange.	Graphite electrodes	25,574	16.9	6
Customer G	Companies of a group which are principally engaged in EAF steel manufacturing in Italy with a market share of 0.3%.	Graphite electrodes	16,862	11.2	4.5
Sanli New Materials <i>(Note 2)</i>	A company which is principally engaged in trading of graphite electrodes since 2016 and is our distributor in the PRC since 2018.	Graphite electrodes	11,952	7.9	4
Customer H	Companies of a group which are principally engaged in EAF steel manufacturing in the U.S. with a market share of approximately 1.2%. The holding company of Customer H is listed on the New York Stock Exchange.	Graphite electrodes	10,404	6.9	10
Customer I	Companies of a group which are principally engaged in titanium dioxide and inorganic chemicals manufacturing in South Africa. The holding company of Customer I is listed on the New York Stock Exchange.	Graphite electrodes	6,419	4.3	7.5
Top five customers in aggregate			<u>71,211</u>	<u>47.2</u>	

BUSINESS

FY2020

Customer	Background	Product we provided	Revenue (US\$'000)	Approximate percentage of our total revenue (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)
Xinxiang Longhui <i>(Note 3)</i>	A company established in the PRC which is engaged in the sales and manufacturing of graphite electrode and carbon materials.	Graphite electrodes	26,344	24.3	4
Customer J	Companies of a group which are principally engaged in steel, iron ore and coal manufacturing in the U.S., South America, Europe and Africa with a market share of approximately 5.2%. The holding company of Customer J is listed on the Luxembourg Stock Exchanges, Euronext Amsterdam, Euronext Paris, the Spanish Stock Exchanges and the New York Stock Exchange.	Graphite electrodes	10,520	9.7	7.5
Customer I	Companies of a group which are principally engaged in titanium dioxide and inorganic chemicals manufacturing in South Africa. The holding company of Customer I is listed on the New York Stock Exchange.	Graphite electrodes	8,699	8.0	7.5
Sanli New Materials <i>(Note 2)</i>	A company which is principally engaged in the trading of graphite electrodes since 2016 and is our distributor in the PRC since 2018.	Graphite electrodes	7,306	6.7	4
Customer C	Companies of a group which are principally engaged in minerals and metal manufacturing in South Africa and Canada. The holding companies of Customer C are listed on the London Stock Exchange, the New York Stock Exchange and the Australian Securities Exchange.	Graphite electrodes	6,483	6.0	6
Top five customers in aggregate			59,352	54.7	

BUSINESS

FY2021

Customer	Background	Product we provided	Revenue (US\$'000)	Approximate percentage of our total revenue (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)
Xinxiang Longhui <i>(Note 3)</i>	A company established in the PRC which is engaged in the sales and manufacturing of graphite electrode and carbon materials.	Graphite electrodes	13,403	12.3	4
Customer G	Companies of a group which are principally engaged in EAF steel manufacturing in Italy with a market share of 0.3%.	Graphite electrodes	13,132	12.1	4.5
Customer C	Companies of a group which are principally engaged in minerals and metal manufacturing in South Africa and Canada. The holding companies of Customer C are listed on the London Stock Exchange, the New York Stock Exchange and the Australian Securities Exchange.	Graphite electrodes	10,101	9.3	6
Sanli New Materials <i>(Note 2)</i>	A company which is principally engaged in trading of graphite electrodes since 2016 and is our distributor in the PRC since 2018.	Graphite electrodes	8,551	7.9	4
Customer M	A company which is principally engaged in EAF steel manufacturing in the U.S.	Graphite electrodes	5,597	5.1	3
Top five customers in aggregate			50,784	46.7	

BUSINESS

1H2022

Customer	Background	Product we provided	Revenue (US\$'000)	Approximate percentage of our total revenue (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)
Customer G	Companies of a group which are principally engaged in EAF steel manufacturing in Italy with a market share of 0.3%.	Graphite electrodes	8,659	14.5	4.5
Xinxiang Longhui <i>(Note 3)</i>	A company established in the PRC which is engaged in the sales and manufacturing of graphite electrode and carbon materials.	Graphite electrodes	7,361	12.3	4
Sanli New Materials <i>(Note 2)</i>	A company which is principally engaged in trading of graphite electrodes since 2016 and is our distributor in the PRC since 2018.	Graphite electrodes	4,152	7.0	4
Customer H	Companies of a group which are principally engaged in EAF steel manufacturing in the U.S. with a market share of approximately 1.2%. The holding company of Customer H is listed on the New York Stock Exchange.	Graphite electrodes	3,233	5.4	10
Customer M	A company which is principally engaged in steel bars production in North America and South America	Graphite electrodes	3,112	5.2	3
Top five customers in aggregate			26,517	44.4	

Notes:

- (1) We have contacted each of our top five customers in each year/period during the Track Period to request for consent to disclose their respective identities in the prospectus. Save for those already disclosed in this prospectus, we are unable to obtain consent to disclose their identities.
- (2) For details on Sanli New Materials, please refer to the sub-section headed “Our Customers — Industry traders and distributor” in this section in relation to our business relationship with Sanli New Materials and the section headed “Relationship with Controlling Shareholders — Entities historically related to Mr. Hou and/or his family members — Sanli New Materials” in this prospectus for its historical background.
- (3) For details on Xinxiang Longhui, please refer to the sub-section headed “Our Suppliers — Overlapping supplier and customer” in this section in relation to our business relationship with Xinxiang Longhui and the section headed “Relationship with Controlling Shareholders — Entities historically related to Mr. Hou and/or his family members — Xinxiang Longhui” in this prospectus for its historical background.

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For the typical credit terms and payment method granted to our top five customers, please refer to the subsection headed “Our Customers — Payment and Credit Terms” in this section.

Major terms of our agreement with customers

Depending on our customers’ demand, our customers may (i) enter into long-term framework agreements with us followed by purchase orders placed by our customers on an as-needed basis which confirm the purchase details; or (ii) enter into purchase agreements or place purchase orders with us on an as-needed basis to purchase graphite electrodes from us. The purchase orders and sales agreements prescribe order terms and conditions such as order details, specifications, delivery date, and unit price, where applicable.

The principal terms of the long-term agreements with our major customers during the Track Record Period are set out below:

Principal terms	Descriptions
Term	: The agreements typically remain effective for a fixed term which generally ranges from one to two years, subject to the customer’s right to extend for another fixed term of up to two years upon the expiry of the initial term unless terminated by a party to these agreements in accordance with the terms thereof.
Pricing	: The agreements contain a fixed price schedule and/or a negotiation mechanism for setting the price during the term of the agreements.
Payment term	: There are different payment terms including settlement of invoice within a specified number of days after delivery or each calendar month; and partial advance payment with balance payable within a specified number of days after delivery.
Minimum purchase requirement	: Our customers are not subject to any minimum purchase requirements.
Shipment terms	: We generally deliver products on DDP, FOB or CIF basis.
Termination	: The agreements can be terminated by either party thereto serving written notice.

During the Track Record Period and up to the Latest Practicable Date, we were in compliance in material respects with the terms of the agreements with our major customers and had not experienced nor were we aware of any circumstance leading to early termination of the agreements or contractual disputes with or claims by our major customers in material respects.

During the Track Record Period, the number of customers entered into long-term contracts with us were two, two, two, three and three in FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. Such contracts accounted for approximately 29.1%, 18.4%, 11.4%, 18.1% and 21.4% of our total revenue in FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

Payment and credit terms

We generally give our customers credit terms of 30 to 60 days from the date of our deliveries. We may however offer longer credit terms after taking into account the size of, our historical relationship with, and the creditworthiness of, each customer as well as our cashflow. For certain customers with low credit rating and industry traders, we will request for partial or full payment before the delivery of our products. Sales payments are normally settled by bank transfers.

Technical service, product returns and warranty

We currently have five technical experts who provide technical support for our customers, including providing technical advice to our customers' plant operators and checking the operation status of our graphite electrodes installed in the furnaces of our customers. We also have a global supply chain team based in the U.S., which is responsible for and fully dedicated to technical service coordination and handling sales-related and logistics matters.

We do not have a general product warranty policy but may occasionally provide warranty to certain customers depending on competition situation. If there are any defective products after we deliver our products to our customers, we will then check if the defect is major and shall be responsible by us. If the result shows that we are responsible for the defect, we will then rectify the defect, produce and deliver the products again or offer credits to our customers for the defective quantities.

For FY2018, FY2019, FY2020, FY2021 and 1H2022, the amounts of sales return were approximately nil, US\$1.8 million, US\$0.5 million, US\$0.6 million and US\$0.8 million, respectively. The sales returns were due to product quality issue.

Pricing policy

Our primary goal is to provide a competitive quotation to secure purchase orders from our customers and at the same time, maximise our utilisation rate and allocate our products to purchase orders with the highest margins available at the relevant time.

Generally, our sales and marketing teams negotiate our quotes directly with our customers whenever they intend to place purchase orders with us and the price of our products is fixed between us and our customers directly. Upon receipt of a request for quote from our customers, a case-by-case quotation proposal will be prepared for our management's consideration. In determining our quote for each potential order, we will consider a bundle of factors and price our products based on these factors on a case-by-case basis, which include among others, the prevailing market price, the supply and prices of raw materials at the relevant time, the manufacturing costs and the level of technical skills required. For details of the these factors, please refer to the section headed "Financial Information — Gross profit and gross profit margin — (i) Factors affecting the selling price of graphite electrodes" in this prospectus. The quotation will be subject to further negotiation between our customers and us.

BUSINESS

If a quotation is not accepted by our customer, the customer may counter-offer a price and volume indication based on the price range received from other suppliers. If our management considers the counter-offer price falls within an acceptable range, then our sales team will negotiate with the customer to reach a final price. Alternatively, if the counter-offer price is considered too low, our management will revisit the pricing factors to decide whether we should accept or refuse the order.

Throughout the price determination process, the customers do not have any information about the cost of our Group nor other suppliers. In view of that, the final price as well as the gross profit margin of each purchase order may vary. While our Group aims at maximising our gross profit margin, the final price of each transaction will likely to be adjusted towards the most competitive price quotation in the negotiation and as a result, will not lead to a consistent or predetermined gross profit margin.

Delivery arrangement

Delivery to our customers is principally on DAP, DDP or FOB basis to designated ports or to warehouses of our customers. The allocation of the cost of delivery services depends on the agreed Incoterms. We recognise our sales to the customers when we deliver our products to them or when the products arrive at the designated locations of the customers and the title to such products passes to them without recourse.

We will pack and deliver our products to our customers. For this purpose, we engage external logistics companies to transport and deliver our products to our customers.

Please refer to the section headed “Business — Business Model and Business Operations” in this prospectus for further details on delivery arrangement.

Industry traders and distributor

We sell our products to industry traders and a distributor, Sanli New Materials, which resell our products to EAF steel manufacturers and other traders. During the Track Record Period, we had the following distribution and trading arrangements:

- (i) entered into several distribution agreements with Sanli New Materials for distribution of our graphite electrodes in the PRC; and
- (ii) five industry traders, including Xinxiang Longhui, being our top five customer for FY2020 and FY2021 and our top five suppliers in FY2018, placed purchase orders with us from time to time and resold our products.

According to the distribution and trading arrangements we have with Sanli New Materials, we generally have a higher degree of control over it when compared to the industry traders. For example, according to the distribution agreements, Sanli New Materials is required to provide sales data and purchase plans to us on a monthly basis and obtain our prior consent before it engages with a new potential customer. Similar requirements are not included in the trading arrangements we had with our industry traders.

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During the Track Record Period and up to the Latest Practicable Date, save as disclosed in this prospectus, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of these distributors and industry traders and all of them were Independent Third Parties.

For FY2018, FY2019, FY2020, FY2021 and 1H2022, we had one, four, six, nine and eight customers which will resell our products, respectively, and our sales to these customers accounted for approximately 2.7%, 9.5%, 38.7%, 32.0% and 28.5% of our revenue, respectively. None of our distributor nor industry traders terminated the distribution arrangements with us during the Track Record Period. Sales to these customers were recognised when our products were delivered. As at 31 October 2022, we had received approximately 95.6% of our trade receivables from these customers as at 30 June 2022.

As these customers have particular connections with our targeted EAF steel manufacturer customers or have substantial and well established sales network in their respective countries, we believe that the sale of our products through them will be a more effective way to reach these ultimate users and purchasers of graphite electrodes and such practice is in line with industry norm. In particular, Sanli New Materials and Xinxiang Longhui had close business relationships with Sanli Group. For further details, please refer to “Relationship with Controlling Shareholders — Entities historically related to Mr. Hou and/or his family members” in this prospectus.

Distributorship

To establish a strategic partnership with Sanli New Materials and incentivise Sanli New Materials to devote more resources into the promotion of our products in the PRC, we offer commission with a fixed rate calculated based on the transaction amount to Sanli New Materials. This approach was agreed upon arm’s length negotiation between Sanli New Materials and our Group and is consistent with the industry practice for distributorship model in the market and the commission arrangement we have with our sales personnel. During the Track Record Period, we exerted substantial control over the distribution of our graphite electrodes by Sanli New Materials.

According to the distribution agreements, Sanli New Materials is required to provide sales data and purchase plans to us on a monthly basis. We believe that this does not only enable us to estimate Sanli New Materials’ anticipated demands of our products, but also allows us to assess if Sanli New Materials has kept unnecessarily high inventory level of our products even if we are not responsible for their inventory level. Furthermore, in order to control the sales channels of our products, Sanli New Materials is required to obtain our prior consent before it engages a new potential customer in accordance with the terms of the distribution agreement. Sanli New Materials is not allowed to sell our products to our existing customers.

BUSINESS

For our transactions with Sanli New Materials and in line with the industry practice, Sanli New Materials is not entitled to return our products (including unsold or obsolete goods), unless our products are defective. During the Track Record Period, we offered credit terms similar to what we offered to other steel manufacturer customers and did not experience any material return of products from Sanli New Materials. We retain no ownership control over our products sold to Sanli New Materials. Sanli New Materials is responsible for managing their own inventories and anticipate demands from their customers. Sanli New Materials place orders with us on a transaction basis and the revenue from the sales of our goods is recognised when the control of the goods have been transferred to them. Our relationship with Sanli New Materials is a buyer and seller relationship. To the knowledge of our Directors, Sanli New Materials has no sub-distribution arrangement. For FY2018, FY2019, FY2020, FY2021 and 1H2022, our sales to Sanli New Materials accounted for approximately 2.7%, 7.9%, 6.7%, 7.9% and 7.0% of our revenue, respectively. There has been steady demand for our Group's products from Sanli New Material. The revenue contribution from Sanli New Material throughout the Track Record Period corresponded with the then prevailing market condition. For instance, during the fourth quarter of FY2018 when the market was robust, the sales amount amounted to US\$4.5 million. During FY2019 when the market was robust, the sales amount surged to US\$12.0 million. During FY2020 i.e. after the downward adjustment commenced in late 2019 and the economy was adversely affected by COVID-19, the sales amount dropped to US\$7.3 million. When the market started to stabilize in FY2021, the sales amount slightly increased to US\$8.6 million. The sales amount increased from US\$3.5 million for 1H2021 to US\$4.2 million.

Terms with Sanli New Materials

We entered into a framework distribution agreement with Sanli New Materials, the principal terms of which are set out below:

Principal terms	Descriptions
Term	: Six months to one year
Territories	: The PRC
Responsibilities of the distributor	: <ul style="list-style-type: none">● Communication with end customers● Sales and marketing of our graphite electrodes● Provision of sales data and purchase plans to us on a monthly basis● Obtaining our prior consent before it engages any new potential customer● Not to sell our products to our existing customers
Pricing	: To be negotiated for each transaction
Commission rate	: While the commission rate is fixed, if Sanli New Materials' customer is an end user, the commission rate will be higher than the rate in the case where Sanli New Materials' customer is an industry trader
Payment terms	: Payable within 60 days after issue of invoice

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Delivery cost	:	Borne by our Group
Minimum purchase quantity	:	None
Return policy	:	No product return except for defective products
Exclusivity	:	No exclusivity arrangement
Use of trademarks	:	Sanli New Materials may use the brand “Sanli” for the sales of the products

Transactions with industry traders

For our transactions with the industry traders, in line with the industry practice, none of these customers is entitled to return our products (including unsold or obsolete goods), unless our products are defective. During the Track Record Period, we did not experience any material return of products from any of our industry traders. We retain no ownership control over our products sold to our industry traders. Our industry traders are responsible for managing their own inventories and anticipating demands from their customers. Our industry traders place orders with us on a transaction basis and the revenue from the sales of our goods is recognised when the control of the goods have been transferred to them. Our relationship with our industry traders is a buyer and seller relationship. We do not impose any initial purchase requirements against them. To the knowledge of our Directors, none of them has sub-distribution arrangement. For FY2018, FY2019, FY2020, FY2021 and 1H2022, the sales to our industry traders accounted for approximately nil, 1.6%, 31.9%, 24.1% and 21.6% of our revenue, respectively.

We offer credit terms to our industry traders comparatively shorter than what we offer to our other steel manufacturer customers. We may require 30% to 50% prepayments or payment upfront from our industry traders. In addition, we communicate with our industry traders from time to time to understand their sales performance.

Terms with industry traders

We entered into sales and purchase contracts with some of our industry traders for their purchases. The principal terms of the above sales and purchase contracts are set out below:

Principal terms	Descriptions
Pricing	: To be negotiated for each transaction
Payment terms	: Prepayment or payable within 30 to 75 days after issue of invoice
Shipment terms	: FCA, DAP, EXW
Minimum purchase quantity	: None
Return policy	: No product return except for defective products

BUSINESS

Our subcontracting customers

During the Track Record Period, some customers subcontracted certain production processes to us from which we generated other income of approximately US\$1.0 million and US\$0.2 million during FY2019 and 1H2022, respectively, and net loss of approximately US\$47,505 and US\$3,127 during FY2020 and FY2021, respectively.

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in this prospectus, none of our subcontracting customers had any past or present relationship (family, employment, business, financing or others) with our Group, including our subsidiaries, shareholders, directors, senior management and their respective associates.

The tables below set out the background information of our subcontracting customers for the periods indicated (*Note 1*):

FY2019

Subcontracting customers	Background	Processing service(s) we provided	Net processing fee income (loss) (US\$'000)
Xinxiang Longhui	A company established in the PRC which is engaged in the sale and manufacturing of graphite electrodes and carbon materials.	Extrusion	1,030
		Total:	1,030

BUSINESS

FY2020

Subcontracting customers	Background	Processing service(s) we provided	Net processing fee income (loss) (US\$'000)
Xinxiang Longhui	A company established in the PRC which is engaged in the sale and manufacturing of graphite electrodes and carbon materials.	Baking, graphitisation and machining	(38.5)
Subcontracting Customer A	A company established in the PRC which is engaged in the business of processing and sales of packaging materials, metallurgical furnace materials, packaging foam, plastic products, abrasives, molds and auxiliary materials, as well as processing and sale of mechanical and electrical products (excluding automobiles).	Baking	(9.0)
			<hr style="width: 100%;"/> Total: <u><u>(47.5)</u></u>

BUSINESS

FY2021

Subcontracting customers	Background	Processing service(s) we provided	Net processing fee income (loss) (US\$'000)
Xinxiang Longhui	A company established in the PRC which is engaged in the sale and manufacturing of graphite electrodes and carbon materials.	Graphitisation and machining	(0.4)
Subcontracting Customer A	A company established in the PRC which is engaged in the business of processing and sales of packaging materials, metallurgical furnace materials, packaging foam, plastic products, abrasives, molds and auxiliary materials, as well as processing and sale of mechanical and electrical products (excluding automobiles).	Baking	(2.7)
			<hr style="width: 100%;"/> Total: <u><u>(3.1)</u></u>

1H2022

Subcontracting customers	Background	Processing service(s) we provided	Net processing fee income (loss) (US\$'000)
Subcontracting Customer B	A company incorporated in Italy which is engaged in the business of production of cookware.	Baking	19.5
			<hr style="width: 100%;"/> Total: <u><u>19.5</u></u>

Note:

- (1) We have contacted each of our subcontracting customers in each year/period during the Track Period to request for consent to disclose their respective identities in the prospectus. Save for those already disclosed in the Prospectus, we were unable to obtain consent to disclose their identities.

Trade War between China and the U.S.

Background

In August 2017, the Trump Administration initiated an investigation under Section 301 of the *Trade Act of 1974* to determine whether the policies and practices of the Chinese Government related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory and either burden or restrict U.S. commerce. In March 2018, the Office of the U.S. Trade Representative (“**USTR**”) released its Section 301 report, which found that China’s policies result in harm to the U.S. economy. Simultaneously, President Trump signed a Presidential Memorandum outlining a series of remedies that his Administration would take in response to these findings, including plans to:

- take action against China at the World Trade Organisation (WTO);
- increase restrictions on Chinese investment in sensitive U.S. technology; and
- increase tariffs on certain Chinese imports.

With regard to tariffs, the Trump Administration implemented a series of duties. The first list (“**List 1**”) went into effect in July 2018 and imposed 25% tariffs on \$34 billion worth of goods from China. The second list (“**List 2**”) imposed 25% tariffs on \$16 billion worth of Chinese products and went into effect in August 2018. The third list (“**List 3**”) went into effect in September 2018 and originally imposed a 10% tariff on \$200 billion worth of goods from China. The List 3 tariffs were increased to 25% in May 2019. The fourth list (“**List 4A**”) went into effect in September 2019 and originally imposed a 15% tariff on \$112 billion worth of goods from China. Another list (“**List 4B**”) was announced by the Trump Administration and would have imposed a 15% tariff on \$160 billion worth of goods from China. As a result of the Phase One trade deal signed by the United States and China in January 2020, the plans to increase tariffs on Lists 1–3 to 30% did not proceed, the List 4A tariffs were reduced from 15% to 7.5%, and plans to implement the List 4B tariffs were tabled indefinitely. The Biden Administration has yet to take any action significantly modifying the 301 tariffs. The Administration has at least so far opted to continue with the program, with only limited exclusions under consideration so far. The Biden Administration is also reportedly considering a new Section 301 investigation into China’s industrial subsidies, which could result in further actions, including additional tariffs.

Effect on our Group

Graphite electrodes of Chinese origin exported to our customers located in the U.S. (the “**U.S. customers**”) were included on List 3 and therefore subject to the additional tariffs. Prior to List 3 coming into effect, our graphite electrodes were subject to a tariff of 6% imposed by the U.S. government.

BUSINESS

Accordingly, from 24 September 2018 onwards and up to the Latest Practicable Date, our products were subject to an additional tariff (the “**Additional Tariff**”) of a rate of 10% from 24 September 2018 to 9 May 2019 or 25% from 10 May 2019 up to the Latest Practicable Date. Pursuant to the federal law of the U.S., entities will be liable to pay tariff imposed by the U.S. government if they are identified as an importer of record (i.e., person or entity who assumes the responsibility for ensuring legal goods are imported in the U.S.).

For FY2018, FY2019, FY2020, FY2021 and 1H2022, we had six, 13, 14, nine and six U.S. customers and our sales to them in aggregate accounted for 23.0%, 20.3%, 18.9%, 21.1% and 18.1%, respectively, of our total revenue for the same periods. Among our sales to customers located in the U.S. in FY2018, FY2019, FY2020, FY2021 and 1H2022, 100%, 34.6%, 1.3%, nil and nil of our products purchased by them were manufactured in the PRC, respectively. These sales represent 23.0%, 7.0%, 0.2%, nil and nil of the total revenue of FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

We have deployed measures to manage the potential impact of the intensifying Sino-U.S. trade conflicts, including the Additional Tariff imposed on our products imported by U.S. customers.

To address and contain the potential negative impact of the Additional Tariff to the our financial performance, we reviewed our product and customer portfolios of the PRC Factory and Italian Factory with an aim to examine how best we may cater our U.S. customers and optimise the profit from their sales orders despite the Additional Tariff. All the products imported from the PRC to the U.S. by our Group in FY2018 were sourced from suppliers in the PRC as we had only commenced production at the Italian Factory in late 2018 and we had not commenced production at the PRC Factory. Since the commencement of in-house production, almost all the products imported to the U.S. by our Group from FY2019 to 1H2022 were manufactured in the Italian Factory which was the principal source of graphite electrodes for sales orders placed by the U.S. customers. Therefore, as far as the graphite electrodes manufactured and exported to the U.S. by us are concerned, we have not shifted the manufacturing process from the PRC Factory to the Italian Factory. Since we have been using the Italian Factory for sales orders placed by the U.S. customers, we had not encountered any difficulty or received any complaints from our U.S. customers due to the adoption of such arrangement.

Furthermore, given all graphite electrode manufacturers in the PRC are affected by the implementation of the Additional Tariff, it gives us a competitive advantage over other PRC manufacturers as we have another production facility outside China.

As part of our overall business strategy to diversify our manufacturing beyond the PRC and our measure to minimise our exposure to the imposition of the Additional Tariff on our products effective from September 2018 and any negative effect on the demand of our products from the U.S. customers, we have used, to the extent possible, the production capacity of the Italian Factory instead of the PRC Factory to manufacture products for sales to our customers in the U.S. with an aim to minimising our exposure to the Additional Tariff. During FY2021 and 1H2022, all of our products for sales to our customers in the U.S. were manufactured by the Italian Factory. According to our internal analysis and as advised by our US Legal Advisers, the products manufactured in Italy and of Italian origin are not subject to the Additional Tariff upon import from Italy into the U.S..

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The table below sets out the revenue contribution during the Track Record Period regarding (i) the sale of products imported from the PRC into the U.S.; (ii) the sale of products imported from Italy into the U.S.; and (iii) the sale of products to countries other than the U.S..

	FY2018		FY2019		FY2020		FY2021		1H2022	
	Revenue	(%)	Revenue	(%)	Revenue	(%)	Revenue	(%)	Revenue	(%)
	(US\$'000)		(US\$'000)		(US\$'000)		(US\$'000)		(US\$'000)	
Products imported from the PRC into the U.S.	38,682	23.0	10,576	7.0	266	0.2	—	—	—	—
Products imported from Italy into the U.S.	—	—	20,034	13.3	20,224	18.7	22,978	21.1	10,812	18.1
Products to countries other than the U.S.	<u>129,637</u>	<u>77.0</u>	<u>120,234</u>	<u>79.7</u>	<u>88,050</u>	<u>81.1</u>	<u>85,716</u>	<u>78.9</u>	<u>48,894</u>	<u>81.9</u>
Total:	<u>168,319</u>	<u>100.0</u>	<u>150,844</u>	<u>100.0</u>	<u>108,540</u>	<u>100.0</u>	<u>108,694</u>	<u>100.0</u>	<u>59,706</u>	<u>100.0</u>

Starting from FY2020, the arrangement of diversifying our product manufacturing from the PRC to Italy covered almost all of our sales to U.S. customers.

Therefore, any impact of the Additional Tariff on the demand of our product has already been minimised.

Since we commenced manufacturing in late 2018, almost all of the graphite electrodes we manufactured and exported to the U.S. were manufactured at the Italian Factory. As such, our Directors consider that the comparison of the cost structures of graphite electrode productions in the PRC Factory and Italian Factory is not relevant to the assessment of effectiveness of our measures to counter or minimise the adverse effect of the Additional Tariff. For illustration purposes only, we conducted analysis on the cost structures of graphite electrode productions in the PRC Factory and Italian Factory. The cost of sales of graphite electrodes consists of two major components, namely the cost of raw materials and production costs. Production costs include direct labour, subcontracting cost, conversion cost, delivery charge and duty. As the cost of raw materials largely depends on product specifications and the market price of the raw materials at the relevant time and will not be affected by the location of production, we focused on the production cost items which are more location sensitive, such as direct labour subcontracting cost, conversion costs, delivery charge and duty, in assessing the production cost efficiency of the two production facilities.

During the Track Record Period, the unit production costs of graphite electrodes in the PRC Factory and the Italian Factory were approximately US\$1,337 and US\$2,064, respectively. The difference between the unit production costs of graphite electrodes in the PRC Factory and the Italian Factory is approximately US\$726 (the “**Difference**”). Comparing the Difference to the average selling price of graphite electrodes for FY2018, FY2019, FY2020, FY2021 and 1H2022, which were approximately US\$15,310/MT, US\$7,674/MT, US\$4,232/MT, US\$3,928/MT and US\$4,793/MT, respectively, the Difference amounted to approximately 4.9%, 9.8%, 17.8%, 17.6% and 15.1% of the average selling price of graphite electrodes, indicating that the adverse impact of the Difference would be less prominent when the average selling price of graphite electrodes is higher.

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According to Frost & Sullivan, the market price of UHP graphite electrodes in the global market (excluding the PRC) has started to recover in early 2021 and is expected to reach approximately US\$6,724.9/MT in 2026. As a result, our Directors expect that the adverse impact of the Difference, if any, will gradually wear off.

The table below sets out the average monthly revenue, gross profit margin and average monthly sales volume of products sold to the U.S. before and after the imposition of additional tariff in September 2018 and May 2019 during the Track Record Period and the corresponding rate of additional tariff:

	January to September 2018	October to December 2018	January to April 2019	May to December 2019	FY2020	FY2021	1H2022
Additional tariff (%)	—	10	10	25	25	25	25
Average monthly revenue of products sold to the U.S. (US\$'000)	2,798	4,500	3,055	2,627	1,708	1,915	1,802
Gross profit margin of products sold to the U.S. (%)	59	64	30	36	5.2	28.8	36.2
Average monthly sales volume of products sold to the U.S. (MT)	179	250	261	285	341	388	286
Total amount of tariff paid (US\$'000)	—	1,315	1,064	518	44	—	—

Considering that the Additional Tariff of 10% on graphite electrodes imported from the PRC was first imposed in September 2018 and increased to 25% in May 2019, and according to Frost & Sullivan, the growth rate of overall demand of U.S. customers for graphite electrodes and the market price of graphite electrodes have been declining since late 2018 due to the slowdown of the growth rate of the EAF steel industry in the U.S. and such slowdown further deteriorated and prolonged under the COVID-19 outbreak, it is observed that:

- (i) our average monthly sales volume of products sold to the U.S from FY2018 to 1H2022 demonstrate a steady upward trend, showing that our sales volume continued to grow despite the imposition of the Additional Tariff;
- (ii) our gross profit margins and average monthly revenue of products sold to the U.S. were in line with our trends in our overall gross profit margins and revenue during the Track Record Period; and
- (iii) a low gross profit margin of approximately 5.2% was recorded for the sales to our U.S. customers during FY2020 mainly due to the decrease in the average selling price of graphite electrodes in the U.S. market which was in line with the slow down of the growth rate of the global EAF steel industry under the COVID-19 outbreak.

In addition, we are not aware of any U.S. customers shifting to and sourcing graphite electrodes from our competitors because of the imposition of the Additional Tariff. We expect that the possibility for them doing so is remote. As disclosed in the paragraph above, we have used the manufacturing capacity of the Italian Factory for the purchase orders placed by the U.S. customers and any impact of the Additional Tariff on the demand of our product has been minimised.

Therefore, we do not expect that the Sino-U.S. trade conflicts have or will have a material impact on our business and outlook. However, we cannot assure you that our products will not be subject to any new tariff imposed by any government in the future and that our measures are effective at all times. See the section headed “Risks Factors — Risks Relating to Our Business — Our business, financial condition and results of operations may be materially and adversely affected by the recent escalating tension of Sino-U.S. relations” in this prospectus for further discussion on the worldwide business presence which may expose us to some risks of additional tariffs on exports.

Impact of anti-dumping regulations

While both the antidumping and countervailing duty regulations in the U.S. and the anti-dumping regulations under the European Union (collectively “**Anti-Dumping Regulations**”, details of which please refer to “Regulatory Overview — Antidumping and Countervailing Duty Regulations” and “Regulatory Overview — European Union Laws and Regulations”, respectively) are applicable to our businesses in the U.S. or in Europe, our Directors consider that both Anti-Dumping Regulations have minimal impact on our businesses.

Since the anti-dumping regulations by the European Commission is only applicable to graphite electrodes (other than connecting pins) imported from China and our Group generally does not import graphite electrodes (other than connecting pins) from China to the European Union, there was no anti-dumping duty chargeable on our products distributed in these regions upon the implementation of the anti-dumping regulations under the European Union.

On the other hand, the anti-dumping duty under the antidumping and countervailing duty regulations in the U.S. will only be applicable on graphite electrodes manufactured in the Italian Factory, if coupled with connecting pins which are imported from China.

During the Track Record Period, we had paid approximately nil, US\$176,000, US\$33,000, US\$38,000 and US\$13,000 anti-dumping duty for the connecting pins originated from China, which represented approximately nil, 0.15%, 0.04%, 0.04% and 0.03% of our total cost of sales of the respective years. Our Directors have confirmed that all these duties have been duly paid and we have been in compliance with the Anti-dumping Regulations. By having the Italian Factory which can supply products to these regions, our Directors believe that the Anti-dumping Regulations provide us with a competitive advantage in that we will have greater competitiveness in pricing against our competitors in these regions.

OUR SUPPLIERS

Graphite electrodes

During the Track Record Period, we sourced graphite electrodes from various suppliers before we commenced our own production at the Italian Factory in June 2018 and the PRC Factory in January 2019.

Our suppliers supply graphite electrodes to us according to our orders and specifications on an as-needed basis. We do not have to process the graphite electrodes we sourced before delivering to our customers. We generally request that the products be delivered according to our sales demand.

The major terms of the purchase agreements and orders included the quantity, the expected date of delivery, the unit cost and the payment terms. Some of the purchase price was settled in advance. We generally settled the payment by way of banker's acceptance or telegraphic transfer in USD or RMB. During the Track Record Period, we had not experienced any material delay or quality issues with our suppliers.

For FY2018, FY2019, FY2020, FY2021 and 1H2022, our costs of graphite electrodes from our suppliers amounted to approximately US\$58.7 million, nil, US\$8.1 million, US\$12.2 million and US\$10.3 million, representing approximately 93.0%, nil, 8.8%, 14.2% and 23.4% of our total cost of sales, respectively. Following the commencement of our manufacturing business, our graphite electrodes are mainly in-house manufactured by our Group. For details of our sourcing of finished graphite electrodes, please refer to the breakdown of revenue by sources of graphite electrodes in "Financial Information — Description of selected items in consolidated statements of profit or loss and other comprehensive income — Revenue".

Needle coke and binder pitch

For our production, our major raw materials, such as needle coke and binder pitch, have become the key purchases for our operation and production. We mainly source needle coke and binder pitch from suppliers located in the U.K., Germany, Japan, South Korea, the PRC and the Czech Republic. We had maintained a stable relationship with our needle coke and binder pitch suppliers during the Track Record Period. We purchase raw materials according to our production plans, which are formulated and adjusted quarterly, based on our sales forecast, confirmed orders and inventory level.

As at the Latest Practicable Date, we had stable business relationships of more than four years with our major suppliers of needle coke and binder pitch, namely Supplier D, PMC Tech Co., Ltd., Supplier F, Supplier G, Supplier H, Supplier J and Rain Carbon Germany GmbH. The total purchases of needle coke and binder pitch from the major suppliers of needle coke and binder pitch, which had been our top five suppliers during the Track Record Period, amounted to approximately US\$45.4 million, US\$49.2 million, US\$11.7 million, US\$32.8 million and US\$12.9 million in FY2018, FY2019, FY2020, FY2021 and 1H2022, representing approximately 28.1%, 55.6%, 31.5%, 42.1% and 34.0% of our total purchases in FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

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During the Track Record Period and up to the Latest Practicable Date, we were in compliance in all material respects with the terms of the contracts with our major suppliers, and had not experienced nor were we aware of any circumstance leading to early termination of the contract or contractual disputes with or claims by our major suppliers.

In line with industry practice, we generally purchase raw materials by placing purchase orders with our qualified suppliers. Our purchase orders typically include details such as grade, unit price, quantity, delivery schedule and payment details. We generally pay our major suppliers upfront in full or within 30 to 60 days before the agreed shipment date. In some occasions, we pay our major suppliers within a month following the delivery. We mainly pay our raw material suppliers by telegraphic transfers. Our suppliers typically deliver needle coke and binder pitch to us on FOB, CIF, DAP or CPT basis. For certain PRC suppliers, we will take delivery and transport the needle coke and binder pitch from their warehouses to the PRC Factory. During the Track Record Period, we did not encounter any significant shortage or delay in the supply of needle coke and binder pitch.

Needle coke prices generally vary with overall demand as well as the price of graphite electrodes. The demand for graphite electrodes in China witnessed a surge in the second half of 2017 which resulted in a high demand for needle coke that pushed the price to increase substantially during FY2018 and FY2019. Price of binder pitch, which is driven by the availability of coal tar, is however more stable.

The table below sets out the average purchase price of needle coke and pitch for the Track Record Period:

	FY2018 <i>(US\$ per tonne)</i>	FY2019 <i>(US\$ per tonne)</i>	FY2020 <i>(US\$ per tonne)</i>	FY2021 <i>(US\$ per tonne)</i>	1H2022 <i>(US\$ per tonne)</i>
Needle coke	3,311	3,373	829	1,291	1,887
Binder pitch	996	674	601	837	1,132

With an aim to mitigate the adverse impact of often changing price of needle coke, we have adopted a purchase policy pursuant to which we will compare price quotes offered by our suppliers and consider, among others, their delivery schedule and quality before purchases. We will purchase at such price and amount and with a delivery term that best meet our production schedule. We will primarily have short term purchases but in smaller batches and the volume of needle coke inventory will be capped at the forecast usage amount for the next six months so that we may ensure that our purchase price of needle coke will be in line with the prevailing market price. In addition, we manage our raw material cost at a relatively cost-effective manner by buying needle coke on dips to maintain low raw material cost. For the risks and sensitivity analysis relevant to increase in raw material costs, please refer to the sections headed “Risk Factor — Any material increase in the prices of our major raw materials or shortage of our major raw materials may have adverse impacts on our business, financial condition and results of operations” and “Financial information — Key factors affecting our results of operations — Price fluctuation of raw materials used in our production”, respectively.

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To ensure the quality of our raw materials, we engage only suppliers which are on our qualified suppliers list. Selection of qualified suppliers, especially needles coke suppliers, is a lengthy process. We will first conduct in-house tests of the chemical and physical properties of the raw materials. Upon passing such test, we will manufacture graphite electrodes with these materials and proceed with the qualification tests where we will test the chemical and physical properties of these graphite electrodes, and assess their performance when they are installed and utilised in our customer's furnaces. The suppliers whose needle coke and binder pitch pass all the above tests and procedures will be included in our list of qualified suppliers.

We have maintained business relationship with our major needle coke suppliers. We review the qualified suppliers list on an annual basis with a view to getting the best commercial terms on our future orders. When we purchase raw materials, we select the most suitable suppliers from our list of qualified suppliers based on (i) the grade and quality of needle coke and binder pitch required; (ii) the price of needle coke and binder pitch offered; (iii) their logistic arrangements; and (iv) payment terms offered.

We aim to minimise the risk of shortage of raw material supply and maintain sufficient inventory levels. For better control and management of our inventories, we perform regular checks on our inventory levels at the end of each month with reference to aged inventory analysis and historical trends. Furthermore, we implemented an inventory management system which enables us to monitor the stock movement of our raw materials, semi-finished goods and finished products so that they are in alignment with our product delivery requirements and schedules. Inventories are reviewed on a daily basis in MES by our management to evaluate the cashflow of inventory purchase. Therefore, in view of the above stable business relationships with our major suppliers of needle coke and binder pitch and measures to manage raw material cost, the Directors are of the view that the measures are adequate and effective.

For FY2019 (the first full year after we commenced in-house manufacturing), FY2020, FY2021 and 1H2022, cost of raw materials processed amounted to approximately US\$57.0 million, US\$47.9 million, US\$26.1 million and US\$9.7 million, representing approximately 48.9%, 52.1%, 30.4% and 21.9% of our total cost of sales, respectively.

Subcontracting

While we have the capability to carry out the baking, impregnation and re-baking processes after we commenced our own production at the PRC Factory, we subcontracted a part of these processes to Independent Third Parties, especially Shanxi Taigu, which owns the Taigu Assets, in order to meet our product demands and production schedule. In addition, we subcontract the re-baking and graphitisation process to these subcontractors as we do not have the furnace and equipment specifically designed for re-baking and the necessary machine and equipment to carry out graphitisation. As the Taigu Assets have the capability to carry out the impregnation, re-baking and graphitisation processes, we have agreed to acquire the Taigu Assets. After such acquisition, we will attain full production process capability, especially the graphitisation process and will completely discontinue the above subcontracting arrangements.

While we subcontract some of these processes to our subcontractors, we maintain control over the manufacturing processes of our subcontractors. We monitor the quality of the rods processed by our subcontractors as well as coordinate the logistics of the processed rods.

BUSINESS

Terms with our subcontractors

Save for the agreements with certain subcontractors with one-year term, we did not enter into long-term processing agreements with our subcontractors during the Track Record Period, which is in line with the industry practice. We generally place our processing requests to our subcontractors on an as-needed basis. We generally notify our subcontractors about our requirements in advance, and enter into processing agreements with them when they confirm their availability and capacity.

The major terms of the processing agreements include, among others, the specifications of extruded rods before and after processing, estimated monthly processing amount, the expected date of delivery, the inspection arrangements, the unit processing cost, the payment terms and the procedure to handle defective products. Our subcontractors do not require us to pay any deposits for our orders and usually offer us a credit term of not more than two months. We generally settle the payment by way of telegraphic transfer or banker's acceptance. If a certain percentage of the extruded rods that we receive from our subcontractors do not meet the agreed standard/quality, we do not pay the processing fees of those failed extruded rods and can request compensation from our subcontractors pursuant to the relevant agreements.

In relation to the operation of our subcontractors, there has been a significant increase in demand for electricity supply in the PRC in recent years, to conserve fuel stocks and reduce energy intensity, various provinces, including Henan province where our PRC Factory and subcontractors are based, have implemented power rationing measures and power outages in various industry sectors. One of our subcontractors experienced power outage in October and November 2021, resulting in a slight delay of delivery of semi-finished goods to us. Save for the aforementioned, we did not experience any material price fluctuations, delay or quality issue with our subcontractors.

We selected our subcontractors during the Track Record Period in accordance with their pricing quotations, capacity to fulfil our processing requests and quality of their processing services provided.

In each year/period during the Track Record Period, our costs to our subcontractors amounted to nil, US\$10.9 million, US\$3.5 million, US\$6.4 million and US\$3.0 million, representing approximately nil, 9.3%, 3.8%, 7.5% and 6.8% of our total cost of sales, respectively.

Our top suppliers

In each year/period during the Track Record Period, our top five suppliers in aggregate accounted for approximately 91.2%, 54.6%, 65.8%, 67.4% and 59.9%, and our largest supplier accounted for approximately 31.9%, 18.0%, 22.2%, 27.2% and 23.5% of our total purchases, respectively. During the Track Record Period and up to the Latest Practicable Date, save as disclosed in this prospectus, none of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, had any interest in any of our top five suppliers and all of them were Independent Third Parties.

BUSINESS

The table below sets out the background information of our top five suppliers for the periods indicated *(Note 1)*:

FY2018

Supplier	Background	Major products provided to our Group	Procurement amount (US\$'000)	Approximate percentage of our total purchases (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)	Credit terms	Payment method
Sangraf Energy <i>(Note 2)</i>	One of our subsidiaries. Please refer to "History, Reorganisation and Group Structure — Corporate History — Sangraf Energy" for details	Graphite electrodes	51,528	31.9	4.5	Advanced payment	Telegraphic transfer
Tianjin Binhai New District Baochang Shipping Investment Management Co., Ltd* 天津濱海新區保昌船舶投資管理有限公司 <i>(Note 2)</i>	A company established in the PRC which is engaged in import and export of various products. It is also a sales representative of Henan Kefeng.	Graphite electrodes	50,701	31.4	4	Advanced payment	Bank transfer or banker's acceptance
Supplier D	The subsidiaries are owned by a company, the shares of which are listed on the New York Stock Exchange. The group of Supplier D is principally engaged in the sales of needle coke, chemical manufacturing and oil refining.	Needle coke	20,958	13.0	4	Advanced payment	Telegraphic transfer
PMC Tech Co., Ltd.	A company incorporated in South Korea which is engaged in the manufacturing of needle coke and related products. It is South Korea's first premium needle coke manufacturing company.	Needle coke	17,612	10.9	4.5	Advanced payment	Telegraphic transfer
Xinxiang Longhui <i>(Note 3)</i>	A company established in the PRC which is engaged in the sales and manufacturing of graphite electrode and carbon materials.	Semi-finished rod	6,502	4.0	4	90 days	Bank transfer or banker's acceptance
			147,301	91.2			

BUSINESS

FY2019

Supplier	Background	Major products provided to our Group	Procurement amount (US\$'000)	Approximate percentage of our total purchases (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)	Credit terms	Payment method
Supplier D	The subsidiaries are owned by a company, the shares of which are listed on the New York Stock Exchange. The group of Supplier D is principally engaged in the sales of needle coke, chemical manufacturing and oil refining.	Needle coke	15,877	18.0	4	Advanced payment or 20 days after delivery	Telegraphic transfer
Supplier F	The subsidiary is owned by a company, the shares of which are listed on the Tokyo Stock Exchange. The group of Supplier F is engaged in trading of needle coke and carbon materials.	Needle coke	10,606	12.0	4	30 days	Telegraphic transfer
Supplier G	A company established in the PRC which is engaged in the sales and manufacturing of needle coke and carbon materials with 30 years of experience in the carbon industry.	Needle coke	7,765	8.8	4	Advanced payment	Bank transfer or banker's acceptance
Supplier H	The subsidiary is owned by a company, the shares of which are listed on the Tokyo Stock Exchange, the Osaka Securities Exchange, the Nagoya Stock Exchange and the Fukuoka Stock Exchange. The group of Supplier H is engaged in imports and exports a wide variety of goods such as metals, machinery, chemicals, fuel, food products, and textiles.	Needle coke	7,091	8.0	4	Advanced payment	Telegraphic transfer
Supplier I	A company incorporated in Italy which is engaged in generating and trading electricity, oil refining, and operating gasoline service stations with over 50 years of experience in the energy industry.	Electricity and gas	6,951	7.8	4.5	30 days	Bank transfer
			48,290	54.6			
			48,290	54.6			

BUSINESS

FY2020

Supplier	Background	Major products provided to our Group	Procurement amount (US\$'000)	Approximate percentage of our total purchase (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)	Credit terms	Payment method
Supplier D	The subsidiaries are owned by a company, the shares of which are listed on the New York Stock Exchange. The group of Supplier D is principally engaged in the sales of needle coke, chemical manufacturing and oil refining.	Needle coke	8,247	22.2	4	45 days	Telegraphic transfer
Shennong Resources Limited* (神農資源有限公司)	A company incorporated in Hong Kong which is engaged in the sales and distribution of graphite electrodes and is a subsidiary of a state owned enterprise listed on the Shanghai Stock Exchange.	Graphite electrodes	6,992	18.8	6	60 to 90 days	Telegraphic transfer
Supplier I	A company incorporated in Italy which is engaged in generating and trading electricity, oil refining and operating gasoline service stations.	Electricity and gas	5,700	15.3	4.5	30 days	Bank transfer
Supplier J	A company established in the Czech Republic which is engaged in the manufacturing and sales of binder pitch and other raw materials used in the production of carbon materials with over 50 years of experience in the chemical industry.	Binder pitch and impregnation pitch	2,112	5.7	4	21 days	Bank transfer
Foressee Import and Export Limited	A related company of Sihai which is engaged in import and export of graphite electrodes and steel related products. For details on Sihai, please refer to "Relationship with Controlling Shareholders — Entities historically related to Mr. Hou and/or his family members — Sihai".	Graphite electrodes	1,419	3.8	2.5	90 days	Telegraphic transfer
			24,470	65.8			
			24,470	65.8			

BUSINESS

FY2021

Supplier	Background	Major products provided to our Group	Procurement amount (US\$'000)	Approximate percentage of our total purchase (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)	Credit terms	Payment method
Supplier D	The subsidiaries are owned by a company, the shares of which are listed on the New York Stock Exchange. The group of Supplier D is principally engaged in the sales of needle coke, chemical manufacturing and oil refining.	Needle coke	21,153	27.2	4	60 days	Telegraphic transfer
Supplier I	A company incorporated in Italy which is engaged in generating and trading electricity, oil refining, and operating gasoline service stations.	Electricity and gas	14,243	18.3	4.5	30 days	Bank transfer
Shennong Resources Limited* (神農資源有限公司)	A company incorporated in Hong Kong which is engaged in the sales and distribution of graphite electrodes and is a subsidiary of a state owned enterprise listed on the Shanghai Stock Exchange.	Graphite electrodes	8,599	11.0	6	90 days	Telegraphic transfer
Supplier F	The subsidiary is owned by a company, the shares of which are listed on the Tokyo Stock Exchange. The group of Supplier F is engaged in trading of needle coke and carbon materials.	Needle coke	5,356	6.9	4	100 days from the date of bill of lading	Telegraphic transfer
Liaoning Shunlong Carbon Group Limited* (遼寧順隆炭素集團有限公司*)	A company established in the PRC which is engaged in the processing of steel and carbon products	Regular coke	3,133	4.0	3.5	Settle by the month end after delivery	Bank transfer
			<u>52,484</u>	<u>67.4</u>			

BUSINESS

1H2022

Supplier	Background	Major products provided to our Group	Procurement amount (US\$'000)	Approximate percentage of our total purchase (%)	Approximate number of years of business relationship with us as at the Latest Practicable Date (years)	Credit terms	Payment method
Supplier D	The subsidiaries are owned by a company, the shares of which are listed on the New York Stock Exchange. The group of Supplier D is principally engaged in the sales of needle coke, chemical manufacturing and oil refining.	Needle coke	8,905	23.5	4	60 days	Telegraphic transfer
Supplier I	A company incorporated in Italy which is engaged in generating and trading electricity, oil refining, and operating gasoline service stations.	Electricity and gas	6,489	17.1	4.5	30 days	Bank transfer
Shennong Resources Limited* (神農資源有限公司)	A company incorporated in Hong Kong which is engaged in the sales and distribution of graphite electrodes and is a subsidiary of a state owned enterprise listed on the Shanghai Stock Exchange.	Graphite electrodes	4,142	10.9	6	90 days	Telegraphic transfer
Supplier J	A company established in the Czech Republic which is engaged in the manufacturing and sales of binder pitch and other raw materials used in the production of carbon materials with over 50 years of experience in the chemical industry.	Binder pitch and impregnation pitch	1,602	4.2	4	28 days	Bank transfer
Rain Carbon Germany GmbH	A company established in Germany which is engaged in the manufacturing and sales of binder pitch and various chemicals, plastics, and building materials from coal tar.	Binder pitch and impregnation pitch	1,564	4.2	4	Payment immediate after date of invoice	Bank transfer
			22,702	59.9			

Notes:

- (1) We have contacted each of our top five suppliers in each year/period during the Track Period to request for consent to disclose their respective identities in the prospectus. Save for those already disclosed in this prospectus, we were unable to obtain consent to disclose their identities.

BUSINESS

- (2) Due to the upsurge in price and demand of graphite electrodes in 2017, in order to ensure stable supply and quality of graphite electrodes to meet customer demand, Sangraf US decided to adopt business measure by engaging manufacturers. To implement such plan, Sangraf US contacted Henan Kefeng, which owned the PRC Factory at that time. In late 2017, Henan Kefeng in turn introduced its sales representative, Tianjin Binhai New District Baochang Shipping Investment Management Co., Ltd, to Sangraf US to place manufacturing orders. As Sangraf US and Tianjin Binhai New District Baochang Shipping Investment Management Co., Ltd had no prior business relationship, in order to manage its capital risks, from late 2017 until the acquisition of Sangraf Energy by our Group in October 2018, we engaged Sangraf Energy as our supplier, which then placed purchase order with Tianjin Binhai New District Baochang Shipping Investment Management Co., Ltd for manufacturing into graphite electrodes and deliver finished graphite electrodes to Sangraf US. After our acquisition of Sangraf Energy, Sangraf Energy, on our behalf, continued to transact with Tianjin Binhai New District Baochang Shipping Investment Management Co., Ltd until late 2018.
- (3) For further details on Xinxiang Longhui, please refer to the paragraph headed “Our Suppliers — Overlapping supplier and customer” in this section and the section headed “Relationship with the Controlling Shareholders — Entities historically related to Mr. Hou and/or his family members — Xinxiang Longhui” in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we complied in all material respects with the terms of the contracts with our major suppliers, and we had not experienced nor were we aware of any circumstance leading to early termination of the contract or contractual disputes with or claims by our major suppliers.

Overlapping supplier and customer

Xinxiang Longhui was principally engaged in the sales and manufacturing of graphite electrodes and carbon materials. As at the Latest Practicable Date, Xinxiang Longhui was beneficially owned by an Independent Third Party. For details on Xinxiang Longhui, please refer to “Relationship with Controlling Shareholders — Entities historically related to Mr. Hou and/or his family members — Xinxiang Longhui” in this prospectus.

Xinxiang Longhui and its affiliated group sold the Extrusion Facilities to us in late 2018. As part of such acquisition, we made one-off purchases of the semi-finished goods and spare parts of the Extrusion Facilities from Xinxiang Longhui which were recorded in FY2018 and FY2019, respectively. Solely due to such one-off purchases, Xinxiang Longhui was accounted for as one of our top five suppliers in FY2018, and a supplier of us in FY2019.

After the acquisition, Xinxiang Longhui and its affiliated group continued to lease the baking furnace system, being part of the Sanli Factory, from Sanli Group and continued its business in the manufacturing of graphite electrodes with only baking capacity while maintaining its business in sales of graphite electrodes until September 2019 when Xinxiang Longhui temporarily stopped its manufacturing business due to the market downturn. It continued to lease the baking furnace system until the lease was terminated in September 2020. During this period, Xinxiang Longhui’s business consisted of the manufacturing and sales of graphite electrodes and bake rods and provision of bake contracting services to its customers.

BUSINESS

Since FY2019, Xinxiang Longhui has conducted various transactions with us, details of which are set out in the table below. In most of the transactions, Xinxiang Longhui purchased finished graphite electrodes from us and occasionally subcontracted to us certain graphite electrode processing, such as extrusion, baking, graphitisation and machining. When Xinxiang Longhui requests our Group to provide processing services or deliver finished goods for them, we will consider on a case-by-case basis and try to accommodate our customer's needs so long as our assessments towards such transactions are commercially viable and we have sufficient production capacity at the material time. The nature of the transactions is not our prime concern.

During FY2019, Xinxiang Longhui subcontracted certain outstanding production processes to us from which we generated other income of approximately US\$0.9 million mainly during the first half of FY2019 when the graphite electrode market was still vibrant. In addition, Xinxiang Longhui purchased finished graphite electrodes from us from which we generated revenue of approximately US\$0.5 million, and recorded gross loss of approximately US\$0.7 million with a gross loss margin of 136.7% mainly due to (i) a drop in the market price of graphite electrodes as a result of the downtrend market condition in the second half of 2019 when the parties entered into the sales contract and (ii) a transaction involving sales of substandard graphite electrodes at a substantial discount due to quality problems such as insufficient length, high electricity resistivity, low body density and surface defects, which occurred during the period when we first commenced production. Our Directors are of the view that the above sales of graphite electrodes at loss to Xinxiang Longhui were on normal commercial terms. As a result, Xinxiang Longhui became our customer in FY2019, resulting in an overlapping of sales to and purchases from Xinxiang Longhui in FY2019. During FY2020, FY2021 and 1H2022, we generated revenue of approximately US\$26.3 million, US\$13.4 million and US\$7.4 million, respectively, and recorded gross profit of approximately US\$8.0 million, US\$4.3 million and US\$1.7 million, respectively, from our sales to Xinxiang Longhui. Among approximately 12,232MT graphite electrodes sold to Xinxiang Longhui during the Track Record Period, approximately 650MT of graphite electrodes sold in 1H2022 were sourced from our suppliers.

There has been steady demand for our Group's products from Xinxiang Longhui. Xinxiang Longhui placed orders (including both purchase orders for graphite electrodes and orders for subcontracting services) with our Group throughout the Track Record Period as the ordered quantities corresponded with the then prevailing market condition. For instance, during the first half of FY2019 when the market was robust, Xinxiang Longhui ordered 6,050.89MT of graphite electrodes from our Group. During the second half of FY2019 when the downward adjustment of market price had begun, Xinxiang Longhui ordered 4,378.52MT. During FY2020 when the downward adjustment continued and the economy was adversely affected by COVID-19, Xinxiang Longhui ceased to place order. When the market started to stabilise in FY2021, Xinxiang Longhui ordered approximately 4,014MT of graphite electrodes. In 1H2022, when the situation of COVID-19 stabilised and after the graphite electrode industry rebounded since August 2021, Xinxiang Longhui ordered approximately 3,034MT of graphite electrode.

BUSINESS

The business transactions of our Group with Xinxiang Longhui during the Track Record Period are set out below:

Transactions	Nature	FY2018 USD'000	FY2019 USD'000	FY2020 USD'000	FY2021 USD'000	1H2022 USD'000
1. Sales of graphite electrodes	Trade	—	524	26,344	13,403	7,360
2. Other income (net amount) including sales of WIP and subcontracting fee	Trade	—	901	(38)	(0.4)	—
3. Purchase of Extrusion Facilities	Non-trade	11,296	—	—	—	—
4. Purchase of semi-finished rod	Trade	6,502	—	—	—	—
5. Purchase of spare parts and materials	Non-trade	—	319	—	—	—

The sales agreement between our Group and Xinxiang Longhui

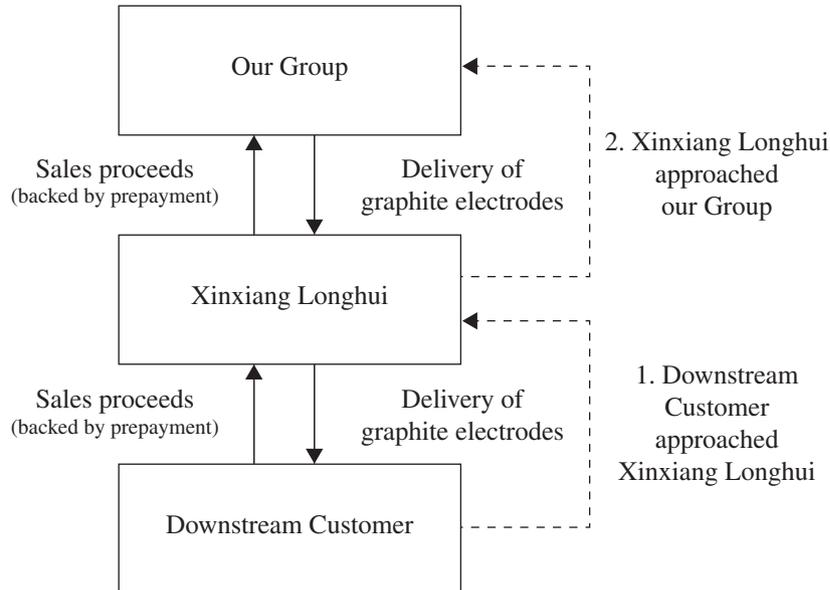
Our Group entered into an agreement with Xinxiang Longhui on 3 January 2019 to sell 3,402MT of graphite electrodes to Xinxiang Longhui which was to be secured by a full prepayment. However, Xinxiang Longhui only made prepayment for approximately two-thirds of the original contract price due to the changing market condition, and the original quantity was correspondingly revised down to 2,268MT at the original unit price, as mutually agreed between the parties to ensure the ordered quantity was fully secured by the actual prepayment.

The delivery was scheduled for four to six months after the prepayment was received. However, when the products were made available according to the delivery schedule, Xinxiang Longhui indicated that its downstream customer (the “**Downstream Customer**”) had not taken delivery of the products as scheduled. In view of this, Xinxiang Longhui was in breach of the agreement terms to take delivery, and our Group continued to urge Xinxiang Longhui to take delivery but to no avail until April 2020. Considering our Group had received full prepayment to secure the revised order and return of product was not allowed in the agreement, our Directors considered the best way to deal with the delay was to wait until Xinxiang Longhui could take delivery, and delivery was taken in June 2020. There was no penalty clause for delayed delivery in the agreement, as delays were typically resolved by commercial negotiation among the parties and settled without resorting to penalty or litigation.

According to F&S, the product size ordered by the Downstream Customer was a standard size and well accepted in the market. The product specification in the purchase agreement is based on UHP graphite electrode China National Standard YB/T-4090–2015, which is issued by the Ministry of Industry and Information Technology of the PRC. We confirm that the products passed all internal quality inspection procedures and we have provided a quality certificate to Xinxiang Longhui at the time of delivery.

BUSINESS

A transaction flow chart in relation to the sales arrangement between our Group, Xinxiang Longhui and the Downstream Customer is set out below.



(a) The Downstream Customer

The Downstream Customer has been wholly-owned by an Independent Third Party. Our Directors confirm that there are no past or present relationships (business, employment, family, financing or otherwise) between (1) our Group and Mr. Hou; and (2) each of the Downstream Customer, including its subsidiaries, shareholders, directors, and senior management and its respective associates.

The Downstream Customer was a new industry player that entered the industry through the introduction of the government authority of Huixian City. Based on public news, the Downstream Customer was one of the parties that attended the signing ceremony of an investment and cooperation framework agreement in Huixian City on 5 December 2018, and would make an investment to renovate and restart production in the Sanli Factory. The planned lead time for renovating and restarting production was 10 months. Not long after the signing ceremony, the Downstream Customer leased the Sanli Factory in December 2018 (except for the baking furnace system which was leased by Xinxiang Longhui since March 2018) consisting of screening, milling and mixing, extrusion, impregnation, graphitisation and machining facilities, office building and warehouse.

After that, the Downstream Customer entered into a purchase agreement with Xinxiang Longhui to purchase finished graphite electrodes for trading from Xinxiang Longhui on 24 December 2018 with an aim to establish its own sales network and rapidly capture future business opportunities from its own production. The Downstream customer then entered into a second purchase agreement with Xinxiang Longhui on 15 January 2019 on similar terms as the first purchase agreement dated 24 December 2018, and amended the delivery schedule, where Sihai was mentioned according to the Second Instance Court Judgment (as defined below).

BUSINESS

According to Mr. Zhao: (i) the Downstream Customer approached him at the end of December 2018, and proposed him to sell the Downstream Customer's graphite electrode products; (ii) as he was locally-based in Huixian City, Henan Province, with over 25 years of management and sales experience in the graphite electrode business, and maintained his sales networks through his companies and sales team, he was reputable in the market and it was normal for the Downstream Customer to approach him to seek business cooperation. However, no definitive agreement was ever reached or signed between the parties; and (iii) no agreement was signed between Sihai and the Downstream Customer.

Based on our Group's own experience in the PRC graphite electrode market, the domestic PRC market for graphite electrodes is primarily a spot-sales market, and manufacturers typically plan for their production of graphite electrodes based on their sale forecasts and then accept spot-market orders. This market practice, coupled with the upward trend in the PRC graphite electrode market at the time, is the reason for suppliers not to have secured back-to-back sales contracts with its downstream customers when producing or sourcing supplies for graphite electrodes.

(b) The PRC litigation between Xinxiang Longhui and the Downstream Customer

It can be observed from a PRC appellate court judgment dated 27 January 2022 (the "**Second Instance Court Judgement**"), that Xinxiang Longhui sued the Downstream Customer for its failure to take delivery of a portion of graphite electrodes it ordered from Xinxiang Longhui. It was determined in the Second Instance Court Judgment that the Downstream Customer should take delivery of such products. To our Company's knowledge upon enquiry with Xinxiang Longhui, the remaining portion of the graphite electrodes have been delivered by Xinxiang Longhui to the Downstream Customer and was accepted by the Downstream Customer by end of June 2022.

Our Directors confirm that, save and except for the above transactions, none of our top five suppliers was our customers, or vice versa and we did not have other overlapping business in our top five suppliers and customers in each year/period during the Track Record Period.

COMPETITION

We face competition in many aspects of our business. The graphite electrode manufacturers generally face competition in terms of long and well-established business relationship with customers production capacity, product quality and capital investment.

According to the F&S Report, entry barriers to the graphite electrode manufacturing industry include:

- having a global sales network and customer base;
- the industry knowledge and technical know-how for the production of high quality, low tolerance and good performance connecting pins which are joint components of graphite electrodes used in the customer's furnaces;

BUSINESS

- the requirement to commit heavy capital investment as the industry is considered capital-intensive due to the complicated production process and a long production cycle with high investment and operational costs of production equipment, environmental protection recruitment of technical staff and workers, rental/construction of production plants and continuous expenditures with raw material; and
- the production scale which is conducive to the optimisation of production technologies and cost control.

All of the above contribute to the ability to become a qualified supplier to EAF steel manufacturers. New entrants without industry knowledge face great challenges for survival given the presence of established large-scale graphite electrode manufacturers.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had 22 registered patents in the PRC, six registered trademarks in the PRC, four registered trademarks in Hong Kong and one registered trademark each in the U.S. and South Africa, and by extension of a WIPO registration of trademark, our use of such trademark is protected in Switzerland. We are also in the process of applying for two trademarks in the PRC and one trademark in Hong Kong. We are the registered owner of three registered domain names that are material to our business. For further information, please refer to the section headed “Statutory and General Information — C. Further Information about our Business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus.

As at the Latest Practicable Date, we had not been involved in any, nor were we aware of any threatening, material claim, dispute or legal proceeding relating to any infringement of intellectual property rights. In addition, despite our best efforts, we cannot be certain that third parties will not infringe or misappropriate our intellectual property rights or that we will not be sued for intellectual property infringement.

INSURANCE

As at the Latest Practicable Date, we maintained a number of insurance policies, including (i) general liability insurance; (ii) all risks property insurance for our inventories, major property, plant and equipment; (iii) auto insurance; (iv) insurance policies with coverage against, amongst others, work injury; (v) transit insurance including inland transit and marine transit; (vi) directors’ and officers’ liability insurance; (vii) employee’s compensation insurance; and (viii) product liability insurance. We also maintain social insurance policies for our employees in the PRC.

During the Track Record Period and up to the Latest Practicable Date, we had not made any material insurance claims. Our Directors consider that the above insurance coverages and the amounts insured are sufficient and adequate to cover the operational risks and uncertainties and protect us from any potential loss or damage and are consistent with the basic customary industry practice.

INVENTORY MANAGEMENT

Our inventories mainly comprise raw materials, such as needle coke and binder pitch, semi-finished goods and finished products — graphite electrodes and connecting pins. We have warehouses in the Italian Factory, the PRC Factory and in three locations in the U.S..

As at 31 December 2018, 2019, 2020 and 2021, and 30 June 2022, our inventories amounted to approximately US\$92.7 million, US\$92.4 million, US\$54.2 million, US\$60.9 million and US\$62.9 million, respectively, and our average inventory turnover days were approximately 268 days, 290 days, 291 days, 245 days and 255 days, respectively, during FY2018, FY2019, FY2020, FY2021 and 1H2022. For FY2018, FY2019, FY2020, FY2021 and 1H2022, we have incurred the provision for inventories of nil, US\$16.2 million, US\$2.4 million, nil and nil, respectively. The provision for inventories for FY2019 was due to the global decrease in prices of graphite electrodes that led to a decrease in the net realisable value of our inventories which were manufactured with raw materials which we purchased earlier at a relatively higher cost. Due to the high volatility of the graphite electrode markets and subsequent to the further decrease in the graphite electrode market price in 2019, to minimise our potential exposure to provision for inventories in the future, we adjusted our purchase policy. We will primarily have short term purchases but in smaller batches and the volume of needle coke inventory will be capped at the forecast usage amount for the next six months so that we may ensure our purchase price of needle coke as well as the cost of our graphite electrodes will be in line with the prevailing market price.

We also aim to minimise the risk of shortage of raw material supply and maintain sufficient inventory levels. For better control and management of our inventories, we perform regular checks on our inventory levels at the end of each month with reference to aged inventory analysis and historical trends. This will, in turn, help us determine if we need to make provision for any inventories. For this purpose, we have implemented an inventory management system which enables us to monitor the stock movement of our raw materials, semi-finished goods and finished products so that they are in alignment with our product delivery requirements and schedules. Inventories are reviewed on a daily basis in the MES by our management to evaluate the cashflow of inventory purchase. Our logistics and supply chain team, which consisted of 20 staff as at 30 June 2022, closely monitors and controls the inventory levels of our raw materials, semi-finished goods and finished products to optimise the allocation of our internal resources.

QUALITY CONTROL

We believe that a stringent quality control over our products is crucial to our continued success. We take pride in the quality of our products and strongly emphasise quality control over our products. As at 30 June 2022, our quality control team consisted of 13 staff. Our quality control team is responsible for overseeing the quality control of our raw materials, our finished products and the manufacturing processes.

BUSINESS

We implement stringent quality control systems and procedures including the followings:

- *Purchase of raw materials* — we source our raw materials from qualified suppliers. Incoming raw materials are subject to detailed physical inspection according to our strict specifications on a random sampling basis before they are warehoused or enter our production process. We require our suppliers to issue quality certificates for all raw materials shipped to our manufacturing plants.
- *Finished products* — quality control on finished products ensures that outgoing products comply with the customers' requirements and the industry standards. Apart from visual checking, our finished products are consistently checked for properties such as density, electrical resistivity, flexural strength, stiffness and coefficient of thermal expansion.
- *Manufacturing process* — our Group has established and maintained a documented quality management system accredited with the ISO 9001:2015 certification. Our Directors believe that this system creates a framework that clearly defines procedures for operations management and control of raw materials, processes, and verification activities, thus providing our customers with confidence that all operational aspects of our Group are performed in a well-defined and controlled environment. Our manufacturing and process control consists of a multi-point check of process variables from the beginning to the end of our manufacturing process. Our quality control personnel sample-tests our work-in-progress in the major steps of the manufacturing process using various testing instruments. The whole manufacturing process is closely monitored, and the performance data is properly logged so that the reasons for any defect can be traced. We believe that our Group's ability to (i) consistently provide products that meet customers' specifications; and (ii) enhance customer satisfaction through effective application of the system, enables us to retain existing customers as well as to attract new customers.

Each of the above processes is clearly governed by detailed internal procedures and guidelines. Regular internal testings are conducted on our products to monitor their scrap rates. We generally do not have any product warranty policy. If there are any issues regarding the quality of our products, our technical team and technical experts will assist our customers to resolve the issues, which may include replacing the products. For details, please refer to the section headed "Business — Our Customers — Technical service, product returns and warranty" in this prospectus.

We have been awarded various accreditations and awards in relation to our quality products and our quality management systems. Please refer to the section headed "Business — Awards and Recognitions" in this prospectus for further details.

TRANSFER PRICING

During the Track Record Period, we carried out our operations mainly in Hong Kong, the U.S., the PRC, Italy, Switzerland, South Africa and Macau, and conducted businesses with customers and suppliers in different jurisdictions. Apart from the sale of our products to third party customers, we engaged in intra-group sale of our internally manufactured products and provisions of support, management and administrative services.

BUSINESS

To achieve operational synergies across the business (apart from maintaining or enhancing manufacturing process metric), our Board decided to reorganise management reporting lines so that Sangraf US could focus on sale to the North American market and a new legal entity based in Asia could focus on sale to non-US customers and the management of the Italian Factory and the PRC Factory.

Macau was selected as the preferred jurisdiction due to its business-friendly reputation and political stability by our Group's management. Accordingly, we acquired Grafworld Macau in November 2019 for this purpose. We relocated our major executive functions, including developing and maintaining relationship with our suppliers and customers through Mr. Hou, to Macau from the U.S.. Since FY2020, the full scope of responsibility for all markets of non-US customers as well as Mr. Hou's employment was transferred to Grafworld Macau.

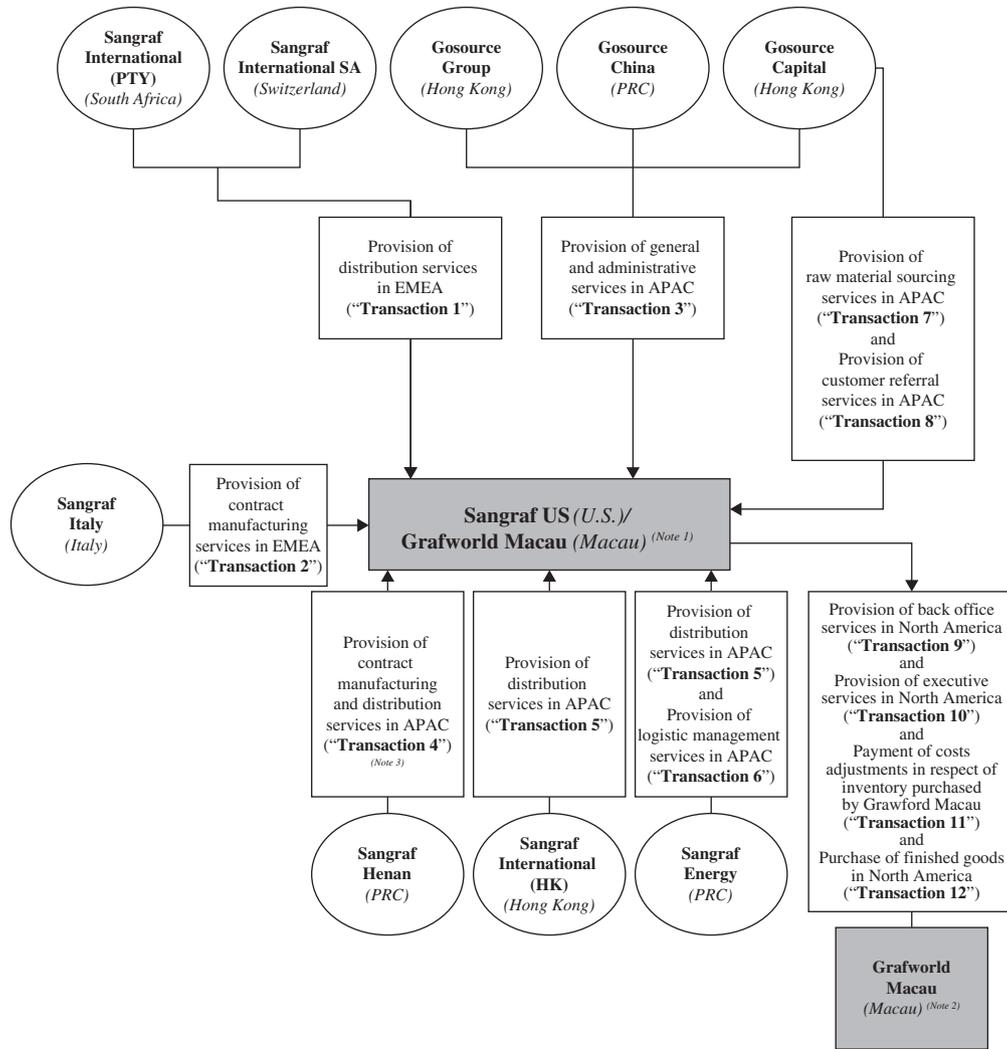
During FY2018 and FY2019, Sangraf US was responsible for global sale of our products and acted as the principal to whom various services were provided to Sangraf US by other subsidiaries of our Group. From FY2020, Sangraf US has been responsible only for sale of our products in the U.S. and Grafworld Macau has been responsible for sale of our products to all markets of non-US customers. Such split principal structure ensured that each entity was responsible for the market success or failure (and thus, residual returns) in their respective market(s) rather than Sangraf US and Grafworld Macau sharing residual returns equally.

While a tax authority may challenge this classification, our Board is of the view that treating Grafworld Macau as a principal sale entity is consistent with the application of globally accepted transfer pricing principles and practices given that Mr. Hou's employment and executive functions have been transferred from Sangraf US to Grafworld Macau, and the nature and scope of functions and risks that have been undertaken by Grafworld Macau.

Due to COVID-19, our Group realised a negative return on the joint principal model (a combined operating loss of US\$19.0 million and US\$55.0 million for FY2020 and FY2021, respectively), after arm's length remuneration to the relevant subsidiaries providing services to the joint principals as detailed below. Accordingly, we believe that no detrimental tax impact had arisen during the Track Record Period with respect to implementation of the joint principal model even if the structure were to be challenged by a tax authority.

BUSINESS

The diagram set out below illustrates the major business and logistic flow of finished products and provisions of support, management and administrative services within our Group during the Track Record Period.



Notes:

1. Since FY2020, Grafworld Macau has been responsible for sales of our products to all markets of non-US customers and has therefore been the principal for the relevant transactions.
2. Since FY2020, Sangraf US has provided services (i.e. transactions 9 to 12) to Grafworld Macau.
3. In FY2021, Sangraf Henan provided limited risk product distribution services in APAC for Grafworld Macau.

BUSINESS

We set out below a summary of the above transactions during the Track Record Period:

Transaction 1

Sangraf International (PTY) and Sangraf International SA provided limited risk product distribution services in EMEA for Sangraf US or Grafworld Macau. The reason for establishing these transactions was to sell internally manufactured products in Europe and South Africa. For the Track Record Period, the operating profit of (a) Sangraf International (PTY) were approximately US\$1,547,000, US\$698,000, US\$239,000, US\$283,000 and US\$113,000, respectively, and (b) Sangraf International SA were approximately nil, US\$621,000, US\$662,000, US\$683,000 and US\$490,000, respectively. No similar transactions were entered into between Sangraf International (PTY) or Sangraf International SA and other subsidiaries of our Group nor any independent third party.

Transaction 2

Sangraf Italy provided contract manufacturing services in EMEA for Sangraf US or Grafworld Macau. The reason for establishing these transactions was to permit the Italian Factory to manufacture products for worldwide sale. For the Track Record Period, the operating profit of Sangraf Italy were approximately US\$481,000, US\$3,195,000, US\$1,718,000, US\$1,294,000 and US\$1,251,000, respectively. Sangraf Italy also manufactured products for independent third parties at a scale smaller than that for our Group during the Track Record Period.

Transaction 3

Gosource Group, Gosource China and Gosource Capital provided general and administrative services in APAC for Sangraf US or Grafworld Macau. The reason for establishing these transactions was to maintain operational and cost efficiencies by having certain administrative services of our Group performed by Gosource Group, Gosource China and Gosource Capital. For the Track Record Period, the operating profit of (a) Gosource Group were approximately US\$94,000, US\$18,000, nil, nil and nil, respectively; (b) Gosource China were approximately US\$(335,000), US\$156,000, US\$28,000, US\$37,000 and nil, respectively; and (c) Gosource Capital were nil, approximately US\$485,000, US\$50,000, US\$178,000 and US\$29,000, respectively. No similar transactions were entered into between Gosource Group, Gosource China or Gosource Capital and other subsidiaries of our Group nor any independent third party.

BUSINESS

Transaction 4

Sangraf Henan provided contract manufacturing services in APAC for Sangraf US or Grafworld Macau. In FY2021 and 1H2022, Sangraf Henan also provided limited risk product distribution services in APAC for Grafworld Macau. The reason for establishing these transactions was due to the manufacturing function of the PRC Factory and to leverage Sangraf Henan's access to the PRC market. For the Track Record Period, the operating profit of Sangraf Henan were approximately US\$(129,000), US\$2,542,000, US\$1,217,000, US\$827,000 and US\$368,000, respectively.

Transaction 5

Sangraf International (HK) and Sangraf Energy provided limited risk product distribution services in APAC for Sangraf US or Grafworld Macau. The reason for establishing these transactions was to allow our Group to gain access to the PRC market. For the Track Record Period, the operating profit of (a) Sangraf International (HK) were nil, nil, approximately US\$24,000, US\$19,000 and US\$16,700, respectively and (b) Sangraf Energy were nil, approximately US\$438,000, US\$38,000, US\$76,000 and US\$28,000, respectively. No similar transactions were entered into between Sangraf International (HK) or Sangraf Energy and other subsidiaries of our Group nor any independent third party.

Transaction 6

Sangraf Energy provided logistic management services in APAC for Sangraf US in FY2019 until it was converted to provide the above distribution services. The reason for establishing these transactions was to allow our Group to gain access to the PRC market. For FY2019, the operating profit of Sangraf Energy was approximately US\$32,000. No similar transactions were entered into between Sangraf Energy and other subsidiaries of our Group nor any independent third party.

Transaction 7

Gosource Capital provided raw material sourcing services in APAC for Sangraf US in FY2019 and FY2020. The reason for establishing these transactions was to allow Gosource Capital (through Mr. Hou) to provide Sangraf US with access to needle cokes by leveraging his relationships with major suppliers. For FY2019 and FY2020, the sourcing commission earned by Gosource Capital were approximately US\$2,544,000 and US\$1,687,000, respectively. No similar transactions were entered into between Gosource Capital and other subsidiaries of our Group nor any independent third party.

Transaction 8

Gosource Capital provided customer referral services for Sangraf US in FY2019 and FY2020. The reason for establishing these transactions was to leverage the relationships with major customers developed and maintained by Gosource Capital (through Mr. Hou) and to refer customers to Sangraf US. For FY2019 and FY2020, the customer referral fees earned by Gosource Capital were approximately US\$3,901,000 and US\$2,300,000, respectively. No similar transactions were entered into between Gosource Capital and other subsidiaries of our Group nor any independent third party.

Transaction 9

Sangraf US provided back office services in North America for Grafworld Macau since FY2020. The reason for these transactions was due to the fact that certain administrative services remained in Sangraf US after the acquisition of Grafworld Macau. For FY2020, FY2021 and 1H2022, the operating profit of Sangraf US related to these services were approximately US\$30,000, US\$23,000 and US\$12,000, respectively. No similar transactions were entered into between Sangraf US and other subsidiaries of our Group nor any independent third party.

Transaction 10

Sangraf US provided executive services in North America for Grafworld Macau since FY2020. The reason for these transactions was due to the fact that certain executive services remained in Sangraf US after the acquisition of Grafworld Macau. For FY2020, FY2021 and 1H2022, the operating profit of Sangraf US related to these services were approximately US\$54,000, US\$38,000 and US\$13,000, respectively. No similar transactions were entered into between Sangraf US and other subsidiaries of our Group nor any independent third party.

Transaction 11

Sangraf US paid certain cost adjustments for inventory purchased by Grafworld Macau once in FY2020. The reason for this transaction was due to the fact that certain inventory was purchased by Sangraf US prior to the acquisition of Grafworld Macau. For FY2020, the total cost adjustments was approximately US\$1,120,000. No similar transactions were entered into between Sangraf US and other subsidiaries of our Group nor any independent third party.

Transaction 12

Sangraf US purchased finished goods for the U.S. market from Grafworld Macau since FY2020. The reason for establishing these transactions was that Grafworld Macau coordinated manufacturing between the Italian Factory and the PRC Factory and sold internally manufactured products to Sangraf US for sale in North America. For FY2020 and FY2021, the overall operating profit of (i) Grafworld Macau were US\$1,600,000 and US\$(2,100,000) and (ii) Sangraf US were approximately US\$(20,600,000) and US\$(3,500,000), respectively. Such losses were driven by external economic factors including COVID-19 and lower demand for our products. No similar transactions were entered into between Sangraf US and other subsidiaries of our Group nor any independent third party.

We have engaged Andersen Tax LLC, an independent tax consultant (the “**Tax Consultant**”), to review our transfer pricing arrangements so as to evaluate specifically compliance of the above intra-group transactions with the relevant transfer pricing regulations and guidelines and the potential tax implications on our Group during the Track Record Period. Benchmarking studies were performed using transactional net margin, method as the appropriate transfer pricing methods to evaluate whether the above intra-group transactions were conducted on an arm’s length basis between the above intra-group companies during the Track Record Period.

BUSINESS

The scope of work of the Tax Consultant includes the review of the functional profiles, the review and/or preparation of comparable searches and the quantification of potential exposure (if any) for applicable Group entities in accordance with the prevailing local transfer pricing laws and regulations for the Track Record Period.

Based on the benchmarking analysis performed:

- the return on sales (the “**ROS**”) of Sangraf International (PTY) and Sangraf International SA in Transaction 1, which refers to the provision of product distribution services by each of Sangraf International (PTY) and Sangraf International SA to Sangraf US, falls within the range established by comparable companies providing similar services in EMEA;
- the mark up on total costs (the “**MTC**”) of (i) Sangraf Italy in Transaction 2, which refers to the provision of contract manufacturing services by Sangraf Italy to Sangraf US through Sangraf International SA, and (ii) Sangraf Energy in Transaction 6, which refers to the provision of logistic management services by Sangraf Energy to Sangraf US, fall within the range established by comparable companies providing similar services in EMEA in the case of Transaction 2 and APEC in the case of Transaction 6;
- the commission on cost of sale of Gosource Capital in Transaction 7, which refers to the provision of raw material sourcing services by Gosource Capital to Sangraf US, falls within the range established by comparable companies providing similar services in APAC;
- the commission on subset of revenue of Gosource Capital in Transaction 8, which refers to the provision of customer referral services by Gosource Capital to Sangraf US, falls within the range established by comparable companies providing similar services in APAC;
- the MTC of Sangraf US in Transaction 9, which refers to the provision of back office services, such as finance, administration and sales/operations supports, by Sangraf US to Grawford Macau, fell within the range of the MTC established by comparable companies providing similar services in North America;
- the MTC of Sangraf US in Transaction 10, which refers to the provision of executive services by Sangraf US to Grafworld Macau, falls within the range established by comparable companies providing similar services in North America;
- the cost adjustment of Sangraf US in Transaction 11, which refers to the payment by Sangraf US to Grafworld Macau for costs adjustments in respect of inventories purchased by Grafworld Macau for FY2020 where the prices were adjusted to match third party sales; and
- in Transaction 12, which refers to the purchase of finished products by Sangraf US from Grafworld Macau, while the benchmarking analysis has not been performed, the Tax Consultant concluded that a 4% gross margin earned by Sangraf US in its purchase of finished products from Grafworld Macau is reasonable.

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As such, the Tax Consultant concluded that the pricing of each of Transactions 1, 2, 6, 7, 8, 9, 10, 11 and 12 was consistent with the arm's length principle and these transactions were reasonable and commensurate with the functions and risks of the relevant subsidiaries during the Track Record Period.

In relation to:

- (a) Transaction 3, which refers to the provision of general and administrative services by Gosource Group, Gosource China and Gosource Capital to Sangraf US, and Transaction 4, which refers to the provision of contract manufacturing services by Hernan Gosource to Sangraf US, they were assessed by comparing the MTC of Gosource Group, Gosource China and Gosource Capital against the MTC of comparable companies providing similar services in APAC; and
- (b) Transaction 5, which refers to the provision of distribution services by each of Sangraf Energy and Sangraf International (HK) to Sangraf US, the ROS of Sangraf Energy was compared against the ROS of comparable companies providing similar services in APAC.

Based on the above analyses, certain transfer pricing risks were identified in these intra-group transactions. In relation to:

- (i) Transaction 3, Gosource China incurred operating loss in FY2018 and Transaction 4, Sangraf Henan incurred an operating loss in FY2018. This results in Transaction 3 and Transaction 4 falling below the arms' length range. Assuming that each of Gosource China and Sangraf Henan earned a margin based on the median of the benchmark of the relevant comparable companies as mentioned above in 2018, our Group would have quantified an aggregate tax payable amount of approximately US\$8,343 for FY2018, which is solely based on transfer pricing adjustments to taxable income and does not reflect the full impact of any tax attributes, penalties or interest. Having considered the work of the Tax Consultant, our Directors consider that the potential transfer pricing exposure is limited and no provision needs to be made in respect of such liability;
- (ii) Transaction 5, the ROS of Sangraf Energy in FY2018 was above the arms' length range. Assuming that the U.S. tax authorities would not segment between distribution services (Transaction 5) and logistic services (Transaction 6) (which, for FY2018, Sangraf Energy earned the ROS on sales for these two services in aggregate), our Group would have quantified a tax payable amount of approximately US\$237,000 for FY2018, which is solely based on adjustments to taxable income and does not reflect the full impact of any tax attributes, penalties or interest. However, according to the Tax Consultant, given that Sangraf Energy was acquired by our Group in October 2018 and earned incomes for only two months in FY2018, the overall risk and exposure is limited not only because it relates to only two months' income, but also the adjustment is a "worst-case" scenario in which the entire Sangraf Energy is classified as a limited risk distributor which, based on the actual operational functions it performed, is seen to represent low risk. Based on this, our Directors consider that no provision needs be made in respect of such liability.

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Based on the above work performed, the Tax Consultant was of the view that US\$245,343 of the tax payable as estimated by our Group might arise from potential transfer pricing adjustments to taxable income. In addition, the Tax Consultant was of the view that (i) given the relative immateriality of the tax exposure in Transaction 3 and Transaction 4, it is unlikely the relevant tax authorities will impose an adjustment, and (ii) in relation to Transaction 5, as there is a low likelihood that the relevant tax authority will classify Sangraf Energy as being solely a distributor instead of classifying it as providing both distribution and logistics service, the adjustment seems unlikely. As such, the Tax Consultant concluded that, save for the above, the pricing of each of Transactions 3, 4 and 5 was consistent with the arm's length principle and these transactions were reasonable and commensurate with the functions and risks of the relevant subsidiaries during the Track Record Period.

Having considered the work of the Tax Consultant, our Directors are of the view that the estimated tax exposure of approximately US\$245,343 arising from potential transfer pricing adjustments at group level during the Track Record Period is insignificant given the adjustments are not significant relative to our Group's transaction volumes and aggregate income.

We have adopted the following internal control measures to ensure on-going compliance with relevant transfer pricing laws and regulations in Hong Kong, the U.S., the PRC, Italy, Switzerland, South Africa and Macau since 2019:

- our transfer pricing arrangements are monitored to ensure compliance with the arm's length principle;
- training is provided to the senior management relating to updates on relevant transfer pricing laws and regulations in the relevant jurisdictions to ensure no material deviation exists between the transfer pricing methodology adopted by us and the relevant laws and regulations;
- all reporting forms are reviewed by two of our executive Directors before submitting to the relevant tax authority;
- the benchmarking analysis will be updated periodically, such as annually, to reflect the corresponding market conditions; and
- transfer pricing documentation will be prepared annually for compliance purpose.

Notwithstanding the above transfer pricing risks identified by the Tax Consultant, the Tax Consultant is of the view that our Group has complied with applicable tax laws and regulations but relevant tax authorities may disagree with our transfer pricing arrangements based on its interpretation of applicable tax laws.

Based on the review on our internal control policy of our transfer pricing arrangement conducted by our internal control consultant and the Tax Consultant, our Directors are of the view that the internal control measures implemented are effective and adequate. We will engage tax consultants to monitor our transfer pricing arrangements and transfer pricing exposure after the Listing.

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However, similar to other matters relating to tax, we cannot assure that relevant tax authorities would not subsequently challenge the appropriateness of our Group’s transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. Please refer to the section headed “Risk factors — Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability” in this prospectus for further details.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we were not aware of any inquiries, audit, investigation or challenge by any relevant tax authorities in Hong Kong, the U.S., Italy, the PRC, Switzerland, South Africa and Macau in relation to our intra-group transactions.

AWARDS AND RECOGNITIONS

Over the past years, we have received various awards and certifications in respect of our operations which include the following:

	Awards and accreditations	Awarded entity of our Group	Awarding authority/accrediting body	Validity period of the award/ accreditation	Description
1.	GB/T19001-2016/ ISO 9001:2015	Sangraf Henan	Essence United Certification (Beijing) Co., Ltd. (安信聯合認證 (北京) 有限公司)	22 September 2021 to 21 September 2024	Our quality management system in respect of our research & development, production and sales of graphite electrodes is in compliance with the ISO 9001:2015 quality management requirements
2.	ISO 9001:2015	Sangraf Italy	CISQ, the Italian Federation of management system certification bodies	27 June 2019 to 25 June 2025	Our quality management system is in compliance with the ISO 9001:2015 quality management requirements
3.	GB/T24001-2016/ISO 14001:2015	Sangraf Henan	National Inspection U-Bond (Beijing) Inspection Certification Co., Ltd* (中檢優邦(北京)檢驗認證有限公司)	2 June 2020 to 1 June 2023	Our environmental management system is in conformity with the ISO 14001:2015 requirements
4.	GB/T45001-2020/ ISO 45001:2018	Sangraf Henan	Essence United Certification (Beijing) Co., Ltd (安信聯合認證 (北京) 有限公司)	4 September 2020 to 3 September 2023	Our work safety system is in conformity with the ISO 45001:2018 requirements
5.	ISO 14001:2015	Sangraf Italy	CISQ, the Italian Federation of management system Certification Bodies	15 December 2020 to 13 June 2025	Our environmental management system fulfils the ISO 14001:2015 requirements
6.	Class B Enterprise	Sangraf Henan	Department of Ecology and Environment of Henan Province	Granted on 17 March 2021 for Sangraf Henan in 2020	Our environmental management system is in conformity with the ISO 14001:2015 requirements
7.	UNI ISO 45001:2018	Sangraf Italy	CISQ, the Italian Federation of Management System Certification Bodies	27 June 2019 to 25 June 2025	Our safety management system fulfils the UNI ISO 45001:2018 requirements

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EMPLOYEES

As at 30 June 2022, we had a total of 209 full-time employees, including our four executive Directors and one non-executive Director but excluding our four independent non-executive Directors.

Our Group provides equal employment opportunity which is free from any form of discrimination or harassment. All employees are assessed based on their ability, job performance and contribution, irrespective of their nationality, race, religion, disability, sexual orientation, political opinion, gender, age or family status.

The table below shows the breakdown of our employees by function of employment as at 30 June 2022:

Function	Number of Employees					Total
	PRC	Europe	U.S.	Hong Kong and Macau	South Africa	
Management	—	—	1	3	1	5
Production	53	61	—	—	—	114
Administration	2	—	1	6	—	9
Quality control	12	1	—	—	—	13
Technical	2	3	—	1	—	6
Sales and marketing	2	1	2	1	1	7
Logistics and supply chain	8	7	4	1	—	20
Human resources	1	2	—	—	—	3
Finance	9	2	7	4	—	22
Others	2	7	—	1	—	10
Total	<u>91</u>	<u>84</u>	<u>15</u>	<u>17</u>	<u>2</u>	<u>209</u>

Recruitment and Training

We recruit our employees mainly through recruitment agency and media advertising based on factors such as their work experience, education background and work ability.

We believe the quality and skills of our employees are critical for our business and operations. Hence, we provide trainings to our employees on a continuous and regular basis covering areas, such as machines operation, work safety, fire safety, and the safe use and storage of chemical products, with a view to enhancing their technical knowledge, skills and work efficiency.

Directors and Staff Remuneration

Our Group incurred staff costs (including directors remuneration) of approximately US\$13.9 million, US\$16.2 million, US\$10.6 million, US\$10.3 million and US\$4.5 million in FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively.

The remuneration for our employees generally includes salaries, bonuses, and, where applicable, allowances. We conduct reviews and evaluations of our employees' performance once a year which will be taken into account in determining the level of bonus, salary increment and staff promotions. To incentivise the performance of our employees particularly in the production and sales and marketing department, we set annual performance goals for them and those achieving such goals are awarded with monetary rewards.

Welfare Contribution

We maintain employees' compensation insurance for all our employees in Hong Kong in accordance with the requirements under the Employees' Compensation Ordinance (Chapter 282 of the laws of Hong Kong). Further, we participate in a provident fund scheme registered under the Mandatory Provident Schemes Ordinance (Chapter 485 of the laws of Hong Kong) for all our eligible employees in Hong Kong.

During the Track Record Period and up to the Latest Practicable Date, our Group had made contributions to the social insurance and housing provident fund for our employees in the PRC.

During the Track Record Period and up to the Latest Practicable Date, our Group had made contributions to the social security for our employees in Italy, the U.S., Switzerland, Macau and Hong Kong.

During FY2018, FY2019, FY2020, FY2021 and 1H2022, our Group's contribution to various social security and social insurance was approximately US\$0.9 million, US\$1.1 million, US\$1.2 million, US\$1.3 million and US\$0.7 million, respectively.

Employee Relationship

Our Directors consider that our Group has maintained good relationships with our employees. We have not set up any trade union for our employees but employees in Italy are allowed to join the labour unions. During the Track Record Period and up to the Latest Practicable Date, we did not experience any work stoppage or disruptions to our operations due to labour disputes or strikes, nor did we experience any difficulties in the recruitment or retention of experienced staff or skilled personnel.

Share Option Scheme

Our Group has conditionally adopted the Share Option Scheme under which certain employees, consultants and advisers of our Group including the executive Directors may be granted options to subscribe for Shares. The principal terms of Share Option Scheme are summarised in the section headed "Statutory and General Information — F. Share Option Scheme" in Appendix IV to this prospectus.

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OCCUPATIONAL HEALTH AND SAFETY

We are subject to various laws and regulations on occupational health and safety in Italy and the PRC, including the Italian Legislative Decree No. 81 of 4 April 2008 and the Labour Law of the PRC. Please refer to the sections headed “Regulatory Overview — PRC Laws and Regulations” and “Regulatory Overview — Italian Laws and Regulations” in this prospectus for further details.

Apart from the above laws and regulations, we are also subject to certain conventions under the International Labor Standards in relation to product safety, labour (including the use of child labour), working environment and conditions in respect of our Italian Factory and the PRC Factory.

In respect of the PRC Factory and the Italian Factory, we are required under the relevant laws and regulations to, among others, (i) have weekly rest days; (ii) ensure occupational safety and health; and (iii) adopt measures to prohibit the use of child labour.

Due to the importance of safety practices, we have policies and procedures for workplace safety and healthy work environment, particularly the procedures for the safe operation of machinery and equipment in our production facilities. Furthermore, through participating in occupational health and safety training sessions, we ensure that our employees learn about potential occupational hazards in their positions and take precautionary measures with a view to promoting productivity, skills, safety and health of our employees. In addition, occupational hazard signs are also posted to raise employees’ safety awareness. Any accident in the workplace is thoroughly investigated, documented and corrective measures are determined and implemented to prevent recurrence.

During the Track Record Period and up to the Latest Practicable Date, our Group (i) was not involved in any significant incidents or accidents in relation to workers’ health and work safety or litigation proceedings or any non-compliance with the applicable laws and regulations relevant to worker’s health and work safety where our Group operates; and (ii) had not received any significant claims for damages or compensation in relation to any material industrial accident of our employees, and we did not experience any material disputes with our employees that had a material adverse effect on our operation.

ENVIRONMENTAL PROTECTION

Our production facilities and manufacturing processes generate carbon and graphite dust, fumes, noise, waste water and emissions that can be harmful to humans and to the environment. Waste water is processed by our treatment facilities before it is discharged into the public system. Accordingly, we are subject to environmental laws and regulations in Italy and the PRC, including the Environmental Code of Italy and the Environmental Protection Law of the PRC 《中華人民共和國環境保護法》. These laws and regulations govern a wide range of environmental matters, including air pollution, noise emissions, water waste discharge and hazardous waste. Please refer to the sections headed “Regulatory Overview — PRC laws and regulations” and “Regulatory Overview — Italian laws and regulations” in this prospectus for further details.

OUR ESG POLICY

Our Group acknowledges its responsibility on environmental protection responsibilities and is committed to complying with the ESG reporting requirements upon Listing. We have established an ESG policy which outlines, among others, (i) the appropriate risk governance on ESG matters; (ii) the ESG strategy formation procedures; (iii) the ESG risk management and monitoring; and (iv) the identification of key performance indicators and the relevant measurements. Our Group's ESG policy was established in accordance with the standards in Appendix 27 to the Listing Rules.

The ESG policy sets out the responsibility, authority and the process for handling and investigating non-conformance, and rectification action to be taken in order to mitigate any negative environmental-related risk impacts, and for initiating and completing corrective and preventive action.

Key ESG risks and counter measures

The key ESG risks of our Group include those related to climate change impacts mitigation and adaptation, environmental management practices and duty of care, working and safety conditions, respect for equal opportunities and compliance with relevant laws and regulations.

The measures adopted to mitigate these key ESG risks include:

- the identification, assessment and evaluation of ESG risks by the Board and the ESG committee;
- the establishment of a set of systematic risk management practices to ensure effective operation;
- the development of stringent internal management and examination system throughout the whole production process;
- the active exploration for increasing the use of renewable energy or alternative energy source;
- the adoption of equal opportunity policy in all aspects of employment, all employees and candidates;
- the adherence to the directives of ISO 45001 with an aim to provide and maintain a safe and healthy working environment and work systems for our staff; and
- seeking expert guidance and advice to ensure that our practices are in line with emerging regulations, voluntary guidelines, and stakeholders' expectations.

Climate risk

Physical Risks

Extreme weather events, such as typhoons, storm surges and rainstorms, will hinder and disrupt our production, transportation and ultimately our revenue. Our Group foresees an increase in the frequency of blackouts due to the heavy load on the electricity grid caused by climate change, which may lead to unpredictable disturbances to our operations.

Measures to mitigate physical risk:

- the ESG Committee will factor in all climate risks and locations chosen when doing future new plant establishment or mergers and acquisitions;
- data on physical climate risk at the locations of our production plant will be ongoingly collected and analysed to mitigate unexpected sudden risk;
- safety guidelines on extreme weather are in place for general staff and plant workers to handle flooding and storm;
- backup generators have been installed to prevent sudden blackouts; and
- production plant insurance has been bought to mitigate the potential physical risk.

Transition Risks

Following the commitment of carbon-neutral 2050 in Europe and 2060 in China, our Group may be requested by authorities to fully adopt renewable energy as our source of electricity and power. As the electricity consumption of graphite products are very high, the transition of which may substantially increase the cost of operations. Value chains are exposed to a broader set of risks, including climate events. Climate change impacts various entities and functional levels in supply chains, and their ripple effect leads to risk propagation along the supply chain network. Unusual weather events and natural disasters may directly or indirectly affect multiple entities within supply chain networks such as physical infrastructure and assets, natural resources and workforce.

Measures to mitigate transition risks:

- develop stringent internal management and examination system throughout the whole production process to mitigate transition risk;
- actively explore renewable energy or alternative energy source;
- the installation of a solar power system in the Italy Factory which will eventually produce more than 1.5 million kWh per year in the future;
- explore future volunteer carbon certificates to offset our excess emissions;

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- build up climate communication channels within our supplier to foretell any potential risk of supply chain disruption during extreme weather events;
- diversify our suppliers to mitigate our supply chain risk; and
- actively explore alternative materials for our production.

Governance Structure

Our Board has the overall responsibility for evaluating and determining our Group's ESG-related risks, and establishing, adopting and reviewing the ESG vision, policy and target of our Group. Our Board has established an ESG Committee that comprises three Directors with Mr. Michael Ngai, an independent non-executive Director as the committee Chairperson. Mr. Ngai has extensive experience in Green investment. He is the chairman of the Red Group and the chairman of Asia GreenTech Fund. Mr. Ngai is also the president of Green Economy Development Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1315). Our executive Director, Mr. Yan Haiting and our independent non-executive Director, Mr. Sun Qing, have also been appointed as ESG Committee members. The committee will be directed and supervised by our Board to oversee sustainability issues related to our operations and strategy.

The ESG Committee is mainly responsible for supporting our Board to formulate the ESG policy and strategies, conducting materiality assessment of environmental-related, climate-related, social-related risks, assessing the performance of our ESG strategies, and continuously monitoring ESG progress, implementation of measures to address our Group's ESG-related risks and responsibilities and updating the policy and strategies every year.

The ESG Committee will work with the senior management to conduct a material assessment to identify and prioritise material ESG issues. Materiality assessment provides a guide or blueprint for our Group's ESG strategy. The ESG Committee will also work with an external consultant to identify climate risks and opportunities in accordance with the TCFD standard (Task Force on Climate-Related Financial Disclosures) initiated by the United Nations.

The ESG Committee will work with an external consultant to establish risk management and internal control systems, such as ESG policies and programmes to manage and mitigate ESG risks. Climate-related performance metrics and targets will be set to assist our Board in evaluating the effectiveness of its ESG strategy and measures.

The ESG Committee meets quarterly. Any updated policies and strategies will be submitted and reported to our Board at the end of every year. Our Board will discuss, vote and approve all the policies, and strategies submitted by the ESG Committee on behalf of our Group at the year-end meeting.

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Our Board has adopted the following approaches for the ESG Committee to identify, manage and review material ESG issues:

- *Identify* — The ESG Committee will engage key stakeholders, including our major customers, major suppliers, management team, and employees to identify material ESG issues and risks inherent in our business operations. Our Board believes that open dialogue with stakeholders plays a crucial role in maintaining our business sustainability.
- *Strategic planning* — The ESG committee will set up a risk management and internal control system, designed to meet our specific business needs and minimise our risk exposure. Our Board plans strategically and sets ESG goals and all policies at the beginning of each year.
- *Assess* — Apart from assessing the performance of our ESG measures through discussion with our stakeholders, the ESG Committee will engage a third party to identify and assess our performance in respect of environmental protection and climate change.
- *Review* — The ESG Committee will review the progress made against ESG-related goals to guide our Group to achieve better ESG performance. Through our ESG Policy, a set of systematic risk management practices have been put in place to ensure financial and operational functions, compliance control systems, material control, asset management and risk management all operate effectively.

To ensure a better implementation system is in place, an ESG working group has been set up at the management level. The ESG working group, currently composed of representatives from the Administrative Department, Production Department and Legal Department, continued to deal with ESG-related issues. The ESG working group is responsible for discussing our Group's ESG issues and continuing to ensure that appropriate and effective ESG risk management is in place. It also assists current risk management, which is designed to meet our Group's specific business needs and to minimize its risk exposure. The working group meets quarterly and sets ESG goals at the beginning of each year and reviews its progress in achieving the goals using monthly data reports to check whether there are areas for improvement. Additionally, through analysing the situation of our Group, the working group will suggest new ideas and bring attention to issues, as well as offer solutions that can be applied in our Group to the ESG Committee.

Material Assessment

Our Board and the ESG committee have worked with external consultants to establish our materiality assessment process. After numerous meetings and extensive research, we determined to adopt the Sustainability Accounting Standard Board (“SASB”) Standards (the “SASB Standards”) for our material assessment. Founded in 2011, SASB was to establish and maintain industry-specific standards that assist companies in disclosing financially material, decision-useful sustainability information to investors. On 3 November 2021, the International Financial Reporting Standards Foundation Trustees announced the creation of a new standard-setting board, the International Sustainability Standards Board (“ISSB”), to help meet the requirement of climate-related disclosure. ISSB encourages companies to use the SASB Standards to identify the materiality of sustainability issues most relevant to financial performance in each of 77 industries.

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The SASB Standards were developed based on extensive feedback from companies, investors, and other market participants as part of a transparent, publicity-documented process. We concluded that the material issues identified in the “Iron & Steel Producers” in the SASB Standards should be the most appropriate issues that our Group need to concern about most. The material issues identified by the SASB Standards by order are:

- Greenhouse Gas Emissions
- Air Quality
- Energy Management
- Water Management
- Waste Management
- Workforce Health, Safety and Well-Being
- Supply Chain Management

The ESG Committee has analysed the top three material issues and concluded that the air quality problem is not significant in our operation. Greenhouse gas emissions and energy management issues are both related to our total energy consumption. We have set greenhouse gas emissions as the metrics and target on to reflect our Group’s concern about the material risks identified and the global climate risk. Detail financial impact of the climate-related risk is discussed below.

Potential climate risk on our business operation and financial performance

A warming planet creates a wide range of risks for business, from disrupted supply chains to rising insurance costs to labour challenges. With the increasing threat of climate change and the associated physical damage, change in market perception and shift in preference of the public towards more environmentally friendly products and services, the financial, reputational and strategic risk implications are becoming increasingly prominent. Climate change will undoubtedly be of increasing concern to our Group and industry as a whole for the foreseeable future. On behalf of our Group, the ESG Committee has identified the following risks and opportunities that climate change pose:

- Physical Risks

Climate change affects all regions around the world. Polar ice shields are melting, and the sea is rising. Extreme weather events, such as typhoons, storm surges and rainstorms, will hinder and disrupt our production, transportation and ultimately our revenue. The devastating floods that have killed 71 people and affected more than 11 million in Henan, China in 2021 sounded an alarm bell to our Group’s production plant in Henan, China. Furthermore, our Group foresees an increase in the frequency of blackouts due to the heavy load on the electricity grid as caused by climate change, which may lead to unpredictable disturbances to our operations.

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- How to mitigate physical risk

Our Group understands that extreme weather can incur huge risk on fixed assets including our production plants. As a result of the vision of the founding member of our Group, the locations that we have chosen for the PRC Factory and Italy Factory are basically not vulnerable to hurricanes and flooding. The flooding in Henan, China in 2021 is a good lesson for us in future locations choices despite the fact that the flooding was a once in a century incident. On behalf of the Board, the ESG Committee will factor in all climate risks and locations chosen when doing future new plant establishment or mergers and acquisitions. Furthermore, production plant insurance has been bought to mitigate the potential physical risk.

- Transition Risks

Transition risk refers to the financial risk related to the process of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate policy, technological changes, or a change in market sentiment.

Following the commitment of carbon-neutral 2050 in Europe and 2060 in China, our Group may be requested by authorities to fully adopt renewable energy as our source of electricity and power. As the electricity consumption of graphite products are very high, the transition of which may substantially increase the cost of operations.

Value chains are exposed to a broader set of risks, including climate events. Climate change impacts various entities and functional levels in supply chains, and their ripple effect leads to risk propagation along the supply chain network. Unusual weather events and natural disasters may directly or indirectly affect multiple entities within supply chain networks such as physical infrastructure and assets, natural resources and workforce.

- How to mitigate transition risks

On behalf of our Board, the ESG Committee developed a stringent internal management and examination system throughout the whole production process to mitigate transition risk. Renewable energy or alternative energy source will be actively explored. We started a solar installation project in the Italy Factory which will eventually produce more than 1.5 million kWh per year in the future.

We will try our best to diversify our suppliers to mitigate our supply chain risk.

- Opportunities

Steel is the base material for the global industry. The production increase of steel is destined to continue in the coming decades. Recycling procedures bring material savings consequently reducing the need for virgin resources as well as energy consumption. Deployment of the recycling process in the steel industry will be critical to the industry's climate change mitigation strategies for the mid and long-term.

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EAF is a proven technology to recycle iron and steel and can eventually radically decrease carbon dioxide emissions. We foresee that climate risk will boost the future establishment of more EAF plants as well as the conversion of BF-BOF plants into EAF plants. The demand for UHP graphite electrodes will grow exponentially in the coming decades.

ESG performances, risk management and internal control

Our Group is committed to working on the environmental, health and safety, employment, supply chain and community issues that its operations affect, and to working with its stakeholders to promote sustainable development in the industry in which it operates.

We have adopted a set of emission controls and procedures in our factories to prevent and minimise pollution during our manufacturing process and comply with applicable environmental standards. For example, in our factories, we have installed industrial mufflers to ensure noise created during our manufacturing process does not exceed the approved level, and dust collectors and electrostatic precipitators to filter fine particles in the dust and to treat pitch fumes before discharge. We have also engaged third party qualified chemical waste collectors to collect our chemical waste. We ensure that the materials we purchase and use in our production are matched with all applicable environmental protection and social responsibility requirements. We will continue to purchase machines that are more environmental friendly in the future as and when we require, and will reuse and recycle materials whenever applicable. We would clean the air filter of the air conditioner regularly to prevent dust from accumulating and reducing the cooling performance of the air conditioner. We switch off all electronic equipments when they are not in use.

We are committed to clean production by reducing emissions, generation of waste, consumption of energy and resources, as well as strengthening our sense of social responsibility. We consider power consumption as one of the evaluation criteria for purchasing machines and equipment, and selecting electronic devices that consume as little power as possible. We frequently repair and maintain the machines and equipment to ensure their efficient operation and prevent the waste of electricity. Water meter reading is checked constantly for revealing any hidden leakage phenomena. We purchase detergents which are non-phosphorus, low-toxic, and less polluting.

Our Group undertakes all reasonable efforts to mitigate and address material ESG risk by establishing and implementing the following ESG policy. On behalf of our Board, the ESG Committee has worked with an external consultant to establish the Environment Policy for our Group.

Environmental Policy

Group's commitment

- Become carbon neutral in 2050
- Compliance with global and local environmental laws and regulations
- Continuous improvement in environmental and resource management
- Continued reduction of emissions through innovation

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Use of resources

- Use materials and natural resources efficiently in all our production process
- Responsibly manage energy and water resources for the benefit of the business and society
- Design and implement effective energy and water management measures
- Minimise the production of all kinds of waste where applicable
- Source materials responsibly and sustainably, including prioritizing suppliers with environmentally sound practices and management
- Re-use and recycle as much as our used material

Energy efficiency

- Communicate with equipment suppliers on their environmental and social responsibilities. Energy efficiency and safety issues must be ensured by the providers
- Improve energy efficiency and explore the potential of adopting renewable energy
- Encourage the adoption of energy-efficient machinery, system and equipment in the procurement process
- Implement energy-saving measures in our production process and explore feasible energy-saving opportunities on new equipment purchasing and installation.

Social policy

Human resources

- Equal Opportunity applies to all aspects of employment. Our Company is committed to the principle of equal opportunities for all employees and candidates regardless of their gender, race, nationality, marital status, disability, religious belief, sexual orientation or any other characteristic protected under the law
- Training Policy encourages our Group's employees to constantly improve their skills and abilities and develop competencies through the taking up of both internal and external training programmes. Training needs for improvement on existing skills will be regularly identified through performance appraisals. Our Company will provide appropriate training and development opportunities to assist employees in meeting their training objectives and achieving business goals
- Promotional and job opportunities are offered to existing employees and suitable candidates, and selection is based on assessment of work performance of all individuals on merit, qualifications and abilities, and suitability for the position

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Occupational safety and health

- Follow the directives of ISO 45001 with a management system that imposes a full compliance towards laws and regulations
- Provide and maintain a safe and healthy working environment and work systems for all the staff
- Strive for continual improvement in safety and health management and performance, including identifying and developing best practices in safety and health
- Provide adequate resources for implementing the safety and health policy and safety plan, and to provide the necessary information, staff training and supervision
- Foster a pro-active risk-based accident prevention culture, the attitude that every level of the organisation bears responsibility for work safety

Labour protection policy

Our Group is committed to eliminating all forms of discrimination and prejudice against our employees and workers in the supply chain, operational communities and other stakeholders and protecting their legitimate rights and interests. As such, we adhere to the following labour protection policy:

- Prohibit the use of child labour at any stage and in any region where the services are provided
- Create, promote and maintain a working environment that is free of harassment and discrimination and offers equal opportunities
- Provide equitable and transparent career development channels and shape a sound promotion mechanism based on meritocracy
- Protect privacy of our employees by forbidding unauthorised use of personal data of employees and wiretapping of employees' conversations
- Offer good benefit package and formulate an internal welfare system compatible with the needs of our employees
- Ensure the working environment to be safe and healthy
- Establish a whistle-blowing system to encourage employees to report any law-breaking activity in time

BUSINESS

Environment performance and metrics

Following the suggestion of the SASB Standards, the ESG Committee has set GHG reduction as our target and goal for future improvements. Our Group is a global manufacturer of UHP graphite electrodes with production facilities in Italy and the PRC. The annual production capacities are 16,500MT and 14,000MT, respectively. The energy consumption of our Group in the financial year of 2021 was set out below:

Scope 1 emission	Natural Gas used (m ³)	9,280,565
Scope 2 emission	Electricity (kWh)	77,615,880
	Total tonnes of GHG emission (tCO ₂ eq)	57,276.4
	Emission per MT	1.87 tCO ₂ eq

Targets

Our Group will examine various means to reduce carbon emissions, which include exploring different kinds of decarbonisation technology and enhancing the energy efficiency of both new and existing equipment. We have set the following targets:

Strategy Themes	Approaches	Targets
GHG reduction	The ESG Working Group will work with internal engineers to strive for a GHG reduction	To reduce 10% CO ₂ eq emission from 2022 to 2027, and another 10% from 2027 to 2032.
Carbon neutral	The ESG Working Group will work with external expertise to formulate a long-term strategy on how to approach carbon neutral	Carbon neutral in 2050

To achieve the above target, the following steps will be taken:

- we will continue to improve and upgrade our equipment to be more energy efficiency and reduce our total energy consumption. We estimate that our emissions will be reduced by approximately 3% from 2022 to 2027, and approximately 3% from 2027 to 2032;
- we will continue to streamline our workflow to reduce unnecessary energy wastage. We intend to streamline the workflow by improving our quality control, reducing the amount of waste by priority inventory management and reducing the materials used. We estimate that our emissions will be reduced by approximately 2% from 2022 to 2027, and approximately 2% from 2027 to 2032, through the production streamlining process;

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- we will install PV panels in our production plants. We are currently working on the PV project for installing PV solar panels on the baking department roof of the Italian Factory, which will generate electricity of 1,580,378 kWh/year, accounting for 2% of our total electricity consumption in 2021;
- the PRC government has committed to achieving carbon neutrality before 2060 and peaking Co₂ emissions before 2030. The non-fossil energy composition in the national grid will rise from 18% in 2022 to around 28% in 2032. The EU has committed to becoming carbon neutral in 2050. The renewable energy composition in the EU grid will rise from 44% in 2022 to over 60% in 2032. Our emissions will naturally reduce by at least 4% from 2022 to 2027, and another 4% from 2027 to 2032;
- under the EU's policy to achieving carbon neutrality by 2050, the Italian Factory may be able to achieve carbon neutrality by 2050; and
- we will try to purchase electricity from renewable sources in the PRC by 2050, failing which, we will seriously consider buying carbon certificates in the open market to offset our emissions by 2050.

The ESG working group will work with an external consultant to continuously monitoring on the progress. Yearly assessment and reporting will be submitted to the ESG Committee and our Board for the planning of further action plans. In case our progress lag far behind our set target, the ESG Committee will seriously consider purchasing voluntary carbon credit in the open market to offset our emissions to confirm our achievability of the set target.

Environmental Action Plan

For the PRC Factory, Henan Kefeng has obtained environment impact assessment approvals from the Xinxiang City Environmental Protection Bureau* (新鄉市環境保護局) on 7 November 2018. On 13 April 2020, we obtained the pollutant discharge permit from Xinxiang City Ecological Environment Bureau* (新鄉市生態環境局).

Our Company actively complied with relevant requirements of the “Action Plan for Comprehensive Control of Air Pollution in Beijing — Tianjin — Hebei Region and Surrounding Areas in Autumn and Winter from 2019 to 2020” (《京津冀及周邊地區2019–2020年秋冬季大氣污染綜合治理攻堅行動方案》) (the “**Action Plan**”).

Sangraf Henan has applied for and obtained the pollution discharge license to strictly comply with relevant requirements of the Action Plan which urge enterprises to conduct pollution discharge with and according to the license.

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According to the Action Plan, enterprises shall upgrade industrial furnaces and kilns to lower particulates, sulphur dioxide and nitrogen oxides emission to not higher than 30, 200 and 300 mg/m³, respectively. On 9 November 2018, the flue gas emission reduction upgrade construction of the PRC Factory's baking furnace system was approved by a group of experts upon physical examination. After the implementation of the emission upgrade construction, flue gas particulates, sulphur dioxide and nitrogen oxides emission intensity of the PRC Factory's baking furnace system were lower than 10, 35 and 100 mg/m³, respectively, which were in line with the lowered emission requirements. With our continuous efforts for a cleaner production, we further upgrade our PRC Factory during 2020 and 2021 and our flue gas particulates, sulphur dioxide and nitrogen oxides emission intensity of the baking furnace system were below 10, 20 and 50 mg/m³ in September 2021. Due to the lease of premises and facilities from Henan Kefeng to Sangraf Henan for production purpose, Sangraf Henan may utilize the production facilities to comply with the lowered emission requirements.

Further, strict grading procedures will be conducted for enterprises in key industries to classify concerned entities as class A, B and C for dynamic management. As at the Latest Practicable Date, Sangraf Henan had been classified as a Class B. Our PRC Factory is one of the few industry players in Henan which is classified as Class B. Less than 20% of the industry players in the PRC obtained such class. In other words, our production in the PRC Factory would not be forced to shut down due to Technical Guide of Emission Reduction Contingent Measures for Focused Industry under Heavily Polluted Weather (《重污染天氣重點行業應急減排措施指定技術指南》) during autumn and winter.

According to the Action Plan, localities should include key pollution discharging enterprises in the List of the Key Pollution Discharge Enterprises, and enterprises are required to install automatic monitoring facilities for flue gas emissions and connect with the ecological and environmental department. On 30 September 2018, the Xinxiang Municipal Environmental Protection Bureau and the Huixian Municipal Environmental Protection Bureau conducted an on-site examination on the construction and operation of Henan Kefeng's automatic monitoring facilities for flue gas emissions. The relevant facilities of Henan Kefeng fulfilled the requirements and passed the on-site examination. Due to the lease of premises and facilities from Henan Kefeng to Sangraf Henan for production purpose, Sangraf Henan may use the automatic monitoring facilities to comply with the relevant environmental requirements.

For the Italian Factory, we have obtained integrated environmental authorisation issued by the Umbria Region through resolution no. 2666 of 16 March 2018 and its related annex A on 16 March 2018.

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The table below sets out our pollutant discharge level during the Track Record Period:

The PRC Factory

Category	Pollutant	FY2019 ^(Note 2)		FY2020		FY2021		1H2022	
		Approved maximum annual emission level		Approved maximum annual emission level		Approved maximum annual emission level		Approved maximum annual emission level	
		(Note 1)	Actual level of emissions						
		(tonne)	(tonne)	(tonne)	(tonne)	(tonne)	(tonne)	(tonne)	(tonne)
Exhaust gas	Sulphur dioxide	7.1	8.7 ^(Note 3)	12	10.8	12	7.71	12.0	2.93
	Nitrogen oxides	33.4	4.6	7.35	8.0 ^(Note 3)	7.35	5.2	7.35	3.39
	Particulates	4.1	0.8	2.04	1.58	2.04	1.32	2.04	0.77

Notes:

- (1) The PRC Factory obtained the quota for annual level of emission from the Xinxiang City Environmental Protection Bureau* (新鄉市生態環境局).
- (2) We commenced production at the PRC Factory in January 2019. Accordingly, there was no production and emission in FY2018.
- (3) During the Track Record Period, the PRC Factory's pollutant emissions of sulphur dioxide/nitrogen oxides exceeded the originally approved emission permit value, though, according to the certificate issued to the PRC Factory by the Hui County Branch of the Xinxiang City Ecological Environment Bureau, the excessive emission was caused by the structural change in its product specification. The incident had been filed with the relevant PRC competent authorities which did not consider the incident an environmental violation nor hold our Company liable.

The PRC Factory also applied to increase of the permitted emission level to meet the latest emission permit requirements in April 2020 and the PRC competent authorities has approved the application. As further confirmed by the Hui County Branch of the Xinxiang Ecological Environment Bureau, the PRC Factory's air pollution emissions in 2019–2021 were generally in compliance with the local standards of Henan Province. As advised by the PRC Legal Adviser, the Hui County Branch of the Xinxiang Ecological Environment Bureau is the competent regulatory authority for the relevant emission matters within Huixian County area.

During the Track Record Period and up to the Latest Practicable Date, the PRC Factory was not subject to any administrative penalties imposed by any competent regulatory authority for any environmental violations.

Our Company has installed a set of pollution control systems which includes (i) a Selective Non-Catalytic Reduction system to control nitrogen oxides emissions; (ii) a Dual-alkali Flue Gas Desulfurization system to control sulphur dioxide emissions; and (iii) a Wet Electrostatic Precipitator system to remove particulate matter from flue gases. Notwithstanding the above, our Company has also installed a Distributed Control System and an online continuous environmental pollution monitoring system that would help us monitor the level of pollutant discharge.

- (4) The original approval certificate issued by the Xinxiang City Environmental Protection Bureau expired on 29 April 2020 and the PRC Factory has obtained its new approval certificate for its pollution emissions.

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The Italian Factory

Category	Pollutant	Approved maximum annual level of emission <i>(Note 1)</i> <i>(tonne)</i>	Actual level of emissions of our Group				
			FY2018 <i>(tonne)</i>	FY2019 <i>(tonne)</i>	FY2020 <i>(tonne)</i>	FY2021 <i>(tonne)</i>	1H2022 <i>(tonne)</i>
Exhaust gas	Sulphur dioxide	898	16.2	14.2	20.1	24.1	25.7
	Nitrogen oxides	1,796.1	15.6	15.1	18.6	22.2	25.3
	Particulates	50.1	1.5	4.2	4.4	2.8	3.3

Note:

(1) The authority in Umbria Region, Italy approved the maximum annual level of emission of the Italian Factory.

Notwithstanding that we have effective measures on controlling and monitoring exhaust gas and wastewater discharge, our operations are subject to the increasingly stringent regulatory requirements of environmental protection. Please refer to “Risk Factors — Our business operations are subject to various environmental, health and safety laws and regulations and we may fail to control the costs associated with more stringent standards of these laws and regulations” for the risks in association with our on-going compliance with, among others, environmental protection laws and regulations.

For FY2018, FY2019, FY2020, FY2021 and 1H2022, we incurred approximately US\$0.2 million, US\$0.7 million, US\$0.8 million, US\$0.5 million and US\$0.3 million, respectively, for environmental compliance matters. The environmental compliance costs consist of preparation costs for waste disposal, statutory inspections, scheduled maintenance and laboratory analysis activities, amounts of which remain and are expected to remain insignificant when compared to our overall revenue amounts during the Track Record Period and in the foreseeable future unless more stringent environmental laws and regulations are imposed upon our Group and our Group is required to modify our production facilities substantially for compliance purpose.

To the best knowledge of our Directors, we have had no material non-compliance or violations of environmental protection laws and regulations, and accordingly there were no material sanctions, penalties or punishments had been imposed upon us for any such violation of laws or regulations in Italy and the PRC during the Track Record Period and up to the Latest Practicable Date.

Apart from policies and procedures to manage environmental protection liabilities, we have also adopted/will adopt a number of policies and procedures to manage our Group’s social sustainability risk:

- a Global Employee Handbook is set up as guideline to protect the rights and interests of the employees, including but not limited to, Business Conduct and Ethics, Confidentiality, Workplace Health and Safety, Equal Employment Opportunity, and Performance Evaluations. All employees are treated equally in relation to recruitment, training and development, appraisal, promotion, remuneration and benefits;

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- workers are provided with work safety training and a Safety Training Record is maintained by the Human Resources Department;
- for new recruits, the Human Resources Department inspects and obtains copies of the workers' documents, including ID and worker's registration cards to prevent employment of child and illegal labour;
- suppliers of our Group are selected based on various factors, including the delivery lead time, claim policies, production facilities and capacities, prices, communication system and efficiency, repair services, packaging ability, geographical location and environmental compliance;
- our Group has set up Quality Control Policy to govern quality control of incoming material control, production steps and finished product. Both the PRC Factory and the Italian Factory have ISO 9001 procedures to manage all production steps including acceptance and rejection of work in-process;
- our Group has set up guidelines on anti-corruption to ensure compliance by officials, Directors, executives, employees, and agents with anti-corruption laws of the countries in which it operates, as well as with our Group's values and principles;
- our Group has set up guidelines on whistle-blowing procedures to enable all individuals and stakeholders to voice concerns in a responsible and effective manner in situations they believe show irregularities, misconduct or malpractice; and
- our Group maintains communication channels with the communities where it operates. Our Group actively takes up the corporate social responsibility for the communities and communicates with the stakeholders through different platforms to understand their needs and involved in community contribution.

Save for monitoring and reporting on our Group's ESG aspects by the ESG Team on the operational level, our Group will, or engage independent third party(ies) to, conduct enterprise risk assessment at least once a year, ensuring that the ESG risk has been assessed, evaluated, measured and monitored:

- the stakeholders and the environment are safe from any potential risks inherent in the business operations;
- the potential for loss or damage to assets, or financial loss to our Group and its key stakeholders, is minimised by recognising and controlling risks; and
- opportunities to improve on existing plans and targets are identified and exploited without compromising business objectives.

Our Alignment with the UN SDGs

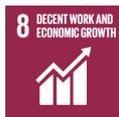
The 17 Sustainable Development Goals (“UN SDGs”) were first adopted at the United Nations General Assembly in 2015. The SDGs address the global challenges related to health, inequality, climate change, environmental degradation, peace and justice, and are aimed at establishing a sustainable society. As a global corporate citizen, we have evaluated the relationship between the SDGs and our business. We have appointed an independent consultant on ESG, Ascent Partners Advisory Service Limited, to identify how our Group can achieve seven of these goals, details of which and set out below:



Sulphur dioxide and nitrogen oxides are deleterious pollution gases in the atmosphere. We supply UHP graphite electrode to EAF plants in steelmaking industry which can reduce up to 99% of sulphur dioxide and 97% of nitrogen oxides compared to traditional blast furnace steelmaking.



Energy storage technology by lithium battery can greatly reduce the cost of clean energy in the future. By active researching on the lithium-ion anode material technology, our group can foresee our role of supporting clean energy in the future.



With our well-established production plant in Italy and the PRC, our Group offers good prospect, decent working environment and competitive remuneration to retain talents and contributes for the growth of our industry.



Our UHP graphite electrode technology for EAF plant has a significant environmental benefit given that there is a considerable portion of steelmaking plant in the world still using traditional blast furnace (especially in the PRC).



The UHP graphite electrode that we produce can facilitate the EAF plant to recycle iron scrap. Our potential lithium-ion anode technology can speed up the utilisation of electric vehicle, which can greatly reduce carbon emission and create a sustainable community.



We and our downstream customers are in business to build a green to low carbon world. With our main product, we facilitate the recycling of iron scrap. With the philosophy of reducing wastage, we are pioneering in responsible production.



We supply UHP graphite electrode to EAF plants in steelmaking industry which can reduce up to 72.3% of carbon dioxide compared to traditional blast furnace technology.

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PROPERTY INTERESTS

Owned Property

As at the Latest Practicable Date, our Group owned certain properties for our business activities and operations, details of which are set out below:

Property and location	Usage	Area
<ul style="list-style-type: none"> ● The Italian Factory <i>(Note 1)</i> 		
Narni Scalo (TR) Via del Lavoro n. 8, Narni Municipality Nr. 75, Italy	Manufacturing plant	345,971 sq. m.
<ul style="list-style-type: none"> ● The PRC Factory <i>(Notes 2 and 3)</i> 		
The southeast corner of the intersection of Hongzhou Avenue and Wei'er Road, Huixian City, Henan Province	Manufacturing plant	198,362.45 sq. m.
<ul style="list-style-type: none"> ● The Sanli Assets <i>(Notes 2 and 3)</i> 		
Xiaotun Village East, Baiquan Town, Huixian City, Henan Province	Manufacturing plant	95,538.39 sq. m.

Notes:

1. Pursuant to a bailment agreement (the “**Bailment Agreement**”) dated 17 March 2021 and entered into between Sangraf Italy, Gosource Group Limited and SGL Carbon S.p.A. (the “**Landowner**”) of a land, together with the buildings and tangible assets thereon, adjacent to the Italian Factory (collectively, the “**Narni 1 Land**”), the Landowner had temporarily allowed us to use the Narni 1 Land, including an electric power station that supplies electricity to our manufacturing plant at the Italian Factory. The Bailment Agreement commenced on 17 March 2021 and shall expire on 14 September 2024, upon which the Narni 1 Land shall be returned to the Landowner unless Gosource Group otherwise purchases it. Under the Bailment Agreement, we shall pay the Landowner a consideration of EUR50,000 plus VAT each year starting from 14 September 2021 (the “**Bailment Consideration**”). Since the Bailment Agreement is related to the Narni 1 while the production facilities were located in Narni 2, the Narni 1 land and the Narni 2 land are two separate and independent pieces of land divided by a river, therefore there was no material and adverse impact noted for the operation of our Group.

On 16 March 2021, the Landowner and Gosource Group further entered into a preliminary purchase contract (the “**Preliminary Purchase Contract**”) pursuant to which the parties agreed, among other, that (i) Gosource Group shall purchase the Narni 1 Land at an pre-agreed purchase price of EUR350,000 less the Bailment Consideration paid by Gosource Group by the completion date of the purchase of the Narni 1 Land, and (ii) approximately EUR711,000, together with VAT, is payable by Gosource Group to the Landlord as full settlement of the rental due to the Landowner for the use of the Narni 1 Land from 14 September 2018 to 14 September 2021 and relevant costs and fees. It is expected that we will terminate the Bailment Agreement upon the completion of the purchase of the Narni 1 Land mentioned above. As at the Latest Practicable Date, Gosource Group had paid approximately US\$1.5 million into an escrow account for the purchase of the Narni 1 Land.

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Gosource Group and Supplier C entered into a deed of sale and purchase dated 19 July 2021 pursuant to which the parties agreed, among others, that Supplier C shall purchase the Narni 1 Land at a consideration comprising (i) EUR350,000 for the Narni 1 Land (exclusive of VAT); (ii) approximately EUR789,000 being the costs accumulated up to 2 February 2021 (inclusive of VAT); and (iii) other costs associated to fees payable on behalf of Supplier C for this acquisition, which were estimated to be approximately EUR1,020,000 that may further increase until completion and subject to confirmation and approval by the parties. As at the Latest Practicable Date, Supplier C had paid US\$1.1 million to Gosource Group.

2. As at the Latest Practicable Date, (i) we had completed the purchase of the PRC Factory and the Sanli Assets through a judicial auction in June 2020, settled the purchase price of these assets and obtained the title to the PRC Factory and the Sanli Assets pursuant to the final conclusion rulings issued by the relevant PRC court in August 2020, (ii) we had obtained the land use rights certificates, and were in the process of applying for the building ownership certificates in respect of the PRC Factory; and (iii) were in the process of applying for the land ownership certificates in respect of the Sanli Assets.
3. For further details, please refer to the sub-section headed “Title defect in relation to the PRC Factory, the Sanli Assets and the building where the Extrusion Facilities are housed” in this section below.

Leased Property

As at the Latest Practicable Date, our Group leased certain properties in the U.S., Hong Kong, the PRC and South Africa to support our business activities and operations.

The table below sets out the particulars of the material properties leased by us as at the Latest Practicable Date:

Location	Term	Rent	Usage	Area
3147 Independence Dr, Livermore, California, U.S.	2 years till 30 April 2024	US\$4,775 per month	Office	2,669 sq. ft.
3171 Independence Dr, Livermore, California, U.S.	2 years till 29 February 2024	US\$4,775 per month	Office	2,831 sq. ft.
159 Crocker Park Blvd, Suite 100, Westlake, Ohio, U.S.	5 years till 14 December 2023	US\$3,150 per month	Office	1,167 sq. ft.
Room 2602, 26th Floor, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong	2 years till 30 September 2024	HK\$146,146 per month	Office	3,212 sq. ft.
Unit 3010, Changping Business Building, Futian Free Trade Zone, Shenzhen	From 8 June 2022 to 7 June 2023	RMB6,000 per month	Office	81.61 sq. m.
Shop No. 5 Chazown Center, cnr. Pierneef & Reitz Street, Meyerton, South Africa	2 years till 30 November 2023	ZAR6,090 per month	Office	65.40 sq. m.

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Title defect in relation to the PRC Factory, the Sanli Assets and the building where the Extrusion Facilities are housed

In December 2018, we acquired the Extrusion Facilities which are housed in a building (the “**Building**”) constructed on the land (the “**Land**”) where the PRC Factory was erected by Henan Kefeng. As far as we are aware, the Building was constructed by Xinxiang Longhui and the construction was not fully consistent with the relevant construction planning permits approved by the relevant PRC governmental authority due to actual construction area reduction and related issues.

According to the Urban and Rural Planning Laws of the PRC, if the building construction is not carried out in accordance with the construction planning permit, the relevant PRC governmental authority may require that (i) rectification measures be taken to eliminate the impact on the implementation of the plan and a fine of no less than 5% and no more than 10% of the construction project cost will be imposed, (ii) such building be demolished if it is impossible to take any rectification measures, or (iii) such building or illegal income be confiscated and may be concurrently imposed a fine of no more than 10% of the construction project cost. In view that such non-compliance in relation to the construction of the Building took place during the construction phase and we were not the entity that constructed the Building, the PRC Legal Advisers have advised us that the likelihood of the relevant PRC authority imposing any administrative fine or penalty on us in respect of the above is low. Furthermore, based on the interview conducted with Natural Resources and Planning Bureau of Hui County (輝縣市自然資源和規劃局), we can continue to carry out the business activities in the Building, pending the obtaining of the building ownership certificate and the relevant authority will not impose any fine on us or order the demolition of the Building. PRC Legal Advisers have advised us that, it is the competent authority to give the confirmation with respect to such issues, and there is a low risk that our use of such buildings will be subject to penalty or required to be demolished, resulting in a material adverse effect on our production and operation.

As at the Latest Practicable Date,

- (i) we had acquired the ownership of Building from Xinxiang Longhui and obtained the land use right of the Land pursuant to final conclusion rulings issued by the relevant local PRC court in August 2020;
- (ii) we had obtained the land use right certificate in respect of the Land; and
- (iii) we were in the process of applying for the building ownership certificate for the Building.

The PRC Legal Advisers have advised us that as we had obtained the final conclusion rulings issued by the relevant local PRC court, there is no legal impediment in substance for us to obtain the above building ownership certificates provided that we submit relevant registration documentation required by the relevant local real estate registration administrative authority.

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Furthermore, based on the interview with Natural Resources and Planning Bureau of Hui County (輝縣市自然資源和規劃局) which has confirmed that the amendment approval for construction planning permits of the Building can be processed once we obtain the land use right certificate of the PRC Factory, and the PRC Legal Advisers have advised us that it is the competent authority to give the confirmation with respect to such issues, and there is no legal impediment to us obtaining the construction planning permits of the Building provided that the land use right certificate and other documentation meet the relevant laws and regulations and the requirements from the relevant PRC local government authority. We are in the process of applying for construction planning permits of the Building and we expect to obtain them by June 2023. For further details on our acquisition of the PRC Factory, please refer to the section headed “Business — Expand our production capacity” in this prospectus.

LICENSES AND PERMITS

Our Directors, as advised by the PRC Legal Advisers and the Italian Legal Advisers, confirm that as at the Latest Practicable Date, we had obtained all material licenses, approvals and permits from the relevant authorities in Italy and the PRC for our operations in Italy and the PRC.

The table below sets out details of our material permits and licenses as at the Latest Practicable Date:

No.	Jurisdiction	Holder of permit/ licence	Approval/ permit no.	Activities permitted	Issuing authority	Date of Issue	Date of Expiry
1.	The PRC	Gosource (China)	44031499HQ	Customs declaration for import and export of goods	Shenzhen Customs	8 January 2019	No expiry date
2.	The PRC	Sangraf Henan	91410782 MA45YEH Y91001V	Emission of pollutants	Xinxiang Municipal Environmental Protection Bureau	13 April 2020	12 April 2023
3.	Italy	Sangraf Italy	Autorizzazione Integrata Ambientale	Production of electrographite	Umbria Region, Italy	16 March 2018	15 March 2028

LEGAL COMPLIANCE

Our Directors confirm that we had complied with all applicable laws and regulations in Hong Kong, Italy, the PRC, the U.S., Switzerland, South Africa and Macau in all material respects during the Track Record Period and up to the Latest Practicable Date.

INTERNAL CONTROLS

It is the responsibility of our Board to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders' investment and our Group's assets at all times. In order to continuously improve our Group's corporate governance and to prevent recurrence of the non-compliance incidents in the future, we have engaged an independent internal control consultant to perform compliance procedures in connection with our internal control policies related to the historical non-compliance incidents and further put forward respective recommendations for enhanced internal control measure as mentioned below. We have adopted, or expect to adopt before the Listing, the following internal control policies and procedures:

- our Directors and the senior management have attended trainings conducted by our Company's legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, the SFO and the Listing Rules and other relevant laws and regulations. We will provide our Directors, senior management and employees with training, development and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group on an annual basis, which will be provided by external legal advisers or other professional advisers;
- induction training will be arranged for any newly appointed Directors or company secretary so as to familiarise themselves with the relevant regulatory requirements in relation to directors' responsibilities and duties under the relevant laws and regulations;
- our Group has appointed Yue Xiu Capital Limited as its compliance adviser initially for a term required under the Listing Rules to advise on compliance matters;
- our Group has established an audit committee responsible for overseeing our financial records, internal control procedures and risk management systems. Please refer to the section headed "Directors and Senior Management" in this prospectus for a detailed description of the responsibility of our audit committee as well as the qualifications and experience of their members;
- all management and staff of our Group will be required to report to and/or notify our Directors or the legal advisers of our Group promptly of any non-compliance or potential non-compliance events; and
- our internal audit team will carry out an annual review on the adequacy and effectiveness of our internal control system after the Listing, including areas of financial, operational, compliance and risk management.

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After considering that (i) our Group has implemented (or, where applicable, will implement) the above measures and (ii) our Group has established a proper internal control system to prevent future non-compliance with the relevant laws and regulations, our Directors are of the view that, and the Sole Sponsor concurs that, our internal control measures adopted are adequate and effective and consider that the non-compliance incidents do not have any material impact on our suitability for listing under Rule 8.04 of the Listing Rules.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge after having made reasonable enquiries, there was no litigation or arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's business, financial condition, results of operations or reputation.

RECENT REGULATORY DEVELOPMENT

The regulatory environment in China has been undergoing a number of recent changes and reforms in certain areas.

Cybersecurity and Data Security

On 10 June 2021, the Standing Committee of the National People's Congress promulgated the PRC Data Security Law (《中華人民共和國數據安全法》), which took effect in September 2021. The Data Security Law, among other things, provides for a security review procedure for the data activities that may affect national security. On 28 December 2021, the CAC, the NDRC, the MIIT, and several other PRC governmental authorities jointly issued the Cybersecurity Review Measures (《網絡安全審查辦法》) which became effective on 15 February 2022. The Cybersecurity Review Measures stipulate that network platform operators holding over one million users' personal information shall apply with the Cybersecurity Review Office for a cybersecurity review before listing on a foreign stock exchange (國外上市). As of the date of this document, our PRC Legal Adviser is of the view that we are not required to apply for a cybersecurity review for our proposed Listing in Hong Kong as the term "listing on a foreign stock exchange (國外上市)" under the Cybersecurity Review Measures does not include "listing in Hong Kong".

In addition, the Cybersecurity Review Measures also stipulates that operators of critical information infrastructure, operators procuring network products and services, and network platform operators carrying out data processing activities that affect or may affect national security, shall also be subject to cybersecurity review.

Furthermore, on 14 November 2021, the CAC published the Administration Regulations on Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》), or the Draft Regulations on Cyber Data Security, which specifies that any data processor who seeks a listing in Hong Kong, which affects or may affect national security, shall apply for cybersecurity review.

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However, it provides no further explanation or interpretation as to how to determine what constitutes “affecting national security” and there remain uncertainties whether we would be subject to the cybersecurity review for this Listing. According to the Cybersecurity Review Measures, the following factors for assessing national security shall be taken into account: (a) risks of illegal control, interference or destruction of critical information infrastructure brought about by the use of products and services; (b) the harm caused by supply interruption of products and services to the business continuity of critical information infrastructure; (c) security, openness, transparency and diversity of sources of products and services, reliability of supply channels, and risks of supply interruption due to political, diplomatic, trade or other factors; (d) compliance with Chinese laws by product and service providers; (e) risks of theft, disclosure, damage, illegal use or cross-border transfer of core data, important data or large amounts of personal information; (f) risks of influence, control or malicious use of critical information infrastructure, core data, important data or large amounts of personal information by foreign governments after listing overseas; and (g) other factors that may endanger critical information infrastructure security, cybersecurity and data security. As advised by our PRC Legal Advisor, the PRC government authorities may have discretion in the interpretation for “affect or may affect national security.” If (i) our data processing activities are deemed to affect or may affect national security under the Cybersecurity Review Measures, for example the data that we processed related to the export control item including one of our products which is categorised under Carbon electrodes of a kind used for furnaces with or without metal (爐用炭電極) may be deemed as important data, or (ii) the Draft Data Security Regulations is fully implemented as-is, and our Global Offering is deemed to affect or may affect national security, we may be subject to cybersecurity review and failure to conduct such review could result in severe penalties and/or action by the competent government authority. See “Risk Factors — Our business may subject to complex and evolving laws and regulations regarding cybersecurity and data security.” for more details.

As of the Latest Practicable Date, (i) we have not been notified by any PRC government authorities of being classified as a critical information infrastructure operator which may be subject to cybersecurity review in certain circumstances that may affect national security in accordance with the Cybersecurity Review Measures; (ii) we do not process personal information of users for our business operation, neither do we hold over one million users’ personal information; (iii) the types of data we collected, stored, used and transferred overseas for our business operation have not been cataloged as important data or core data by the PRC government authorities; (iv) we have not experienced any material incident of data or personal information leakage, infringement of data protection and privacy laws and regulations or investigation; (v) we have not received any inquiry, notice, warning from any PRC government authorities, or have not been subject to any investigation, sanctions or penalties made by any PRC government authorities regarding national security risks caused by our business operations or the proposed Listing. In addition, we have implemented comprehensive policies and rules and taken necessary measures on cybersecurity and data protection, which are in compliance with the mandatory requirements of the PRC government authorities in all material respects: (i) we implement internal information security policies to govern how we protect data security, as well as technologies and systems in place to ensure that such data will not be accessed or disclosed improperly; (ii) we take data classification measures, and limit access to our internal and restricted data on a “need-to-know” basis; (iii) we also adopt a data encryption system in order to ensure the secured storage and transmission of data, and to prevent any unauthorized member of the public or third parties from accessing or using our data in any unauthorized manner.

Moreover, we will (a) closely monitor and assess any regulatory development in relation to cybersecurity and data protection; (b) adjust and optimize our practice in data protection in a timely manner to comply with the new requirements imposed by the new laws and regulations; (c) continuously improve our data security protection technologies and internal control procedures and engage external professional consultants to advise us on cybersecurity and data protection requirements, if needed. Based on foregoing, our PRC Legal Adviser is of the view that, as of the Latest Practicable Date, we are in compliance with the existing PRC laws and regulations on cybersecurity, data security and personal data protection in all material aspects.

Based on the foregoing analysis, with the advice of our PRC Legal Adviser, if the Draft Regulations on Cyber Data Security were implemented in the current form, our Directors do not foresee any material impediments for us to comply with the requirements under the Draft Regulations on Cyber Data Security in all material aspects, and therefore the Draft Regulations on Cyber Data Security, if become effective in their current forms, would not have a material adverse impact on our business operations or the proposed Listing.

Regulatory Developments on Overseas Listing

On 24 December 2021, the CSRC published the draft Regulations of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) (《國務院關於境內企業境外發行證券和上市的管理規定(草案徵求意見稿)》) (the “**Administrative Provisions**”), and the draft Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) 《境內企業境外發行證券和上市備案管理辦法(徵求意見稿)》 for public comments (the “**Filing Measures**”, together with the Administrative Provisions, the “**Draft Regulations on Listing**”). Such Draft Regulations on Listing introduced a filing-based regulatory system to cover both direct and indirect overseas offering and listing of domestic companies, and set out, among others, the principle and certain criteria for determining whether the offering and listing of an issuer will be deemed as indirect overseas offering and listing of domestic PRC companies, which will be subject to the filing requirement thereunder. Specifically, the offering and listing of an issuer that meets the following criteria will be deemed as an indirect overseas offering and listing of domestic PRC companies, and therefore will be subject to filing procedures with the CSRC: (i) the operating income, total profits, total assets or net assets of domestic enterprises in the latest financial year account for more than 50% of the respective data in such issuer’s audited consolidated financial statements for the same period and (ii) a majority of the senior management personnel in charge of the business operations and management of such issuer are PRC citizens or have habitual residences in the PRC, and such issuer’s principal place of business is located in the PRC or the business operations of such issuer are mainly conducted in the PRC. As of the date of this prospectus, in light of our current business operations in the PRC, we have not meet such criteria as an indirect overseas listing of domestic PRC companies to be subject to the filing requirements under such drafts, nor we have received any inquiry, notice, warning, or sanctions regarding this Global Offering from the CSRC or any other PRC government authorities with respect to the filing requirement under the new regulatory regime. Based on the foregoing, our PRC Legal Adviser is of the view that if the Draft Regulations on Listing become effective in their current form before the Global Offering is completed, the filing requirements with CSRC under the Draft Regulations on Listing is not applicable to our Group. However, it remains unclear whether the versions adopted of the Draft Regulations on Listing will have any further material changes. See “Risk Factors — The legal system in the PRC has inherent uncertainties that could limit the legal protections available to our Shareholders.” for more details.

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Based on the foregoing analysis, with the advice of our PRC Legal Adviser, our Directors do not foresee the Draft Regulations on Listing, if become effective in their current forms, would have a material adverse impact on our business operations or the proposed Listing.

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to ensure that risks in relation to our operations are identified, monitored and mitigated. We have formal risk assessment procedures under our risk management policy, and we integrate risk management into our daily decision-making processes as well as the planning processes of our different departments. For example, our internal audit team is responsible for regular review on the financial risk management activities. Our Board is responsible for overseeing our overall risk management and assessing and updating our risk management policy on a continuous basis. Our audit committee will also perform annual review on the effectiveness of our risk management strategies.

CORPORATE GOVERNANCE MEASURES

We recognise the value and importance of achieving high corporate governance standards to enhance our business performance, operational transparency and the confidence of our Shareholders. In order to comply with the requirements under the Listing Rules, in particular, the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, as at the Latest Practicable Date, we had adopted the following measures:

- we have established the audit committee, remuneration committee and nomination committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Please refer to the section headed “Directors and senior management” in this prospectus for further information;
- our Board has adopted the terms of reference with regard to corporate governance in accordance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
- we have arranged appropriate insurance cover on all of our Directors’ liabilities in respect of legal actions against our Directors arising out of corporate activities before the Listing;
- our Directors will act in accordance with the Articles which require the interested Director not to vote or to be counted in the quorum on any resolution of our Board approving any contract, arrangement or other proposal in which the interested Director or any of his/her close associates is materially interested;
- our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from third parties in appropriate circumstances at our cost;
- our Company has adopted comprehensive internal policies covering legal and regulatory compliance; and
- our Directors will attend professional development trainings on various topics including corporate governance after the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Upon completion of the Global Offering and assuming none of the Over-allotment Option and option to be granted under the Share Option Scheme is exercised, Otautahi Capital will be interested as to 75.0% of our total issued share capital, and Otautahi Capital is in turn wholly-owned by Otautahi Holdings. Otautahi Holdings is in turn wholly-owned by Otautahi Enterprises, which is the trustee of the Otautahi Trust. Accordingly, upon the Listing, Otautahi Capital, Otautahi Holdings and Otautahi Enterprises, being the beneficial owner of the said 75.0% of our Shares, a controlled corporation of such beneficial owner and the trustee of the Otautahi Trust respectively, will be regarded as our Controlling Shareholders. Mr. Hou is one of the beneficiaries under the Otautahi Trust and does not currently hold, and will not hold, directly or indirectly, any Shares upon completion of the Global Offering. He is the protector of the Otautahi Trust who has the power to dismiss and appoint trustee(s). Considering that certain powers of the trustee may only be exercised with the written consent of the protector, Mr. Hou is also deemed to have control of the Otautahi Trust in his capacity as the protector and thus will be regarded as one of our Controlling Shareholders by operation of the Listing Rules.

Our Controlling Shareholders confirm that they, as well as their respective close associates (other than members of our Group), do not have interest in any business which competes with or is likely to compete with our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our businesses independently of, and does not place undue reliance on, our Controlling Shareholders and their respective close associates (other than members of our Group) taking into account the following factors:

Management Independence

Our management and operational decisions are made by our Board and our senior management personnel. Our Board has nine Directors comprising four executive Directors, one non-executive Director and four independent non-executive Directors. Each of our Directors is aware of his fiduciary duties as a director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders following the completion of the Global Offering.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational Independence

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and their associates upon Listing as (i) we have established a set of internal control procedures independent from our Controlling Shareholders to facilitate the effective operation of our business; (ii) our organisational structure is made up of a number of operational teams and functional departments, each with specific areas of duties and responsibilities under the leadership of the management team of our Group; and (iii) our major customers and suppliers are all independent from our Controlling Shareholders.

During the Track Record Period, we rented (i) an office premise owned by a company wholly-owned by a sister of Mr. Hou, being our executive Director and Controlling Shareholder (the “**First Lease**”); and (ii) two office premises owned by a company wholly-owned by Mr. Hou’s wife (the “**Second Lease**”). The First Lease was terminated in March 2020 while the two office premises under the Second Lease which were renewed in March 2022 and May 2022, respectively, will continue upon Listing and will constitute a one-off connected transaction upon Listing. Given that the rental of the Second Lease was determined with regard to the prevailing market rate for similar properties in the area and was renewed upon such basis, our Directors are of the view that our Group operates independently from our Controlling Shareholder and/or his associates.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs.

As at 31 October 2022, being the latest practicable date for the purpose of the indebtedness statement, amounts due to Mr. Hou, being our executive Director and Controlling Shareholder, and his affiliate which mainly included the bonus payable from our Group amounted to approximately US\$2.4 million as at 31 December 2021 had been fully settled.

As at 31 December 2021, amounts due to related companies amounted to approximately US\$13.4 million. Such amount represents (i) the balance of consideration for the acquisition of Sangraf Energy in a sum of US\$2.9 million and the vendor was a company in which Mr. Ding Jiebin, a nephew of Mr. Hou, is a key management personnel and owns 16.67% minority interest; and (ii) the balance of three loans in an aggregated sum of US\$10.5 million, from a financing company, of which Mr. Ding Jiebin is the minority shareholder and a supervisor of its holding company, pursuant to a finance lease agreement entered into between the financing company and our Group in November 2019, December 2020 and May 2021, respectively (the “**Finance Lease Agreements**”). For details, please refer to the section headed “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Other payables and accruals” in this prospectus. Pursuant to the share purchase agreement dated 26 October 2018 as supplemented by the supplemental agreement dated 28 June 2020 in relation to the acquisition of Sangraf Energy, the total consideration of approximately US\$19.0 million was determined based on the net asset value of Sangraf Energy as at 30 September 2018 and the terms of the acquisition were on normal commercial terms. The terms of the transactions under the Finance Lease Agreements

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

were on normal commercial terms. None of the related party is an associate of our Controlling Shareholder or a connected person of our Group. As at 31 October 2022, being the latest practicable date for the purpose of indebtedness statement, the amounts due to related parties (unsecured) and amounts due to a related party (secured) had been fully settled.

In light of the foregoing, our Directors are of the view that our Group does not rely on our Controlling Shareholder and/or his associates.

COMPETITION UNDER RULE 8.10 OF THE LISTING RULES

Each of our Controlling Shareholders has confirmed that he and its respective close associates (other than members of our Group) does not have any interest in a business apart from our business which competes or is likely to compete, either directly or indirectly, with our business. Furthermore, each of our Directors has confirmed that he is not interested in any business apart from our business (where relevant), which competes or is likely to compete, either directly or indirectly, with our business.

NON-COMPETITION UNDERTAKING

Our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time), under which each of our Controlling Shareholders has undertaken to our Company that he/it shall not, and shall procure that none of his/its respective close associates and/or companies controlled by them (other than members of our Group) shall, during the restricted period, directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, among other things, carry on, participate or be interested in, engaged or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any right or interest in or otherwise be involved in any business which is the same or similar to that carried on by our Group from time to time and/or which competes or is likely to compete directly or indirectly with any business carried on by our Group from time to time (the “**Restricted Business**”).

Such non-competition undertaking does not apply where:

- (a) any of our Controlling Shareholders and/or his/its close associates is offered or identifies any new business opportunity relating to the Restricted Business (“**New Business Opportunity**”) with a third party and refers the New Business Opportunity to the Company by promptly notifying our Company in writing of such New Business Opportunity, including: (i) terms of offer between the relevant Controlling Shareholder(s) and such third party, or (ii) terms for our Company to engage in the New Business Opportunity with the relevant Controlling Shareholder(s) and/or his/its close associates, (iii) the investment or acquisition costs and (iv) all other details reasonably necessary for our Company to consider, evaluate or assess the New Business Opportunity, and our Company, after review of the information of the New Business Opportunity provided by such Controlling Shareholder(s) by our independent non-executive Directors, has not given written notice of our decision to pursue such New Business Opportunity within 30 business days from the receipt of notice from such Controlling Shareholder(s), or has declined such New Business Opportunity, provided that the principal terms by which the relevant Controlling Shareholder(s) and/or his/its close associate(s) subsequently pursues the New Business Opportunity are not more favourable than those offered to our Company; or

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- (b) our Controlling Shareholders have interests in the shares of a company which shares are listed on a recognised stock exchange provided that the total number of the shares held by him/it and/or his/its close associates in aggregate amounts to less than 5% of the issued shares of that class of the company in question and he/it and/or his/its close associates do not control the majority of the composition of the board of directors of that company.

The obligations of the Controlling Shareholders under the Deed of Non-competition will remain in effect until:

- (i) the day all the Controlling Shareholders and their close associates (individually or taken as a whole) directly or indirectly through subsidiaries, associate companies or any other persons indirectly own less than 30% of the then issued Shares or ceased to be the Controlling Shareholders for the purpose of the Listing Rules and do not have power to control our Board;
- (ii) the day the Shares cease to be listed on the Stock Exchange; or
- (iii) the day our Company becomes wholly-owned by any of the Controlling Shareholders and/or his/its close associates.

ENTITIES HISTORICALLY RELATED TO MR. HOU AND/OR HIS FAMILY MEMBERS

According to Frost & Sullivan, during 2014 to 2016, the price of graphite electrodes remained low due to the downturn of the global EAF steel market. The production volume of graphite electrode in the global market experienced a downward trend. As a result, the business environment of the global graphite electrode industry was difficult around 2014 to 2016 with many players not able to sustain their business and thus leaving the market. However, with the recovery of global EAF steel market, the demand for graphite electrodes outside the PRC increased significantly in 2017 and could not be fulfilled in a short time and the price skyrocketed in 2017 and reached the highest point in 2018. The PRC market turned into an upward trend since 2017, giving rise to a surge in price in graphite electrodes which then attracted new investors into the market.

Against such background and as further elaborated below, the entities historically related to Mr. Hou and/or his family members had gone through various business and shareholding restructuring. Given that many of the transactions took place long before the Track Record Period and in many instances, Mr. Hou and/or his family had no control of the interest in the assets or entities at the time of the relevant transactions and were not involved in such transactions, certain of the below history of our assets were based on the best knowledge of our Directors. Given the above, even though they are Independent Third Parties during the Track Record Period, our Directors have reviewed and confirmed that our trade transactions with the entities historically related to Mr. Hou and/or his family members, including Xinxiang Longhui, Sanli New Materials and Sihai, were conducted on arm's length basis, on normal commercial terms and in the interest of our Shareholders during the Track Record Period. Our Directors also concluded that the financial performance of our Group during the Track Record Period was not distorted by these trade transactions.

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Henan Sanli

Henan Sanli was established by Mr. Hou's father in 1991 which was primarily engaged in the production of carbon electrodes in its own production plant in the PRC (together with its associated buildings and land, the "**Sanli Factory**"). In 2006, Mr. Hou inherited, Henan Huixian Carbon Factory which then owned 70% equity interest in Henan Sanli, the remaining 30% of which was then owned by a brother-in-law of Mr. Hou^(Note). In the aftermath of the global financial crisis of 2008, in order to address the difficulties faced by small and medium-sized enterprises in obtaining bank loans in the PRC, a common practice adopted by such enterprises was to act as guarantors for bank borrowings of each other, and/or to procure other enterprises to act as guarantors for their bank borrowings whilst also agreeing to act as guarantors of some other enterprises. Against such background, Henan Sanli was requested by PRC banks, as a prerequisite for banking facilities, to obtain corporate guarantees from its related and unrelated enterprises, including Henan Kefeng and their respective shareholders. Henan Sanli also acted as a guarantor and provided corporate guarantees to third party enterprises for their respective banking facilities. As a result, a series of cross guarantees was executed by Henan Sanli in order for Henan Sanli to secure its own financing.

In around 2012 and 2013, two of those third party enterprises for which Henan Sanli had provided guarantees defaulted in repaying their bank loans and Henan Sanli was called upon to honour its obligations as a guarantor and subsequently repaid for these third party enterprises. Henan Sanli initially disposed of its 54% equity interest in Henan Kefeng (which at the time owned the PRC Factory and the associated land and equipment) to raise funds. However, the banking facilities of Henan Sanli were subsequently restricted and/or withdrawn by the banks, which led to shortage of working capital on the part of Henan Sanli, and Henan Sanli eventually had to cease operations in November 2013. In December 2013, Henan Sanli further leased out the Sanli Factory to Sanli Group in order to maintain the value of the facilities for business opportunities as the production facilities could continue to be used. The cash generated from such transactions at the material time were used by Sanli Group to repay its guaranteed obligations. Sanli Group was then controlled by another brother-in-law of Mr. Hou.

In December 2010, Henan Sanli sold the title of the equipment associated with the Sanli Factory (the "**Sanli Equipment**") to a finance lease company, which was a state-owned enterprise and an Independent Third Party, and such finance lease company leased the Sanli Equipment back to Henan Sanli for the use of Henan Sanli under a finance lease arrangement which enabled Henan Sanli to raise cash while maintaining its production. Due to Henan Sanli's default in repaying the relevant finance lease of the Sanli Equipment, in October 2013, the finance lease company sold the Sanli Equipment to Sanli Group when Sanli Group approached it after coming to know that the Sanli Equipment was available for sale. For further background of Sanli Group, please refer to the paragraph headed "Sanli Group" below.

Note: This brother-in-law of Mr. Hou is not a senior management member of our Group and is not the brother-in-law holding equity interest in Sanli Group as mentioned on the paragraph headed "Sanli Group" below.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Subsequent to leasing out the Sanli Factory and disposing of the equity interest in Henan Kefeng, the Sanli Factory and the PRC Factory were operated and maintained independently from Henan Sanli or our Group. The Sanli Factory was later seized by PRC courts on 5 December 2013 due to Henan Sanli's inability to repay the banking facilities from China Everbright Bank Co., Ltd. which was subsequently assigned to China Orient Asset Management Co., Ltd.. Based on the judgment of legal proceedings initiated by China Orient Asset Management Co., Ltd. against, inter alia, Henan Sanli, and due to Henan Sanli's inability to repay such judgment debts, the PRC court handed down an execution order to seize the Sanli Factory and the Sanli Factory thus became seized assets.

As advised by our PRC Legal Advisers, according to the Provisions of the Supreme People's Court on Certain Issues Concerning the Handling of Execution Objection and Review Cases by the People's Court (《最高人民法院關於人民法院辦理執行異議和覆議案件若干問題的規定》), provided that there was a written lease agreement legally and validly executed and the lessee has been validly occupying and using the real property before the relevant court seized such property, the court should support the lessee's requests to prevent the transfer of the real property during the lease term. Therefore, given that the lease agreement entered into between Henan Sanli and Sanli Group had been effective on 1 December 2013 which was prior to the seizure by the PRC court, Henan Sanli could continue to use the Sanli Factory or lease out the Sanli Factory provided that the value of the assets being seized should not be significantly impacted but could not dispose of the Sanli Factory.

Henan Sanli was a supplier and supplied graphite electrodes to our Group, in around 2012 and 2013, but has ceased operations since November 2013. On 7 September 2020, a share transfer agreement was entered into between Henan Huixian Carbon Factory, a company 100% owned by Mr. Hou, and Henan Shunhui Real Estate Marketing Planning Co., Ltd.* (河南順輝房地產營銷策劃有限公司), an Independent Third Party (the "Buyer"), pursuant to which Henan Huixian Carbon Factory agreed to sell, all the 70% shareholding interest held by Henan Huixian Carbon Factory in Henan Sanli at a consideration of RMB210,000. Such consideration was determined based on arm's length negotiations between the parties with reference to, among others, (i) cash in banks; (ii) account and other receivables; and (iii) debts and liabilities of Henan Sanli. Upon completion of the said transfer, all the debts and liabilities of Henan Sanli were taken over by the Buyer and Mr. Hou no longer has any rights and obligations towards Henan Sanli. On 7 September 2020, the said brother-in-law of Mr. Hou also entered into a share transfer agreement with the Buyer to dispose of his 30% equity interest in Henan Sanli at a consideration of RMB90,000. The Buyer is a company established in the PRC in May 2018 and is primarily engaged in real estate marketing planning and property services. At the time of acquisition of Henan Sanli, the Buyer was owned as to 80% and 20% by Wang Yuqi and Chen Wei, respectively. The shareholding structure of the Buyer subsequently changed to 95% and 5% owned by Wang Xueling and Yang Jiachen, respectively, in March 2021. To the best knowledge and information of our Directors, none of the aforementioned individuals had any past and/or present relationship (business, employment, family, financing or otherwise) with our Group, our shareholders, Directors and senior management, and their respective associates. To the best knowledge and information of Mr. Hou, the Buyer intended to acquire a piece of land in Huixian City, Henan Province, the PRC for potential property development project and a portion of such land has been occupied and used by Henan Sanli as staff's dormitory. Sanli Factory was built and located on another piece of land adjacent to such piece of land which the Buyer is interested in. The Buyer considers the acquisition of Henan Sanli and its interest as an occupier of such land at a relatively low cost will eliminate the need to negotiate with Henan Sanli in relation to the termination of any occupancy arrangement. As such, when the Buyer became aware that the shareholders of Henan Sanli intended to sell Henan Sanli from various sources, it approached Henan Sanli and after

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conducting a special audit on Henan Sanli as at 31 July 2020 by an independent accounting firm, the Buyer acquired 100% equity interest of Henan Sanli. As at the Latest Practicable Date, the Buyer was in the course of acquiring such land from Huixian Carbon Factory. Given that the Buyer's intention was to acquire the relevant piece of land instead of running a business in the graphite electrode industry, Henan Sanli continued to have no operations and there was no transactions or fund flow between our Group and Henan Sanli after the acquisition by the Buyer. Although Henan Sanli historically was engaged in the production of carbon electrodes, its business was conducted under a separate brand. Further, Henan Sanli has ceased operations since November 2013 and the Sanli Assets were seized and sold to our Group pursuant to the Judicial Auction. In view of the above, our Group had no intention to acquire the equity interest of Henan Sanli and it was disposed to the Buyer eventually.

Sihai

Sihai was established in the PRC in July 2007 by a sister of Mr. Hou (“**Ms. Hou**”) and Mr. Li Liqiang (李利強), an Independent Third Party, as to 60% and 40%, respectively. It is primarily engaged in import and export of graphite electrodes, needle coke, anode coke, pitch and steel related products. In October 2009, Henan Sanli and Sihai jointly established Henan Kefeng which owned the PRC Factory. In September 2013, after Sangraf US was set up to engage in global business, Ms. Hou sold all her 60% equity interest in Sihai to Mr. Zhao Heming (趙合明) (“**Mr. Zhao**”), an Independent Third Party and a former employee of Henan Sanli who left Henan Sanli in July 2010 at his own accord with his last position as a sales manager, for a consideration of RMB24 million. According to Mr. Zhao, such consideration was determined based on the then registered share capital of Sihai and was settled by Mr. Zhao by a RMB24 million loan which he obtained from an Independent Third Party, through his own business connection with them, which was guaranteed by Henan Kefeng with the support of his business partners in Henan Kefeng even though at that time Mr. Zhao had minority beneficial interest in Henan Kefeng. Mr. Zhao considered Sihai was doing well in its trading business with established supply and sales network in graphite electrode and coke business and viewed this acquisition as an investment opportunity to further support the export business of Henan Kefeng. Sihai's total asset and total sales revenue at the time were approximately RMB115 million and over RMB100 million, respectively. Since then, Sihai remained to be owned by Independent Third Parties up to the Latest Practicable Date. To the best knowledge and information of Mr. Hou, Sihai was not loss-making prior to the disposal by Ms. Hou. At the time of disposal of Sihai by Ms. Hou, our Group was primarily engaged in trading business in North America and had no intention to acquire another trading entity. Thus, the 60% equity interest in Sihai was sold by Ms. Hou to Mr. Zhao eventually.

Having considered the premium products manufactured by the advanced technology and equipment possessed by the PRC Factory, which Sangraf US considered to be able to satisfy the needs of its international customers, after the PRC Factory officially commenced full operation in 2014, we endeavoured to source graphite electrodes manufactured at the PRC Factory. Given that (i) Henan Kefeng was by then controlled and managed by Independent Third Parties, and (ii) Sihai has been our business partner, and had the resources to source graphite electrodes manufactured at the PRC Factory, we started our business relationship with Sihai by sourcing graphite electrodes manufactured at the PRC Factory since 2014. Sihai was one of our top five suppliers for the financial year ended 31 December 2017. For further details, please refer to the section headed “Business — Our Suppliers — Our top suppliers” in this prospectus. Our Directors have confirmed that our business transactions with Sihai during the Track Record Period were on arm's length basis.

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Henan Kefeng

Henan Kefeng was established in the PRC in October 2009 jointly by Henan Sanli and Sihai as to 90% and 10% respectively, with an aim to construct the PRC Factory in order to tap into the production and sale of premium graphite electrodes. Given that Henan Kefeng required working capital to commence production at the PRC Factory, in June 2012, Ms. Hou invested RMB40 million into the capital of Henan Kefeng, resulting from which Henan Kefeng was owned as to 54%, 40% and 6% by Henan Sanli, Ms. Hou and Sihai, respectively. As mentioned in the paragraph headed “Henan Sanli” above, in order to raise funds, Henan Sanli had to dispose of its 54% equity interest in Henan Kefeng in September 2012 to Henan Haolong Carbon Co., Ltd.* (河南昊隆炭素有限公司) (“**Haolong Carbon**”) for a consideration of RMB54 million. Henan Kefeng had just completed the construction of the PRC Factory and was in trial production stage at the time of Henan Sanli’s disposal and such consideration was determined based on the then registered share capital of Henan Kefeng. Haolong Carbon was established in the PRC in January 2010 by Mr. Hou with a view to replacing Henan Huixian Carbon Factory as the controlling shareholder of Henan Sanli. Without such plan being materialised, in September 2012 before Henan Sanli disposed of Henan Kefeng’s equity interest, the entire equity interest in Haolong Carbon, which was just a holding company without any business operations, was transferred to Mr. Niu Ping (牛萍) (“**Mr. Niu**”) and Mr. Zhao as to 80% and 20%, respectively, based on the mutual agreement between Mr. Niu and Mr. Zhao that they would use Haolong Carbon as the vehicle to acquire 54% equity interest in Henan Kefeng. The considerations for such transfer to Mr. Niu and Mr. Zhao were RMB8 million and RMB2 million, respectively, which were determined based on the then registered capital of Haolong Carbon, and according to Mr. Niu and Mr. Zhao, they settled the considerations using their own capital. Mr. Niu joined Henan Sanli in 1992 and was responsible for productions and operations. He was a director of Henan Sanli between July 2010 and June 2013, and from January 2014 to September 2020, including the time of such acquisition. Both Mr. Niu and Mr. Zhao had over 20 years of experience in the carbon electrode industry. Leveraging on Mr. Niu’s experience in production and operations and Mr. Zhao’s sales network built during the times he worked as a sales manager in Henan Sanli, they intended to establish their own business and thus they decided to invest in Henan Kefeng through Haolong Carbon. As disclosed above, the total consideration for acquiring 54% equity interest in Henan Kefeng from Henan Sanli was RMB54 million. According to Mr. Niu and Mr. Zhao, such consideration was settled by (i) a loan of RMB36 million from an Independent Third Party with Haolong Carbon as borrower, which was secured by a pledge over the shares of Haolong Carbon and its shares in Henan Kefeng; (ii) a shareholder’s loan of RMB12 million from Mr. Niu, which he borrowed from his relatives engaged in food manufacturing business and friends; and (iii) a loan of RMB6 million from Mr. Zhao which was borrowed from his relatives and friends and business capital from his graphite business, from 2010 to 2012. Mr. Hou has confirmed that, other than Mr. Niu being an employee and a director of Henan Sanli and Mr. Zhao being a former employee of Henan Sanli at the time of their acquisition of Henan Kefeng, there was no other relationship between Mr. Hou or his family members or their respective associates and Mr. Niu or Mr. Zhao and that save for Mr. Niu and Mr. Zhao’s involvement in Haolong Carbon and Henan Kefeng, and Mr. Zhao’s involvement in Sihai, neither Mr. Niu, Mr. Zhao nor any companies controlled or managed by Mr. Niu or Mr. Zhao, had any past and/or present relationship (business, employment, family, financing or otherwise) with our Group, our shareholders, Directors and senior management, and their respective associates. Neither did Mr. Hou or his family members have any control over the source of funding of Mr. Niu and Mr. Zhao in relation to the acquisition of Henan Kefeng and/or Sihai.

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In August 2013, Ms. Hou disposed of all her 40% interest in Henan Kefeng to Ms. Xu Zhijuan (徐志娟), an Independent Third Party who, to the best knowledge and information of Mr. Hou, was engaged in equity investment business and was introduced to Ms. Hou by a business partner who was a senior management of an investment guarantee company in Zhengzhou, Henan Province, the PRC, for a consideration of RMB40 million. To the best knowledge and information of Mr. Hou and Ms. Hou, Ms. Xu Zhijuan was a deputy general manager of Henan Bairui Liding Investment Co., Ltd.* (河南百瑞力鼎投資有限公司) and engaged in private equity investment and fund management. To the best knowledge and information of our Directors, Ms. Xu Zhijuan did not have any past and/or present relationship (business, employment, family, financing or otherwise) with our Group, our shareholders, Directors and senior management, and their respective associates. Henan Kefeng was loss-making at the time of Ms. Hou's disposal and such consideration was determined based on the then registered share capital of Henan Kefeng.

In around September 2013, China Investment New Asia Pacific China Economic (Beijing) Investment Management Co., Ltd.* (中投資新亞太中經(北京)投資管理有限公司) (“**China Investment**”), a private equity company which had a portfolio of approximately RMB8 billion at that time, approached Henan Kefeng through an introduction by a friend of a senior management of China Investment and expressed their interest in investing in graphite electrode companies. To the best knowledge and information of our Directors, China Investment was owned by 11 individual investors, namely (i) Liu Bo (劉博) as to 15%; (ii) Yang Xiurong (楊秀榮) as to 15%; (iii) Lin Yu (林瑜) as to 15%; (iv) Li Xian (李暎) as to 15%; (v) Zhao Guanjun (趙冠軍) as to 10%; (vi) Chang Bao (常寶) as to 10%; (vii) Guo Xiangzhi (郭香芝) as to 7.5%; (viii) Feng Tao (馮濤) as to 5%; (ix) Ma Xiang (馬翔) as to 2.5%; (x) Du Guangcai (杜廣才) as to 2.5%; and (xi) Zhao Zhengling (趙正玲) as to 2.5%. To the best knowledge and information of our Directors, none of the aforementioned individuals had any past and/or present relationship (business, employment, family, financing or otherwise) with our Group, our shareholders, Directors and senior management, and their respective associates. Having considered that (i) large amount of working capital was required for the operations and production of Henan Kefeng; and (ii) obtaining financing from banks for working capital was difficult at that time, Mr. Niu and Mr. Zhao agreed to sell their interests in Henan Kefeng to China Investment. In December 2013, Haolong Carbon disposed of its 54% equity interest and Sihai disposed of its 6% equity interest in Henan Kefeng to China Investment for a consideration of RMB54 million and RMB6 million, respectively. Such considerations were determined based on the then registered share capital of Henan Kefeng. Henan Kefeng became and remained to be owned as to 100% by Independent Third Parties since then and up to the Latest Practicable Date.

The PRC Factory and its associated land and equipment were seized by the PRC courts in January 2015, August 2014 and March 2019 respectively, further details of which were set out in the next paragraph below. Thus, at the time of the acquisition by Ms. Xu Zhijuan and China Investment in August and September 2013, Henan Kefeng was still under normal operations and there was no indications that the assets of Henan Kefeng might be seized in the future. At the time of their acquisitions, the PRC Factory was at trial production stage and Henan Kefeng recorded loss at such early stage of operations as it took time to stabilize its production and product quality. Eyeing on the high standard of equipment and technology of the PRC Factory and the potential growth of Henan Kefeng in the graphite electrode industry, upon arm's length negotiation, Ms. Xu Zhijuan and China Investment agreed to acquire 40% and in aggregate 60% of the equity interests in Henan Kefeng based

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on its then registered share capital. At the time of the aforementioned disposals, our Group's business focus was trading business, thus, our Group did not have the intention to acquire Henan Kefeng and such interest was sold to the relevant Independent Third Parties eventually.

To the best knowledge and information of Mr. Hou, a Mr. Feng Dongxun (馮東勳) who was an Independent Third Party initiated a legal proceedings against Henan Kefeng in 2014 for a loan borrowed by Henan Kefeng from Mr. Feng in June 2014, which was after Ms. Xu Zhijuan and China Investment acquired 40% and 60% of equity interests in Henan Kefeng, and due to Henan Kefeng's inability to repay such loan, the PRC court handed down an execution order to seize the land of Henan Kefeng in August 2014. Subsequently, the PRC Factory was seized by another execution order of the PRC court in January 2015 due to the legal proceedings initiated by Bank of China which obtained a judgment against, among others, Henan Sanli as principal borrower and Henan Kefeng as guarantor. Such loans in the amount of RMB33 million were initially drawn down by Henan Sanli in July 2013 which was guaranteed by Henan Kefeng and the land and buildings of the Sanli Factory were pledged. According to Henan Kefeng, Ms. Xu Zhijuan and China Investment were made aware of the guarantee obligation of Henan Kefeng in respect to Henan Sanli's loan from the Bank of China in July 2013 before the acquisition. In March 2019, the associated equipment of the PRC Factory was also seized by an execution order of the PRC court due to Henan Kefeng's inability to repay its own financing facility. The seizure of the PRC Factory and its associated land and equipment did not affect the PRC Factory lease. In June 2020, the PRC court ordered the Judicial Auction to auction, among others, the PRC Factory and its associated land and equipment and our Group has participated in such auction to acquire those seized assets. For details, please refer to the section headed "History, Reorganisation and Group Structure — Introduction" in this prospectus.

Sanli Group

Sanli Group was established in the PRC in October 2012 by Henan Sanli, Ms. Hou and a brother-in-law of Mr. Hou (the "**Brother-in-law**")^(Note), as to 20%, 50% and 30%, respectively. Sanli Group was intended to be a holding company consolidating all graphite electrode-related businesses within Mr. Hou's family after restructuring. As a step to the proposed restructuring in December 2012, Henan Sanli disposed of all its 20% equity interest in Sanli Group to the Brother-in-law, following such transfer and a further capital injection, Sanli Group became held as to 70% and 30% by Ms. Hou and the Brother-in-law. Sanli Group also established Xinxiang Longhui in December 2012. For further details of Xinxiang Longhui, please see the paragraph headed "Xinxiang Longhui" below.

The proposed restructuring of Sanli Group did not materialise as planned and Sanli Group targeted to bring in new investors to operate the Sanli Factory. To this end, they brought in an individual investor namely Mr. Li Xuexian (李學憲), who is an Independent Third Party, to take up 30% equity interest in Sanli Group originally held by Ms. Hou while Ms. Hou disposed of her remaining equity interest in Sanli Group to the Brother-in-law in September 2013. To the best knowledge and information of Mr. Hou, Mr. Li Xuexian has been doing business in Huixian City, Henan Province, the PRC and came to know about the "Sanli" group, which was a well-known local carbon group in Huixian City. Knowing that Mr. Li Xuexian was a businessman and might have the capital and intention for investment, when

Note: This brother-in-law of Mr. Hou is not a senior management member of our Group and is not the same brother-in-law of Mr. Hou holding equity interest in Henan Sanli as mentioned on the paragraph headed "Henan Sanli" below.

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Sanli Group intended to look for external investors, the Brother-in-law approached Mr. Li Xuexian. Due to the historical achievements of the “Sanli” group, Mr. Li Xuexian was confident in its future development and growth and therefore decided to invest in Sanli Group.

After (i) Sanli Group leasing the Sanli Factory from Henan Sanli; and (ii) Sanli Group acquiring the Sanli Equipment from a finance lease company, in October 2014, another investor namely Beijing Shoukong Huaxia Investment Centre (Limited Partnership)* (北京首控華夏投資中心(有限合伙)) (“**Beijing Shoukong**”), which was an independent partnership enterprise established in the PRC, invested in Sanli Group and had become a majority shareholder of Sanli Group holding 60% equity interest upon completion of such investment. Beijing Shoukong was an investment management institution primarily engaging in industrial investment, mergers and acquisitions and industry integration. Mr. Yan, one of our executive Directors who joined us in March 2018, was a limited partner holding 49.5% partnership interest in Beijing Shoukong at the time of its investment in Sanli Group. Mr. Yan was the chairman of Shoukong Fund Management Co., Ltd. (首控基金管理有限公司), the general partner of Beijing Shoukong, but was not the designated manager of the general partner, therefore he had no authority to participate or no involvement in the operation and investment decision of Beijing Shoukong. In anticipation of the proposed Listing and having considered Mr. Yan’s experience in listed companies, Mr. Hou invited Mr. Yan to join our Group in March 2018 to oversee matters relating to corporate finance, mergers and acquisitions and bank financing of our Group. For details of Mr. Yan’s biographical background, please refer to the section headed “Directors and Senior Management” in this prospectus. After Henan Sanli ceased operations, the government of Huixian City, Henan Province, the PRC endeavored to help Henan Sanli overcome its financial crisis by looking for external investors and eventually introduced Beijing Shoukong in 2014 to invest in Sanli Group. Under the control and management of Beijing Shoukong, Sanli Group established Sanli New Materials in August 2016. For details on Sanli New Materials, see the sub-section below headed “Sanli New Materials”.

According to Frost & Sullivan and as mentioned above, the graphite electrode industry was facing a downturn before 2017, causing a number of graphite electrode factories around the globe to shut down. The partnership enterprise divested from and ceased to be a shareholder of Sanli Group in October 2017 and the Brother-in-law became a majority Shareholder of Sanli Group holding 79.2% equity interest. Sanli Group ceased to have any production since then. The baking furnace system part of the Sanli Factory was leased to Xinxiang Longhui in March 2018 and the remaining facilities in the Sanli Factory was leased to the Downstream Customer in December 2018. For further details on the Sanli Factory lease, see the subsection “Xinxiang Longhui — i. Sanli Factory (baking furnace system)” below and the sub-section “Business — Overlapping supplier and customer — (a) The Downstream Customer” in this prospectus.

The Sanli Equipment had been pledged by Sanli Group to banks in January 2015 to obtain funding for purchasing raw materials as part of its normal course of operations. To the best knowledge and information of Mr. Hou, Henan Huixian Rural Commercial Bank Co., Ltd. initiated legal proceedings against, among others, Sanli Group in 2018 in relation to a loan agreement and due to Sanli Group’s inability to repay the principal amount and the related interests borrowed from Henan Huixian Rural Commercial Bank Co., Ltd., the PRC court handed down an execution order to seize the Sanli Equipment in March 2019. As confirmed by our PRC Legal Advisers, according to the final conclusion rulings issued by the relevant local PRC court, the Sanli Equipment was also included in the Judicial Auction.

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Xinxiang Longhui

As mentioned above, Xinxiang Longhui was established in the PRC in December 2012 by Sanli Group as a potential investment holding company with no business operations. In March 2018, the entire equity interest in Xinxiang Longhui was acquired by Beijing Zhongda Renchang Technology Co., Ltd.* (北京中大仁昌科技有限公司) (“**Zhongda Renchang**”), a PRC company then wholly-owned by Mr. Qi Shilei (戚世雷) and currently by Mr. Chen Jian (陳健), both of whom are Independent Third Parties, for a consideration of RMB0.5 million. To the best knowledge and information of our Directors, Zhongda Renchang was a family business and Mr. Chen Jian is a cousin of Mr. Qi Shilei. The change in ultimate ownership of Zhongda Renchang from Mr. Qi Shilei to Mr. Chen Jian on 17 August 2020 was due to their internal family arrangement. Neither Mr. Qi Shilei nor Mr. Chen Jian has any past or present relationships (business, employment, family, financing or otherwise) with our Group, our shareholders, Directors and senior management, and their respective associates. As confirmed by our Directors upon enquiry, none of the suppliers and customers of Zhongda Renchang were/are suppliers and/or customers of our Group.

Prior to its acquisition of Xinxiang Longhui, Zhongda Renchang was mainly engaged in the rubber and steel trading business with a number of steel plants in the PRC, and did not engage in the graphite electrode business. In order to capture the significant growth in the graphite electrode industry and the increasing price trend of graphite electrodes in 2017, Zhongda Renchang approached Sanli Group through a business referral within the industry. As Xinxiang Longhui could use the existing environmental permit of Sanli Group to conduct the manufacturing business (which permit was recognized by Huixian City Administration for Industry and Commerce), Zhongda Renchang acquired Xinxiang Longhui instead of setting up a new operating company because this was a faster way for Zhongda Renchang to commence manufacturing in an upward market.

Upon completion of the acquisition, Xinxiang Longhui established production capability through leasing (i) part of the Sanli Factory (i.e. the baking furnace system) from Sanli Group in March 2018; and (ii) part of the PRC Factory from Henan Kefeng in July 2018.

i. Sanli Factory (baking furnace system)

Xinxiang Longhui first began to lease the baking furnace system (being part of the Sanli Factory) from Sanli Group in March 2018 to build up its manufacturing business and capture business opportunities by reigniting the idle capacity in the Sanli Factory. The Sanli Factory was also closely situated to the PRC Factory. However, Xinxiang Longhui did not lease the extrusion facility at the Sanli Factory because the large extrusion facility in the PRC Factory was much more advanced than the Sanli Factory’s extrusion facility in various respects such as: (i) year of construction; (ii) technology used; (iii) range and type of key product manufactured; (iv) manufacturing capacity; (v) operational condition; and (vi) location. The lease was terminated in September 2020 following the Judicial Auction. Other than the baking furnace system in the Sanli Factory, all the remaining facilities such as screening, milling and mixing, extrusion, impregnation, machining and graphitisation processes were idle at the time and needed time and investment to restart operations, and they were subsequently leased to the Downstream Customer since December 2018.

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ii. PRC Factory

Xinxiang Longhui leased part of the PRC Factory from Henan Kefeng in July 2018 with open term. Xinxiang Longhui's investment in the PRC Factory include the lease as well as the construction of the Extrusion Facilities since March 2018 to enhance its production capacity (together, the "**Investment**"). The production facilities for extrusion process of graphite electrodes include four parts, for screening, milling and mixing, and extrusion, respectively. The extrusion part was already installed by Henan Kefeng and was leased by Xinxiang Longhui. Xinxiang Longhui installed the Extrusion Facilities, namely: (i) screening, milling, and mixing parts that consisted of 237 machines and the supporting pipelines and silos, which were connected to the machinery to enable production to commence; and (ii) the nine floors of the industrial building which were designed specifically to fit the machinery layout (collectively, the "**Extrusion Facilities**"). Once the extrusion facilities are set up, the removal or relocation of the machinery-pipeline structure would be costly and a new building would need to be built accordingly.

Background of Xinxiang Longhui's Investment and our Group's rationale for acquiring the Extrusion Facilities

(a) Background of the Investment

Our Group became aware of the background of Xinxiang Longhui's investment through our subsidiary Sangraf Energy, which had contact with Henan Kefeng, an Independent Third Party, at the time.

To the best knowledge and information of our Directors, the commercial rationale for Xinxiang Longhui's Investment was:

- i. The market for graphite electrodes surged rapidly in the first half of 2017 and continued to surge in early 2018, showing significant business potential;
- ii. Xinxiang Longhui learned that Henan Kefeng had already obtained a governmental approval for a graphite electrode project with an annual output of 60,000 tons, and the approval of the environmental impact assessment report, which normally could take up to one year to obtain from the date of application; and
- iii. Xinxiang Longhui planned to undertake a UHP graphite electrode project on Henan Kefeng's land jointly with an Independent Third Party enterprise principally engaged in the business of baking and impregnation of carbon products and sales of metal products (the "**Joint Development Project**"), which will eventually include all the facilities of the production process. In order to fully realize the Joint Development Project, Xinxiang Longhui planned to contribute to the Extrusion Facilities, while the Independent Third Party enterprise would contribute re-baking and impregnation facilities.

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Henan Kefeng acted as the overall coordinator of the Joint Development Project to promote the development of a full production chain within an ecosystem of graphite electrode manufacturing industry on its land in the industrial park. As each of Xinxiang Longhui and the Independent Third Party was communicating with Henan Kefeng as a potential tenant under a normal industrial park business model, no cooperation agreement was signed between Xinxiang Longhui and the Independent Third Party. However, shortly after the Investment, the Independent Third Party enterprise found alternative development opportunities in Shanxi Province, on the basis that the cost of natural gas was cheaper in Shanxi Province than in Henan Province and decided not to proceed with the Joint Development Project. Xinxiang Longhui was unable to complete the Joint Development Project on its own. In addition, Xinxiang Longhui experienced technical challenges in managing the graphite electrode production process, resulting in its operating costs being significantly higher than it anticipated.

To the best knowledge and belief of our Directors while the business synergy in the Joint Development Project was a key factor for Xinxiang Longhui to participate in the Joint Development Project and to lease the industrial park and the PRC Factory, the main reasons upon which Xinxiang Longhui decided to enter the graphite electrode industry were: (i) the demand for graphite electrodes in the PRC significantly outweighed supply during 2017 to 2018, and Zhongda Renchang decided to enter the industry (via Xinxiang Longhui) to capture the significant industry growth; (ii) the construction of the Extrusion Facilities was complementary to the core business of Xinxiang Longhui and the investment value of the Extrusion Facilities could be substantiated with or without the other production facilities in the proximity; and (iii) similar to what our Group has done in respect of the PRC Factory, Xinxiang Longhui could have continued to operate on the land leased from Henan Kefeng, and worked with or outsourced to other companies with rebaking and impregnation capabilities, which is common practice for graphite electrode manufacturers, in order to optimise cost structure, or to meet product demands and production schedule.

(b) Our Group's rationale for acquiring the Extrusion Facilities

Our Group was seeking vertical expansion at the time and saw an opportunity to acquire the Extrusion Facilities from Xinxiang Longhui in October 2018, as such an acquisition would create synergies with our Group's Italian Factory (which consists of extrusion, baking, impregnation, rebake, graphitisation and machining processes) and would be beneficial to our Group's long-term growth. Our Group was also confident that, with our industry know-how, we can operate the PRC Factory (which consists of two extrusions processes, baking and machining processes) and the Extrusion Facilities more efficiently, and therefore negotiated with Xinxiang Longhui to purchase the Extrusion Facilities. Following an arm's length commercial negotiation, and in order to entice Xinxiang Longhui to sell at that time when the sector was still performing well, we acquired the Extrusion Facilities in December 2018 at the consideration of RMB77.9 million which included a premium of RMB11.6 million over the independent valuation of the Extrusion Facilities. Our Group also agreed to give priority to fulfill Xinxiang Longhui's orders at prevailing market terms. As a result, Xinxiang Longhui became a key customer of our Group and contributed to our business development in the PRC market.

Against the backdrop of surging market demand for graphite electrodes at the time, our Group considered acquiring the Extrusion Facilities from Xinxiang Longhui would be far better than building such facilities from scratch, as constructing an extrusion facility would require various PRC government approvals, including the government project approval and environmental impact assessment approval, and such approvals could take several months to obtain.

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Solely due to the acquisition of the Extrusion Facilities, Xinxiang Longhui was accounted for as one of our top five suppliers in FY2018, and a supplier of us in FY2019. Xinxiang Longhui subcontracted certain outstanding production processes to us and also purchased finished graphite electrodes from us and became one of our top five customers in 1H2020. For details, please refer to the section headed “Business — Our Suppliers — Overlapping supplier and customer” in this prospectus. Xinxiang Longhui terminated the lease of part of the PRC Factory with Henan Kefeng in December 2018 and our Group subsequently leased the whole PRC Factory in the same month. Afterwards, Xinxiang Longhui continued to operate the Baking facilities in the Sanli Factory and remained as a customer of our Group.

Sanli New Materials

Sanli New Materials was established in the PRC in August 2016 and held by Mr. Wang Yanjing (王艷晶), an Independent Third Party, as to 98% and by Sanli Group as to 2% and is primarily engaged in trading of graphite products in the PRC using the brand of “SANLI”. To the best knowledge and information of Mr. Hou, Mr. Wang Yanjing was primarily engaged in the sales of graphite products in Huixian City, Henan Province, the PRC and was thus acquainted with the senior management of Sanli Group. Mr. Wang Yanjing intended to expand his business and having considered that Sanli Group was a well-known local carbon company, he invited Sanli Group to jointly establish a new company. Given that Sanli Group has ceased to have any production since October 2017, in September 2018, Sanli Group disposed of all its 2% equity interest in Sanli New Materials to Mr. Wang Yanjing for a consideration of RMB20,000 which was determined based on the then registered share capital of Sanli New Materials. At the time of the disposal by Sanli Group, Sanli New Materials was not loss-making. Sanli New Materials remained to be owned by such shareholder since then and up to the Latest Practicable Date. Since its establishment, Sanli New Materials has been operated and managed by Mr. Wang Yanjing, an Independent Third Party. Sanli Group held a minority interest of 2% and had no active involvement. It was not our Group’s intention or in the commercial interest for our Group to invest in Sanli New Materials and thus Sanli Group disposed of its minority interest to Mr. Wang Yanjing.

Sanli New Materials has been a customer of Sangraf Energy since January 2018. After our acquisition of Sangraf Energy in October 2018, our Group can tap into their customer base to expand our sales network. Meanwhile, our production capability can also provide a stable supply of quality graphite electrodes to Sanli New Materials. As such, with an aim to strengthen our business corporation with Sanli New Materials, we established a strategic partnership with them and they became our distributor in December 2018, and was one of our top five customers in FY2019. For details on the distribution agreement between Sanli New Materials and our Group, please refer to the sections headed “Business — Our Customers — Our top five customers”, “Business — Our Customers — Industry traders and distributor” and “Business — Our Customers — Distributorship” in this prospectus.

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Chronology of Events

Set out below is a chronology showing the major events amongst our Group, Mr. Hou and entities historically related to Mr. Hou and/or his family members.

- 2006 Mr. Hou inherited Henan Huixian Carbon Factory, which held 70% equity interest of Henan Sanli
- 2007 Sihai was established by Ms. Hou and Mr. Li Liqiang (李利強), an Independent Third Party
- 2009 Henan Kefeng was established by Henan Sanli and Sihai
- 2012 Sangraf US was established by Henan Sanli in February
- Henan Sanli disposed of its 54% equity interest to Henan Haolong Carbon Co., Ltd.* (河南昊隆炭素有限公司) (“**Haolong Carbon**”) in Henan Kefeng in September
- Sanli Group was established by Henan Sanli, Ms. Hou and a brother-in-law of Mr. Hou in October
- Xinxiang Longhui was established by Sanli Group in December
- 2013 Ms. Hou disposed of all her 40% equity interest in Henan Kefeng to Ms. Xu Zhijuan (徐志娟), an Independent Third Party, in August, and Henan Kefeng has been owned by Independent Third Parties since then
- Ms. Hou disposed of all her 60% equity interest in Sihai to Mr. Zhao Heming (趙合明), an Independent Third Party in September and Sihai has been owned by Independent Third Parties since then
- Sanli Group acquired the Sanli Equipment from a finance lease company in October and leased the Sanli Factory from Henan Sanli in December
- Henan Sanli ceased operations in November
- Haolong Carbon disposed of its 54% interest and Sihai disposed of its 6% interest in Henan Kefeng to China Investment New Asia Pacific China Economic (Beijing) Investment Management Co., Ltd.* (中投資新亞太中經(北京)投資管理有限公司) in December
- 2014 Our Group started business relationship with Sihai by sourcing graphite electrodes manufactured at the PRC Factory
- 2016 Mr. Hou acquired Sangraf US in August
- Sanli New Materials was established by Mr. Wang Yanjing (王艷晶), an Independent Third Party, and Sanli Group in August

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- 2018 Sanli Group disposed of the entire equity interest in Xinxiang Longhui to Beijing Zhongda Renchang Technology Co., Ltd.* (北京中大仁昌科技有限公司) (“**Zhongda Renchang**”), an Independent Third Party, in March and Xinxiang Longhui has been owned by Zhongda Renchang since then
- Sanli Group disposed of its 2% equity interest in Sanli New Materials to Mr. Wang Yanjing (王艷晶), an Independent Third Party, in September and Sanli New Materials has been owned by Mr. Wang Yanjing since then
- Our Group acquired the Extrusion Facilities from Xinxiang Longhui in December and started business relationship with Xinxiang Longhui
- 2020 Our Group participated in the Judicial Auction in June to acquire the Sanli Assets and the PRC Factory and its associated land and equipment
- Henan Huixian Carbon Factory disposed of all its 70% equity interest in Henan Sanli to Henan Shunhui Real Estate Marketing Planning Co., Ltd.* (河南順輝房地產營銷策劃有限公司), an Independent Third Party, in September

CORPORATE GOVERNANCE

Our Company will adopt the following measures to avoid any conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) in the event that there is a material potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum except permitted under the Articles and/or the Listing Rules;
- (b) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;
- (c) each of our Controlling Shareholders has undertaken to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the undertaking under the Deed of Non-competition;
- (d) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of our Controlling Shareholders under the Deed of Non-competition in the annual reports of our Company;
- (e) each of our Controlling Shareholders will make annual declarations on compliance with their undertaking under the Deed of Non-competition in the annual report of our Company;
- (f) we have appointed Yue Xiu Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (g) pursuant to the Corporate Governance Code in Appendix 14 to the Listing Rules, which our Company has adopted as its corporate governance code, our Directors will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's cost.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group, and to protect the interests of our Shareholders.

Mr. Hou has confirmed that throughout the Track Record Period (other than in the case of Xinxiang Longhui from March 2018) and up to and including 1 August 2022: (i) each of Xinxiang Longhui, Sihai, Sanli New Materials and Henan Kefeng (together, the “**Relevant Entities**”) is and has been an Independent Third Party; (ii) he did not and does not have any direct or indirect interest in any of the Relevant Entities whether beneficially or otherwise, since the respective date of disposal by himself and the relevant family members; (iii) the trade transactions between our Group and the Relevant Entities conducted during the Track Record Period, such as trading of finished and semi-finished graphite electrodes and subcontracting services, were conducted on arm's length basis, on normal commercial terms and in the interest of our Shareholders; (iv) the financial performance of our Group during the Track Record Period was not distorted by the trade transactions set out in (iii) above; and (v) he did not and does not have any influence or control over the board or management of any of the Relevant Entities, since the respective date of disposal by himself and the relevant family members.

Fully-exempt Continuing Connected Transaction

Pursuant to an employment contract dated 31 March 2022, salaries were and will be paid to Ms. Shao Mei, the spouse of Mr. Hou, our executive Director and Controlling Shareholder, for services as an office administration manager of Gosource Capital Limited, a subsidiary of our Company. The transaction was entered into in the ordinary and usual course of business of our Group and on normal commercial terms or better, and our Directors confirm that each of the applicable percentage ratios under the Listing Rules in respect of the transaction is expected to be, on an annual basis, less than 0.1%. Therefore, the transaction will be fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. If the annual transaction amount or applicable percentage ratios under the Listing Rules is expected to exceed the applicable de minimis thresholds stipulated in Rule 14A.76(1) of the Listing Rules, we will comply with all applicable requirements under Chapter 14A of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

OUR DIRECTORS AND SENIOR MANAGEMENT

Our Board currently consists of nine Directors, comprising four executive Directors, one non-executive Director and four independent non-executive Directors. The table below sets out information regarding our Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities	Relationship with other Director(s) and the senior management
Dr. Wei-Ming Shen	69	Executive Director, chairman of our Board, chairman of our nomination committee and chief executive officer	October 2016	15 January 2020	Overall management of business growth and improvement across various profitability metrics	None
Mr. Adriaan Johannes Basson	67	Executive Director and electrodes sales and technical service director	November 2014	15 January 2020	Providing strategic recommendations to optimise processes and costs in manufacturing, maintenance and operations	None
Mr. Yan Haiting (閻海亭)	60	Executive Director	March 2018	15 January 2020	Overseeing matters relating to corporate finance, mergers and acquisitions and bank financing	None
Mr. Hou Haolong (侯皓龍)	44	Executive Director	February 2012	March 2021	Overseeing matters relating to business infrastructure development, product innovation and business strategy	Brother-in-law of Mr. Feng Jianguo
Mr. Wang Ping (王平)	52	Non-executive Director	August 2019	8 October 2019	Providing advice on business strategy development and financial planning	None
Mr. Cheng Tai Kwan Sunny (鄭大鈞)	50	Independent non-executive Director and chairman of our audit committee	19 December 2022	19 December 2022	Providing independent opinion and judgment to our Board	None
Mr. Sun Qing (孫慶)	75	Independent non-executive Director and chairman of our remuneration committee	19 December 2022	19 December 2022	Providing independent opinion and judgment to our Board	None
Mr. Ngai Ming Tak Michael (魏明德)	55	Independent non-executive Director and chairman of our ESG committee	19 December 2022	19 December 2022	Providing independent opinion and judgment to our Board	None
Ms. Chan Chore Man Germaine (陳楚雯)	43	Independent non-executive Director	19 December 2022	19 December 2022	Providing independent opinion and judgment to our Board	None

DIRECTORS AND SENIOR MANAGEMENT

Other than our Directors, our senior management team consists of two members, who, together with our executive Directors, are responsible for the day-to-day management and operation of our Group. The table below sets out information regarding our senior management:

Name	Age	Position	Date of joining our Group	Date of appointment as senior management	Roles and responsibilities	Relationship with other Director(s) and the senior management
Mr. Feng Jianguo (馮建國)	56	Chief technology officer	March 2016	April 2020	Overseeing project implementation and providing technical support	Brother-in-law of Mr. Hou Haolong
Mr. Luiz A. Freitas	72	Executive vice president of operations	April 2019	April 2019	Optimising manufacturing plants in Italy and in the PRC, overseeing quality management and supply chain activities	None

BOARD OF DIRECTORS

Executive Directors

Dr. Wei-Ming Shen (“**Dr. Shen**”), aged 69, joined our Group in October 2016. He was appointed as a Director in January 2020 and was re-designated as an executive Director on 11 June 2020. He is also (i) the chairman of our Board; (ii) the chairman of our nomination committee; (iii) the chief executive officer of our Company and Sangraf US; and (iv) a director of Sanergy Group (HK), Sangraf US and Sangraf Italy. Dr. Shen is primarily responsible for the overall management of business growth and improvement across various profitability metrics of our Group.

Dr. Shen has over 38 years of experience in graphite technology, production, sales and business management. Prior to joining our Group, from July 1982 to January 2009, Dr. Shen worked at GrafTech International Holdings Inc, a company primarily engaged in the manufacturing of carbon and graphite products, with his last position as a business team member of the Engineering Solutions (“**ES**”) division and the director of applications engineering in the ES division. From 2009 to 2014, Dr. Shen was the chief operating officer of Oregon Material Technology Group, a company primarily engaged in the graphite and silicon applications for PV industry. From May 2014 to May 2018, Dr. Shen served as an independent director of Sinosteel Advanced Materials (Zhejiang) Co., Ltd., a company primarily engaged in the manufacturing and sale of specialty graphite. He has been the president of C & Si Solutions, Inc., a company providing industry and management consultancy services, since May 2013.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Shen was a director of Tang Optoelectronics Equipment (Shanghai) Corporation, Ltd., a company listed on the NEEQ (stock code: 831504) from May 2015 to June 2016.

Dr. Shen received a doctor of philosophy degree majoring in chemical engineering from the University of Wisconsin-Madison, the United States in May 1982. He also completed the Stanford Executive Program at the Graduate School of Business of Stanford University, the United States in 2005.

Dr. Shen has not been a director of any listed company in the last three years immediately preceding the Latest Practicable Date.

Mr. Adriaan Johannes Basson (“**Mr. Basson**”), aged 67, joined our Group in November 2014. He was appointed as a Director in January 2020 and was re-designated as an executive Director on 11 June 2020. He is also a director of Sanergy Group (HK) and Sangraf International (PTY). Mr. Basson is primarily responsible for providing strategic recommendations to optimise processes and costs in manufacturing, maintenance and operations of our Group.

He has over 44 years of experience in the graphite electrode industry and in the manufacturing, maintenance and operation of graphite electrode manufacturing equipment. Prior to joining our Group, Mr. Basson was employed by GrafTech South Africa Proprietary Limited in Meyerton (“**GrafTech South Africa**”), a company primarily engaged in the manufacturing and supply of carbon and graphite products, from October 1974 to March 2014 with his last role as a customer technical service engineer. His major duties included maintenance and operation of all the graphite electrodes manufacturing process, design, construction and commissioning of necessary equipment to increase and maximise product manufacturing output, customising and optimising product application based on customers’ needs.

During his apprenticeship at GrafTech South Africa, Mr. Basson studied at the Vaal Triangle College for Advanced Technical Education, South Africa and obtained his national certificate for technicians (electrical) in May 1979. He became a member of The Chamber of Engineering Technology in April 1996. He was a registered engineering technician of the Engineering Council of South Africa in November 1984.

Mr. Basson has not been a director of any listed company in the last three years immediately preceding the Latest Practicable Date.

Mr. Yan Haiting (閔海亭) (“**Mr. Yan**”), aged 60, joined our Group in March 2018. He was appointed as a Director in January 2020 and was re-designated as an executive Director on 11 June 2020. He is also a director of Sanergy Group (HK), Sangraf Italy, Sanergy Asia, Gosource Capital, Sanergy Holding, Grafworld Macau, Sangraf Global, Sangraf International (HK), Sanergy Europe and Gosource Group. Mr. Yan is primarily responsible for overseeing matters relating to corporate finance, mergers and acquisitions and bank financing of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yan has extensive experience across both the banking and corporate finance sectors. Prior to joining our Group, Mr. Yan joined the Foreign Financial Institution Regulation Department of the People's Bank of China (“PBC”) in April 1996 responsible for the financial affairs of Hong Kong, Macau and Taiwan. During his employment with PBC, he was seconded to The Hongkong and Shanghai Banking Corporation in the United Kingdom to learn about the corporate finance and asset management business. From January 2004 to August 2006, Mr. Yan served as the Vice Head and Head of the International Department of PBC. From September 2006 to March 2010, he was the chief representative (counsellor) of PBC of Europe, responsible for the coordination and liaison with major economic systems in Europe, policy research and submitting proposals to PBC and the State Council of China regarding the formulation of and decisions in economic and financial policies. During April 2010 to March 2014, Mr. Yan worked as the vice chairman, director and chief executive officer of Agricultural Bank of China (UK) Limited, responsible for business and market operations.

From April 2014 to December 2014, Mr. Yan served as a non-executive director of China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited), a company listed on the Main Board (stock code: 1269) (“China First Capital”). From 1 January 2015, Mr. Yan was re-designated as an executive director of China First Capital until he resigned in February 2018. In January 2020, he was also appointed as a non-executive director of Chong Kin Group Holdings Limited, a company listed on the Main Board (stock code: 1609). He was redesignated as an independent non-executive director of Chong Kin Group Holdings Limited in January 2021 until June 2021.

Mr. Yan was a director of CHINA FIRST CAPITAL INTERNATIONAL GROUP CO., LIMITED (“China First Capital International”) which was incorporated in Hong Kong on 30 April 2014 and was primarily engaged in investment business. It was dissolved by deregistration on 8 March 2019 due to cessation of business. It is confirmed by Mr. Yan that, to the best of his knowledge and belief, China First Capital International was solvent at the time of its dissolution and that there was no fraudulent act or misfeasance on his part leading to the dissolution of China First Capital International and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of China First Capital International.

Mr. Yan graduated from Henan University, the PRC in July 1988 with a bachelor of arts degree in English. In June 2001, he graduated with a master degree in economics from Renmin University of China, the PRC.

Save as disclosed above, Mr. Yan has not been a director of any listed company in the last three years immediately preceding the Latest Practicable Date.

Mr. Hou Haolong (侯皓瀾) (“Mr. Hou”), aged 44, joined our Group in February 2012 and was appointed as an executive Director on 29 March 2021. Mr. Hou is also a director of Sangraf International SA and Sangraf US. He is the brother-in-law of Mr. Feng Jianguo, one of our senior management members. Mr. Hou was awarded the “PRC National May Day Medal* (中國全國五一勞動獎章)” in 2013 and has extensive experience in graphite electrode production technology. He is responsible for business infrastructure development, product innovation and business strategies of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, from January 2003 to January 2013, Mr. Hou worked in Henan Sanli with his last position as general manager and was responsible for project implementation, including the production of large diameter UHP graphite electrode for EAF steel making. In around 2012 and 2013, Henan Sanli was involved in certain cross guarantee incidents, leading it to have ceased operations in November 2013. For details, please refer to the section headed “Relationship with Controlling Shareholders — Entities historically related to Mr. Hou and/or his family members” in this prospectus. At the material time, Mr. Hou (i) personally guaranteed certain loans borrowed by Henan Sanli, Henan Kefeng or other companies then related to Henan Sanli; and (ii) borrowed a loan to support Henan Sanli’s working capital needs. Given the inability of Henan Sanli and such other companies to repay the loans in full, Mr. Hou was called upon in the capacity as guarantor to repay the defaulted loan liabilities in a total principal amount of approximately RMB509.1 million (the “**Defaulted Loan Liabilities**”). Notwithstanding Mr. Hou’s effort to work with banks to repay the outstanding bank loans owed by Henan Sanli, the amount repaid were not sufficient to discharge all outstanding liabilities of Mr. Hou and Henan Sanli, and eventually led to legal proceedings against them and some of which have caused Mr. Hou being named on the list of persons with negative credit records in the PRC (the “**List**”). Over the years, Mr. Hou has been using his best endeavor to fulfill his payment obligations either as a guarantor or borrower. As at the Latest Practicable Date, the relevant guarantee liabilities of Mr. Hou under the Defaulted Loan Liabilities have been resolved and there were no outstanding legal proceedings against Mr. Hou. Mr. Hou’s name has also been removed from the List. In order to resolve parts of the Defaulted Loan Liabilities, Mr. Hou has, through a company wholly-owned by him, negotiated with certain creditors to (i) acquire the rights to the relevant Defaulted Loan Liabilities at individually agreed prices; or (ii) discharge Mr. Hou’s guarantee liabilities under the relevant Defaulted Loan Liabilities, also at individually agreed prices. In addition, in relation to one case where Sanli Group was the principal debtor and Mr. Hou was the guarantor, a settlement agreement was entered into between the creditor, Sihai and Mr. Hou, pursuant to which Sihai agreed to repay the creditor under the agreement between Sihai and Sanli Group. Mr. Hou has confirmed that the Defaulted Loan Liabilities did not involve any fraud or dishonesty on his part and there were no benefits of any kind received by Henan Sanli or Mr. Hou for acting as a guarantor for those third parties enterprises. As advised by our PRC Legal Advisers, persons who are currently named on the List are prohibited from being a legal representative, director, supervisor or senior management of any enterprise in the PRC and Mr. Hou is no longer subject to the restriction of such List after his name was being removed from the List.

Mr. Hou graduated from Golden Gate University, the United States with a bachelor of science in technology management in December 2000. He subsequently graduated with a master of science in procurement and supply chain management from Golden Gate University, the United States in August 2002.

Mr. Hou has not been a director of any listed company in the three years immediately preceding the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mr. Wang Ping (王平) (“**Mr. Wang**”), aged 52, joined our Group in August 2019. He was appointed as a Director in October 2019 and re-designated as a non-executive Director on 11 June 2020. He is also a director of Sanergy Group (HK) and Sanergy Global. Mr. Wang is primarily responsible for providing advice on business strategy development and financial planning.

Mr. Wang has over 20 years of experience in corporate finance, audit and accounting and financial management. Prior to joining our Group, Mr. Wang worked as a senior accountant and was subsequently promoted to a manager for the audit department at Deloitte Touche Tohmatsu CPA Ltd, an international accounting firm from September 1999 to August 2002. From February 2004 to March 2007, Mr. Wang was employed by China Jishan Holdings Limited, a company listed on the main board of the Singapore Stock Exchange (stock code: J18), as its chief financial officer. From May 2007 to March 2010, Mr. Wang worked as the vice president of EV Capital Pte Ltd., a corporate finance advisory company engaging in corporate advisory services, and was responsible for providing advisory services in accounting and finance. From March 2012 to December 2015 and from March 2014 to December 2015, Mr. Wang served as the chief financial officer and executive director of China First Capital Group Limited (formerly known as China Vehicle Components Technology Holdings Limited), respectively, a company listed on the Main Board (stock code: 1269) and is engaged in production of automobile components, asset management services, financial credit services, securities, securities brokerage services and migration financial services, and Mr. Wang was responsible for financial management.

Mr. Wang is currently, or has been, a director of the following listed companies in the last three years immediately preceding the Latest Practicable Date:

Company name	Principal business activities	Position	Responsibility	Period
Chongyi Zhangyuan Tungsten Co., Ltd, a company listed on the Shenzhen Stock Exchange (SZSE: 002378)	Underground mining of wolfram ore	Non-executive director	Board monitoring	From May 2017 to June 2020
China Hanking Holdings Limited, a company listed on the Main Board (stock code: 3788)	Exploitation, mining and processing of mineral resources and marketing of mineral products	Independent non-executive director	Board monitoring and independent management	From February 2011 to present
China Tianrui Group Cement Company Limited, a company listed on the Main Board (stock code: 1252)	Manufacture and sale of cement and clinker	Independent non-executive director	Board monitoring and independent management	From December 2012 to present
Shenzhen Fuanna Bedding and Furnishing Co., Ltd, a company listed on the Shenzhen Stock Exchange (SZSE: 002327)	Production of home-textile products	Independent non-executive director	Board monitoring and independent management	From October 2021 to present
Jia Yao Holdings Limited (formerly known as Tourism International Holdings Limited), a company listed on the Main Board (stock code: 1626)	Design, printing and sales of paper cigarette packages and social product paper packages	Independent non-executive director	Board monitoring and independent management	From June 2014 to present

DIRECTORS AND SENIOR MANAGEMENT

Company name	Principal business activities	Position	Responsibility	Period
China Sinostar Group Company Limited (formerly known as Shihua Development Company Limited and Starlight International Holdings Limited) (“China Sinostar”), a company listed on the Main Board (stock code: 0485)	Design and sale of a wide range of electronic products, operation and management of a hydroelectric power station, property investment and securities trading	Independent non-executive director	Board monitoring and independent management	From July 2014 to May 2020
Shenzhen Zowee Technology Co., Limited, a company listed on the Shenzhen Stock Exchange (SZSE: 002369)	Research and development of telecommunication and electronic products	Independent non-executive director	Board monitoring and independent management	From July 2016 to April 2020
Yunnan Energy New Materials Co., Ltd. (formerly known as Yunnan Chuangxin New Material Co., Ltd), a company listed on the Shenzhen Stock Exchange (SZSE: 002812)	Manufacture, processing and sale of packaging box, printing materials, plastic film, laser transfer paper, gold and silver cardboard, liquid wrapping paper, electro aluminium, high grade wrapping paper, anti-counterfeit labels, wrapping machine, new energy materials	Independent non-executive director	Board monitoring and independent management	From April 2017 to April 2020

Mr. Wang was admitted as a member of the Chinese Institute of Certified Public Accountants in December 1996 and a non-practicing member of the Shanghai Institute of Certified Public Accountants in September 2002. Mr. Wang graduated from Nanjing University, the PRC majoring in economics and management in December 1993 and obtained a master’s degree in business administration from Sun Yat-Sen University, the PRC, in June 2004.

Save as disclosed above, Mr. Wang has not been a director of any listed company in the last three years immediately preceding the Latest Practicable Date.

Independent non-executive Directors

Mr. Cheng Tai Kwan Sunny (鄭大鈞) (“Mr. Cheng”), aged 50, was appointed as an independent non-executive Director on 19 December 2022. He is also the chairman of our audit committee. He is primarily responsible for providing independent advice to our Board.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheng has 11 years of experience in management, financial reporting and management accounting. In addition, he has prior experience working in areas such as manufacturing, procurement and export trading. Mr. Cheng has been appointed as an independent non-executive director of (i) Bojun Education Company Limited, a company listed on the Main Board (stock code: 1758) and engaged in the provision of private education services since July 2018; and (ii) Hua Lien International (Holding) Company Limited, a company listed on the Main Board (Stock Code: 969), since December 2017 and engaged in the sugar cane plantation and manufacturing of sugar. He was also an independent non-executive director of (i) China Sinostar from July 2014 to April 2019; and (ii) Champion Alliance International Holdings Limited (formerly known as Mengke Holdings Limited), a company listed on the Main Board (stock code: 1629) from November 2016 to December 2018 and engaged in the manufacturing and sales of metallised packing paper. He worked for subsidiaries of a private corporation from January 2005 to June 2012, which has since become a subsidiary of Li & Fung Limited, a company previously listed on the Main Board. During his time with Li & Fung Limited, he worked with its subsidiary engaged in sample production and export trading services.

Mr. Cheng was a director of Day & Night Clinic Limited (“**Day & Night**”) which was incorporated in Hong Kong on 25 August 1999 and was primarily engaged in clinical business. It was dissolved by deregistration on 9 February 2001 due to inactivity of the company. Mr. Cheng confirmed that, to the best of his knowledge and belief, Day & Night was solvent at the time of its dissolution and that there was no fraudulent act or misfeasance on his part leading to the dissolution of Day & Night and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of Day & Night.

Mr. Cheng was a member of the Chinese People’s Political Consultative Conference of Enping City, Guangdong Province from November 2011 to November 2016. Mr. Cheng was admitted as an associate and a fellow of The Association of Chartered Certified Accountants in July 1999 and July 2004, respectively. He was also admitted as a member of the Hong Kong Institute of Certified Public Accountants (previously known as Hong Kong Society of Accountants) in September 2001. In March 2018, Mr. Cheng became a member of CPA Australia.

Mr. Cheng received a bachelor of business administration in accounting from the Hong Kong University of Science and Technology in November 1996. In December 2006, Mr. Cheng received a master of science from The Chinese University of Hong Kong. Mr. Cheng was awarded the Master of Business Administration degree jointly by the Kellogg School of Management of Northwestern University and the School of Business and Management of the Hong Kong University of Science and Technology in December 2009. In November 2017, Mr. Cheng obtained the degree of Juris Doctor from The Chinese University of Hong Kong.

Save as disclosed above, Mr. Cheng has not been a director of any listed company in the three years immediately preceding the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sun Qing (孫慶) (“**Mr. Sun**”), aged 75, was appointed as an independent non-executive Director on 19 December 2022. He is also the chairman of our remuneration committee. He is primarily responsible for providing independent advice to our Board.

Mr. Sun has extensive experience in the carbon industry. From August 1968 to May 1999, Mr. Sun served as the group vice president and committee secretary and first deputy director of the carbon research lab of Jilin Carbon Group Company Limited* (吉林炭素集團有限公司), a company primarily engaged in the manufacturing and research of carbon materials, and his major duties included overall management of the company’s daily operations and supervision of research related works. From March 2012 to May 2015, Mr. Sun was an independent non-executive director of Fangda Carbon New Material Co., Ltd.* (方大炭素新材料科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600516) which is engaged in the manufacturing of carbon products, including various types of graphite electrodes and needle coke. He has been appointed as the chief secretary general of the China Carbon Industry Association* (中國炭素行業協會) from 1995 to 2007, and from 2011 to present, mainly responsible for hosting the daily operation of the association and speaking on behalf of the association on industry development.

Mr. Sun completed a course in economics management from Communist Party of China Central Party College* (中共中央黨校函授學院) in December 1992.

Mr. Sun has not been a director of any listed company in the last three years immediately preceding the Latest Practicable Date.

Mr. Ngai Ming Tak Michael (魏明德) (“**Mr. Ngai**”), aged 55, was appointed as an independent non-executive Director on 19 December 2022. He is primarily responsible for providing independent advice to our Board.

Mr. Ngai is the chairman of The Red Group and the chairman of Asia GreenTech Fund with focus on international business investment. Mr. Ngai is also the president of Green Economy Development Limited, a company listed on the Main Board (stock code: 1315). Mr. Ngai worked in UBS AG Investment Bank from April 2006 to November 2013 where he last served as a managing director and was primarily responsible for investment banking business. Mr. Ngai has been an independent non-executive director of (i) Starlight Culture Entertainment Group Limited, a company listed on the Main Board (stock code: 1159) since May 2017; (ii) True Partner Capital Holding Limited, a company listed on the GEM of the Stock Exchange (stock code: 8657) since October 2020; (iii) China Longyuan Power Group Corporation Limited, a company listed on the Main Board (stock code: 916) since November 2021; and (iv) CRRC Corporation Limited, a company listed on the Main Board (stock code: 1766) since December 2021. Mr. Ngai has been an external director of China COSCO Shipping Corporation Limited since May 2022. Mr. Ngai has experience working on initial public offerings and corporate transactions for large multinational companies in various sectors such as the industrial sector and the technology sector.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ngai is a member of the National Committee of the Chinese People's Political Consultative Conference, a Standing Committee member of the Heilongjiang Provincial Committee of the People's Political Consultative Conference, Fellow Commoner and Development Advisory Council Member of Clare Hall, University of Cambridge, and a Council Member of The Hong Kong University of Science and Technology and a Court Member of Hong Kong Metropolitan University.

Mr. Ngai received a master's degree from University of Cambridge, the United Kingdom in July 1991.

Save as disclosed above, Mr. Ngai has not been a director of any listed company in the last three years immediately preceding the Latest Practicable Date.

Ms. Chan Chore Man Germaine (陳楚雯) (“Ms. Chan”), aged 43, was appointed as an independent non-executive Director on 19 December 2022. She is primarily responsible for providing independent advice to our Board.

Ms. Chan has over 19 years' professional experience in accounting and corporate finance ranging from financial advisory to IPOs. Ms. Chan is a director of Innovax Capital Limited since September 2021, a wholly-owned subsidiary of Innovax Holdings Limited, a company listed on the Main Board (stock code: 2680) engaged in the provision of financial services. From July 2010 to June 2021, she served as the chief financial officer and company secretary of Shirble Department Store Holdings (China) Limited, a company listed on the Main Board (stock code: 312) engaged in the operation of department stores and community shopping malls in the PRC. Ms. Chan has worked in Daiwa Capital Markets Hong Kong Limited from January 2008 to July 2010, with her last position as assistant vice president in the investment banking department. She was the manager of Mega Capital (Asia) Company Limited from August 2004 to January 2008, engaged in provision of financial services. Ms. Chan served as an accountant in the assurance and advisory business services department and tax department at Ernst & Young from September 2002 to August 2004.

Ms. Chan was admitted as a member of the Hong Kong Institute of Certified Public Accountants on 1 January 2006. She was awarded with the representative license by the SFC to carry on Type 1 (Dealing in Securities) activities and Type 6 (Advising on Corporate Finance) activities in February 2008 and September 2021, respectively.

Ms. Chan received a bachelor's degree in business administration (accounting) from the Hong Kong University of Science and Technology in November 2002.

Ms. Chan has not been a director of any listed company in the three years immediately preceding the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Feng Jianguo (馮建國) (“**Mr. Feng**”), aged 56, joined our Group in March 2016 and is our chief technology officer. He is the brother-in-law of Mr. Hou Haolong, one of our executive Directors. Mr. Feng is primarily responsible for overseeing project implementation and providing technical support.

Prior to joining our Group, from May 1997 to March 2016, Mr. Feng worked in Henan Sanli with his last position as a deputy general manager of production technology and the Head of Technology, responsible for the construction of UHP graphite electrode project.

Mr. Feng completed a course in chemical engineering and machinery from Zhengzhou Institute of Technology* (鄭州工學院) in July 1987. Mr. Feng obtained a certificate issued by Human Resources and Social Security Department of Henan Province, the PRC to certify his qualification as a senior engineer in chemical engineering in March 2016. He was admitted as a member of the Carbon Materials Sub-Technical Committee of the National Steel Standardization Technical Committee* (全國鋼標準化技術委員會炭素材料分技術委員會) in March 2020.

Mr. Feng has not been a director of any listed company in the last three years immediately preceding the Latest Practicable Date.

Mr. Luiz A. Freitas (“**Mr. Freitas**”), aged 72, joined our Group in April 2019 as the executive vice president of operations of Sangraf US. His current responsibilities include optimising the manufacturing plants in Italy and in the PRC, implementing a Group-wide quality management system and overseeing supply chain activities. He is experienced in the management of projects, facilities, engineering and operations for graphite electrode businesses.

Prior to joining our Group, Mr. Freitas began his career at UCAR Produtos de Carbono SA in August 1974. In March 1996 he was transferred to UCAR Carbon Company in Clarksbury, West Virginia as project manager. From July 1998 through December 2000, he was the director of central engineering for UCAR Carbon Company coordinating plant engineering teams globally. Between January 2001 and December 2006, Mr. Freitas held various positions in different divisions of GrafTech International, the successor company of UCAR Carbon Company, his last position as general manager, responsible for the business performance of the advanced graphite materials division of GrafTech International in the United States, France, Italy and South Africa. From January 2007 to September 2008, he was the general manager and president of GrafTech Brasil Participacoes Ltda., primarily responsible for the overall performance of the company. Between August 2009 and March 2015, Mr. Freitas was the vice president of operations, supply chain and procurement at GrafTech Switzerland S.A. and oversaw the operations of all graphite electrode plants globally. Mr. Freitas was an independent consultant to various private equity companies in the United States and Canada on their prospective acquisition of businesses in the carbon and graphite industries from June 2015 to January 2017. From February 2017 to March 2019, Mr. Freitas worked in GrafTech Mexico S.A. de C.V with his last position as an independent consultant providing engineering services for projects to improve operational issues.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Freitas graduated from the Federal University of Bahia, Brazil with a bachelor's degree in mechanical engineering in August 1975.

Mr. Freitas has not been a director of any listed company in the last three years immediately preceding the Latest Practicable Date.

JOINT COMPANY SECRETARIES

Mr. Lau Che Yan Kenneth (劉智仁) (“**Mr. Lau**”) is a joint company secretary of our Company. He joined our Group in June 2018 and is primarily responsible for internal control, corporate finance and financial related matters.

Mr. Lau has extensive experience in finance and accounting. Prior to joining our Group, Mr. Lau has worked in accounting firms and various companies (including listed and private companies) across different businesses, responsible for accounting, corporate finance and internal control matters. Mr. Lau was admitted as a fellow member of (i) the Hong Kong Institute of Certified Public Accountants in July 1999; (ii) the Association of Chartered Certified Accountants in May 1997; and (iii) the Institute of Chartered Accountants in England and Wales in April 2015, respectively. He obtained his master degree of business administration from the University of Surrey in the United Kingdom in April 1996.

Ms. Ip Cheuk Man Louisa (葉卓敏) (“**Ms. Ip**”) is a joint company secretary of our Company. She joined our Group in September 2019 and is primarily responsible for internal compliance, legal and company secretarial matters.

Ms. Ip obtained her bachelor's degree in biochemistry from the University of British Columbia, Canada in May 2004 and her master degree in bioengineering from the Hong Kong University of Science and Technology in May 2006. She further obtained her Bachelor of Laws degree from the University of London through an external programme in August 2010.

Prior to joining our Group, Ms. Ip worked as a paralegal in different law firms and private companies assisting in intellectual property-related and other regulatory matters.

We have also applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 3.28 and Rule 8.17 of the Listing Rules in relation to the qualification of joint company secretaries. For details of the waiver, please refer to “Waiver from Strict Compliance with the Listing Rules” in this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Audit Committee

We have established an audit committee on 16 December 2022 with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system of our Group, oversee the audit process, risk management process and external audit functions. The audit committee consists of four members, namely Mr. Cheng, Mr. Sun, Mr. Ngai and Ms. Chan. The chairman of the audit committee is Mr. Cheng.

Nomination Committee

We have established a nomination committee on 16 December 2022 with written terms of reference in compliance with the Listing Rules. The primary duties of the nomination committee are to make recommendations to our Board on the appointment of members of our Board. The nomination committee consists of three members, namely Dr. Shen, Mr. Cheng and Mr. Sun. The chairman of the nomination committee is Dr. Shen.

Remuneration Committee

We have established a remuneration committee on 16 December 2022 with written terms of reference in compliance with the Listing Rules. The primary duties of the remuneration committee are to make recommendations to our Board on our Company's policy and structure concerning the remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy, review and approve performance based remuneration by reference to corporate goals and objectives, to determine the terms of the specific remuneration package of our Directors and senior management and to ensure none of our Directors and senior management determine their own remuneration, as well as to review and approve matters relating to share incentive schemes under Chapter 17 of the Listing Rules. The remuneration committee consists of three members, namely Mr. Ngai, Dr. Shen and Mr. Sun. The chairman of the remuneration committee is Mr. Sun.

ESG Committee

We have established an ESG committee on 16 December 2022 with written terms of reference in compliance with the Listing Rules. The primary duties of the ESG committee are to support the Board to formulate ESG policy and strategies, conduct materiality assessments of environmental-related, climate-related, social-related risks, assess the performance of our ESG measures, evaluate the effectiveness of our ESG strategy, and continuously monitor ESG progress and the implementation of measures to address our Group's ESG-related risks and responsibilities and updating the policy and strategies every year. The ESG committee consists of three members, namely Mr. Ngai, Mr. Yan and Mr. Sun. The chairman of the ESG committee is Mr. Ngai.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION POLICY

The emolument of our Directors are recommended by the remuneration committee, having regard to our Company's operating results, individual performance, experience, responsibility, workload and time devoted to our Company and comparable market statistics.

Each of the executive and non-executive Directors and senior management is entitled to a basic salary which is reviewed annually. In addition, each of the executive and non-executive Directors may receive a discretionary bonus as our Board may recommend. Such amount has to be approved by the remuneration committee. The remuneration package further includes other allowances, benefits in kind and defined contribution contributions.

In order to incentivise our Directors, senior management and other employees for their contribution to our Group and to retain suitable personnel in our Group, we adopted the Share Option Scheme on 19 December 2022. For further details, see "Statutory and General Information — F. Share Option Scheme" in Appendix IV to this prospectus.

For the three years ended 31 December 2021, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was approximately US\$5.6 million, US\$1.4 million and US\$0.9 million respectively.

For the three years ended 31 December 2021, the aggregate of the remuneration paid and benefits in kind granted to the five highest paid individuals of our Group was approximately US\$5.8 million, US\$1.6 million and US\$1.3 million respectively.

During the Track Record Period, no emoluments were paid by our Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office. None of our Directors waived any remuneration during the Track Record Period.

Save as disclosed in this prospectus, no other payments had been made, or are payable, by any member of our Group to our Directors during the Track Record Period.

BOARD DIVERSITY POLICY

Our Company has adopted a board diversity policy (the "**Board Diversity Policy**"), the purpose of which is to enhance the effectiveness of our Board and to maintain the highest standards of corporate governance and to recognise and embrace the benefits of diversity in our Board. The Board Diversity Policy provides that our Company should endeavour to ensure that our Board has the appropriate balance of skills, experience and diversity of perspectives that are required to enhance the effectiveness of the Board and support the execution of its business strategies. Pursuant to the Board Diversity Policy, we seek to achieve board diversity through the consideration of a range of diversity perspectives, including but not limited to gender, age, length of service, cultural and education background, or professional experience. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to our Board. Our Board believes that such merit-based appointments will best enable our Company to service our Shareholders and other stakeholders going forward.

DIRECTORS AND SENIOR MANAGEMENT

Our Board comprises nine members, including four executive Directors, one non-executive Director and four independent non-executive Directors. The four independent non-executive Directors have different industry backgrounds and represent more than one-third of our Board members. Our Directors have a balanced mix of knowledge and experiences, including business management, operations and plant management, sales and marketing, finance and accounting, risk management, corporate finance, project management and administration, in addition to extensive knowledge of the graphite electrode industry. They obtained degrees in various areas including business administration, economics and mechanical engineering. Furthermore, our Board has diversity in age, ranging from 43 years old to 75 years old. We also have a good mix of new and experienced Directors, in that three of our executive Directors have been part of our Group for more than three years, who have valuable knowledge and insight on our Group's business over the years, while our other Directors are expected to bring fresh ideas and new perspectives to our Group. The existing members of the Board were appointed after taking into account the above factors. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels, to enhance the effectiveness of our corporate governance as a whole. Taking into account our existing business model and the background and experience of our Directors, the composition of our Board satisfies our Board Diversity Policy.

In recognising the particular importance of gender diversity, we appointed one female Director to our Board. Further, we also aim to achieve not less than 10% female representation in our Board during the period we are listed on the Stock Exchange subject to our Directors (i) being satisfied with the qualification and experience of the relevant candidate(s) after review processes based on the applicable criteria; and (ii) fulfilling their fiduciary duties to act in the best interests of our Company and our Shareholders as a whole when considering new appointments. We will ensure there is gender diversity when recruiting staff at a mid to senior level so that we will have a pipeline of female senior management and potential successors to our Board in a few years' time and engage more resources in training female staff who have long and relevant experience in our business, with the aim of promoting them to the senior management or directorship of our Group, noting that we currently already have two female senior management members. As female representation in senior roles throughout the economy and the pool of qualified females keeps growing, we expect to have more female members who would be qualified to sit on our Board from time to time.

The effective implementation of the Board Diversity Policy requires that our Shareholders are able to judge for themselves whether the Board as constituted is a reflection of diversity, or a gradual move to increased diversity, on a scale and at a speed which they support. To this end, our Shareholders will be provided with detailed information of each candidate for appointment or re-election to our Board through announcements and circulars published prior to general meetings of our Company.

Our nomination committee has been delegated with the overall responsibility for the implementation, monitoring and periodic review of the Board Diversity Policy to ensure its effectiveness and application. A summary of the Board Diversity Policy and the measurable objectives which our Board has set for implementing the same, and the progress in achieving those objectives, will be disclosed in the corporate governance reports of our Company annually in accordance with the requirements of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Company complies or intends to comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules, save for Code A.2.1 which requires that the roles of chairman and chief executive officer be separated and performed by different individuals.

Dr. Wei-Ming Shen is both our chief executive officer and the chairman of our Board. Our Board believes that vesting the roles of both chief executive officer and chairman of our Board in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within our Group. Our Group considers that the balance of power and authority of the present arrangement will not be impaired as the Board comprises eight other experienced and high-calibre individuals including another three executive Directors, one non-executive Director and four independent non-executive Directors who would be able to offer advice from various perspectives. In addition, for major decisions of our Group, our Board will make consultations with appropriate Board committees and senior management. Therefore, our Directors consider that the present arrangement is beneficial to and in the interest of our Company and our Shareholders as a whole and the deviation from Code A.2.1 of the Corporate Governance Code is appropriate in such circumstance. Our Board shall nevertheless review the structure and composition of our Board and senior management from time to time in light of prevailing circumstances to maintain our Company's high standard of corporate governance practices.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code in each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports after the Listing.

COMPLIANCE ADVISER

Our Company has appointed Yue Xiu Capital Limited as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on the following matters:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where we propose to use the proceeds of the initial public offering in a manner different from that detailed in this prospectus or where our business activities, developments or results materially deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of our Shares

The term of the appointment of Yue Xiu Capital Limited will commence from (and including) the Listing Date and end on (and including) the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), the following persons will have an interest or short position in our Shares or our underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/Nature of Interest	Immediately after the Capitalisation Issue and the Global Offering⁽¹⁾	
		Number of Shares	Approximate percentage of shareholding in our Company
Otautahi Capital	Beneficial owner	750,004,224	75.00%
Otautahi Holdings	Interest in a controlled corporation ⁽²⁾	750,004,224	75.00%
Otautahi Enterprises	Trustee ⁽²⁾	750,004,224	75.00%
Mr. Hou	Founder of a discretionary trust ⁽²⁾	750,004,224	75.00%

Notes:

- (1) Assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme.
- (2) Otautahi Capital is owned as to 100% by Otautahi Holdings, which is in turn wholly-owned by Otautahi Enterprises. Otautahi Enterprises is the trustee of the Otautahi Trust, which is a discretionary trust established by Otautahi Enterprises as the trustee and Mr. Hou is one of the beneficiaries. Accordingly, they are deemed to be interested in the Shares held by Otautahi Capital under the SFO.

Except as disclosed above, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in our Shares or our underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

SHARE CAPITAL

SHARE CAPITAL OF OUR COMPANY

The authorised and issued share capital of our Company is set out below:

Authorised Share Capital

As at the date of this prospectus:

	<i>(US\$)</i>
<u>30,000,000</u> Shares	<u>300,000</u>

Issued Share Capital

Assuming the Over-allotment Option is not exercised at all, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering will be set out below:

	<i>US\$</i>	Approximate percentage of issued share capital (%)
11,000,000 Shares in issue as at the date of this prospectus	110,000	1.10
816,600,000 Shares to be issued under the Capitalisation Issue	8,166,000	81.66
<u>172,400,000</u> Shares to be issued under the Global Offering	<u>1,724,000</u>	<u>17.24</u>
<u>1,000,000,000</u> Shares in total	<u>10,000,000</u>	<u>100.00</u>

Assuming the Over-allotment Option is exercised in full and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering will be set out below:

	<i>US\$</i>	Approximate percentage of issued share capital (%)
11,000,000 Shares in issue as at the date of this prospectus	110,000	1.07
816,600,000 Shares to be issued under the Capitalisation Issue	8,166,000	79.60
<u>198,260,000</u> Shares to be issued under the Global Offering	<u>1,982,600</u>	<u>19.33</u>
<u>1,025,860,000</u> Shares in total	<u>10,258,600</u>	<u>100.00</u>

SHARE CAPITAL

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all other Shares in issue as at the date of this prospectus, and in particular, will rank in full for all dividends and other distributions declared, paid or made on the Shares after the date of this prospectus.

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on 19 December 2022. The principal terms of the Share Option Scheme are summarised in the section headed “Statutory and General Information — F. Share Option Scheme” in Appendix IV to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with our Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the total number of Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme); and
- (b) the total number of Shares repurchased by us (if any) under the general mandate to repurchase Shares as described below.

This general mandate to allot, issue and deal with our Shares will expire at the earliest of:

- (a) the conclusion of our Company’s next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (b) upon the expiration of the period within which our Company is required by the Memorandum and Articles of Association, the Cayman Islands Companies Act or any applicable laws to hold its next annual general meeting; or
- (c) the revocation, variation or renewal of this general mandate by an ordinary resolution of our Shareholders in a general meeting.

For further details of this general mandate to allot, issue and deal with our Shares, please see the paragraph headed “Statutory and General Information — A. Further Information about our Company — 4. Written resolutions of the then shareholders of our Company passed in a general meeting of our Company held on 19 December 2022” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase our Shares with an aggregate nominal value of up to 10% of the total number of Shares in issue immediately following the completion of the Global Offering (excluding any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules.

This general mandate to repurchase our Shares will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (b) upon the expiration of the period within which our Company is required by the Memorandum and Articles of Association, the Cayman Islands Companies Act or any applicable laws to hold its next annual general meeting; or
- (c) the revocation, variation or renewal of this general mandate by an ordinary resolution of our Shareholders in a general meeting.

For further details of the general mandate to repurchase our Shares, please see the paragraph headed "Statutory and General Information — A. Further Information about our Company — 4. Written resolutions of the then shareholders of our Company passed in a general meeting of our Company held on 19 December 2022" in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial statements, including the notes thereto, as set out in the Accountants' Report. Our Group's consolidated financial statements have been prepared in accordance with the HKFRS. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contain certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and projections depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements" in this prospectus for further details

OVERVIEW

We are a global manufacturer of UHP graphite electrodes with a worldwide customer base in over 25 countries comprising major global EAF steel manufacturers in Americas, EMEA, APAC and the PRC that sell their products to the automotive, infrastructure, construction, appliance, machinery, equipment and transportation industries. For FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, our total revenue was US\$168.3 million, US\$150.8 million, US\$108.5 million, US\$108.7 million, US\$41.8 million and US\$59.7 million, respectively, while our net profit for the same periods were US\$72.0 million, US\$5.2 million, US\$4.2 million, US\$4.4 million, US\$0.4 million and US\$6.5 million, respectively. For FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, our sales volume was 10,994MT, 19,656MT, 25,647MT, 27,669MT, 11,402MT and 12,456MT, respectively.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 26 June 2018 as an exempted company with limited liability under the Companies Act. Pursuant to the Reorganisation, as more fully explained in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group Structure — Reorganisation" in this prospectus, our Company became the holding company of the companies now comprising our Group on 5 November 2019 except for Sangraf US, which became a wholly-owned subsidiary of our Group on 8 June 2020. The companies now comprising our Group were under the common control of the Controlling Shareholders before and after the Reorganisation. The Historical Financial Information (as defined in the Accountants' Report set out in Appendix I to this prospectus) has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

FINANCIAL INFORMATION

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2018, 2019, 2020, 2021, 1H2021 and 1H2022 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholders prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated in full on consolidation.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Price fluctuation of graphite electrodes and market demand of our products

Our customers are mainly EAF steel manufacturers in Americas, EMEA, APAC and the PRC which sell their products to the automotive, infrastructure, construction, appliance, machinery, equipment and transportation industries. Our revenue and gross profit margin are significantly affected by the price fluctuation of global price trend of graphite electrodes. Factors which could potentially impact the prices of graphite electrodes include, among others, the level of supply and demand, the price of needle cokes, international economic conditions, export controls, technology development, and the development of the EAF steel manufacturing industry.

Prices of graphite electrodes have historically been fluctuating, reflecting the demand trends of global EAF steel manufacturing industry and the supply of graphite electrodes. According to the F&S Report, the average global price (excluding the PRC) of graphite electrodes had increased from US\$3,721.5 per tonne to US\$16,054.9 per tonne between 2016 to 2018, and decreased to US\$4,120.4 per tonne in 2020, and is expected to increase to US\$6,724.9 per tonne by 2026. For FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, our average selling price of graphite electrodes was US\$15,310 per tonne, US\$7,674 per tonne, US\$4,232 per tonne, US\$3,928 per tonne, US\$3,665 per tonne and US\$4,793 per tonne, respectively. By comparing the quarterly market price of UHP graphite electrodes of the global and PRC markets during the Track Record Period, the fluctuation of our average selling price throughout the Track Record Period was in line with that of the global and PRC markets. For the quarterly market price of the UHP graphite electrodes in the global and PRC markets during the Track Record Period, please refer to the section headed "Industry Overview — Price analysis of global and China's graphite electrodes" in this prospectus.

FINANCIAL INFORMATION

According to the F&S Report, in 2026, (i) the global production volume and the consumption volume of graphite electrodes (excluding the PRC) is expected to reach approximately 0.86 million tonnes and approximately 1.09 million tonnes with a CAGR of approximately 5.0% and approximately 4.9% from 2021 to 2026, respectively, and (ii) the production volume and the consumption volume of UHP graphite electrodes in the PRC are expected to reach approximately 189.3 thousand tonnes and approximately 159.7 thousand tonnes at a CAGR of approximately 12.1% and approximately 12.5% from 2021 to 2026, respectively.

Demand for our graphite electrodes also depends on the general level of activity and growth in the downstream industries that the EAF steel manufacturing industry serve. The downturn of any of these industries may lead to a decrease in demand of EAF steel, which, in turn, may reduce the demand for graphite electrodes and have a material and adverse effect on our business, financial condition and results of operations. The demand for our products depends to a significant extent on a number of factors relating to global macroeconomic trends that are beyond our control.

For illustrative purposes only, a sensitivity analysis of our gross profit with reference to the average selling price fluctuation of our graphite electrodes during the Track Record Period is set out below. Hypothetical fluctuation in the average selling price of our graphite electrodes are assumed to be 10%, 20% and 30% with reference to the price trend indicated in the F&S Report.

The table below demonstrates how the hypothetical effects of increase or decrease in the average selling prices of our graphite electrodes affect our gross profit, while all other factors remain unchanged:

Hypothetical increase/ (decrease) in average selling price (%) of graphite electrodes	(Decrease)/increase in our gross profit for:					
	FY2018	FY2019	FY2020	FY2021	1H2021	1H2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
10%	16,832	15,084	10,854	10,869	4,179	5,971
(10%)	(16,832)	(15,084)	(10,854)	(10,869)	(4,179)	(5,971)
20%	33,664	30,169	21,708	21,739	8,357	11,941
(20%)	(33,664)	(30,169)	(21,708)	(21,739)	(8,357)	(11,941)
30%	50,496	45,253	32,562	32,608	12,536	17,912
(30%)	(50,496)	(45,253)	(32,562)	(32,608)	(12,536)	(17,912)

For the illustrative purposes of breakeven analysis only, for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, if the average selling price of graphite electrodes had decreased by approximately 62.5%, 22.7%, 15.2%, 21.0%, 17.3% and 26.1%, respectively, our gross profit for the same periods would have been nil, assuming all other variables remain constant.

FINANCIAL INFORMATION

Price fluctuation of raw materials used in our production

Our major raw materials are needle coke and binder pitch. Our cost of raw materials represents a substantial portion of our total cost of sales. For FY2019, being our first full financial year after commencement of in-house manufacturing during the Track Record Period, FY2020, FY2021, 1H2021 and 1H2022, cost of raw materials accounted for 48.9%, 52.1%, 30.4%, 33.6% and 21.9% of our cost of sales, respectively. The prices of most of our raw materials generally follow the price trends of, and vary with, market conditions. Suppliers of these raw materials may also be subject to factors beyond our control, including but not limited to market shortages, suppliers' business interruptions, and overall economic conditions, all of which may have an impact on their respective market prices from time to time. The table below sets out our average purchase price of needle coke and binder pitch for the Track Record Period:

	FY2018	FY2019	FY2020	FY2021	1H2021	1H2022
	<i>US\$ per</i>					
	<i>tonne</i>	<i>tonne</i>	<i>tonne</i>	<i>tonne</i>	<i>tonne</i>	<i>tonne</i>
Needle coke	3,311	3,373	829	1,291	1,031	1,887
Binder pitch	996	674	601	837	769	1,132

For illustrative purposes only, a sensitivity analysis of our gross profit with reference to the costs fluctuation of our major raw materials during FY2019, being our first full financial year after commencement of in-house manufacturing during the Track Record Period, FY2020, FY2021, 1H2021 and 1H2022 is set out below. Hypothetical fluctuation in the costs of raw materials are assumed to be 10%, 20% and 30% with reference to price trend indicated in the F&S Report.

The table below demonstrates how the hypothetical effects of increase or decrease in the costs of our major raw materials affect the gross profit from the sales of graphite electrodes manufactured by us, assuming we are not able to pass on such changes to our customers while all other factors remain unchanged:

Hypothetical increase/(decrease) in costs of raw materials (%)	(Decrease)/increase in our gross profit for:				
	FY2019	FY2020	FY2021	1H2021	1H2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
10%	(5,695)	(4,791)	(2,611)	(1,161)	(966)
(10%)	5,695	4,791	2,611	1,161	966
20%	(11,391)	(9,581)	(5,223)	(2,322)	(1,932)
(20%)	11,391	9,581	5,223	2,322	1,932
30%	(17,086)	(14,372)	(7,834)	(3,482)	(2,898)
(30%)	17,086	14,372	7,834	3,482	2,898

For illustrative purpose of breakeven analysis only, for FY2019, FY2020, FY2021, 1H2021 and 1H2022, if costs of raw materials had increased by 60.2%, 34.5%, 87.4%, 62.2% and 161.1%, respectively, our gross profit for the same periods would have been nil, assuming all other variables remain constant.

FINANCIAL INFORMATION

Fluctuation of sales volume

The table below sets out our sales volume of graphite electrodes for the Track Record Period:

	FY2018	FY2019	FY2020	FY2021	1H2021	1H2022
Sales volume	10,994	19,656	25,647	27,669	11,402	12,456

For illustrative purposes only, a sensitivity analysis of our gross profit with reference to the fluctuation of our sales volume during the Track Record Period is set out below. Hypothetical fluctuation in the sales volume are assumed to be 10%, 20% and 30%. The table below demonstrates how the hypothetical effects of increase or decrease in sales volume affect the gross profit while all other factors remain unchanged:

Hypothetical increase/ (decrease) in sales volume (%)

	(Decrease)/increase in our gross profit for:					
	FY2018	FY2019	FY2020	FY2021	1H2021	1H2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
10%	10,522	3,426	1,651	2,283	722	1,556
(10%)	(10,522)	(3,426)	(1,651)	(2,283)	(722)	(1,556)
20%	21,044	6,853	3,303	4,566	1,443	3,113
(20%)	(21,044)	(6,853)	(3,303)	(4,566)	(1,443)	(3,113)
30%	31,565	10,279	4,954	6,849	2,165	4,669
(30%)	(31,565)	(10,279)	(4,954)	(6,849)	(2,165)	(4,669)

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

We believe the following accounting policies, estimates and judgements are of critical importance to us in the preparation of our consolidated financial statements.

Significant accounting policies

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements in accordance with HKFRSs. For details of these significant accounting policies, please refer to note 3 to the Accountants' Report set out in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as judgments relating to accounting items. The impacts of the initial adoption of HKFRSs 9, 15 and 16 had no significant impact on our Group's financial position and performance as compared to HKASs 39, 18 and 17, respectively.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services.

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When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which our Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception. When the contract contains a financing component which provides our Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sales of graphite electrodes

Revenue from the sale of graphite electrodes is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. There are no other promises in the contracts that are separate performance obligations that require allocation of revenue.

Other income

Other income from the sale of other carbon products is recognised when control of the asset is transferred to the customer, generally on delivery of the goods. With reference to Appendix A Defined terms of HKFRS 15 Revenue from Contracts with Customers, revenue is defined as income arising in the course of an entity's ordinary activities. Sale of other carbon products is presented as other income instead of revenue because the sale is incidental to the ordinary activities of our Group. These other carbon products are by-products of the ordinary course of business. Details of the Reporting Accountants' opinion on Historical Financial Information are included in Appendix I to this prospectus.

Interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Compensation income is recognised when the right to receive is firmly established and it is virtually certain that there will be an inflow of economic benefits to our Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, our Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, except for freehold land which is not depreciated. The principal economic useful lives used for this purpose are set out below:

Buildings	33 years
Plant and machinery	20 years
Leasehold improvements	Over the lease terms
Furniture, fixtures and office equipment	5–8 years
Motor vehicles	4 years

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and certain property, plant and equipment), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generation unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Impairment of financial assets

Our Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that our Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-month (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, our Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, our Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

Our Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, our Group may also consider a financial asset to be in default when internal or external information indicates that our Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by our Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

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- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when our Group applies the practical expedient of not adjusting the effect of a significant financing component, our Group applies the simplified approach in calculating ECLs. Under the simplified approach, our Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. Our Group has evaluated the expected credit losses by considering the probability of default of counterparty and adjusted for forward-looking factors specific to the debtors and the economic environment. For instance, if forecast economic conditions (i.e., gross domestic product and unemployment rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in the steel sector, the default rates are adjusted.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which our Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if our Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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Critical estimates and judgements

Our estimates are based on historical experience, latest information and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ under different assumptions and conditions. For these significant estimates and judgements, please refer to note 4 to the Accountants' Report set out in Appendix I to this prospectus.

The preparation of our Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of fair value of land and buildings and plant and equipment

In the absence of current prices in an active market for similar property, plant and equipment, our Group considers information from a variety of sources, including:

- current prices in an active market for property, plant and equipment of a different nature, condition or location, adjusted to reflect those differences;
- recent prices of similar property, plant and equipment on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices;
- an estimation of the new replacement cost of the assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation.

The carrying amounts of land and buildings and plant and equipment at 31 December 2018, 2019, 2020, 2021 and 30 June 2022 were US\$55.6 million, US\$56.1 million, US\$96.8 million, US\$99.7 million and US\$93.0 million, respectively. Further details, including the key assumptions used for the fair value measurement and a sensitivity analysis, please refer to note 14 to the Accountants' Report set out in Appendix I to this prospectus.

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Provision for ECL on trade receivables

Our Group has evaluated the expected credit losses by considering the probability of default of counterparty and adjusted for forward-looking factors specific to the debtors and the economic environment. For instance, if forecast economic conditions, such as gross domestic products and unemployment rate, are expected to deteriorate over the next year which can lead to an increased number of defaults in the steel sector, the default rates are adjusted. At each reporting date, the historical observed credit ratings are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among probability of default, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. Our Group's estimated probability of default and forecast of economic conditions may also not be representative of a customer's actual default in the future. For information about the ECLs on our Group's trade receivables, please refer to note 18 to the Accountants' Report set out in Appendix I to this prospectus. The carrying amounts of trade receivables measured at amortised cost as at 31 December 2018, 2019, 2020, 2021, and 30 June 2022 were US\$21.5 million, US\$11.6 million, US\$16.0 million, US\$18.8 million and US\$25.0 million, respectively.

Leases — Estimating the incremental borrowing rate

Our Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (the “**IBR**”) to measure lease liabilities. The IBR is the rate of interest that our Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what our Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). Our Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. For details, please refer to note 24 to the Accountants' Report set out in Appendix I to this prospectus.

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Provision for inventories to net realisable value

Inventories are stated at the lower of cost and net realisable value. The assessment of the net realisable value involves management's judgement and estimates, based on management's expectations for future sales net of estimated selling expenses. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the inventories and any provision will be written down or written back in the period in which such estimate has been changed. The carrying amount of inventories as at 31 December 2018, 2019, 2020, 2021 and 30 June 2022 were US\$92.7 million, US\$92.4 million, US\$54.2 million, US\$60.9 million and US\$62.9 million, respectively. The provision for inventories to net realisable value as at 31 December 2018, 2019, 2020, 2021 and 30 June 2022 amounted to nil, US\$16.2 million, US\$4.8 million, US\$1.3 million and US\$0.2 million, respectively.

RESULTS OF OPERATIONS

The table below summarises the consolidated statements of profit or loss and other comprehensive income from the financial statements during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	FY2018	FY2019	FY2020	FY2021	1H2021	1H2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
					<i>(unaudited)</i>	
Revenue	168,319	150,844	108,540	108,694	41,786	59,706
Cost of sales	<u>(63,101)</u>	<u>(116,581)</u>	<u>(92,026)</u>	<u>(85,864)</u>	<u>(34,571)</u>	<u>(44,142)</u>
Gross profit	105,218	34,263	16,514	22,830	7,215	15,564
Other income	6,616	3,350	5,427	1,300	1,117	705
Selling and administrative expenses	(20,022)	(26,298)	(13,145)	(12,096)	(5,749)	(5,950)
Other expenses	(1,972)	(2,056)	(798)	(1,931)	(625)	(863)
Finance costs	(352)	(3,727)	(1,988)	(1,988)	(893)	(967)
Listing expenses	—	—	(2,804)	(1,961)	(670)	(559)
Profit before tax	89,488	5,532	3,206	6,154	395	7,930
Income tax (expense)/credit	<u>(17,472)</u>	<u>(369)</u>	<u>980</u>	<u>(1,766)</u>	<u>(18)</u>	<u>(1,397)</u>
Profit for the year	<u><u>72,016</u></u>	<u><u>5,163</u></u>	<u><u>4,186</u></u>	<u><u>4,388</u></u>	<u><u>377</u></u>	<u><u>6,533</u></u>

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DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

Our revenue is generated from sales of our products. For FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, our total revenue was US\$168.3 million, US\$150.8 million, US\$108.5 million, US\$108.7 million, US\$41.8 million and US\$59.7 million, respectively.

The table below sets out the breakdown of our revenue, sales volume and average selling price of our products during the Track Record Period:

Year	Revenue <i>US\$'000</i>	Sales volume <i>MT</i>	Average selling price <i>US\$/MT</i>
FY2018	168,319	10,994	15,310
FY2019	150,844	19,656	7,674
FY2020	108,540	25,647	4,232 ^(Note)
FY2021	108,694	27,669	3,928 ^(Note)
1H2021 <i>(unaudited)</i>	41,786	11,402	3,665 ^(Note)
1H2022	59,706	12,456	4,793

Note: While our average selling price per MT decreased by 7.2% or US\$304 from US\$4,232 in FY2020 to US\$3,928 in FY2021, the market price of graphite electrodes and our average selling price have bottomed out in August 2020 and resumed gradual trajectory in 2021. Our average selling price per MT of each quarter of 2020 and 2021 was US\$4,786, US\$4,626, US\$3,595, US\$3,679, US\$3,690, US\$3,645, US\$3,970 and US\$4,230, respectively. For details, please refer to the section headed “Financial Information — Gross profit and gross profit margin — The market price of graphite electrodes resumed gradual trajectory in 2021”.

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By geographical locations

The table below sets out a breakdown of revenue according to geographical locations of our customers during the Track Record Period:

Countries/regions	FY2018		FY2019		FY2020		FY2021		1H2021 <i>(unaudited)</i>		1H2022	
	Revenue US\$'000	Percentage of our total revenue %	Revenue US\$'000	Percentage of our total revenue %	Revenue US\$'000	Percentage of our total revenue %						
Americas <i>(Note 1)</i>	125,077	74.3	73,355	48.6	36,025	33.2	34,358	31.6	13,610	32.6	12,989	21.8
EMEA <i>(Note 2)</i>	35,467	21.1	58,699	38.9	35,294	32.5	41,734	38.4	16,548	39.6	28,752	48.2
The PRC	6,586	3.9	18,187	12.1	35,238	32.5	28,602	26.3	9,916	23.7	15,698	26.3
APAC <i>(Note 3)</i>	1,189	0.7	603	0.4	1,983	1.8	4,000	3.7	1,712	4.1	2,267	3.7
Total	168,319	100.0	150,844	100.0	108,540	100.0	108,694	100.0	41,786	100.0	59,706	100.0

Notes:

- (1) Mainly included Canada, U.S., Peru and Brazil.
- (2) Mainly included Kuwait, South Africa, Germany, Russia, Spain, Belgium, France, Finland, Italy, Turkey and Portugal.
- (3) Mainly included Australia, Taiwan and Vietnam but excluded the PRC.

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Americas

1H2022 compared to 1H2021

Our revenue decreased slightly by US\$0.6 million or 4.6%, from US\$13.6 million in 1H2021 to US\$13.0 million in 1H2022 primarily due to the decrease in the sales volume by 1,110MT or 33.1% from 3,349MT in 1H2021 to 2,239MT in 1H2022, which was partially offset by the significant increase in the average selling price for our sales to Americas by US\$1,736/MT or 42.7% from US\$4,064/MT in 1H2021 to US\$5,800/MT in 1H2022. The decrease in sales volume was mainly attributable to the decrease in sales volume of our sales to Canada by 798MT from 1,216MT in 1H2021 to 418MT in 1H2022.

FY2021 compared to FY2020

Our revenue decreased by US\$1.6 million or 4.6%, from US\$36.0 million for FY2020 to US\$34.4 million for FY2021 primarily due to the decrease in the average selling price for our sales to Americas by US\$591/MT or 12.0% from US\$4,940/MT in FY2020 to US\$4,349/MT in FY2021, which was partially offset by the increase in sales volume by 608MT or 8.3% from 7,292MT for FY2020 to 7,900MT for FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$37.4 million or 50.8%, from US\$73.4 million for FY2019 to US\$36.0 million for FY2020 primarily due to the combined effect of (i) the average selling price for our sales to Americas decreased by US\$3,845/MT or 43.8% from US\$8,785/MT for FY2019 to US\$4,940/MT for FY2020, and (ii) the sales volume decreased by 1,058MT or 12.7% from 8,350MT for FY2019 to 7,292MT for FY2020.

FY2019 compared to FY2018

Our revenue decreased by US\$51.7 million or 41.4%, from US\$125.1 million for FY2018 to US\$73.4 million for FY2019 primarily due to the decrease in the average selling price for our sales to Americas by US\$9,332/MT or 51.5% from US\$18,117/MT for FY2018 to US\$8,785/MT for FY2019 as the global market price of graphite electrodes returned from historical high in FY2018 to a relatively normal level in FY2019, effect of which was partially offset by the increase in sales volume by 1,446MT or 20.9% from 6,904MT to 8,350MT. The increase in sales volume was mainly attributable to our increased exposure in the American markets due to the commencement of operation of the Italian Factory since June 2018 and we have become the qualified supplier of some new customers in Americas.

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EMEA

1H2022 compared to 1H2021

Our revenue increased significantly by US\$12.3 million or 73.7%, from US\$16.5 million in 1H2021 to US\$28.8 million in 1H2022, primarily driven by the increase in the sales volume by 1,016MT or 21.6% from 4,696MT in 1H2021 to 5,712MT in 1H2022 and the strong increase in the average selling price for our sales to EMEA by US\$1,510/MT or 42.8% from US\$3,524/MT in 1H2021 to US\$5,034/MT in 1H2022. The increase in sales volume was attributable to some existing customers purchasing more graphite electrodes in 1H2022 compared to 1H2021.

FY2021 compared to FY2020

Our revenue increased by US\$6.4 million or 18.2%, from US\$35.3 million for FY2020 to US\$41.7 million for FY2021 primarily due to the increase in sales volume by 2,367MT or 28.4% from 8,343MT in FY2020 to 10,710MT in FY2021, which was partially offset by the decrease in the average selling price for our sales to EMEA by US\$334/MT or 7.9% from US\$4,231/MT in FY2020 to US\$3,897/MT in FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$23.4 million or 40.0%, from US\$58.7 million for FY2019 to US\$35.3 million for FY2020 primarily due to the decrease in the average selling price for our sales to EMEA by US\$4,843/MT or 53.4% from US\$9,074/MT for FY2019 to US\$4,231/MT for FY2020, which was partially offset by the increase in sales volume by 1,874MT or 29.0% from 6,469MT for FY2019 to 8,343MT for FY2020.

FY2019 compared to FY2018

Our revenue increased by US\$23.2 million or 65.5% from US\$35.5 million for FY2018 to US\$58.7 million for FY2019 mainly due to the increase in the sales volume by 3,355MT or 107.7% from 3,114MT for FY2018 to 6,469MT for FY2019, which was partially offset by the decrease in the average selling price for our sales to EMEA by US\$2,316/MT or 20.3% from US\$11,390/MT for FY2018 to US\$9,074/MT for FY2019.

The PRC

1H2022 compared to 1H2021

Our revenue increased significantly by US\$5.8 million or 58.3%, from US\$9.9 million in 1H2021 to US\$15.7 million in 1H2022, primarily driven by the significant increase in the sales volume by 1,143MT or 39.2% from 2,916MT in 1H2021 to 4,059MT in 1H2022 and the increase in the average selling price for our sales to the PRC by US\$467/MT or 13.7% from US\$3,401/MT in 1H2021 to US\$3,868/MT in 1H2022. The increase in sales volume was mainly attributable to some existing and new customers placing more orders in 1H2022.

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FY2021 compared to FY2020

The revenue decreased by US\$6.6 million or 18.8% from US\$35.2 million for FY2020 to US\$28.6 million for FY2021 mainly due to the combined effect of (i) the average selling price for our sales to the PRC decreased by US\$158/MT or 4.3% from US\$3,683/MT in FY2020 to US\$3,525/MT in FY2021, and (ii) the sales volume decreased by 1,453MT or 15.2% from 9,567MT in FY2020 to 8,114MT in FY2021, which was mainly due to the decline in orders from our largest customer of FY2020.

FY2020 compared to FY2019

The revenue increased by US\$17.0 million or 93.4% from US\$18.2 million for FY2019 to US\$35.2 million for FY2020 mainly due to the sales to our largest customer, Xinxiang Longhui, in FY2020.

FY2019 compared to FY2018

The revenue increased by US\$11.6 million or 176.1% from US\$6.6 million for FY2018 to US\$18.2 million for FY2019 mainly due to the entering into the PRC market since October 2018 following our acquisition of Sangraf Energy.

APAC

1H2022 compared to 1H2021

Our revenue increased by US\$0.6 million or 32.4%, from US\$1.7 million in 1H2021 to US\$2.3 million in 1H2022 primarily attributable to the significant increase in the average selling price of our sales to APAC by US\$1,207/MT or 31.1% from US\$3,878/MT in 1H2021 to US\$5,085/MT in 1H2022.

FY2021 compared to FY2020

The revenue increased by US\$2.0 million or 101.7% from US\$2.0 million for FY2020 to US\$4.0 million for FY2021 mainly due to the increase in sales volume by 501MT or 113% from 445MT in FY2020 to 946MT in FY2021, which was partially offset by the decrease in the average selling price for our sales to APAC by US\$223/MT or 5.0% from US\$4,452/MT in FY2020 to US\$4,229/MT in FY2021.

FY2020 compared to FY2019

The revenue increased by US\$1.4 million or 229.1% from US\$0.6 million for FY2019 to US\$2.0 million for FY2020 mainly due to the increase in sales volume by 709.1% from FY2019 to FY2020 as we secured new customers in APAC, which was partially offset by the decrease of average selling price by 59.4%.

FY2019 compared to FY2018

The revenue decreased by US\$0.6 million or 49.2% from US\$1.2 million for FY2018 to US\$0.6 million for FY2019 mainly attributable to the decrease in sales volume by 50.5%.

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By major markets

The table below sets out a breakdown of revenue according to our major markets during the Track Record Period:

Countries	FY2018		FY2019		FY2020		FY2021		1H2021 <i>(unaudited)</i>		1H2022	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
	US\$'000	of our total revenue %	US\$'000	of our total revenue %	US\$'000	of our total revenue %						
United States	38,682	23.0	30,610	20.3	20,490	18.9	22,978	21.1	8,760	21.0	10,812	18.1
Canada	76,489	45.5	37,930	25.1	14,572	13.4	8,924	8.2	3,610	8.6	1,543	2.6
The PRC	6,586	3.9	18,187	12.1	35,238	32.5	28,602	26.3	9,916	23.7	15,698	26.3
South Africa	21,756	12.9	10,108	6.7	10,808	9.9	5,566	5.1	1,227	2.9	4,007	6.7
France	—	—	8,196	5.4	1,635	1.5	6,939	6.4	4,218	10.1	3,454	5.8
Russia	3,724	2.2	2,822	1.9	7,557	7.0	5,788	5.3	2,671	6.4	—	—
Germany	1,608	1.0	12,074	8.0	2,456	2.3	5,369	5.0	2,286	5.5	4,330	7.3
Turkey	255	0.2	7,211	4.8	5,482	5.1	3,834	3.5	868	2.1	2,889	4.8
Italy	—	—	4,867	3.2	2,456	2.3	4,165	3.8	1,133	2.7	5,848	9.8
Others <i>(Note)</i>	19,219	11.3	18,839	12.5	7,846	7.1	16,529	15.3	7,097	17.0	11,125	18.6
Total	168,319	100.0	150,844	100.0	108,540	100.0	108,694	100.0	41,786	100.0	59,706	100.0

Note: Mainly included Brazil, Kuwait, Spain, Belgium, Finland, Portugal, Australia and Taiwan.

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United States

1H2022 compared to 1H2021

Our revenue strongly increased by US\$2.0 million or 23.4%, from US\$8.8 million in 1H2021 to US\$10.8 million in 1H2022, primarily driven by the significant increase in the average selling price in the United States by US\$1,559/MT or 32.9% from US\$4,745/MT in 1H2021 to US\$6,304/MT in 1H2022, which was partially offset by the slight decrease in sales volume by 131MT or 7.1% from 1,846MT to 1,715MT. The decrease in sales volume was mainly attributable to some existing customers placing fewer orders during the period.

FY2021 compared to FY2020

Our revenue increased by US\$2.5 million or 12.1%, from US\$20.5 million for FY2020 to US\$23.0 million for FY2021 primarily due to the sales volume in the United States increased by 566MT or 13.8% from 4,092MT for FY2020 to 4,658MT for FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$10.1 million or 33.1%, from US\$30.6 million for FY2019 to US\$20.5 million for FY2020 primarily due to the decrease in the average selling price for our sales to the United States by US\$4,208/MT or 45.7% from US\$9,215/MT for FY2019 to US\$5,007/MT for FY2020, which was partially offset by the increase in sales volume by 770MT or 18.8% from 3,322MT for FY2019 to 4,092MT for FY2020.

FY2019 compared to FY2018

Our revenue decreased by US\$8.1 million or 20.9%, from US\$38.7 million for FY2018 to US\$30.6 million for FY2019 primarily due to the decrease in the average selling price for our sales to the United States by US\$7,178/MT or 43.8% from US\$16,393/MT for FY2018 to US\$9,215/MT for FY2019, which was partially offset by the increase in sales volume by 962MT or 40.7% from 2,360MT for FY2018 to 3,322MT for FY2019.

Canada

1H2022 compared to 1H2021

Our revenue decreased by US\$2.1 million or 57.3%, from US\$3.6 million for 1H2021 to US\$1.5 million for 1H2022 primarily because the sales volume in Canada decreased by 798MT or 65.6% from 1,216MT in 1H2021 to 418MT in 1H2022 which was partially offset by the increase in the average selling price by US\$723/MT or 24.4% from US\$2,969/MT in 1H2021 to US\$3,692/MT in 1H2022.

The decrease in sales volume was mainly attributable to our Group strategically forgoing certain sales to some of our existing customers in Canada in favour of sales to customers in other markets with higher average selling price and better profit margins during 1H2022.

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FY2021 compared to FY2020

Our revenue decreased by US\$5.7 million or 38.8%, from US\$14.6 million for FY2020 to US\$8.9 million for FY2021 primarily because the average selling price in Canada decreased by US\$1,667/MT or 33.6% from US\$4,965/MT for FY2020 to US\$3,298/MT for FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$23.3 million or 61.5%, from US\$37.9 million for FY2019 to US\$14.6 million for FY2020 primarily because the average selling price for our sales to Canada decreased by US\$3,710/MT or 42.8% from US\$8,675/MT for FY2019 to US\$4,965/MT for FY2020 and the sales volume decreased by 1,438MT or 32.9% from 4,373MT for FY2019 to 2,935MT for FY2020 due to the decrease in sales volume to our Customer C as a result of the outbreak of COVID-19.

FY2019 compared to FY2018

Our revenue decreased by US\$38.6 million or 50.4%, from US\$76.5 million for FY2018 to US\$37.9 million for FY2019 primarily due to the decrease in the average selling price for our sales to Canada by US\$10,388/MT or 54.5% from US\$19,063/MT for FY2018 to US\$8,675/MT for FY2019, which was partially offset by the slight increase in sales volume by 361MT or 9.0% from 4,012MT for FY2018 to 4,373MT for FY2019.

The PRC

Please refer to paragraph headed “Revenue — The PRC” in this section for details.

South Africa

1H2022 compared to 1H2021

Our revenue increased exponentially by US\$2.8 million or 226.6%, from US\$1.2 million in 1H2021 to US\$4.0 million in 1H2022, primarily driven by the combined effect of (i) the significant increase in the average selling price in South Africa by US\$1,245/MT or 44.8% from US\$2,782/MT in 1H2021 to US\$4,027/MT for 1H2022; and (ii) the significant increase in the sales volume by 554MT or 125.6% from 441MT in 1H2021 to 995MT in 1H2022. The increase in sales volume was mainly attributable to the increase in sales to our existing customers.

FY2021 compared to FY2020

Our revenue decreased by US\$5.2 million or 48.5%, from US\$10.8 million for FY2020 to US\$5.6 million for FY2021 primarily because of the combined effect of (i) the average selling price in South Africa decreased by US\$1,044/MT or 26.3% from US\$3,972/MT for FY2020 to US\$2,928/MT for FY2021; and (ii) the sales volume decreased by 820MT or 30.1% from 2,721MT for FY2020 to 1,901MT for FY2021 due to the decrease in sales to Customer I in South Africa, one of our five largest customers during the Track Record Period, as our Company considered that the purchase price of graphite electrodes offered by Customer I was relatively low and therefore, did not meet our Company’s acceptable range.

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FY2020 compared to FY2019

Our revenue increased by US\$0.7 million or 6.9%, from US\$10.1 million for FY2019 to US\$10.8 million for FY2020 primarily because of the increase in sales volume by 1,264MT or 86.8% from 1,457MT for FY2019 to 2,721MT for FY2020, partially offset by the decrease in the average selling price for our sales to South Africa by US\$2,966/MT or 42.8% from US\$6,938/MT for FY2019 to US\$3,972/MT for FY2020.

FY2019 compared to FY2018

Our revenue decreased by US\$11.7 million or 53.7%, from US\$21.8 million for FY2018 to US\$10.1 million for FY2019 primarily because the average selling price for our sales to South Africa decreased by US\$3,522/MT or 33.7% from US\$10,460/MT for FY2018 to US\$6,938/MT for FY2019 and the sales volume decreased by 623MT or 30.0% from 2,080MT for FY2018 to 1,457MT for FY2019 due to a social unrest in 2019 in the area of Africa where the production site of Customer C is located which adversely affected the business of one of our major customers, Customer C.

France

1H2022 compared to 1H2021

Our revenue slightly decreased by US\$0.7 million or 18.1%, from US\$4.2 million in 1H2021 to US\$3.5 million for 1H2022, primarily attributable to the decrease in the sales volume by 562MT or 46.7% from 1,203MT in 1H2021 to 641MT in 1H2022, which was partially offset by the significant increase in the average selling price in France by US\$1,883/MT or 53.7% from US\$3,506/MT in 1H2021 to US\$5,389/MT in 1H2022. The decrease in the sales volume was mainly attributable to some existing customers placing fewer orders during 1H2022.

FY2021 compared to FY2020

Our revenue increased by US\$5.3 million or 324.4% from US\$1.6 million for FY2020 to US\$6.9 million for FY2021 due to the increase in the sales volume from 473MT for FY2020 to 1,742MT for FY2021 and the increase in the average selling price for our sales to France from US\$3,459/MT for FY2020 to US\$3,982/MT for FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$6.6 million or 80.1% from US\$8.2 million for FY2019 to US\$1.6 million for FY2020 primarily because of the decrease of the average selling price in France by US\$7,564/MT or 68.6% from US\$11,023/MT for FY2019 to US\$3,459/MT for FY2020.

Russia

1H2022 compared to 1H2021

Our revenue decreased by US\$2.7 million or 100.0% from US\$2.7 million in 1H2021 to nil in 1H2022 since our Group ceased to sell to Russia in light of the Russia-Ukraine conflict.

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FY2021 compared to FY2020

Our revenue decreased by US\$1.8 million or 23.4% from US\$7.6 million for FY2020 to US\$5.8 million for FY2021 primarily due to the decrease of sales volume by 264MT or 16.7% from 1,581MT for FY2020 to 1,317MT for FY2021 and the decrease in the average selling price of US\$384/MT or 8.0% from US\$4,779/MT for FY2020 to US\$4,395/MT for FY2021.

FY2020 compared to FY2019

Our revenue increased by US\$4.8 million or 167.8% from US\$2.8 million for FY2019 to US\$7.6 million for FY2020 primarily because of the increase of sales volume by 1,240MT from 341MT for FY2019 to 1,581MT for FY2020.

FY2019 compared to FY2018

Our revenue decreased by US\$0.9 million or 24.2% from US\$3.7 million for FY2018 to US\$2.8 million for FY2019 primarily because of the decrease in sales volume from 500MT to 341MT.

Germany

1H2022 compared to 1H2021

Our revenue increased by US\$2.0 million or 89.4%, from US\$2.3 million in 1H2021 to US\$4.3 million in 1H2022, primarily driven by the combined effect of (i) the significant increase in the average selling price in Germany by US\$2,153/MT or 65.3% from US\$3,294/MT in 1H2021 to US\$5,447/MT for 1H2022; and (ii) the increase in the sales volume by 101MT or 14.6% from 694MT in 1H2021 to 795MT in 1H2022.

FY2021 compared to FY2020

Our revenue increased by US\$2.9 million or 118.6%, from US\$2.5 million for FY2020 to US\$5.4 million for FY2021 primarily because of the increase in sales volume by 852MT or 149.5% from 570MT for FY2020 to 1,422MT for FY2021, which was partially offset by the decrease in the average selling price in Germany by US\$533/MT or 12.4% from US\$4,309/MT for FY2020 to US\$3,776/MT for FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$9.6 million or 79.7%, from US\$12.1 million for FY2019 to US\$2.5 million for FY2020 primarily because of the decrease in sales volume by 654MT or 53.4% from 1,224MT for FY2019 to 570MT for FY2020 and the decrease in the average selling price for our sales to Germany by US\$5,555/MT or 56.3% from US\$9,864/MT for FY2019 to US\$4,309/MT for FY2020.

FY2019 compared to FY2018

Our revenue increased by US\$10.5 million or 650.9%, from US\$1.6 million for FY2018 to US\$12.1 million for FY2019 primarily because the sales volume increased by 1,103MT or 911.6% from 121MT for FY2018 to 1,224MT for FY2019, which was partially offset by the decrease in the average selling price for our sales to Germany by US\$3,425/MT or 25.8% from US\$13,289/MT for FY2018 to US\$9,864/MT for FY2019.

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Turkey

1H2022 compared to 1H2021

Our revenue increased by US\$2.0 million or 232.8%, from US\$0.9 million in 1H2021 to US\$2.9 million in 1H2022, primarily driven by the combined effect of (i) the significant increase in the average selling price in Turkey by US\$1,292/MT or 33.5% from US\$3,858/MT in 1H2021 to US\$5,150/MT for 1H2022; and (ii) the significant increase in the sales volume by 336MT or 149.3% from 225MT in 1H2021 to 561MT in 1H2022.

FY2021 compared to FY2020

Our revenue decreased by US\$1.7 million or 30.1%, from US\$5.5 million for FY2020 to US\$3.8 million for FY2021 primarily because of the decrease in sales volume by 462MT or 35.7% from 1,295MT for FY2020 to 833MT for FY2021, which was partially offset by the increase in average selling price in Turkey by US\$370/MT or 8.7% from US\$4,233/MT for FY2020 to US\$4,603/MT for FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$1.7 million or 24.0%, from US\$7.2 million for FY2019 to US\$5.5 million for FY2020 primarily because of the decrease in the average selling price for our sales to Turkey by US\$3,073/MT or 42.1% from US\$7,306/MT for FY2019 to US\$4,233/MT for FY2020, which was partially offset by the increase in sales volume by 308MT or 31.2% from 987MT for FY2019 to 1,295MT for FY2020.

FY2019 compared to FY2018

Our revenue increased by US\$6.9 million or 2,727.8%, from US\$0.3 million for FY2018 to US\$7.2 million for FY2019 primarily because the sales volume increased by 970MT or 5,705.9% from 17MT for FY2018 to 987MT for FY2019, which was partially offset by the decrease in the average selling price for our sales to Turkey by US\$7,694/MT or 51.3% from US\$15,000/MT for FY2018 to US\$7,306/MT for FY2019.

Italy

1H2022 compared to 1H2021

Our revenue increased by US\$4.7 million or 416.2%, from US\$1.1 million in 1H2021 to US\$5.8 million in 1H2022, primarily driven by the combined effect of (i) the significant increase in the average selling price in Italy by US\$1,809/MT or 57.5% from US\$3,147/MT in 1H2021 to US\$4,956/MT for 1H2022; and (ii) the significant increase in the sales volume by 820MT or 227.8% from 360MT in 1H2021 to 1,180MT in 1H2022.

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FY2021 compared to FY2020

Our revenue increased by US\$1.7 million or 69.6%, from US\$2.5 million for FY2020 to US\$4.2 million for FY2021 primarily because of the significant increase in sales volume by 495MT or 86.4% from 573MT for FY2020 to 1,068MT for FY2021, which was partially offset by the decrease in the average selling price in Italy by US\$386/MT or 9.0% from US\$4,286/MT for FY2020 to US\$3,900/MT for FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$2.4 million or 49.5%, from US\$4.9 million for FY2019 to US\$2.5 million for FY2020 primarily because of the decrease in the average selling price for our sales to Italy by US\$4,563/MT or 51.6% from US\$8,849/MT for FY2019 to US\$4,286/MT for FY2020, which was partially offset by the increase in sales volume by 23MT or 4.2% from 550MT for FY2019 to 573MT for FY2020.

FY2019 compared to FY2018

Our revenue increased by US\$4.9 million, from nil for FY2018 to US\$4.9 million for FY2019 primarily because the sales volume increased by 550MT from nil for FY2018 to 550MT for FY2019 with the average selling price for our sales to Italy at US\$8,849/MT for FY2019.

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By sources of graphite electrodes

The table below sets out the breakdown of revenue by sources of graphite electrodes:

	FY2018	FY2019	FY2020	FY2021	1H2021 <i>(unaudited)</i>	1H2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Manufactured by our Group	920	150,844	93,090	91,155	37,570	45,366
Sourced from suppliers	167,399 ⁽¹⁾	—	15,450 ⁽²⁾	17,539 ⁽²⁾	4,216 ⁽²⁾	14,340 ⁽²⁾
	0.5	100.0	85.8	83.9	89.9	76.0
	99.5	—	14.2	16.1	10.1	24.0
Total	168,319	150,844	108,540	108,694	41,786	59,706
	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

- (1) In FY2018, we sourced the graphite electrodes from various suppliers.
- (2) We purchased graphite electrodes from other suppliers to fulfill selected sales orders.

By customer types

The table below sets out the breakdown of revenue by customer types:

	FY2018	FY2019	FY2020	FY2021	1H2021 <i>(unaudited)</i>	1H2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
End users ^(Note 1)	163,778	136,535	66,566	73,943	29,351	42,675
Others ^(Note 2)	4,541	14,309	41,974	34,751	12,435	17,031
	97.3	90.5	61.3	68.0	70.2	71.5
	2.7	9.5	38.7	32.0	29.8	28.5
Total	168,319	150,844	108,540	108,694	41,786	59,706
	100.0	100.0	100.0	100.0	100.0	100.0

Notes:

- (1) Mainly included steel manufacturers, a mineral product manufacturer and a mining company.
- (2) Others comprise sales to distributor and industry traders.

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1H2022 compared to 1H2021

Our revenue increased significantly by US\$17.9 million or 42.9% from US\$41.8 million in 1H2021 to US\$59.7 million in 1H2022, primarily driven by the combined effect of (i) the increase in the sales volume by 1,054MT or 9.2% from 11,402MT in 1H2021 to 12,456MT in 1H2022; and (ii) the significant increase in the average selling price by US\$1,128/MT or 30.8% from US\$3,665/MT in 1H2021 to US\$4,793/MT in 1H2022.

FY2021 compared to FY2020

Our revenue remained stable in FY2020 and FY2021 due to the increase in sales volume by 2,022MT or 7.9% from 25,647MT in FY2020 to 27,669MT in FY2021, the effect of which was partially offset by the decrease in the average selling price by US\$304/MT or 7.2% from US\$4,232/MT in FY2020 to US\$3,928/MT in FY2021.

FY2020 compared to FY2019

Our revenue decreased by US\$42.3 million or 28.0%, from US\$150.8 million for FY2019 to US\$108.5 million for FY2020 primarily due to the decrease in the average selling price by US\$3,442/MT or 44.9% from US\$7,674/MT for FY2019 to US\$4,232/MT for FY2020 because of the downward adjustment in the price of the graphite electrode market decrease in the during second half in 2019 and FY2020 following the slowing growth of the global EAF steel market as a result of COVID-19, the effect of which was partially offset by the increase in the sales volume by 5,991MT or 30.5% from 19,656MT to 25,647MT. The increase in sales volume was mainly attributable to the increase in sales volume to the PRC and EMEA customers and the increase in the number of other customers who are distributor and industry traders.

FY2019 compared to FY2018

Our revenue decreased by US\$17.5 million or 10.4%, from US\$168.3 million for FY2018 to US\$150.8 million for FY2019 primarily due to the average selling price decreased by US\$7,636/MT or 49.9% from US\$15,310/MT for FY2018 to US\$7,674/MT for FY2019 as the price of the global market of graphite electrodes returned from the historical high in FY2018 to a relatively normal level in FY2019, the effect of which was partially offset by the increase in sales volume by 8,662MT or 78.8% from 10,994MT to 19,656MT.

The increase in sales volume was mainly attributable to:

- (i) the full year effect following the commencement of operation of the Italian Factory since June 2018 which enabled us to have a higher exposure in EMEA and Americas markets, where we have become a qualified supplier of more EAF steel manufacturers and secured purchase orders from these manufacturers and existing customers.

In addition, with the Italian Factory, we successfully secured six and 50 new customers which contributed revenue of US\$21.4 million and US\$41.5 million in FY2018 and FY2019, respectively. In particular, we have secured 24 new customers in the EMEA market in

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FY2019, which contributed US\$28.5 million of our revenue in FY2019, resulting in the increase in our revenue for the EMEA market during the year, despite a decrease in the average selling price of graphite electrodes in the market;

- (ii) the expansion of our sales and marketing department in FY2019 from 12 sales staff/sales agents as at 31 December 2018 to 26 sales staff/sales agents as at 31 December 2019; and
- (iii) the entering into the PRC market since October 2018 following our acquisition of Sangraf Energy, and the increase in our revenue in the PRC from US\$6.6 million in FY2018 to US\$18.2 million in FY2019.

Cost of sales

Our cost of sales comprises mainly cost of raw materials, cost of graphite electrodes purchased, conversion cost and delivery charges and others. Raw materials processed are our main cost of sales after we commenced in-house manufacturing, which consisted mainly of needle coke and binder pitch and accounted for 0.3%, 48.9%, 52.1%, 30.4%, 33.6% and 21.9% of our total cost of sales for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively.

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The table below sets out, for the periods indicated, the breakdown of our cost of sales by cost component:

	FY2018		FY2019		FY2020		FY2021		1H2021 (unaudited)		1H2022	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
Raw material processed	169	0.3	56,954	48.9	47,905	52.1	26,113	30.4	11,608	33.6	9,661	21.9
Direct labour	8	0.0	2,968	2.5	2,752	3.0	3,195	3.7	1,521	4.4	1,632	3.7
Depreciation and amortisation	14	0.0	2,341	2.0	2,854	3.1	3,757	4.4	1,743	5.0	2,270	5.1
Subcontracting cost	—	0.0	10,865	9.3	3,501	3.8	6,404	7.5	1,967	5.7	2,985	6.8
Other conversion cost ^(Note)	33	0.1	19,464	16.7	20,298	22.0	28,367	33.0	12,650	36.6	14,669	33.2
Delivery charge and duty	4,182	6.6	7,830	6.7	4,192	4.6	5,866	6.8	2,347	6.8	2,604	5.9
Provision for inventories	—	—	16,159	13.9	2,406	2.6	—	—	—	—	—	—
Cost of graphite electrodes purchased	58,695	93.0	—	—	8,118	8.8	12,162	14.2	2,735	7.9	10,321	23.4
Total	<u>63,101</u>	100.0	<u>116,581</u>	100.0	<u>92,026</u>	100.0	<u>85,864</u>	100.0	<u>34,571</u>	100.0	<u>44,142</u>	100.0

Note: Other conversion costs mainly represented utilities and energy, packing cost and maintenance cost.

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According to Frost & Sullivan, during 2014 to 2016, needle coke price collapsed due to a weak demand from the graphite electrode industry and a fall in the crude oil price. The prices declined to USD562.2 per tonne in 2016. As China is a net importer of needle coke, the demand from China has a great impact on the price of needle coke outside China. The graphite electrode industry in China witnessed a sudden surge in demand in the second half of 2017. The sudden rise in demand for graphite electrodes resulted in a high requirement of needle coke, which caused the price of needle coke increased substantially in 2017 and reached USD3,769.9 per tonne in 2019. In 2024, the price of needle coke outside China is expected to reach USD2,029.1 per tonne. For details on the cost of our major raw materials consumed, and their respective percentage to our total cost of sales and the average purchase price of our major raw materials during the Track Record Period, please refer to the section headed “Business — Our Suppliers — Raw materials” in this prospectus.

1H2022 compared to 1H2021

Our cost of sales increased by US\$9.5 million or 27.7%, from US\$34.6 million in 1H2021 to US\$44.1 million in 1H2022, primarily attributable to the combined effect of (i) the increase in the sales volume by 1,054MT or 9.2% from 11,402MT for 1H2021 to 12,456MT in 1H2022 and (ii) the increase in the unit cost of sales of our graphite electrodes by US\$512/MT or 16.9% from US\$3,032/MT in 1H2021 to US\$3,544/MT in 1H2022.

The increase in our unit cost of sales was mainly attributable to (i) the increase in the unit subcontracting costs by US\$434/MT or 54.1% from US\$802/MT for 1H2021 to US\$1,236/MT for 1H2022, and (ii) the increase in the unit purchase cost of the graphite electrodes purchased from our suppliers in the PRC by US\$1,094/MT or 59.0% from US\$1,853/MT in 1H2021 to US\$2,947/MT in 1H2022.

During 1H2022, given the production at the PRC Factory was substantially suspended from January to February 2022 according to the order from the relevant local government mandating power rationing and in order to fulfil the purchase orders placed by our customers, we purchased more graphite electrodes from suppliers when compared to 1H2021. As a result, our total costs of graphite electrodes purchased increased significantly.

FY2021 compared to FY2020

Our cost of sales decreased by US\$6.1 million or 6.7%, from US\$92.0 million for FY2020 to US\$85.9 million for FY2021 primarily due to the combined effect of (i) the decrease in unit cost of raw material processed by 46.3% from US\$2,185/MT for FY2020 to US\$1,174/MT in FY2021 as the unit cost of needle coke consumed decreased; and (ii) there was no additional inventory provision for FY2021, the effect of which was partially offset by the increase in subcontracting cost and other conversion cost as our production volume increased from 16,927MT for FY2020 to 22,726MT for FY2021 and the increase in cost of graphite electrodes purchased.

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FY2020 compared to FY2019

Our cost of sales decreased by US\$24.6 million or 21.1%, from US\$116.6 million for FY2019 to US\$92.0 million for FY2020 primarily due to the combined effect of (i) the decrease in the unit cost of raw material processed by 24.6% from US\$2,898/MT for FY2019 to US\$2,185/MT for FY2020; and (ii) the decrease in provision for inventories from US\$16.2 million in FY2019 to US\$2.4 million in FY2020, the effect of which were partially offset by the increase in sales volume by 5,991MT or 30.5% from 19,656MT for FY2019 to 25,647MT for FY2020.

FY2019 compared to FY2018

Our cost of sales increased by US\$53.5 million or 84.8%, from US\$63.1 million for FY2018 to US\$116.6 million for FY2019. The increase was mainly due to the combined effects of (i) the increase in the sales volume by 8,662MT or 78.8%, from 10,994MT for FY2018 to 19,656MT for FY2019; (ii) the decrease in the unit costs of graphite electrodes, excluding the provision for inventories, by 11.0% from US\$5,740/MT in FY2018 to US\$5,109/MT in FY2019 as the cost for manufacturing graphite electrodes in FY2019 was lower than that of purchasing graphite electrodes in FY2018; and (iii) the provision for inventories of US\$16.2 million in FY2019.

Gross profit and gross profit margin

For FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, our gross profit amounted to US\$105.2 million, US\$34.3 million, US\$16.5 million, US\$22.8 million, US\$7.2 million and US\$15.6 million, respectively. The respective gross profit margin was 62.5%, 22.7%, 15.2%, 21.0%, 17.3% and 26.1%, respectively.

Our overall gross profit increased significantly by US\$8.4 million or 115.7%, from US\$7.2 million in 1H2021 to US\$15.6 million for 1H2022 and our gross profit margin improved significantly from 17.3% for 1H2021 to 26.1% in 1H2022. According to Frost & Sullivan, the global consumption volume of graphite electrodes is expected to increase from 727.1 thousand tonnes in 2021 to 786.3 thousand tonnes in 2022 due to the increasing global demand for steel and the recovery of the global EAF steel market. The significant increase in our gross profit margin from 1H2021 to 1H2022 was mainly driven by (i) the increase in the sales volume in 1H2022 as compared with that in 1H2021; and (ii) the strong increase of 30.8% in the average selling price of the graphite electrodes which was in line with the rising market trend during the corresponding period as advised by Frost & Sullivan.

Our overall gross profit increased by US\$6.3 million or 38.2%, from US\$16.5 million for FY2020 to US\$22.8 million for FY2021 and our gross profit margin increased from 15.2% for FY2020 to 21.0% for FY2021. In FY2021, the market price of graphite electrodes resumed gradual trajectory after its stabilisation since August 2020 and the steel market and other downstream industries started to recover from the COVID-19 downturn. Against such market condition, our Group proactively adopted measures to increase sales volume and expand our customer base and as a result, the financial performance of our Group improved substantially.

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The decrease in our gross profit margin during FY2018, FY2019 and FY2020 was largely caused by the downward trend of the average selling price of graphite electrodes sold and the market price volatility of graphite electrodes. Our average selling price was driven by the market price in the graphite electrode industry. As advised by Frost & Sullivan, it was a common phenomenon that manufacturers of graphite electrodes experienced a drop in gross profit margin from 2018 to 2020 given the price spread between graphite electrodes and needle coke narrowed from 2018 to 2020. Our Directors expect that the downward trend during 2018 to 2020 will not continue from 2021 onwards based on the following bases:

- (i) in relation to the fluctuations of our Group's gross profit margin by geographical regions and major markets during the Track Record Period, it is emphasised that graphite electrode is not a common commodity nor consumer products with a readily available market price and there is no authoritative benchmark price as such in the graphite electrode market for the market participants to follow.

Therefore, the market participants, including our Group, will price its graphite electrode products based on the market price according to the product specifications. Furthermore, we do not operate on a cost plus pricing business model as adopted by some original equipment manufacturer businesses;

- (ii) we determine the quotation of our products on a case-by-case basis by taking into account various factors including, but not limited to, the specifications of products, our prediction on the market price, our production costs, inventory level and cost as well as the bargaining power of potential customers which have their own anticipation of the market price. The interplay of all these factors will affect each price negotiation process and thus, each final purchase price. As a result, our price trend is generally in line with the market price as advised by Frost & Sullivan. However, there is no definite trend or pattern on our gross profit margins as the gross profit margin is not a key determinant during the negotiating processes; and
- (iii) the trends of gross profit margin, average selling price and/or average costs of sales of different geographical regions, major markets or even individual customer during a specified period of time may not be consistent or of the same pattern. According to Frost & Sullivan, as an industry characteristic, there is no consistent trend of gross profit margin, average selling price and average costs of sales of different geographical regions, major markets or even individual customers. The price of graphite electrodes is influenced by supply and demand, global and regional economic conditions, and the ability to negotiate between the supplier and customer. Accordingly, so the price trends, the pattern of gross profit, average selling price, and average costs of sales vary by case. The price trend and the pattern of gross profit margin, average selling price, and average costs of our sales globally are generally in line with the market trend and within the range of its industry peers.

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During the Track Record Period, the gross profit margin of each purchase order placed by our customer was subject to the anticipated selling price and cost of sales, which were further subject to a bundle of factors as set out below with varying magnitudes of effect on the gross profit margin which led to different patterns of fluctuations in the average selling price and the costs of sales in different major markets:

(i) *Factors affecting the selling price of graphite electrodes include:*

- the previous and forecast price of graphite electrodes of the relevant geographical region at the time when a purchase order is placed;
- the economy of the relevant geographical region;
- the specification requirements and order size of the graphite electrode required by customers;
- the prevailing demand from customers;
- the negotiation on the price and payment terms;
- the contractual arrangement between us and customers such as the term of the agreement and the mechanism for determining the purchase price; and
- the customer's credibility and its relationship with our Group.

(ii) *Factors affecting the average cost of sales of graphite electrodes include without limitation the followings:*

- the market price and inventory costs of the major raw material, needle coke, that was used in the manufacturing of the graphite electrode to fulfil customers' order;
- the specification requirements of graphite electrodes required by customers for graphite electrodes that we manufacture, manufacturing costs, including overhead costs incurred internally and subcontracting costs charged by external contractors for graphite electrodes sourced from suppliers and the purchase price offered by the suppliers;
- the time when a purchase order is placed with us which relates to the time when we source raw materials such as needle coke;
- the specification requirements of the graphite electrodes required by customers; and
- the reduction of stock provision due to inventories sold made in previous financial year(s).

However, the extent and magnitude of effect of each factor mentioned above on the gross profit margin differs, resulting in different patterns of fluctuations in the average selling price and costs of sales in different major markets throughout the Track Record Period.

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The market price of graphite electrodes resumed gradual trajectory in 2021

According to Frost & Sullivan, the market price of graphite electrodes in the global market (excluding the PRC) as well as the PRC market bottomed in August 2020 and remained stable until the end of 2020 and has subsequently resumed gradual trajectory since then and is expected to reach US\$5,196.4/MT and RMB37,821.5MT, respectively by the fourth quarter of 2021. In relation to the global market price trend development during 2020, please refer to the section headed “Industry Overview — Recent development of global and China steel and graphite electrode market amid the COVID-19 — Price analysis of global and China’s graphite electrodes”. Our gross profit margin also increased from 15.2% for FY2020 to 21.0% for FY2021. Our average selling price per MT of each quarter of 2020 and 2021 was US\$4,786, US\$4,626, US\$3,595, US\$3,679, US\$3,690, US\$3,645, US\$3,970 and US\$4,230, respectively, which mirrored the increasing market average selling price trend of graphite electrode.

Recovery of steel market and other downstream industries from COVID-19 downturn

The outbreak of COVID-19 has resulted in a decreased growth rate of the steel manufacturing industry globally due to the temporary suspension of operation and stagnation of logistics during 2020. However, according to Frost & Sullivan, the production and operating rates of global steel manufacturers had gradually returned to the normal level before the end of 2020. According to Frost & Sullivan:

- (i) since the outbreak of COVID-19, the operating rates of the global steel manufactures (excluding the PRC) bottomed and fell below 59% in April 2020 and started to regain momentum and rebounded to the normal level of approximately 79% in October 2020; and
- (ii) the operating rates of PRC steel manufactures bottomed and fell below 68% in February, returned to the normal level of above 82% since May 2020 and has been remained stable since then. In 2021, the market demand of steel is expected to recover and reach approximately 1,795.1 million tonnes, representing an increase of approximately 4.1% over 2020.

For further details on the operating rates of the global and PRC steel manufacturers, please refer to the section headed “Industry Overview — Recent development of the global and China steel and graphite electrode market amid the COVID-19 — Monthly production and operating rate of crude steel” in this prospectus.

Furthermore, some typical downstream industries of the steel industry, such as the construction, machinery and motor vehicle industries have started to recover in the third quarter of 2020. For further details on recovery of downstream industries of the steel industry in the U.S. and the PRC, please refer to the section headed “Industry Overview — Recent development of global and China steel and graphite electrode market amid the COVID-19 — Downstream industries of steel industry” in this prospectus.

FINANCIAL INFORMATION

Measures have been or will be taken to increase sales volume and profitability

During the market downturn since late 2019 and amid COVID-19, we developed and adopted a series of strategies and measures to counter the dire market conditions. For instance, we adopted measures to expand our customer base and sales volume on the one hand and maintain and enhance our profitability on the other. For further details, please refer to the sections headed “Business — Business Strategies — Strategies to expand customer base and sales volume” and “Business — Business Strategies — Maintain and enhance profitability” in this prospectus.

1H2022 compared to 1H2021

Our overall gross profit increased significantly by US\$8.4 million or 115.7%, from US\$7.2 million in 1H2021 to US\$15.6 million in 1H2022 and the gross profit margin improved significantly from 17.3% in 1H2021 to 26.1% in 1H2022. Such increase was mainly driven by (i) the significant increase in the average selling price of graphite electrodes by US\$1,128/MT or 30.8% from US\$3,665/MT in 1H2021 to US\$4,793/MT in 1H2022; and (ii) the increase in the sales volume by 1,054MT or 9.2% from 11,402MT in 1H2021 to 12,456MT in 1H2022, which was partially offset by the increase in the unit costs of sales of graphite electrodes by US\$512/MT or 16.9% from US\$3,032/MT to US\$3,544/MT.

FY2021 compared to FY2020

Our overall gross profit increased by US\$6.3 million or 38.2%, from US\$16.5 million for FY2020 to US\$22.8 million for FY2021. Such increase was mainly due to the unit cost of sales decreased by 13.5% from US\$3,588/MT in FY2020 to US\$3,103/MT in FY2021 and the increase in sales volume by 7.9% from 25,647MT for FY2020 to 27,669MT for FY2021. The gross profit margin increased from 15.2% for FY2020 to 21.0% for FY2021 which was mainly due to the decrease in purchase cost of raw materials in FY2020.

FY2020 compared to FY2019

Our overall gross profit decreased by US\$17.7 million or 51.8%, from US\$34.3 million for FY2019 to US\$16.5 million for FY2020. Such decrease was mainly due to the effect of the significant decrease of average selling price by 44.9% from US\$7,674/MT for FY2019 to US\$4,232/MT for FY2020 because of the downward adjustment in the graphite electrode market price during second half in 2019 and FY2020 following the slowing growth of global EAF steel market under COVID-19, which was partially offset by the decrease in purchase cost of raw materials, the amount of stock provision reduced due to inventories sold in FY2019, being US\$537/MT, and the postponement of delivery of a purchase order with a relatively high average selling price from the original scheduled time in FY2019 to FY2020 upon the request of one of our major customers, Xinxiang Longhui. The average selling price for that order was higher than that of our Group's other sales in the PRC in FY2020 given the vibrant graphite electrode market in FY2019.

Our gross profit generated from our sales of graphite electrodes manufactured by our Group decreased by US\$25.1 million or 73.2%, from US\$34.3 million for FY2019 to US\$9.2 million for FY2020 primarily due to the decrease in the average selling price of the graphite electrodes by US\$3,429 or 44.9% from US\$7,674/MT for FY2019 to US\$4,232/MT for FY2020.

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According to Frost & Sullivan, the average price of UHP graphite electrodes and needle coke of the global market (excluding the PRC) in 2020 was approximately US\$4,120.4/MT and approximately US\$1,210.4/MT, respectively. Our unit cost of sales for FY2020 was approximately US\$3,588.2/MT.

The average prices of UHP graphite electrodes and needle coke of 2020 dropped by approximately 53.3% and approximately 61.4%, respectively, and our unit cost of sales (excluding the provision for inventories) decreased by approximately 31.6% when compared to that of FY2019.

Notwithstanding the significant drop in the average price of needle coke, our unit cost of sales for FY2020 did not decrease to such an extent as expected because most of our sales orders in FY2020 were fulfilled by our then existing inventories, raw material costs of which were relatively high.

Given the above, we had to make provision in the amount of approximately US\$2.4 million for the inventories and our gross profit margin dropped from approximately 22.7% in FY2019 to approximately 15.2% in FY2020.

FY2019 compared to FY2018

Our overall gross profit decreased by US\$71.0 million or 67.4%, from US\$105.2 million for FY2018 to US\$34.3 million for FY2019. Such decrease was mainly due to the combined effect of (i) the significant decrease of average selling price by 49.9% in FY2019 as the market price of graphite electrodes returned from the historical high in FY2018; (ii) increase in cost of sales because of the significant increase in sales volume in FY2019; and (iii) the provision for inventories of US\$16.2 million in FY2019.

According to Frost & Sullivan, during FY2019, the average price of UHP graphite electrodes and needle coke of the global market (excluding the PRC) were approximately US\$8,824.0/MT and approximately US\$3,769.9/MT, respectively. Our unit cost of sales of graphite electrodes manufactured by our Group for FY2019 was approximately US\$5,931/MT.

While the average price of UHP graphite electrodes decreased by approximately 50.0% when compared to 2018, the average price of needle coke of the global market slightly increased. The raw material costs/purchase costs of the then existing inventories were relatively high as those raw materials were procured in 2018 and early 2019 which subsequently went down in the second half of FY2019. As a result, we had to make a provision of approximately US\$16.0 million for the inventories which led to a significant decrease in our gross profit margin from approximately 62.5% in FY2018 to approximately 22.7% in FY2019. Such drop was subsequently mitigated by the reduction in the average conversion cost due to the commencement of in-house production.

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By geographical locations

The table below sets out the breakdown of gross profit according to geographical locations of our customers and the relevant gross profit margin during the Track Record Period:

Countries/regions	FY2018		FY2019		FY2020		FY2021		1H2021 <i>(unaudited)</i>		1H2022	
	Gross profit US\$'000	Gross profit margin %	Gross profit US\$'000	Gross profit margin %	Gross profit US\$'000	Gross profit margin %						
Americas <i>(Note 1)</i>	82,891	66.3	29,403	40.1	3,606	10.0	9,733	28.3	3,674	27.0	4,640	35.7
EMEA <i>(Note 2)</i>	19,642	55.4	20,508	34.9	3,133	8.9	5,522	13.2	1,008	6.1	7,709	26.8
The PRC	2,182	33.1	190	1.0	12,400	35.2	6,534	22.8	2,142	21.6	2,448	15.6
APAC <i>(Note 3)</i>	503	42.3	321	53.3	(219)	(11.1)	1,041	26.0	391	22.9	767	33.8
Inventory provision	—	N/A	(16,159)	N/A	(2,406)	N/A	—	N/A	—	N/A	—	N/A
Total	<u>105,218</u>	<u>62.5</u>	<u>34,263</u>	<u>22.7</u>	<u>16,514</u>	<u>15.2</u>	<u>22,830</u>	<u>21.0</u>	<u>7,215</u>	<u>17.3</u>	<u>15,564</u>	<u>26.1</u>

Notes:

- (1) Mainly included Canada, U.S., Peru and Brazil
- (2) Mainly included Kuwait, South Africa, Germany, Russia, Spain, Belgium, France, Finland, Italy, Turkey and Portugal
- (3) Mainly included Australia, Taiwan and Vietnam but excluded the PRC

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Americas

For FY2018 and FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin. Our gross profit and gross profit margin decreased in FY2020 compared to FY2019 because our gross profit and gross profit margins of the United States and Canada, two of our major markets, decreased significantly. Our average selling price in Americas decreased by 43.8% from US\$8,785/MT in FY2019 to US\$4,940/MT in FY2020. Our gross profit and gross profit margin increased in FY2021 compared to FY2020 which was primarily due to the improvement of gross profit and gross profit margin from the sales to our customers in the United States.

Our gross profit and gross profit margin increased significantly in 1H2022 compared to 1H2021, primarily driven by the strong increase in our average selling price by US\$1,736/MT or 42.7% from US\$4,064/MT in 1H2021 to US\$5,800/MT in 1H2022, which was partially offset by the increase in our average cost of sales by US\$762/MT or 25.7% from US\$2,967/MT in 1H2021 to US\$3,729/MT in 1H2022.

For the trends of our Group's gross profit and gross profit margins of the United States and Canada, please refer to the paragraphs headed "Gross profit and gross profit margin — United States" and "Gross profit and gross profit margin — Canada" in this section.

EMEA

For FY2018 and FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin. Our gross profit and gross profit margin decreased in FY2020 compared to FY2019 because our gross profit and gross profit margins of Russia and France, two of our major markets, decreased significantly. Our average selling price decreased by 53.4% from FY2019 to FY2020. Our gross profit and gross profit margin increased in FY2021 compared to FY2020 which aligned with our overall gross profit and gross profit trends in FY2021.

Our gross profit and gross profit margin increased significantly in 1H2022 compared to 1H2021, primarily driven by the significant increase in the average selling price by US\$1,510/MT or 42.8% from US\$3,524/MT in 1H2021 to US\$5,034/MT in 1H2022, which was partially offset by the increase in our average cost of sales by US\$375/MT or 11.3% from US\$3,309/MT in 1H2021 to US\$3,684/MT in 1H2022. For the trends of our Group's gross profit and gross profit margins of Russia and France, please refer to the paragraphs headed "Gross profit and gross profit margin — Russia" and "Gross profit and gross profit margin — France" in this section.

The PRC

Our gross profit and gross profit margin from the PRC decreased in FY2019 as compared to FY2018 because of the downward adjustment in the graphite electrode market price during second half in 2019.

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Our gross profit increased by US\$12.2 million from US\$0.2 million in FY2019 to US\$12.4 million in FY2020 and our gross profit margin increased from 1.0% in FY2019 to 35.2% for FY2020 mainly due to the decrease in the average cost of sales per MT by 36.6% from US\$3,764/MT in FY2019 to US\$2,387/MT in FY2020, which was partially offset by the decrease in the average selling price by 3.2% or US\$120/MT from US\$3,804/MT to US\$3,684/MT.

While the fluctuation of average cost of sales was due to the combined effect of the reduction of stock provision due to inventories sold in FY2020, being to US\$576/MT, and that the graphite electrodes sold in FY2020 which were manufactured with the needle coke purchased with relatively low cost in 2020 when compared to those purchased in FY2019.

The decrease in the average selling price was due to the decrease of the average selling price of purchase orders of the customers in the PRC (except for Xinxiang Longhui) by 38.5% or US\$1,530/MT from US\$3,975/MT for FY2019 to US\$2,445/MT for FY2020, which was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan, the effect of such decrease was partially offset by the postponement of delivery of a purchase order with a relatively high average selling price from the original scheduled time in FY2019 to FY2020 upon the request of Xinxiang Longhui, our largest customer in FY2020. In relation to the postponed sales to Xinxiang Longhui, our average selling price and gross profit margin of the sales were higher than that of our other sales in the PRC as certain sales order was placed and secured by prepayment from the customer in early 2019 when the market price of graphite electrodes was relatively high. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus.

Given the gross profit margin for FY2020 was relatively higher than the normal level as explained, our gross profit decreased by US\$5.9 million from US\$12.4 million for FY2020 to US\$6.5 million for FY2021 and our gross profit margin decreased from 35.2% for FY2020 to 22.8% for FY2021, the gross profit margin for FY2021 aligned with our overall gross profit in FY2021. The average selling price in the PRC decreased by 4.3% from US\$3,684/MT for FY2020 to US\$3,525/MT for FY2021 and the average cost of sales increased by 14.0% from US\$2,387/MT to US\$2,720/MT. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus for further details. The increase in the average cost of sales was due to (i) the reduction of stock provision due to inventories sold in FY2020 in the amount of US\$576/MT, which was higher than that in FY2021, being US\$109/MT; and (ii) the increase of the average subcontracting costs by 30.9% or US\$232 per MT.

Our gross profit increased from US\$2.1 million in 1H2021 to US\$2.4 million in 1H2022, mainly attributable to the increase in the sales volume by 1,143MT or 39.2% from 2,916MT in 1H2021 to 4,059MT in 1H2022 and the increase in the average selling price for our sales to the PRC by US\$467/MT or 13.7% from US\$3,401/MT in 1H2021 to US\$3,867/MT in 1H2022 which effects were partially offset by the increase in the average cost of sales by US\$598/MT or 22.4% from US\$2,666/MT for 1H2021 to US\$3,264/MT for 1H2022.

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Our gross profit margin decreased from 21.6% in 1H2021 to 15.6% in 1H2022 mainly attributable to the increase in the average cost of sales. Such increase was due to (i) the increase in the unit subcontracting costs by US\$434/MT or 54.2% from US\$802/MT for 1H2021 to US\$1,236/MT for 1H2022; and (ii) the relatively high unit purchase cost of 1,752MT graphite electrodes purchased from our suppliers in the PRC with unit purchase cost of US\$3,552/MT compared to the unit cost of sales of graphite electrodes we manufactured of US\$2,825/MT.

During 1H2022, given the production of the PRC Factory was substantially suspended from January to February 2022 according to the order from the relevant local government mandating power rationing, in order to fulfil the purchase orders placed by our customers, we purchased more graphite electrodes from suppliers compared to 1H2021. As a result, our total costs of graphite electrodes purchased increased significantly. While we did not source any graphite electrodes for sales to our PRC customers in 1H2021, among the sales to our PRC customers in 1H2022, revenue of approximately US\$7.1 million and gross profit of approximately US\$0.9 million were generated from the graphite electrodes sourced from suppliers in 1H2022. The gross profit margin of such graphite electrodes sourced from suppliers for sales to our PRC customers in 1H2022 was approximately 12.1%, which was significantly lower than that of the graphite electrodes we manufactured, being 18.4%.

APAC

The gross profit and gross profit margin in FY2018 and FY2019 remained stable. Our gross profit and gross profit margin from APAC decreased in FY2020 compared to FY2019 because of the decrease in our average selling price from FY2019 to FY2020 by 59.4%. Our margin position improved from gross loss for FY2020 to gross profit for FY2021 primarily because of the decrease of cost of sales by 36.8% from US\$4,948/MT for FY2020 to US\$3,129/MT for FY2021. Such fluctuation was mainly due to our sales to one of our customers where a gross loss of US\$0.1 million was recorded in FY2020 and where a gross profit of US\$0.6 million was recorded in FY2021. Our gross profit and gross profit margin increased in 1H2022 as compared to 1H2021 which was in line with the rising trends of our overall gross profit and gross profit margin in 1H2022.

FINANCIAL INFORMATION

United States

For FY2018 and FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin. Our gross profit and gross profit margin decreased from FY2018 to FY2019 due to the decrease of the average selling price in the United States as the market price of graphite electrodes returned from its historical high since 2018.

Our gross profit further decreased from US\$10.3 million for FY2019 to US\$1.1 million for FY2020 and our gross profit margin decreased from 33.7% for FY2019 to 5.2% for FY2020 due to the decrease in the average selling price by 45.7% or US\$4,208/MT from US\$9,215/MT for FY2019 to US\$5,007/MT for FY2020, which was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan, the effect of such decrease was partially offset by the decrease in the average cost of sales by 22.3% or US\$1,366 from US\$6,114/MT for FY2019 to US\$4,748/MT for FY2020. The average cost of sales decreased substantially because (i) most of the graphite electrodes sold in the second half of FY2020 (around 65% of 4,092MT of graphite electrodes sold in FY2020) were manufactured with the needle coke purchased with relatively low cost in early 2020; and (ii) the stock provision in the amount of US\$789/MT was reduced for each MT of inventories sold in FY2020, being US\$789/MT. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus for further details.

Our gross profit increased from US\$1.1 million for FY2020 to US\$6.6 million for FY2021 and our gross profit margin increased from 5.2% for FY2020 to 28.8% for FY2021. The reason for such increase is that while the average selling price remained stable at US\$5,007/MT in FY2020 and at US\$4,933/MT in FY2021, the average cost of sales decreased by 26.1% or US\$1,238 from US\$4,748/MT for FY2020 to US\$3,510/MT for FY2021 which has reflected the reduction of stock provision due to inventories sold in FY2020, being US\$789/MT and in FY2021, being US\$184/MT.

The effect of the decrease in the average cost of sales was partially offset by the decrease in the average selling price by 1.5% from US\$5,007/MT to US\$4,933/MT, which was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. The average cost of sales decreased substantially in FY2021 as the graphite electrodes sold in FY2021 were manufactured with needle coke purchased in 2020 and early 2021 when the needle coke price was low when compared to those purchased in FY2019. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus for further details.

Our gross profit increased robustly from US\$2.6 million in 1H2021 to US\$3.9 million in 1H2022 and our gross profit margin improved from 30.1% for 1H2021 to 36.2% for 1H2022. Such increase was driven by the significant increase in the average selling price by US\$1,559/MT or 32.9% from US\$4,745/MT in 1H2021 to US\$6,304/MT in 1H2022, which was partially offset by the increase in the average cost of sales by US\$706/MT or 21.3% from US\$3,315/MT for 1H2021 to US\$4,021/MT for 1H2022.

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Canada

For FY2018 and FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin.

Our gross profit further decreased from US\$18.3 million for FY2019 to US\$3.2 million for FY2020 and our gross profit margin decreased from 48.3% for FY2019 to 22.0% for FY2020 due to (i) the decrease in the average selling price by 42.8% from US\$8,675/MT to US\$4,965/MT, which was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan; and (ii) the average cost of sales per MT decreased by 13.5% from US\$4,481/MT in FY2019 to US\$3,874/MT in FY2020, which was mainly due approximately 37.5% of the graphite electrodes sold in FY2020 were sourced from our suppliers at low price while the graphite electrodes sold in FY2019 were all manufactured by our Group with the needle coke purchased with relatively high price in FY2019. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus for further details.

Our gross profit decreased from US\$3.2 million for FY2020 to US\$2.3 million for FY2021 and our gross profit margin increased from 22.0% for FY2020 to 26.5% for FY2021. The increase in our gross profit margin is due to the decrease in our average cost of sales in Canada by 37.4% from US\$3,874/MT for FY2020 to US\$2,425/MT for FY2021, which was partially offset by the decrease in the average selling price by 33.6% from 4,965/MT for FY2020 to 3,298/MT for FY2021, that was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. The extent of the decrease in our average cost of sales in Canada was more significant than other countries due to the combined effect of (i) the change in product mix from a majority of high conductivity specification graphite electrodes in FY2020 to a majority of low conductivity specification graphite electrodes for FY2021; and (ii) the change in the proportion of lower-price graphite electrodes, which are sourced from suppliers from 37.5% for FY2020 to 90.2% for FY2021. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus for further details.

Our gross profit margin improved significantly from 18.1% for 1H2021 to 31.7% in 1H2022, despite a slight decrease in our gross profit from US\$0.7 million in 1H2021 to US\$0.5 million in 1H2022. The increase in our gross profit margin was contributed by the increase in the average selling price by 24.4% from US\$2,969/MT in 1H2021 to US\$3,692/MT in 1H2022 partially offset by the increase in the average cost of sales in Canada by 3.7% or US\$90/MT from US\$2,431/MT in 1H2021 to US\$2,521/MT in 1H2022.

The PRC

For fluctuation of gross profit and gross profit margin in the PRC, please refer to paragraph headed “Gross profit and gross profit margin — By geographical location — The PRC” in this section.

South Africa

For FY2018 and FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin.

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Our gross profit increased from US\$2.0 million for FY2019 to US\$3.0 million for FY2020 and our gross profit margin increased from 19.5% for FY2019 to 27.8% for FY2020 due to the decrease in our average cost of sales by 48.6% from US\$5,584/MT for FY2019 to US\$2,868/MT for FY2020, which effect was partially offset by the decrease in the average selling price by 42.7% from US\$6,938/MT in FY2019 to US\$3,972/MT in FY2020.

The decrease in our average cost of sales was due to (i) approximately 77% of the graphite electrodes sold in FY2020 were sourced from suppliers at low price, (ii) approximately 23% of the graphite electrodes sold in FY2020 were manufactured with the needle coke purchased with relatively low cost in 2020 when compared to those purchased in FY2019; and (iii) the reduction of stock provision in the amount of US\$107/MT for each MT of inventories sold in FY2020.

The decrease in the average selling price was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus for further details.

Our gross profit decreased from US\$3.0 million for FY2020 to US\$1.3 million for FY2021 and our gross profit margin decreased from 27.8% for FY2020 to 23.7% for FY2021 because our average selling price decreased by US\$1,044/MT or 26.3% from US\$3,972/MT for FY2020 to US\$2,928/MT for FY2021, which was partially offset by the decrease in the average cost of sales by US\$634/MT or 22.1% from US\$2,868/MT for FY2020 to US\$2,234/MT for FY2021. Therefore, the decrease in our gross profit and gross profit margin from FY2020 to FY2021 was mainly due to the decrease in sales volume from 2,108MT for FY2020 to 519MT in FY2021 and the decrease in the gross profit from Customer I by US\$2.1 million from a gross profit of US\$1.7 million in FY2020 to a gross loss of US\$0.4 million. For details of the fluctuation of our revenue from South Africa, please refer to the paragraph headed “Financial Information — By geographical locations — South Africa” in this section.

For 1H2022, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin. Our gross profit increased significantly from US\$0.3 million in 1H2021 to US\$1.5 million in 1H2022 and our gross profit margin improved significantly from 22.7% in 1H2021 to 37.8% in 1H2022, primarily driven by the significant increase in our average selling price by US\$1,245/MT or 44.8% from US\$2,782/MT in 1H2021 to US\$4,027/MT in 1H2022, which was partially offset by the increase in the average cost of sales by US\$356/MT or 16.6% from US\$2,150/MT in 1H2021 to US\$2,506/MT in 1H2022.

France

Our gross profit decreased from US\$3.6 million for FY2019 to US\$7,000 for FY2020 and our gross profit margin decreased from 43.8% for FY2019 to 0.4% for FY2020 due to the decrease in the average selling price in France by 68.6% from US\$11,022/MT for FY2019 to US\$3,459/MT for FY2020, which the effect was partially offset by the decrease in the average cost of sales by 44.4% from US\$6,193/MT in FY2019 to US\$3,444/MT in FY2020.

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Our gross profit margin from the sales to France for FY2021 was lower than other countries because sales order of 1,203MT (representing 69% of total graphite electrodes delivered in FY2021) with average selling price of US\$3,507/MT, which was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan, were delivered in the first half of FY2021, when the market price was relatively low.

The average cost of sales for FY2020 has already reflected the amount of stock provision reduced due to inventories sold in FY2020, being US\$450/MT. The decrease in the average selling price was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus.

Our gross profit increased from US\$7,000 for FY2020 to US\$0.3 million for FY2021 and our gross profit margin increased from 0.4% for FY2020 to 4.7% for FY2021 due to the increase of average selling price by 15.1% from US\$3,459/MT for FY2020 to US\$3,982/MT for FY2021, which the effect was partially offset by the increase in the average cost of sales of 10.1% from US\$3,444/MT for FY2020 to US\$3,793/MT for FY2021. The increase in the average cost of sales was mainly due to the reduction of stock provision in the amount of US\$450/MT for each MT of inventories sold in FY2020, is much higher than that of FY2021, being US\$187/MT.

Our performance in France improved from a gross loss of US\$6,000 in 1H2021 to a gross profit of US\$1.0 million for 1H2022 and from a gross loss margin of 0.1% in 1H2021 to a gross profit margin of 29.6% for 1H2022, primarily due to the significant increase in the average selling price by 53.7% from US\$3,506/MT for 1H2021 to US\$5,389/MT in 1H2022, which was partially offset by the slight increase in the average cost of sales of 8.0% from US\$3,511/MT in 1H2021 to US\$3,793/MT in 1H2022.

Russia

Our gross profit increased from US\$0.6 million in FY2018 to US\$0.9 million in FY2019 and the gross profit margin increased from 17.2% in FY2018 to 30.9% in FY2019 mainly due to the increase in the average selling price by US\$817/MT or 11.0% from US\$7,448/MT in FY2018 to US\$8,265/MT in FY2019.

Our gross profit decreased from FY2019 to FY2020 and there was a gross loss margin for FY2020 due to the decrease in the average selling price by 42.2% from US\$8,266/MT for FY2019 to US\$4,779/MT for FY2020, which the effect was partially offset by the decrease in the average cost of sales by 8.7% from US\$5,708/MT in FY2019 to US\$5,209/MT in FY2020. After reflecting the amount of stock provision reduced to inventories sold in FY2020, being US\$450/MT, the average cost of sales for FY2020 was still relatively high when compared to that of other countries because around 74% of the graphite electrodes was sold in the first half of FY2020, which were manufactured with the needle coke purchased with relatively high cost in FY2019 when compared to those purchased in FY2020. The decrease in the average selling price was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus for further details.

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Our margin position improved from a gross loss margin of 9.0% for FY2020 to a gross profit margin of 27.7% for FY2021 primarily because the average cost of sales decreased by 39.0% or US\$2,031/MT from US\$5,209/MT for FY2020 to US\$3,178/MT for FY2021, which the effect was partially offset by the decrease in the average selling price by 8.0% or US\$383/MT from US\$4,779/MT for FY2020 to US\$4,396/MT for FY2021. Given the average cost of sales for FY2020 was relatively high when compared to that of other countries due to the reason mentioned above, when the purchase cost for needle coke returned to a normal level for the sales in FY2021, the average cost of sales decreased significantly.

Our Group ceased to sell graphite electrodes to Russia in 1H2022 due to the Russia-Ukraine conflict. Accordingly, our gross profit and gross profit margin were nil for the corresponding period.

Germany

For FY2018 and FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin.

Our gross profit decreased from a gross profit US\$4.6 million for FY2019 to a gross loss of US\$0.1 million for FY2020 and our gross profit margin decreased from a gross profit margin of 38.4% for FY2019 to a gross loss margin of 5.4% for FY2020 due to the decrease in the average selling price by 56.3% from US\$9,864/MT in FY2019 to US\$4,309/MT in FY2020, which was partially offset by the decrease in our average cost of sales by 25.3% from US\$6,077/MT for FY2019 to US\$4,541/MT for FY2020. The average cost of sales for FY2020 has reflected the amount of stock provision reduced due to inventories sold in FY2020, being US\$450/MT. The decrease in the average selling price was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus.

Our gross profit improved from a gross loss of US\$0.1 million for FY2020 to a gross profit of US\$0.7 million for FY2021 and our gross profit margin improved from a gross loss margin of 5.4% for FY2020 to a gross profit margin of 12.6% for FY2021 because the average cost of sales decreased by US\$1,240/MT or 27.3% from US\$4,541/MT for FY2020 to US\$3,301/MT for FY2021, the effect of which was partially offset by the decrease in the average selling price by US\$533/MT or 12.4% from US\$4,309/MT for FY2020 to US\$3,776/MT for FY2021. Therefore, the improvement in our gross profit and gross profit margin from FY2020 to FY2021 was mainly driven by the increase in sales volume by 852MT from 570MT for FY2020 to 1,422MT in FY2021 and the decrease in the average cost of sales by US\$1,240/MT from US\$4,541/MT for FY2020 to US\$3,301/MT for FY2021. For details of the fluctuation of our revenue from Germany, please refer to the section headed “Financial Information — By geographical locations — Germany.”

For 1H2022, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin. Our gross profit increased from US\$0.3 million in 1H2021 to US\$1.1 million in 1H2022 and our gross profit margin improved significantly from 12.1% in 1H2021 to 25.7% in 1H2022, primarily driven by the significant increase in our average selling price by US\$2,153/MT or 65.4% from US\$3,294/MT in 1H2021 to US\$5,447/MT in 1H2022, which was partially offset by the increase in the average cost of sales by US\$1,154/MT or 39.9% from US\$2,894/MT in 1H2021 to US\$4,048/MT in 1H2022.

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Turkey

For FY2018 and FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin.

Our gross profit decreased from a gross profit US\$1.2 million for FY2019 to a gross loss of US\$0.04 million for FY2020 and our gross profit margin decreased from a gross profit margin of 17.1% for FY2019 to a gross loss margin of 0.8% for FY2020 due to the decrease in the average selling price by 42.1% from US\$7,306/MT in FY2019 to US\$4,233/MT in FY2020, which was partially offset by the decrease in our average cost of sales by 29.6% from US\$6,057/MT for FY2019 to US\$4,265/MT for FY2020. The average cost of sales for FY2020 has already reflected the amount of stock provision reduced due to inventories sold in FY2020, being US\$224/MT. The decrease in the average selling price was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus.

Our gross profit improved from a gross loss of US\$0.04 million for FY2020 to a gross profit of US\$0.7 million for FY2021 and our gross profit margin improved from a gross loss margin of 0.8% for FY2020 to 18.0% for FY2021 because the average cost of sales decreased by US\$491/MT or 11.5% from US\$4,265/MT for FY2020 to US\$3,774/MT for FY2021 and the average selling price increased by US\$370/MT or 8.7% from US\$4,233/MT for FY2020 to US\$4,603/MT for FY2021. Therefore, the improvement in our gross profit and gross profit margin from FY2020 to FY2021 was mainly driven by the decrease in the average cost of sales by US\$491/MT or 11.5% from US\$4,265/MT for FY2020 to US\$3,774/MT for FY2021 and the increase in the average selling price by US\$370/MT or 8.7% from US\$4,233/MT for FY2020 to US\$4,603/MT for FY2021 despite a decrease in sales volume by 462MT from 1,295MT for FY2020 to 833MT in FY2021. For details of the fluctuation of our revenue from Turkey, please refer to the paragraph headed “Financial Information — By geographical locations — Turkey” in this section.

For 1H2022, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin. Our gross profit improved from a gross loss of US\$0.1 million in 1H2021 to a gross profit of US\$0.8 million in 1H2022 and our gross profit margin improved significantly from a gross loss margin of 9.4% in 1H2021 to a gross profit margin of 27.9% in 1H2022, primarily driven by the significant increase in our average selling price by US\$1,292/MT or 33.5% from US\$3,858/MT in 1H2021 to US\$5,150/MT in 1H2022 and the decrease in the average cost of sales by US\$508/MT or 12.0% from US\$4,222/MT in 1H2021 to US\$3,714/MT in 1H2022.

Italy

For FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin.

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Our gross profit decreased from a gross profit US\$1.5 million for FY2019 to a gross loss of US\$0.2 million for FY2020 and our gross profit margin decreased from a gross profit margin of 31.1% for FY2019 to a gross loss margin of 8.4% for FY2020 due to the decrease in the average selling price by 51.6% from US\$8,849/MT in FY2019 to US\$4,286/MT in FY2020, which was partially offset by the decrease in our average cost of sales by 23.8% from US\$6,098/MT for FY2019 to US\$4,647/MT for FY2020. The average cost of sales for FY2020 has reflected the amount of stock provision reduced due to inventories sold in FY2020, being US\$450/MT. The decrease in the average selling price was in line with the prevailing market price at the corresponding period as advised by Frost & Sullivan. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus.

Our gross profit improved from a gross loss of US\$0.2 million for FY2020 to a gross profit of US\$0.4 million for FY2021 and our gross profit margin improved from a gross loss margin of 8.4% for FY2020 to a gross profit margin of 9.2% for FY2021 because the average cost of sales decreased by US\$1,107/MT or 23.8% from US\$4,647/MT for FY2020 to US\$3,540/MT for FY2021, which was partially offset by the decrease in the average selling price by US\$386/MT or 9.0% from US\$4,286/MT for FY2020 to US\$3,900/MT for FY2021. Therefore, the improvement in our gross profit and gross profit margin from FY2020 to FY2021 was mainly driven by the decrease in the average cost of sales by US\$1,107/MT or 23.8% from US\$4,647/MT for FY2020 to US\$3,540/MT for FY2021 and the increase in sales volume by 495MT from 573MT for FY2020 to 1,068MT in FY2021, the effect of which was partially offset by the decrease in the average selling price by US\$386/MT or 9.0% from US\$4,286/MT for FY2020 to US\$3,900/MT for FY2021. For details of the fluctuation of our revenue from Italy, please refer to the paragraph headed “Financial Information — By geographical locations — Italy” in this section.

For 1H2022, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin. Our gross profit improved from US\$0.01 million in 1H2021 to US\$1.2 million in 1H2022 and our gross profit margin improved significantly from 0.6% in 1H2021 to a gross profit margin of 21.0% in 1H2022, primarily driven by the significant increase in our average selling price by US\$1,809/MT or 57.5% from US\$3,147/MT in 1H2021 to US\$4,956/MT in 1H2022, the effect of which was offset by the increase in the average cost of sales by US\$786/MT or 25.1% from US\$3,130/MT in 1H2021 to US\$3,916/MT in 1H2022.

Others

For FY2018 and FY2019, the trends in gross profit and gross profit margin were generally in line with our overall trends in gross profit and gross profit margin.

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Our gross profit margin position decreased from 41.3% for FY2019 to 3.9% for FY2020 and our gross profit decreased from US\$7.8 million for FY2019 to US\$0.3 million for FY2020. Such change was mainly due to the decrease in the average selling price by 57.5% or US\$5,772/MT from US\$10,034/MT in FY2019 to US\$4,262/MT for FY2020, the effect of which was partially offset because the average cost of sales per MT decreased by 30.5% from US\$5,894/MT in FY2019 to US\$4,097/MT in FY2020. The average cost of sales for FY2020 has reflected the reduction of stock provision in the amount of US\$695/MT for each MT of inventories sold in FY2020. The average cost of sales for FY2020 was relatively high because more than half of the graphite electrodes sold in FY2020 were sold in the first half of FY2020, which were manufactured with the needle coke purchased with relatively high cost in FY2019 when compared to those purchased in FY2020. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus.

Our gross profit margin position improved from 3.9% for FY2020 to 13.9% for FY2021 primarily driven by (i) the average selling price remained stable; and (ii) the average cost of sales decreased by 11.2% from US\$4,097/MT for FY2020 to US\$3,640/MT for FY2021 as the graphite electrodes sold in FY2021 were manufactured with the needle coke purchased in 2020 and early 2021 when needle coke price was relatively lower when compared to those purchased in FY2019. The extent of the decrease in the average cost of sales was not substantial because of the reduction of stock provision in the amount of US\$695/MT for each MT of inventories sold in FY2020, being US\$695/MT is much higher than that of FY2021, being US\$181/MT. For the details of fluctuation of prevailing market price, please refer to the section headed “Industry Overview — Price Trends of Graphite Electrodes” in this prospectus.

Our gross profit margin improved significantly from 11.0% in 1H2021 to 27.2% in 1H2022, primarily driven by the significant increase in the average selling price by US\$1,498/MT or 39.2% from US\$3,820/MT in 1H2021 to US\$5,318/MT for 1H2022, which was partially offset by the increase in the average cost of sales by US\$472/MT or 13.9% from US\$3,398/MT for 1H2021 to US\$3,870/MT in 1H2022.

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In 2018, we acquired the Italian Factory, our first production center located in Italy, and commenced our production in the Italian Factory. In the same year, we also commenced production in the PRC by leasing the PRC Factory which we later acquired in 2020. Therefore, in FY2018, almost all of our graphite electrodes were sourced from our suppliers and we only manufactured a small portion of graphite electrodes as we just commenced our manufacturing business at that time. Following the commencement of our manufacturing business, we mainly in-house manufactured our graphite electrodes.

In FY2019, we manufactured all of the graphite electrodes we sold. In FY2020, in reaction to the market downward adjustment starting from late 2019, we sourced graphite electrodes from suppliers to fulfill a small portion of our sales and utilised our inventories with an aim of destocking. Please refer to the section headed “Business — Production Capacity” in this prospectus for further details.

We leveraged our substantive global customer and PRC supplier networks to source graphite electrodes manufactured in the PRC at a low price and resold these graphite electrodes to customers outside the PRC at the global market price. Please refer to the section headed “Industry overview — Price Trends of Graphite Electrodes — Average Price of UHP Graphite Electrodes (Global excl. PRC), 2016–2026E and Price Trends of UHP Graphite Electrodes (China), 2016–2026E” in this prospectus for further details.

The profit we made from these transactions neutralised our loss from some sales orders as a result of the downward adjustment of the market price of graphite electrodes.

During FY2021, as the price in the PRC market has been growing continuously, we manufactured most of the graphite electrodes delivered in FY2021 and sourced graphite electrodes from suppliers to fulfil a small portion of our sales in the cases where we managed to source graphite electrodes with costs which are lower than our manufacturing costs. Such sourcing was made according to the market conditions and availability of lower-price graphite electrodes from our suppliers, which match the specifications of our specific customers.

During 2022, we expect that the unit subcontracting costs will continue to increase, therefore we will continue to adopt the same strategy as in 2021 to source graphite electrodes to fulfill some of our sales provided that we are able to source lower-price graphite electrodes from our suppliers. To the extent that our customers’ specifications match with the low-price graphite electrodes we source from our PRC suppliers, such practice allows us more flexibility in terms of liquidity and working capital management and production timeline.

Since the production at our PRC Factory was substantially suspended from January to February 2022 according to the order from the relevant local government mandating power rationing, our Group had to source more graphite electrodes from other suppliers to fulfil certain sales orders scheduled for delivery in 1H2022. Due to the significant increase in needle coke price in the PRC market during 1H2022, our Group had to source the graphite electrodes with higher purchase cost and trade these graphite electrodes with relatively low gross profit margins when compared to that of 1H2021.

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Manufactured by our Group

The decrease in our gross profit margin for graphite electrodes manufactured by our Group during FY2019 and FY2020 was largely caused by the downward trend of the average selling price of graphite electrodes sold and the market price volatility of graphite electrodes. The decrease in gross profit margin was partially offset by the reduction of stock provision due to inventories sold in FY2020 of approximately US\$13.8 million.

Our average selling price was driven by the market price in the graphite electrode industry. As advised by Frost & Sullivan, it was a common phenomenon that manufacturers of graphite electrodes experienced a decrease in gross profit margin from 2018 to 2020 given the price spread between graphite electrodes and needle coke narrowed from 2018 to 2020. The gross profit margin increased from 12.4% in FY2020 to 19.1% in FY2021. Such increase was mainly due to the decrease in purchase cost of raw materials in FY2020.

The industry wide shortage continued for a short period of time until the market downturn in later 2019. During FY2019, we managed to sell 19,656MT of graphite electrodes with better margins. However, such margin was partially offset by the provision of inventories in the amount of approximately US\$16.2 million resulting in the overall gross profit margin of 22.7%.

The gross profit margin for the graphite electrodes manufactured by our Group improved significantly from 15.3% in 1H2021 to 25.4% in 1H2022, mainly driven by the significant increase in the average selling price by 33.9% from US\$3,785/MT in 1H2021 to US\$5,067/MT in 1H2022 which was partially offset by the increase in the average cost of sales by 17.8% from US\$3,207/MT in 1H2021 to US\$3,777/MT in 1H2022.

Sourced from suppliers

During FY2018, the graphite electrode industry was exhibiting a bull market and experienced an industry wide shortage in needle code and graphite electrodes. By leveraging on our substantive global customer and PRC supplier networks, we managed to trade graphite electrodes with better margins. However, as we only commenced our manufacturing business in late 2018, our sales volume was limited to the volume of graphite electrodes we managed to source from our suppliers.

The gross profit margin for FY2020, FY2021, 1H2021 and 1H2022 was 47.5%, 30.7%, 35.1% and 28.0%, respectively, which reflects the price gap between the purchase price agreed with our customers and the sourcing costs of the graphite electrodes we traded.

While we manufacture graphite electrodes, we may nonetheless source graphite electrodes from suppliers instead to fulfil purchase orders under the following circumstances:

- (i) where we will source low-price graphite electrodes from PRC suppliers if we can obtain a relatively high gross profit margin by purchasing from these suppliers;
- (ii) where we have to fulfil purchase orders from customers which require short delivery time or we do not have production capacity to fulfil these purchase orders; and

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- (iii) where we have to fulfil purchase orders from customers during mandatory production suspension or the occurrence of certain events that are beyond our control, such as power rationing during the Beijing 2022 Winter Olympics.

With regard to (i) above, while we are not privy to the customers' reason for procuring lower specification graphite electrodes from us and not from other suppliers, we believe that such purchases by the customers are driven by their own commercial assessment given that most, if not all, of the customers of our Group have access to, and procure graphite electrodes from, more than one graphite electrode suppliers.

It is expected that these customers will naturally shop around and compare quotations, quality and specifications of graphite electrodes offered by different suppliers. They will then decide whether to place purchase orders with particular suppliers based on different factors, including the unit price, branding and reputation of suppliers, ability to deliver graphite electrodes with consistent quality, ability to deliver sufficient quantity, aftersales service.

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By customer types

The table below sets out the breakdown of gross profit and relevant gross profit margin by customer types:

	FY2018		FY2019		FY2020		FY2021		1H2021		1H2022	
	Gross profit margin	Gross profit										
	US\$'000	%										
End users <i>(Note 1)</i>	104,018	63.5	54,806	40.1	12,261	18.4	13,704	18.5	4,455	15.2	12,001	28.1
Others <i>(Note 2)</i>	1,200	26.4	(4,384)	(30.6)	6,659	15.9	9,126	26.3	2,760	22.2	3,563	20.9
Inventory provision	—		(16,159)		(2,406)		—		—		—	
Total	<u>105,218</u>	<u>62.5</u>	<u>34,263</u>	<u>22.7</u>	<u>16,514</u>	<u>15.2</u>	<u>22,830</u>	<u>21.0</u>	<u>7,215</u>	<u>17.3</u>	<u>15,564</u>	<u>26.1</u>

Notes:

- (1) Mainly included steel manufacturers, a mineral product manufacturer and a mining company.
- (2) Others comprise sales to the distributor and industry traders.

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For FY2018, FY2019, FY2020 and FY2021, the trends in our gross profit and gross profit margin from steel manufacturers were generally in line with our overall trends of gross profit and gross profit margin. For 1H2021 and 1H2022, the trend in our gross profit from steel manufacturers was generally in line with our overall trend of gross profit and the gross profit margin increased significantly which was primarily driven by the significant increase in the average selling prices of graphite electrodes sold to steel manufacturers from US\$3,700/MT in 1H2021 to US\$5,202/MT in 1H2022.

The gross loss margin from other customers, namely the distributor and industry traders, in FY2019 was mainly due to the downward adjustment in the price of the PRC graphite electrode market in the second half in 2019 as approximately 87% of the sales to other customers were sales to the distributors and industry traders in the PRC. In view of our high inventory level at that time and the continuing downward trend of the market price in the PRC since the second half of FY2019 and with an aim to de-stocking our inventories, we entered into certain transactions to sell graphite electrodes at low or even negative gross profit margins. Those graphite electrodes were manufactured according to specifications commonly accepted and adopted in the PRC. Therefore, we were not able to sell them to the global market (excluding the PRC) where the market price of the graphite electrodes were higher. During FY2019, the average selling price of graphite electrodes we sold to PRC distributors and industry traders dropped to US\$2,970/MT due to the market condition at that time, resulting in a gross loss in FY2019. In addition, Xinxiang Longhui purchased finished graphite electrodes from us from which we generated a revenue of approximately US\$0.5 million, and recorded a gross loss of approximately US\$0.7 million with a gross loss margin of 136.7% mainly due to (i) a drop in the market price of graphite electrodes in the second half of 2019 and (ii) the transaction involved the sales of substandard graphite electrodes at a substantial discount due to quality problems such as insufficient length, high electricity resistivity, low body density and surface defects, which occurred during the period when we first commenced production. Our Directors are of the view that the above sales of graphite electrodes were on normal commercial terms.

Our margin position from other customers improved from gross loss margin in FY2019 to gross profit margin in FY2020 because of the gross profit resulting from the sales to Xinxiang Longhui, our largest customer in FY2020. Our average selling price and gross profit margin of such sales was higher than that of our other sales in the PRC as certain sales order was placed and secured by prepayment from the customer in early 2019 when the market price of graphite electrodes was relatively high. For FY2020 and FY2021, our gross profit from other customers increased from 15.9% to 26.3% due to the decrease in the average cost of sales by 14.9% from US\$3,248/MT for FY2020 to US\$2,765/MT for FY2021 which was partially offset by the decrease in the average selling price from US\$3,861/MT for FY2020 to US\$3,750/MT for FY2021.

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The gross profit margin of sales to the end customers remained similar to that of FY2020 and was lower than that of the other customers in FY2021. As the cost of sales of graphite electrodes remained stable throughout FY2021, the gross profit margin of sales to different customers depends on the respective average selling price, of which end customers' average selling price offered normally was higher than that of other customers for the same period of the year. Given the market price of graphite electrodes resumed trajectory trend in FY2021 and increased from US\$4,144.7/MT at the first quarter of 2021 to US\$5,196.4/MT at the fourth quarter of 2021 according to Frost & Sullivan, the gross profit margin of sales to different customers differed as the customers placed orders at different time points during FY2021. It is observed that the gross profit margin of sales to the end customers was lower than that of the other customers in FY2021 mainly due to the combined effects of that (i) the cost of sales of graphite electrodes remained stable through FY2021; and (ii) the end customers placed most of their orders, which the sales volume and average selling price were approximately 14,168MT (representing 76% of total graphite electrodes delivered to end customers in FY2021) and US\$3,656/MT, respectively, in late FY2020 or 1H2021, the time point when the market price of graphite electrodes just started to resume its trajectory and when the market price of graphite electrodes was relatively low. The orders for 4,381MT of graphite electrodes with the average selling price of US\$4,897/MT were placed in the second half of 2021. In view of our high inventory level at that time and the continuing downward trend of the market price in the PRC since the second half of FY2019, with an aim to de-stock our inventories, our Group entered into certain transactions to sell graphite electrodes at low or even negative gross profit margins. As advised by Frost & Sullivan, such average selling price was in line with the prevailing market price at the corresponding period.

The gross profit margin of sales to the end customers improved significantly from 15.2% in 1H2021 to 28.1% in 1H2022, primarily driven by the significant increase in the average selling price by US\$1,502/MT or 40.6% from US\$3,700/MT in 1H2021 to US\$5,202/MT in 1H2022 which was partially offset by the increase in the average cost of sales by US\$601/MT or 19.1% from US\$3,138/MT for 1H2021 to US\$3,739/MT for 1H2022.

Our gross profit margin of sales to the other customers in FY2021 improved as compared to that of FY2020, primarily attributable to:

- (i) certain traders conducted short term purchases, such as orders placed with less than 60 days of delivery period, in the second half of 2021 which represented 47% of total graphite electrodes delivered to other customers in FY2021 with an average selling price of US\$3,715/MT, at a relatively high price (when compared to the whole year average of US\$3,632/MT), and no order was placed with our Group in 2020 when the average selling price was lower than that of 2021; and
- (ii) the average selling price of sales to traders in PRC which was determined taking into account (a) the trajectory trend and with reference to the industry average selling price of the whole year 2021 as estimated at first quarter of 2021; and (b) the sales recognised in fourth quarter of 2021, which was determined with the prevailing market price in September 2021, resulting in a relatively high average selling price.

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The gross profit margin of sales to the other customers remained stable in 1H2021 and 1H2022, mainly attributable to the increase in the average cost of sales by US\$379/MT or 13.6% from US\$2,788/MT in 1H2021 to US\$3,167/MT in 1H2022, which was partially offset by the increase in the average selling price by US\$421/MT or 11.8% from US\$3,583/MT in 1H2021 to US\$4,004/MT in 1H2022.

Other income

Other income mainly represents the net profit on sales of other carbon products, gain on bargain purchase on acquisition of a subsidiary, interest income on bank deposits, insurance claims for plant and machinery, revaluation gain on property, plant and equipment previously impaired and other miscellaneous income. Our other income amounted to US\$6.6 million, US\$3.4 million, US\$5.4 million, US\$1.3 million, US\$1.1 million and US\$0.7 million for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively.

Among our other income generated, approximately US\$4.6 million, US\$2.8 million, US\$0.08 million, US\$0.29 million, US\$0.5 million and US\$0.2 million were profits generated from sales of other carbon products in FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively. Other carbon products primarily include semi-finished graphite electrodes, needle cokes and scrap materials. Our sales of scrap materials and semi-finished graphite electrodes are recurring in nature and the resultant income is generated from the ordinary and usual course of our business.

Since we commenced production in late 2018, some graphite electrode manufacturers may occasionally outsource part of their manufacturing processes to us and purchase semi-finished goods from us due to their lack of production capacity. During the Track Record Period, we mainly sold semi-finished graphite electrodes to Xinxiang Longhui, Sanli New Materials, Linzhang County Kaisheng Carbon Limited* (臨漳縣凱勝碳素有限公司) and Linzhang County Sihai Carbon Limited* (臨漳縣四海碳素有限公司), all Independent Third Parties.

In the course of manufacturing graphite electrodes, scrap materials will be generated. For instance, during the process of machining, we will shape the graphite electrodes according to customers' specifications by cutting out unwanted parts of the electrode rods, in the form of carbon chips and powder, which we sell as scrap materials.

Another major kind of scrap materials, pitch coke, may also run off from the electrodes as a result of the polymerisation of impregnating pitch during the process of re-baking.

In 2018, before we commenced our production of graphite electrodes, due to the shortage of needle coke, we leveraged our well established business relationship with our needle coke suppliers and sourced and provided needle coke to Sangraf Energy such that Sangraf Energy could arrange for the production of graphite electrodes using needle cokes provided by our Group or other parties to fulfill orders on hand. After we commenced the manufacturing graphite electrodes, we ceased to carry out transactions of trading needle coke.

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The table below sets out a breakdown of our other income for the periods indicated:

	FY2018		FY2019		FY2020		FY2021		1H2021 (unaudited)		1H2022	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
Bank interest income	13	0.2	64	1.9	177	3.3	87	6.7	4	0.4	6	0.9
Sublease interest income	—	—	—	—	—	—	1	0.0	—	—	1	0.1
Interest income charged to the Controlling Shareholder	—	—	—	—	48	0.9	—	—	—	—	—	—
Gain on bargain purchase	1,587	24.0	—	—	—	—	—	—	—	—	—	—
Net profit from sale of other carbon products (Note 1)	4,583	69.3	2,820	84.2	80	1.5	289	22.2	549	49.1	188	26.7
Revaluation gain on property plant and equipment	—	—	370	11.0	265	4.9	471	36.3	215	19.2	82	11.6
Gain on termination of a lease	—	—	—	—	225	4.1	—	—	—	—	—	—
Gain on disposal of a trade receivable	—	—	—	—	178	3.3	—	—	—	—	—	—
Government subsidies	—	—	—	—	297	5.5	440	33.9	344	30.8	189	26.8
Compensation income	—	—	—	—	1,261	23.2	—	—	—	—	—	—
Foreign exchange difference, net	—	—	—	—	2,560	47.1	—	—	—	—	—	—
Others (Note 2)	433	6.5	96	2.9	336	6.2	12	0.9	5	0.5	239	33.9
Total	6,616	100.0	3,350	100.0	5,427	100.0	1,300	100.0	1,117	100.0	705	100.0

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Notes:

- (1) Sales of other carbon products primarily included sales of semi-finished graphite electrodes, needle cokes and scrap and the income from processing graphite electrode materials.

For FY2018, FY2019, FY2020, FY2021 and 1H2022, our processing fee income amounted to nil, approximately US\$1.0 million, US\$(47,505), US\$(3,128) and US\$19,546, respectively, and we had nil, one, two, two and one subcontracting customers, respectively.

All of the subcontracting customers are Independent Third Parties and save as disclosed in this prospectus and save for Xinxiang Longhui's past relationship with our Group which is disclosed in this prospectus, all of these subcontracting customers do not have any past or present relationship (family, employment, business, financing or others) with our Group, including its subsidiaries, shareholders, directors, senior management and their respective associates.

The gross loss in processing fee in FY2020 was mainly due to a processing service transaction between our Group and Xinxiang Longhui in the first quarter of 2020. Among the processed products, some were found to be non-conforming due to an isolated incident of quality issue. As a result, our Group had to compensate Xinxiang Longhui in the amount of approximately US\$77,100 (which included the processing fee in the amount of approximately US\$15,584 forgone by our Group) for its loss.

The slight gross loss in processing fee in FY2021 was mainly due to the increase in fixed cost per unit as the quantity of graphite electrodes processed decreased during the period. The unit conversion cost of our Group's processing service was calculated by dividing the fixed costs of the PRC Factory for every month by the quantity of WIP and/or products processed in a particular process. As a result, given the monthly fixed cost remains relatively constant, if the production volume output of the relevant month is relatively low, the resultant unit conversion cost will be relatively high.

With reference to Appendix A Defined terms of HKFRS 15 *Revenue from Contracts with Customers*, revenue is defined as income arising in the course of an entity's ordinary activities. Sale of other carbon products is presented as other income instead of revenue because the sale is incidental to the ordinary activities of our Group. These other carbon products are by-products of the ordinary course of business. Details of the Reporting Accountants' opinion on Historical Financial Information are included in Appendix I to this prospectus.

- (2) Mainly consisted of compensation for an insurance claim, the gain in decrease of other payable due to modification of terms.

1H2022 compared to 1H2021

Our other income decreased by US\$0.4 million or 36.9%, from US\$1.1 million in 1H2021 to US\$0.7 million in 1H2022. Such decrease was mainly attributable to the decrease in net profit from sales of other carbon products and the decrease in government subsidies.

FY2021 compared to FY2020

Our other income decreased by US\$4.1 million or 76.0%, from US\$5.4 million for FY2020 to US\$1.3 million for FY2021. Such decrease was mainly attributable to the absence of compensation income and foreign exchange difference which was partially offset by the increase of government subsidies, the revaluation gain on property, plant and equipment and net profit from sale of other carbon products as a result of the increase of our production volume.

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FY2020 compared to FY2019

Our other income increased by US\$2.1 million or 62%, from US\$3.3 million for FY2019 to US\$5.4 million for FY2020. Such decrease was mainly attributable to the decrease in the sale of other carbon products which include semi-finished graphite electrodes which was partially offset by the increase in compensation income accounted to US\$1.3 million in FY2020.

Compensation income in the amount of US\$1.3 million in FY2020 represented a one-off compensation income due to the damages received from a supplier due to non-performance of a supplier contract.

Foreign exchange difference in the amount of US\$2.6 million for FY2020 was mainly due to appreciation of the exchange rate of Euro during the year.

FY2019 compared to FY2018

Our other income decreased by US\$3.3 million or 49.4%, from US\$6.6 million for FY2018 to US\$3.4 million for FY2019. Such decrease was mainly attributable to the decrease in the sale of other carbon products which include sale of needle cokes and a non-recurring gain on bargain purchase of Sangraf Energy in FY2018.

The non-recurring gain on bargain purchase of US\$1,587,000 was arising from the acquisition of Sangraf Energy during FY2018. On 26 October 2018, our Group entered into a sale and purchase agreement to acquire the entire interest in Sangraf Energy at a consideration of US\$14,456,000 and an assignment of loan from its former shareholder of US\$4,510,000. The total identifiable net assets at fair value were US\$20,553,000. Therefore, a gain on bargain purchase was recorded and represented the amounts of net assets acquired over the sum of the consideration from the acquisition of Sangraf Energy. For further details, please refer to note 27 to the Accountants' Report set out in Appendix I to this prospectus.

For FY2018, our other income mainly consists of net profit from sale of other carbon products, including semi-finished graphite electrodes needle cokes and scrap. In 2018, due to the shortage of needle coke, we leveraged our well established business relationship with our needle coke suppliers and sourced and provided needle coke to Sangraf Energy such that Sangraf Energy could arrange for the production of graphite electrodes using needle cokes provided by our Group or other parties to fulfill orders on hand.

Selling expenses

Our selling expenses consist primarily of salaries and commissions which include sales commissions, sales agency fees and salaries and wages to sales staff. Sales commissions relate to payments to our sales employees or sales agents based on a fixed ratio on sales. Our selling expenses amounted to US\$3.3 million, US\$4.1 million, US\$3.5 million, US\$3.0 million, US\$1.4 million and US\$1.6 million for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively, representing 2.0%, 2.7%, 3.2%, 2.8%, 3.3% and 2.7% of our total revenue for the corresponding periods.

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1H2022 compared to 1H2021

Our selling expenses increased by US\$0.2 million or 16.2%, from US\$1.4 million in 1H2021 to US\$1.6 million in 1H2022, which was mainly attributable to the increase in sales commission for 1H2022.

FY2021 compared to FY2020

Our selling expenses decreased by US\$0.5 million or 14.0%, from US\$3.5 million for FY2020 to US\$3.0 million for FY2021. Such decrease was mainly attributable to the decrease in salaries and commission, which was due to decrease of salaries and commission for FY2021 because of the turnover of three sales personnel and the increase in sales generated by sales agents whose commission rates were lower during the period.

FY2020 compared to FY2019

Our selling expenses decreased by US\$0.6 million or 15.3%, from US\$4.1 million for FY2019 to US\$3.5 million for FY2020. Such decrease was mainly attributable to the decrease in travelling expenses, as a result of to the global travel restrictions due to COVID-19 in FY2020.

FY2019 compared to FY2018

Our selling expenses increased by US\$0.8 million or 24.7%, from US\$3.3 million for FY2018 to US\$4.1 million for FY2019. Such increase was mainly attributable to the increase in the remuneration to our sales team, as we further expanded our sales team in FY2019.

Administrative expenses

Administrative expenses primarily comprise staff costs (including salaries and bonuses), legal and professional fee, travelling expenses and others. Our administrative expenses amounted to US\$16.7 million, US\$22.2 million, US\$9.6 million, US\$9.1 million, US\$4.4 million and US\$4.3 million for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022 respectively, representing 9.7%, 14.7%, 8.9%, 8.3%, 10.4% and 7.3% of our total revenue for the corresponding periods.

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The table below sets out the breakdown of our administrative expenses for the periods indicated:

	FY2018		FY2019		FY2020		FY2021		1H2021 (unaudited)		1H2022	
	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%	US\$'000	%
Staff costs	11,716	70.2	11,079	50.0	5,018	52.1	4,727	52.1	2,207	50.6	2,187	50.4
Legal and professional fee (Note 1)	2,333	14.0	5,729	25.9	834	8.6	639	7.0	286	6.6	235	5.4
Depreciation and amortisation	4	0.0	885	4.0	1,379	14.3	1,199	13.2	608	13.9	588	13.6
Office expenses	211	1.3	376	1.7	452	4.7	137	1.5	75	1.7	73	1.7
Travelling expense	91	0.5	1,034	4.6	323	3.4	308	3.4	116	2.7	204	4.7
Others (Note 2)	2,344	14.0	3,050	13.8	1,627	16.9	2,064	22.8	1,070	24.5	1,051	24.2
Total	<u>16,699</u>	<u>100.0</u>	<u>22,153</u>	<u>100.0</u>	<u>9,633</u>	<u>100.0</u>	<u>9,074</u>	<u>100.0</u>	<u>4,362</u>	<u>100.0</u>	<u>4,338</u>	<u>100.0</u>

Notes:

- (1) Mainly comprised consulting fees paid to professional parties for advisory services provided to our Company regarding financing, acquisitions and compliance services such as valuation and transfer pricing assessment.
- (2) Others comprised utilities, short-term leases, impairment of trade receivables, and other miscellaneous expenses.

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1H2022 compared to 1H2021

Our administrative expenses remained stable in 1H2021 and 1H2022. This was mainly attributable to the decrease in legal and professional fee and other miscellaneous expenses which was partially offset by the increase in travelling expenses.

FY2021 compared to FY2020

Our administrative expenses slightly decreased in FY2021. This was mainly attributable to the decrease in staff cost and office expense which was offset by the increase in other miscellaneous expenses.

FY2020 compared to FY2019

Our administrative expenses decreased by US\$12.5 million or 56.5%, from US\$22.2 million for FY2019 to US\$9.6 million for FY2020. Such decrease was mainly attributable to the decrease in legal and professional fee by US\$4.9 million and the significant decrease in staff costs because of (1) the decrease in staff bonus from US\$4.0 million in FY2019 to nil in FY2020 due to the adverse market condition of the graphite electrode industry; (2) the reduction in staff cost in the amount of US\$2.1 million due to the reduction in head count from 96 as at 31 December 2019 to 76 as at 31 December 2020 and the replacement of some management members in the PRC with higher salary, who are bilingual with less industry experience by some new management members with lower salary, who are not bilingual, but have more industry management experiences in FY2020.

FY2019 compared to FY2018

Our administrative expenses increased by US\$5.5 million or 32.7%, from US\$16.7 million for FY2018 to US\$22.2 million for FY2019. Such increase was mainly attributable to the increase in travelling expenses due to the increased number of senior management travelling among our global offices and the significant increase in legal and professional fee for financing project, which the effect was partially offset by the decrease in staff bonus by US\$1.9 million from US\$6.6 million in FY2018 to US\$4.7 million in FY2019.

Finance costs

Finance costs comprise mainly interest charges on our other borrowings and the interest on the outstanding consideration payable derived from acquisition of Sangraf Energy and certain property, plant and equipment and interest on lease liabilities. Finance costs amounted to US\$0.4 million, US\$3.7 million, US\$2.0 million, US\$2.0 million, US\$0.9 million and US\$1.0 million for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively.

1H2022 compared to 1H2021

Our finance costs in 1H2021 and 1H2022 remained stable. This was mainly attributable to the increase in interest arising from bank borrowings and other borrowings from an independent third party, partially offset by the decrease in interest on the outstanding consideration payable derived from the acquisition of a subsidiary.

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FY2021 compared to FY2020

Our finance costs in FY2020 and FY2021 remained stable. This was mainly attributable to the increase in interest arising from bank borrowings and loan from related company — secured, partially offset by the decrease in lease liabilities following the completion of the purchase of PRC Factory and the decrease in the interest on the outstanding consideration payable derived from the acquisition of the Extrusion Facilities.

FY2020 compared to FY2019

Our finance costs decreased by US\$1.7 million or 46.7%, from US\$3.7 million for FY2019 to US\$2.0 million for FY2020. Such decrease was mainly attributable to the partial payment made in FY2019, of the outstanding consideration payable derived from the acquisition of Sangraf Energy and the Extrusion Facilities, resulting in the decrease in the relevant interest expense.

FY2019 compared to FY2018

Our finance costs increased by US\$3.4 million or 958.8%, from US\$0.4 million for FY2018 to US\$3.7 million for FY2019. Such increase was mainly attributable to full year effect in FY2019 of the interest on the outstanding consideration payable derived from the acquisition of Sangraf Energy and the Extrusion Facilities, plant and equipment and interest on lease liabilities.

Income tax expense

Income tax represents income tax paid or payable at the applicable tax rates in accordance with the relevant laws and regulations in each tax jurisdiction we operate in or are domiciled in.

Pursuant to the rules and regulations of the Cayman Islands and the BVI, our Group is not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the Track Record Period.

Pursuant to the relevant tax laws of the U.S., federal corporation income tax was levied at the rate of up to 21%, 21%, 21%, 21%, 21% and 21% on the taxable income arising in the U.S. for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively. On 27 March 2020, the USA government enacted the Coronavirus Aid, Relief, and Economic Security Act (the “**Act**”), which allowed taxpayers to file amended returns to carry net operating losses (“**NOLs**”) of 2018, 2019 and 2020 back to previous years to generate immediate refunds. The Act also temporarily removed the taxable income, allowing NOLs to fully offset net taxable income.

Pursuant to the EIT Law and the respective regulations, the subsidiaries which operate in China are subject to enterprise income tax at a rate of 25% on the taxable income for each of the Track Record Period. On 28 October 2021, Henan Sangraf was recognised as a High New Tech Enterprise and may enjoy a preferential income tax rate of 15% going forward.

Taxes on profit assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which our Group operates.

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For FY2018 and FY2019, our income tax expenses were US\$17.5 million and US\$0.4 million, respectively. For FY2020 we earned income tax credit of US\$1.0 million. For FY2021, our income tax expenses amounted to US\$1.8 million. Our effective tax rate for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022 was 19.5%, 6.7%, (30.6)%, 28.7%, 4.6% and 17.6% respectively.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

1H2022 compared to 1H2021

We incurred income tax expense of US\$0.02 million in 1H2021 and US\$1.4 million for 1H2022. The increase in the income tax expense was mainly due to the increase of profit before tax from US\$0.4 million to US\$7.9 million.

FY2021 compared to FY2020

We incurred income tax expense of US\$1.8 million for FY2021 while we earned income tax credit of US\$1.0 million for FY2020. We incurred income tax expense for FY2021 due to absence of income tax credit and the increase in taxable income in Italy for FY2021.

FY2020 compared to FY2019

We incurred income tax expense of US\$0.4 million for FY2019 while we earned income tax credit of US\$1.0 million for FY2020. The income tax credit in FY2020 was mainly due to the recognition of deferred tax assets arising from the tax losses incurred by certain subsidiaries of our Group in FY2020.

FY2019 compared to FY2018

Our income tax expenses decreased by US\$17.1 million or 97.9%, from US\$17.5 million for FY2018 to US\$0.4 million for FY2019. Such decrease was mainly due to the decrease in profit before tax of US\$84.4 million. Our effective tax rate decreased from 19.5% for FY2018 to 6.7% for FY2019 because more unrealised profit on inventories derived from intra-group sales were recorded in FY2018, resulting in higher tax paid for such unrealised gain in FY2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our cash flow primarily relates to operating activities and investment activities. We have historically financed our operations primarily through a consolidation of cash flow generated from our operation and other borrowings. We were able to repay our obligations under other borrowings when they became due. We currently expect that there will not be any material change in the sources and uses of cash of our Group, except that we have received fund through the Pre-IPO Investment and would have additional funds from proceeds of the Global Offering for implementing our future plans as detailed under the section headed “Future Plans and Use of Proceeds” in this prospectus.

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The table below summarises, for the periods indicated, our cash flows:

	FY2018	FY2019	FY2020	FY2021	1H2021	1H2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
					<i>(unaudited)</i>	
Operating cash flows before movements in working capital	90,476	29,589	11,307	13,157	3,677	12,173
Change in working capital	(98,238)	7,203	15,545	(3,285)	4,943	(10,248)
Cash (used in)/generated from operations	(7,762)	36,792	26,852	9,872	8,620	1,925
Interest paid and/or tax paid	(241)	(21,452)	(4,856)	(3,595)	(2,305)	(678)
Net cash generated from/ (used in) operating activities	(8,003)	15,340	21,996	6,277	6,315	1,247
Net cash used in investing activities	(4,843)	(9,813)	(42,914)	(15,668)	(6,423)	(5,675)
Net cash generated from/ (used in) financing activities	<u>(48)</u>	<u>6,867</u>	<u>16,384</u>	<u>12,383</u>	<u>1,332</u>	<u>4,418</u>
Net increase/(decrease) in cash and cash equivalents	(12,894)	12,394	(4,534)	2,992	1,224	(10)
Cash and cash equivalents at beginning of year	18,565	5,920	18,341	12,694	12,694	15,086
Effect of foreign exchange rate changes, net	<u>249</u>	<u>27</u>	<u>(1,113)</u>	<u>(600)</u>	<u>(280)</u>	<u>(457)</u>
Cash and cash equivalents at end of year	<u><u>5,920</u></u>	<u><u>18,341</u></u>	<u><u>12,694</u></u>	<u><u>15,086</u></u>	<u><u>13,638</u></u>	<u><u>14,619</u></u>

Operating activities

During our Track Record Period, our cash inflow generated from operating activities was principally from the receipt of sales of our products. Our cash outflow used in operating activities was principally for purchases of raw materials and payment of production costs and administrative expenses.

For 1H2022, our Group had net cash generated from operating activities of US\$1.2 million, mainly driven by the combined result of operating cash inflow before changes in working capital of US\$12.2 million, interest and income taxes paid of US\$0.7 million and the decrease in working capital of US\$10.2 million. The decrease in working capital was primarily due to the increase in inventories of US\$6.0 million, the increase in trade receivables of US\$4.6 million, the decrease in trade and notes payables of US\$3.0 million, partially offset by the decrease in prepayments, deposits and other receivables of US\$1.4 million and the increase in other payables and accruals of US\$1.9 million.

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For FY2021, our Group had net cash generated from operating activities of US\$6.3 million, mainly as a combined result of operating cash inflow before changes in working capital of approximately US\$13.2 million, interest paid of approximately US\$2.1 million and decrease in working capital of approximately US\$3.3 million. Decrease in working capital was primarily due to the increase in inventories of approximately US\$8.3 million and trade receivables of approximately US\$6.0 million, partially offset by the increase in trade and notes payable of US\$8.5 million and decrease in prepayment, deposits and other receivables of approximately US\$2.7 million.

For FY2020, our Group had net cash generated from operating activities of US\$22.0 million, mainly as a combined result of operating cash inflow before changes in working capital of approximately US\$11.3 million, income tax paid of approximately US\$2.1 million and increase in working capital of approximately US\$15.5 million. Increase in working capital was primarily due to decrease in prepayments, deposits and other receivables of US\$9.5 million and decrease in inventories of US\$39.9 million, partially offset by increase in trade receivables of US\$10.3 million and decrease in trade and notes payables and other payables and accruals of US\$4.8 million and US\$18.8 million, respectively.

For FY2019, our Group had net cash generated from operating activities of US\$15.3 million, mainly as a combined result of operating cash inflow before changes in working capital of approximately US\$29.6 million, income tax paid of approximately US\$20.2 million and increase in working capital of approximately of US\$7.2 million. Increase in working capital primarily was primarily due to decrease in trade receivables of US\$18.7 million and increase in other payables and accruals of US\$16.4 million, partially offset by decrease in trade and notes payable of US\$5.3 million and increase in inventories of US\$17.3 million.

For FY2018, our Group had a low cash balance mainly due to the net cash used in operating activities of US\$8.0 million. The main causes were the operating cash inflow before changes in working capital of approximately US\$90.5 million, income tax paid of approximately US\$0.1 million and decrease in working capital of approximately of US\$98.2 million. Decrease in working capital was primarily due to increase in inventories of US\$92.5 million and decrease in other payables and accruals of US\$27.3 million, partially offset by increase in trade and note payables of US\$14.9 million and decrease in prepayments, deposits and other receivables of US\$11.5 million.

Investing activities

During the Track Record Period, our cash outflow used in investing activities was principally due to purchase of items of property, plant and equipment, and acquisition of a subsidiary.

For 1H2022, our Group had net cash used in investing activities of US\$5.7 million primarily attributable to payment of US\$2.8 million for the purchase of items of property, plant and equipment and payment of US\$2.5 million for the acquisition of Sangraf Energy.

For FY2021, our Group had net cash used in investing activities of US\$15.7 million primarily attributable to a payment of US\$9.1 million and US\$6.2 million for the acquisition of Sangraf Energy and the purchase of property, plant and equipment, respectively.

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For FY2020, our Group had net cash used in investing activities of US\$42.9 million primarily attributable to a payment of US\$26.3 million for the purchase of property, plant and equipment and a payment of US\$10.0 million for the acquisition of Sangraf US and Sangraf Energy.

For FY2019, our Group had net cash used in investing activities of US\$9.8 million primarily attributable to a payment of US\$3.6 million for the acquisition of Sangraf Energy and certain payments of US\$7.3 million in aggregate for the purchase of property, plant and equipment.

For FY2018, our Group had net cash used in investing activities of US\$4.8 million primarily attributable to a payment of US\$6.3 million for the acquisition of the Italian Factory, partially offset by the cash and bank balance of US\$1.6 million of Sangraf Energy, which was acquired in 2018.

Financing activities

During the Track Record Period, our cash inflow generated from financing activities was principally from the proceeds from new borrowings and a loan from a related company. Our cash outflow used in financing activities was for lease payments.

For 1H2022, our Group had net cash generated from financing activities of US\$4.4 million primarily attributable to new borrowings of US\$9.4 million, effect of which was partially offset by the repayment of borrowings of US\$2.2 million, repayment of loans from related companies of US\$2.4 million and repayment of principal portion of lease payments of US\$0.5 million.

For FY2021, our Group had net cash generated from financing activities of US\$12.4 million primarily attributable to the issue of shares to the Pre-IPO Investors of US\$11.4 million and new borrowings of US\$14.3 million, effect of which was partially offset by the partial dividend payment of US\$12.7 million during FY2021 of the US\$14.0 million dividend declared by our Group in 2021.

For FY2020, our Group had net cash generated from financing activities of US\$16.4 million primarily attributable to the issue of shares to the Pre-IPO Investor of US\$9.9 million, loans from related companies of US\$9.3 million and new borrowings of US\$7.7 million effect of which was partially offset by the repayment of borrowings of US\$6.2 million.

For FY2019, our Group had net cash generated from financing activities of US\$6.9 million primarily attributable to the new other borrowings of US\$5.0 million and the new loan of US\$2.7 million from a financing company, of which a nephew of Mr. Hou, is the minority shareholder. The new loan was partially offset by repayment of principal portion of lease payments of approximately US\$0.8 million.

For FY2018, our Group had net cash used in financing activities of US\$48,000 attributable to repayment of principal portion of lease payments.

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DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets out a summary of our consolidated balance sheets as at the dates indicated:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
ASSETS					
Non-current Assets					
Property, plant and equipment	55,718	56,841	97,238	99,991	93,142
Right-of-use assets	5,579	6,597	8,145	7,321	8,280
Intangible assets	1,476	1,252	1,449	1,268	1,065
Prepayments and deposits	43	1,200	309	2,092	1,657
Deferred tax assets	<u>1,648</u>	<u>4,766</u>	<u>6,319</u>	<u>5,362</u>	<u>3,773</u>
Total non-current assets	<u>64,464</u>	<u>70,656</u>	<u>113,460</u>	<u>116,034</u>	<u>107,917</u>
Current Assets					
Inventories	92,676	92,378	54,220	60,872	62,857
Trade receivables	32,810	13,195	17,017	21,849	25,651
Prepayments, deposits and other receivables	15,756	19,868	12,177	9,019	7,675
Cash and cash equivalents	<u>5,920</u>	<u>18,341</u>	<u>12,694</u>	<u>15,086</u>	<u>14,619</u>
Total current assets	<u>147,162</u>	<u>143,782</u>	<u>96,108</u>	<u>106,826</u>	<u>110,802</u>
Total Assets	<u>211,626</u>	<u>214,438</u>	<u>209,568</u>	<u>222,860</u>	<u>218,719</u>
EQUITY					
Equity attributable to owners of our Company					
Share capital	—	—	100	110	110
Reserves	<u>106,173</u>	<u>110,322</u>	<u>133,110</u>	<u>134,879</u>	<u>131,791</u>
Total Equity	<u>106,173</u>	<u>110,322</u>	<u>113,210</u>	<u>134,989</u>	<u>131,901</u>

FINANCIAL INFORMATION

	As at 31 December				As at 30 June
	2018	2019	2020	2021	2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
LIABILITIES					
Non-current Liabilities					
Other payables and accruals	7,003	1,774	5,825	6,743	1,077
Interest-bearing bank and other borrowings	—	5,003	6,553	5,756	16,978
Lease liabilities	5,006	5,652	622	154	1,186
Deferred tax liabilities	<u>11,848</u>	<u>10,441</u>	<u>14,666</u>	<u>14,025</u>	<u>12,583</u>
Total non-current liabilities	<u><u>23,857</u></u>	<u><u>22,870</u></u>	<u><u>27,666</u></u>	<u><u>26,678</u></u>	<u><u>31,824</u></u>
Current Liabilities					
Trade and notes payables	20,526	15,115	10,753	18,985	15,435
Other payables and accruals	35,279	55,040	27,953	18,408	13,045
Interest-bearing bank and other borrowings	—	—	493	14,503	17,496
Lease liabilities	573	1,174	953	637	474
Income tax payables	<u>25,218</u>	<u>9,917</u>	<u>8,540</u>	<u>8,660</u>	<u>8,544</u>
Total current liabilities	<u><u>81,596</u></u>	<u><u>81,246</u></u>	<u><u>48,692</u></u>	<u><u>61,193</u></u>	<u><u>54,994</u></u>
Total liabilities	<u><u>105,453</u></u>	<u><u>104,116</u></u>	<u><u>76,358</u></u>	<u><u>87,871</u></u>	<u><u>86,818</u></u>

Non-current assets

We recorded non-current assets of US\$64.5 million, US\$70.7 million, US\$113.5 million, US\$116.0 million and US\$107.9 million as at 31 December 2018, 2019, 2020, 2021, and 30 June 2022, respectively.

Property, plant and equipment

Our property, plant and equipment mainly represent the Italian Factory, Extrusion Facilities, motor vehicles and office equipment.

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Our property, plant and equipment increased from US\$55.7 million as at 31 December 2018 to US\$56.8 million as at 31 December 2019. Such slight increase was a combined effect of the purchase of machinery for both the Italian Factory and the PRC Factory and motor vehicles and the depreciation of certain property, plant and equipment. Our property, plant and equipment further increased from US\$56.8 million as at 31 December 2019 to US\$97.2 million as at 31 December 2020. Such increase was a combined effect of the purchase of PRC Factory and machinery and the surplus on revaluation of plant and machinery, set off by the depreciation of certain property, plant and equipment. Our property, plant and equipment increased from US\$97.2 million as at 31 December 2020 to US\$100.0 million as at 31 December 2021. Such slight increase was mainly due to the surplus on revaluation of plant and machinery, which was partially offset by the depreciation of certain property, plant and machinery. Our property, plant and equipment decreased from US\$100.0 million as at 31 December 2021 to US\$93.1 million as at 30 June 2022. Such decrease was mainly due to the exchange realignment of negative amount of US\$6.6 million in 1H2022 and the depreciation of property, plant and equipment partially offset by the additions of property, plant and equipment in 1H2022.

Right-of-use assets

Our right-of-use assets were mainly arising from the lease of the PRC Factory and our offices. Our right-of-use assets was recorded US\$5.6 million as at 31 December 2018, was mainly attributable to entering into the lease of the PRC Factory, in December 2018. Our right-of-use assets increased from US\$5.6 million as at 31 December 2018 to US\$6.6 million as at 31 December 2019, which was mainly attributable to the new lease of our office in Hong Kong. Our right-of-use assets increased from US\$6.6 million as at 31 December 2019 to US\$8.1 million as at 31 December 2020, which was mainly attributable to the acquisition of the PRC Factory by Sangraf Henan in FY2020. Our right-of-use assets decreased from US\$8.1 million as at 31 December 2020 to US\$7.3 million as at 31 December 2021, which was primarily due to the depreciation of right-of-use assets. Our right-of-use assets increased from US\$7.3 million as at 31 December 2021 to US\$8.3 million as at 30 June 2022, primarily attributable to the addition of right-of-use assets which was partially offset by the depreciation of right-of-use assets and the decrease in exchange realignment.

Intangible assets

Our intangible assets mainly comprise the manufacturing patents obtained through the acquisition of Sangraf Energy in 2018. As at 30 June 2022, our intangible assets mainly included patents of US\$0.7 million which comprised two registered patents. Our Group assessed the recoverable amount of cash generating unit containing the intangible assets with finite useful life and no impairment losses was resulted. For further details, please refer to the section headed “Statutory and General Information — C. Further Information about our Business — 2. Intellectual property rights of our Group — Patents” in Appendix IV to this prospectus.

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Deferred tax assets

Our deferred tax assets of US\$1.6 million as at 31 December 2018 mainly represented the tax credit arising from our accrued bonus expenses for FY2018. Our deferred tax assets of US\$4.8 million as at 31 December 2019 mainly represented the tax credit arising from our inventory provision made in FY2019. Our deferred tax assets increased to US\$6.3 million as at 31 December 2020 mainly due to the recognition of deferred tax assets arising from the tax losses incurred by certain subsidiaries of our Group on FY2020. Our deferred tax assets decreased to US\$5.4 million as at 31 December 2021 due to the deferred tax charge related to the reversal of inventory provision during the corresponding period. Our deferred tax assets decreased to US\$3.8 million as at 30 June 2022, mainly due to the derecognition of deferred tax assets arising from the tax losses incurred by certain subsidiaries of our Group in 1H2022.

Net Current Assets

We recorded net current assets of US\$65.6 million, US\$62.5 million, US\$47.4 million, US\$45.6 million, US\$55.8 million and US\$60.1 million as at 31 December 2018, 2019, 2020 and 2021, 30 June 2022 and 31 October 2022, respectively.

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The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December				As at 30 June	As at 31 October
	2018	2019	2020	2021	2022	2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
						(Unaudited)
Current Assets						
Inventories	92,676	92,378	54,220	60,872	62,857	62,113
Trade receivables	32,810	13,195	17,017	21,849	25,651	12,606
Prepayments, deposits and other receivables	15,756	19,868	12,177	9,019	7,675	8,708
Cash and cash equivalents	<u>5,920</u>	<u>18,341</u>	<u>12,694</u>	<u>15,086</u>	<u>14,619</u>	<u>14,708</u>
Total current assets	<u><u>147,162</u></u>	<u><u>143,782</u></u>	<u><u>96,108</u></u>	<u><u>106,826</u></u>	<u><u>110,802</u></u>	<u><u>98,135</u></u>
Current Liabilities						
Trade and notes payables	20,526	15,115	10,753	18,985	15,435	10,418
Other payables and accruals	35,279	55,040	27,953	18,408	13,045	8,430
Interest-bearing bank and other borrowings	—	—	493	14,503	17,496	12,324
Lease liabilities	573	1,174	953	637	474	529
Income tax payables	<u>25,218</u>	<u>9,917</u>	<u>8,540</u>	<u>8,660</u>	<u>8,544</u>	<u>6,310</u>
Total current liabilities	<u><u>81,596</u></u>	<u><u>81,246</u></u>	<u><u>48,692</u></u>	<u><u>61,193</u></u>	<u><u>54,994</u></u>	<u><u>38,011</u></u>
Net current assets	<u><u>65,566</u></u>	<u><u>62,536</u></u>	<u><u>47,416</u></u>	<u><u>45,633</u></u>	<u><u>55,808</u></u>	<u><u>60,124</u></u>

Our Group's net current assets decreased from US\$65.6 million as at 31 December 2018 to US\$62.5 million as at 31 December 2019. The decrease was primarily due to the increase in other payables and accruals and decrease in trade receivables which were partially offset by the decrease in income tax payables.

Our Group's net current assets decreased from US\$62.5 million as at 31 December 2019 to US\$47.4 million as at 31 December 2020. The decrease was primarily due to the decrease in inventories.

Our Group's net current assets decreased from US\$47.4 million as at 31 December 2020 to US\$45.6 million as at 31 December 2021. The slight decrease was primarily due to the decrease in other payables and accruals and offset by the increase in interest-bearing bank borrowings and the increase in trade and notes payables.

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Our net current assets increased from US\$45.6 million as at 31 December 2021 to US\$55.8 million as at 30 June 2022. The increase was primarily attributable to the increase in inventories and trade receivables, the decrease in trade and notes payables, the decrease in other payables and accruals and partially offset by the increase in interest-bearing bank and other borrowings.

The tax payables during the Track Record Period consisted mainly a tax provision amounted to approximately US\$3.0 million made by Sangraf US as a result of the transfer pricing review conducted in 2019 in the preparation for the Listing. Upon the transfer pricing review, Sangraf US was suggested to file a supplemental tax return for FY2017 and FY2018 with the US Internal Revenue Service (the “USIRS”). Upon the USIRS’ assessment, Sangraf US had been required to pay tax in the amount of US\$17.5 million during FY2018 and Sangraf US paid the amount accordingly in 2019. For Sangraf US’ tax liability for its income generated during FY2017, although Sangraf US filed the relevant tax return in 2019, its tax liability for FY2017 was still subject to review by the USIRS pursuant to the relevant tax regulations as at the Latest Practicable Date. As a result, a tax provision of approximately US\$3 million was made for Sangraf US’ tax payable for FY2017 and a tax provision of approximately US\$1.2 million was made for any potential late charges in FY2017.

Our tax consultant, namely Andersen Tax LLC, had reviewed the tax position of Sangraf US for FY2017 against the applicable transfer pricing laws and regulations and arm’s length principle and is of the view that the provision amount is sufficient, reasonable and commensurate with the functions and risks of Sangraf US in the transfer pricing arrangement of our Group.

In addition, the tax payable during the Track Record Period included a tax provision of approximately US\$1.6 million made by Sangraf Energy, which was acquired by our Group in FY2018, for its potential tax liability generated before our Group’s acquisition, that is subject to review by the local tax authority pursuant to the relevant tax regulations. Such potential tax liability was accrued by Sangraf Energy before our Group’s acquisition of Sangraf Energy was addressed by the US\$1.6 million provision.

Other than the above tax provision, the remaining balance of income tax payable during the Track Record Period represented the provision for the net profit based on the applicable tax rates of the each financial year in accordance with the relevant laws and regulations in each tax jurisdiction we operate in or are domiciled in. In particular, the high income tax payable in 2018 represented the tax for the higher amount of net profit generated in 2018. The fluctuation in our income tax payable amounts during the Track Record Period was in line with our net profit.

Working Capital

Our Directors confirm that, as at the Latest Practicable Date, taking into consideration the financial resources presently available to us, including bank and other borrowings and other internal resources, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus. As at the Latest Practicable Date, we had not experienced any liquidity problems in settling our payables in our normal course of business. The Sole Sponsor concurred with the view of the Directors.

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Our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Inventories

Our inventory primarily consists of finished goods (including our graphite electrodes), work in progress and raw materials (including needle cokes).

The table below sets out the components of our inventories as at the dates indicated:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Raw materials	9,976	11,197	5,905	13,241	12,433
Work in progress	49,470	62,260	38,501	31,556	30,449
Finished goods	33,230	35,080	14,598	17,328	20,201
Less: provision	<u>—</u>	<u>(16,159)</u>	<u>(4,784)</u>	<u>(1,253)</u>	<u>(226)</u>
Total	<u><u>92,676</u></u>	<u><u>92,378</u></u>	<u><u>54,220</u></u>	<u><u>60,872</u></u>	<u><u>62,857</u></u>

Our balance of inventories decreased by US\$0.3 million from US\$92.7 million as at 31 December 2018 to US\$92.4 million (net of provision) as at 31 December 2019, mainly attributable to the increase in work in progress inventories as a result of the full operation of both the Italian Factory and the PRC Factory. Our balance of inventories decreased by US\$38.2 million from US\$92.4 million as at 31 December 2019 to US\$54.2 million as at 31 December 2020, mainly attributable to our strategy of the significant destock of inventories in FY2020 and the reduction in purchase of raw materials and production volume amid the unfavourable market condition under COVID-19. Our balance of inventories increased by US\$6.7 million from US\$54.2 million as at 31 December 2020 to US\$60.9 million as at 31 December 2021, primarily attributable to the combined effect of (i) the increase in volume of raw materials and finished goods inventories; and (ii) the decrease in the unit cost of work in progress resulting from the lower purchase cost of needle coke.

Our balance of inventories increased by US\$2.0 million from US\$60.9 million as at 31 December 2021 to US\$62.9 million as at 30 June 2022, representing the normal inventory value variance change when production volume increased. The increase was mainly attributable to (i) the increase of 6.0% in volume of finished goods from 3,770MT to 3,995MT; (ii) the increase of 10% in the unit cost of finished goods from US\$4,596/MT as at 31 December 2021 to US\$5,056/MT as at 30 June 2022; and (iii) the decrease of US\$1.0 million due to the inventory provision made in FY2021.

As at 31 October 2022, being the latest practicable date for determining the value of remaining inventories, our balance of inventories was US\$62.1 million and our balance of inventories was about 20,581MT.

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We periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. Provision is made against when the net realisable value of inventories falls below the cost or any of the inventories is identified obsolete. As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, the amounts of provision for inventories of nil, US\$16.2 million, US\$4.8 million, US\$1.3 million and US\$0.2 million, respectively, due to that the net realisable value of inventories went below the cost of inventories following the drop in market price of graphite electrodes during the relevant time. The inventory provision reduced upon the sales of the inventories.

Our provision for inventories decreased by US\$11.4 million from US\$16.2 million as at 31 December 2019 to US\$4.8 million as at 31 December 2020, mainly attributable to utilisation of the provision for inventories upon the sales of inventories during FY2020 and the decrease in further provision for inventories during FY2020. Our provision for inventories further decreased by US\$3.5 million from US\$4.8 million as at 31 December 2020 to US\$1.3 million as at 31 December 2021, primarily attributable to the utilisation of the provision for inventories upon the sales of inventories during the period. Our provision for inventories decreased from US\$1.3 million as at 31 December 2021 to US\$0.2 million as at 30 June 2022, primarily attributable to the utilisation of the provision for inventories upon the sales of inventories during the period. The amount of inventories provision made to the inventories sold amounted to US\$13,781,000, US\$3,531,000 and US\$1,027,000 for the years ended 31 December 2020 and 2021 and six months ended 30 June 2022, respectively.

Inventories are stated at the lower of cost and net realisable value. Our Group estimated the net realizable value of inventories based on the most reliable evidence available at the time estimates are made. The assessment of the net realisable value involved the management's judgement and estimates, based on management's expectations for future sales net of estimated selling expenses.

Our Group regularly assesses the net realisable value of inventories subsequently to the reporting date to ensure the adequacy of the stock provision and that no further impairment is required.

Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the inventories and any provision will be written down or written back in the period in which such estimate has been changed.

The table below sets out the turnover days of our inventories for the periods indicated.

	FY2018	FY2019	FY2020	FY2021	1H2022
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average inventory turnover days ^(Note)	268	290	291	245	255

Note: Average inventory turnover days is derived by dividing the arithmetic mean of the opening and closing balances of inventories for the relevant year/period by cost of sales for the relevant year/period and multiplying by 365 days for FY2018, FY2019, FY2020, FY2021 and 182 days for 1H2022.

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Since the commencement of in-house production of the Italian Factory, we started to keep buffer stocks of raw materials, work in progress as well as finished goods and with our production cycle of approximately three to five months, our average inventory turnover days for FY2018 increased to 268 days and remained stable at 290 days in FY2019, 291 days in FY2020. Our average inventory turnover days for FY2021 decreased to 245 days due to the increase in our sales volume from 25,647MT for FY2020 to 27,669MT for FY2021. Our average inventory turnover days for 1H2022 increased to 255 days which was in line with the movement of our inventory.

As at 15 November 2022, US\$21.4 million or 34.1% of our inventories as at 30 June 2022 were utilized. As confirmed by our Directors, sufficient provision has been provided and no further recoverability issue for inventories was noted during the Track Record Period, because our Directors are of the view that (i) we do not maintain a high level of inventories for needle coke and other work in process; (ii) our inventories are manufactured based on the purchase orders received; (iii) our products are all durable and without expiration date; (iv) our annual sales plan for our inventories is formulated based on the most updated market conditions and our sales strategies and promotion plans are updated and adjusted in a timely manner. The assessment of the net realisable value involved the management's judgement and estimates based on the management's expectation for future sales net of estimated selling expenses.

Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the inventories and any provision will be written down or written back in the period in which such estimate has been changed.

The carrying amounts of inventories as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 were US\$92,676,000, US\$92,378,000, US\$54,220,000, US\$60,872,000 and US\$62,857,000, respectively. The provision of inventories to net realisable value as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 amounted to nil, US\$16,159,000, US\$4,784,000, US\$1,253,000 and US\$226,000, respectively. Our Directors do not believe there is any recoverability issue for the inventories and that adequate provisions had been made during the Track Record Period. Details of the Reporting Accountants' opinion on Historical Financial Information are included in Appendix I to this prospectus.

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The table sets out the aging analysis of our inventory during the Track Record Period:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2022
					<i>US\$'000</i>
0–90 days	80,063	68,056	25,932	44,567	45,903
91–180 days	12,613	22,697	8,233	4,666	4,242
181–365 days	—	15,398	12,617	2,648	6,577
Over 365 days	—	2,386	12,222	10,244	6,361
Provision for inventories	—	(16,159)	(4,784)	(1,253)	(226)
Total	<u>92,676</u>	<u>92,378</u>	<u>54,220</u>	<u>60,872</u>	<u>62,857</u>

Trade receivables

The table below sets out our trade receivables as at the dates indicated:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	2022
					<i>US\$'000</i>
Trade receivables	32,810	14,072	17,056	21,985	25,897
Less: impairment	—	(877)	(39)	(136)	(246)
Total	<u>32,810</u>	<u>13,195</u>	<u>17,017</u>	<u>21,849</u>	<u>25,651</u>

Our trade receivables decreased from US\$32.8 million as at 31 December 2018 to US\$13.2 million as at 31 December 2019. There was a significant decrease in revenue in the last quarter of FY2019 when compared to that of FY2018 due to the plunge of the average price of graphite electrodes in the global market in FY2019. Given our trade receivables as at 31 December 2019 mainly represented the sales made during the last quarter of FY2019, our trade receivables as at 31 December 2019 decreased significantly when compared to our trade receivables as at 31 December 2018. Our trade receivables increased from US\$13.2 million as at 31 December 2019 to US\$17.0 million as at 31 December 2020, which was mainly due to increase in revenue of one of the top five customers during the fourth quarter of 2020 as compared to 2019 and also certain revenue from new customers secured during the fourth quarter of 2020. Our trade receivables increased from US\$17.0 million as at 31 December 2020 to US\$21.8 million as at 31 December 2021, which was mainly due to the increase in sales during the fourth quarter in 2021 compared to the corresponding period in 2020. Our trade receivables increased from US\$21.8 million as at 31 December 2021 to US\$25.7 million as at 30 June 2022, which was mainly due to the increase in our sales to some new customers during 1H2022.

FINANCIAL INFORMATION

Our trading terms with our customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period to our customers is generally within 30 to 60 days from delivery. Each of our customers has a maximum credit limit. We seek to maintain strict control over our outstanding receivables and have a credit control department to minimise credit risk. Overdue balances are reviewed regularly by our senior management. Our Group does not hold any collateral or other credit enhancement over our trade receivable balances. Our trade receivables are non-interest bearing.

An impairment analysis is performed at each reporting date by considering the probability of default of the counterparty. Our Group also takes into account forward-looking information to reflect the debtors' probability of default under the current and future economic conditions, as appropriate. The expected credit loss rates were assessed to be insignificant and accordingly, minimal loss allowance was provided for upon the assessment of expected credit losses. As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, the expected credit loss rates were ranged from 0.1% to 0.8%, 0.1% to 1.4%, 0.1% to 2.3%, 0.1% to 1.7% and 0.1% to 1.0%, respectively. As at 31 December 2018, 2019, 2020 and 2021, and 30 June 2022, the allowance for impairment of trade receivables were nil, US\$0.9 million, US\$39,000, US\$0.1 million and US\$0.2 million, respectively. The amount of US\$0.9 million for FY2019 represented the unpaid balance from two customers. Due to the long-outstanding status and based on our understanding, the customers were not able to settle the said balance due to cashflow problem. No further impairment was provided for such two customers in FY2020.

Our Group applied the practical expedient of not adjusting the effect of a significant financing component, our Group applied the simplified approach in calculating ECLs. Under the simplified approach, our Group did not track changes in credit risk, but instead recognised a loss allowance based on lifetime ECLs at each reporting date.

Our Group has evaluated the expected credit losses by considering the probability of default of the counterparty and adjusted for forward-looking factors specific to the debtors and the economic environment. At each reporting date, the probability of default and loss given default are updated and changes in the forward-looking estimates are analysed.

Our Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Our Group does not hold any collateral or other credit enhancements over its trade receivable balances.

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The table below sets out the aging analysis (based on the past due date of invoices) of our trade receivables, as at the dates indicated:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>2022</i>
Not past due	19,724	8,093	13,443	18,717	24,307
Within 1 month	11,504	4,736	3,004	2,318	930
1–3 months	1,531	366	12	556	292
Over 3 months	51	—	558	258	122
Total	32,810	13,195	17,017	21,849	25,651

As at 31 December 2018, 2019, 2020 and 2021, and 30 June 2022, trade receivables of US\$13.0 million, US\$5.1 million, US\$3.6 million, US\$3.1 million and US\$1.3 million, respectively, were past due but not impaired. These related to customers for whom there is no significant financial difficulty and based on our experience, our Directors were of the view that no additional impairment allowance was necessary in respect of these overdue balances as there had not been significant change in credit quality of our customers and the balances were considered fully recoverable.

As at 15 November 2022, being the latest practicable date for the purpose of indebtedness statement, US\$25.4 million or 97.5% of our trade receivables outstanding as at 30 June 2022 were settled.

The table below sets forth a summary of average turnover days of trade receivables for the periods indicated:

	FY2018	FY2019	FY2020	FY2021	1H2022
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average turnover days of trade receivables ^(Note)	46	56	51	65	72

Note: Average turnover days of trade receivables is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables for the relevant year/period by revenue for the relevant year/period and multiplying by 365 days for FY2018, FY2019, FY2020 and FY2021 and 182 days for 1H2022.

The average turnover days of trade receivables had remained relatively stable for FY2018, FY2019 and FY2020 since the payment terms with our customers remained consistent and within our general credit period ranged from 30 to 60 days. The average turnover days of trade receivables increased from 51 days for FY2020 to 65 days for FY2021 because the sales volume in the last quarter of 2021 was relatively higher than that in other months during the period. The average turnover days of trade receivables increased from 65 days for FY2021 to 72 days in 1H2022, mainly due to the increase in the average of opening and closing balances of trade receivables as at 30 June 2022 compared with those as at 31 December 2021.

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Prepayments, deposits and other receivables

The table below sets out the breakdown of our prepayments, deposits and other receivables as at the dates indicated.

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Prepayments	4,462	4,921	2,330	4,839	4,554
Deposits and other receivables	11,337	16,140	9,738	6,010	4,340
Net investment in a lease	—	—	—	56	42
Due from the immediate and intermediate holding company	—	—	408	196	386
Due from related companies:					
Rental deposit	—	7	10	10	10
Less: non-current portion of prepayments and deposits	<u>(43)</u>	<u>(1,200)</u>	<u>(309)</u>	<u>2,092</u>	<u>(1,657)</u>
Total	<u><u>15,756</u></u>	<u><u>19,868</u></u>	<u><u>12,177</u></u>	<u><u>9,019</u></u>	<u><u>7,675</u></u>

We make prepayments and deposits to our suppliers which is in line with the industry practice. Our prepayments increased from US\$4.5 million as at 31 December 2018 to US\$4.9 million as at 31 December 2019, which was mainly due to our prepayment of value added tax in connection with our purchase of raw materials for our production in Italian Factory. Prepayments further decreased to US\$2.3 million as at 31 December 2020, due to the decrease in value-added tax receivable, which is in line with the decrease in revenue from FY2019 to FY2020. Prepayments subsequently increased to US\$4.8 million as at 31 December 2021, which was mainly due to the purchase of fixed assets for implementation of debottlenecking exercise in Italian Factory and the prepayment of listing expenses. Prepayments decreased to US\$4.6 million as at 30 June 2022 mainly due to the decrease in prepayments for assets.

Our deposits and other receivables increased from US\$11.3 million as at 31 December 2018 to US\$16.1 million as at 31 December 2019, which was mainly due to more value added tax recoverable arising from our purchase of raw materials, our production and our purchase of plants, property and equipment for Italian Factory and PRC Factory. Our deposits and other receivables further decreased from US\$16.1 million as at 31 December 2019 to US\$9.7 million as at 31 December 2020, which was mainly due to the decrease in value added tax recoverable. Our deposits and other receivables decreased from US\$9.7 million as at 31 December 2020 to US\$6.0 million as at 31 December 2021, which was mainly due to the decrease in value added tax recoverable. Our deposits and other receivables decreased from US\$6.0 million as at 31 December 2021 to US\$4.3 million as at 30 June 2022, which was mainly due to a decrease in value added tax recoverable.

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Our due from the intermediate holding company represented certain fund transfer and payment on behalf of our Group during FY2020, FY2021 and 1H2022. The balance will be settled prior to listing.

Our due from related companies as at 31 December 2019 of US\$7,000 is our deposit paid to Incubation Holdings LLC, a company wholly owned by a sister of Mr. Hou, our executive Director and Controlling Shareholder, for our lease for an office unit. Our due from related companies as at 31 December 2020 and 2021 and 30 June 2022 of US\$10,000 is our deposit paid to Houson Equity LLC, a company wholly owned by the spouse of Mr. Hou, our executive Director and Controlling Shareholder, for our lease for an office unit. The amount due will be refunded upon expiry of the leases according to the terms and conditions of the relevant agreements.

Our net investment in a lease as at 31 December 2021 and 30 June 2022 of approximately US\$56,000 and US\$42,000, respectively, represented the discounted lease receivables for the sublease of an office building in the United States.

As at 15 November 2022, US\$3.2 million or 33.9% of our prepayments, deposits and other receivables as at 30 June 2022 were subsequently settled.

Trade and notes payables

Our trade and notes payables as at 31 December 2018, 2019, 2020 and 2021, and 30 June 2022 were US\$20.5 million, US\$15.1 million, US\$10.8 million, US\$19.0 million and US\$15.4 million, respectively.

Our trade and notes payables are derived primarily from payables relating to the purchase of graphite electrodes and needle coke and the subcontracting services for our production of the PRC Factory. The payment and credit terms vary in different purchase of such materials and services.

Our trade and notes payables decreased from US\$20.5 million as at 31 December 2018 to US\$15.1 million as at 31 December 2019, which was mainly because we slowed down our purchases of needle cokes from our suppliers in the second half of FY2019 to utilise our existing inventories in FY2019.

Our trade and notes payables further decreased from US\$15.1 million as at 31 December 2019 to US\$10.8 million as at 31 December 2020, which was mainly due to our destock of inventories resulting in less purchases of raw materials from suppliers and repayment of aged trade payables during FY2020.

Our trade and notes payable increased from US\$10.8 million as at 31 December 2020 to US\$19.0 million as at 31 December 2021, which was primarily due to the increase of purchase of needle coke and utilities consumption during the last quarter in 2021 when compared to the corresponding period in 2020.

Our trade and notes payable decreased from US\$19.0 million as at 31 December 2021 to US\$15.4 million as at 30 June 2022, which was primarily attributable to (i) the decrease of US\$1.6 million in trade payables due to Supplier D for supply of needle coke, which was mainly attributable to the payments in the aggregate amount of US\$2.8 million made in May 2022; and (ii) the decrease of US\$1.6 million in trade payables due to Supplier I for supply of electricity and gas to the Italian Factory, which was mainly attributable to the payments in the aggregate amount of US\$1.4 million made in June 2022.

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Our suppliers generally offer us trade credit periods ranging from 21 to 120 days. The table below sets out, as at the end of reporting periods indicated, the aging analysis of our trade and notes payables:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Not past due	11,963	1,011	7,446	17,185	13,726
Within 1 month	259	2,616	489	516	972
1–3 months	—	3,022	567	453	509
Over 3 months	<u>8,304</u>	<u>8,466</u>	<u>2,251</u>	<u>831</u>	<u>228</u>
Total	<u><u>20,526</u></u>	<u><u>15,115</u></u>	<u><u>10,753</u></u>	<u><u>18,985</u></u>	<u><u>15,435</u></u>

The table below sets out the average trade and notes payables turnover days for the periods indicated:

	FY2018	FY2019	FY2020	FY2021	1H2022
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average turnover days of trade and notes payables ^(Note)	76	56	51	63	71

Note: Average turnover days of trade and notes payables is derived by dividing the arithmetic mean of the opening and closing balances of trade and notes payables for the relevant year/period by cost of sales for the relevant year/period and multiplying the resulting value by 365 days for FY2018, FY2019, FY2020 and FY2021 and 182 days for 1H2022.

Average trade and notes payables turnover days slightly decreased from 76 days in FY2018 to 56 days in FY2019. They then decreased from 56 days in FY2019 to 51 days in FY2020 mainly due to the decrease in trade and notes payables from US\$15.1 million as at 31 December 2019 to US\$10.8 million as at 31 December 2020, which was mainly due to our de-stocking of inventories resulting in less purchases of raw materials from suppliers and repayment of aged trade payables during FY2020. They then increased from 51 days to 63 days in FY2021 mainly due to the increase in trade and notes payables from US\$10.8 million as at 31 December 2020 to US\$19.0 million as at 31 December 2021. They then increased from 63 days to 71 days in 1H2022 mainly due to the increase in the average of opening and closing balances of trade and notes payables as at 30 June 2022 compared with those as at 31 December 2021.

As at 15 November 2022, being the latest practicable date for the purpose of indebtedness statement, US\$15.0 million or 97.2% of trade and notes payables outstanding as at 30 June 2022 had been fully settled.

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Other payables and accruals

The table below sets out the breakdown of our other payables and accruals as at the dates indicated:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Other payables	14,742	12,945	6,284	5,406	6,862
Accruals	4,097	3,960	2,777	3,119	2,757
Contract liabilities	—	16,985	412	191	3,424
Due to our Controlling Shareholder	5,285	3,778	3,012	2,439	—
Due to the ultimate holding company	50	50	—	—	—
Due to a shareholder	—	—	—	616	616
Due to a related company — unsecured	18,108	16,421	12,026	2,907	41
Due to a related company — secured	—	2,675	9,267	10,473	422
Less: non-current portion of other payables and accruals	<u>(7,003)</u>	<u>(1,774)</u>	<u>(5,825)</u>	<u>(6,743)</u>	<u>(1,077)</u>
Total	<u><u>35,279</u></u>	<u><u>55,040</u></u>	<u><u>27,953</u></u>	<u><u>18,408</u></u>	<u><u>13,045</u></u>

Our other payables mainly represent the considerations for acquisition of property, plant and equipment, other tax payables and payroll and welfare payables. Other payables decreased by US\$1.8 million from US\$14.7 million as at 31 December 2018 to US\$12.9 million as at 31 December 2019, which was mainly attributable to our partial settlement of the consideration for such acquisition. Other payables further decreased by US\$6.6 million to US\$6.3 million as at 31 December 2020, which was mainly attributable to our further settlement of another staged payment of the consideration for the acquisition of the Extrusion Facilities during the period. Our other payables decreased from US\$6.3 million as at 31 December 2020 to US\$5.4 million as at 31 December 2021 primarily due to the settlement of other payables for acquisition of machineries. Our other payables increased from US\$5.4 million as at 31 December 2021 to US\$6.9 million as at 30 June 2022, primarily due to the increase of US\$0.9 million in payable in other payables to modify and restart furnaces at Sanli Assets.

Accruals mainly represent our staff costs. Accruals slightly decreased by US\$137,000 from US\$4.1 million as at 31 December 2018 to US\$4.0 million as at 31 December 2019. Accruals further decreased by US\$1.2 million from US\$4.0 million as at 31 December 2019 to US\$2.8 million as at 31 December 2020. Accruals increased by US\$0.3 million from US\$2.8 million as at 31 December 2020 to US\$3.1 million as at 31 December 2021. Accruals decreased by US\$0.3 million from US\$3.1 million as at 31 December 2021 to US\$2.8 million as at 30 June 2022.

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Contract liabilities include advances received from our customers to deliver graphite electrodes by us. Our contract liabilities were nil as at 31 December 2018 as we did not have orders from our customers which we required prepayment. It then increased to US\$17.0 million as at 31 December 2019, which was mainly attributable to advance received from a customer in the PRC according to the payment terms of the agreement with such customer.

Our contract liabilities further decreased to US\$0.4 million and US\$0.2 million as at 31 December 2020 and 31 December 2021, respectively, which was mainly attributable to the decrease in advance received from our customers in FY2020 and FY2021 near the end of the respective period. Our contract liabilities increased to US\$3.4 million as at 30 June 2022, which was mainly attributable to the increase in advance payment received from our customers for the purchase of graphite electrodes.

Our due to our Controlling Shareholder as at 31 December 2021 — unsecured represents the bonus payment payable from our Group to Mr. Hou, our executive Director and executive vice president of business development, which will be fully settled upon Listing.

Our due to a shareholder of US\$0.6 million as at 31 December 2021 represented the dividend payable to our minority shareholder for FY2021 which will be fully settled upon Listing.

Our due to a related company — unsecured represents the balance of consideration for the acquisition of Sangraf Energy to the vendor payable by our Group of US\$18.1 million as at 31 December 2018, US\$16.4 million as at 31 December 2019, US\$12.0 million as at 31 December 2020, US\$2.9 million as at 31 December 2021 and US\$0.04 million as at 30 June 2022 and will be repayable before December 2022 of which bears interest at 7% which will be fully settled upon Listing.

Our due to a related company — secured of US\$9.3 million represents the balance of the new loan including accrued interest, from a financing company, of which, a nephew of our Controlling Shareholder, is the minority shareholder. As at 31 December 2019 it was interest-bearing at 8% per annum and secured by our Group's property, plant and equipment of US\$5.5 million. The balance as at 31 December 2020, included amounts of US\$3,442,000 and US\$5,825,000 which are repayable in 2021 and 2021 to 2023, respectively. The balance increased as at 31 December 2020 due to a new loan of RMB50 million was obtained from the same financing company in December 2020. As at 31 December 2021, the loans from a related company was interest-bearing at 8% per annum and secured by our Group's property, plant and equipment of US\$18.6 million. On 2 June 2022, the related company transferred the outstanding loan receivable of US\$7.5 million to a third party and the gain on novation of loans of US\$155,000 was credited to profit or loss for the six months ended 30 June 2022. The remaining balance of interest payable to the related company of US\$0.4 million was subsequently paid in July 2022. Please refer to the paragraph headed "Financial Information — Indebtedness" in this section for more details on our interest-bearing bank and other borrowings.

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Deferred tax liabilities

Our deferred tax liabilities were mainly derived from the revaluation of our property, plant and equipment of the Italian Factory, which amounted to US\$13.2 million, US\$13.4 million, US\$17.6 million, US\$17.7 million and US\$17.0 million as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, respectively.

CAPITAL EXPENDITURES

Our Group's capital expenditures principally consisted of expenditures on additions to property, plant and equipment and other intangible assets including assets from the acquisition of a subsidiary for the expansion of our operations. For FY2018, FY2019, FY2020, FY2021 and 1H2022, our Group incurred capital expenditures of US\$20.0 million, US\$3.3 million, US\$26.6 million, US\$4.3 million and US\$2.9 million, respectively.

Between 30 June 2022 and the Latest Practicable Date, we did not make any material capital expenditures.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed "Future plans and use of proceeds" in this prospectus for further information.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Global Offering, cash generated from our operating activities and proceeds from borrowings. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months commencing from the date of this prospectus.

PROPERTY INTERESTS

Our Directors confirm that as at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets. On this basis, we are not required by Rule 5.01A of the Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

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COMMITMENT AND ARRANGEMENTS

During the Track Record Period, we had no operating lease or finance lease commitments that were not provided for in our consolidated financial statements.

Capital commitments

We had the following capital commitments which were not provided for in our consolidated financial statements:

		As at 31 December			As at 30 June
	2018	2019	2020	2021	2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Acquisition of property, plant and equipment	—	10,751	12,108	11,763	11,175
Total	—	10,751	12,108	11,763	11,175

Our capital commitment was nil as at 31 December 2018. Our capital commitment of US\$10.8 million, US\$12.1 million, US\$11.8 million and US\$11.2 million as at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively, mainly represented the potential consideration payable by us for the acquisition of the Taigu Assets.

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INDEBTEDNESS

The table below sets out our indebtedness as at 31 December 2018, 2019, 2020 and 2021, 30 June 2022 and 31 October 2022.

	2018	As at 31 December			As at	As at
	2018	2019	2020	2021	30 June	31 October
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>2022</i>	<i>2022</i>
					<i>US\$'000</i>	<i>US\$'000</i>
						<i>(unaudited)</i>
Current						
Interest-bearing bank and other borrowings	—	—	493	14,503	17,496	17,146
Lease liabilities	573	1,174	953	637	474	529
Other interest-bearing payables	10,191	8,372	652	—	—	—
Amount due to Controlling Shareholder	5,285	3,778	3,012	2,439	—	—
Amount due to a related company — unsecured	12,237	16,421	12,026	2,907	41	—
Amount due to a related company — secured	—	901	3,442	4,807	422	—
Amount due to ultimate holding company	50	50	—	—	—	—
Amount due to a shareholder	—	—	—	616	616	616
Sub-total	<u>28,336</u>	<u>30,696</u>	<u>20,578</u>	<u>25,909</u>	<u>19,049</u>	<u>18,291</u>
Non-current						
Interest-bearing bank and other borrowings	—	5,003	6,553	5,756	16,978	16,926
Lease liabilities	5,006	5,652	622	154	1,186	1,192
Other interest-bearing payables	1,132	—	—	—	—	—
Amount due to a related company — unsecured	5,871	—	—	—	—	—
Amount due to a related company — secured	—	1,774	5,825	5,666	—	—
Sub-total	<u>12,009</u>	<u>12,429</u>	<u>13,000</u>	<u>11,576</u>	<u>18,164</u>	<u>18,118</u>
Total	<u><u>40,345</u></u>	<u><u>43,125</u></u>	<u><u>33,578</u></u>	<u><u>37,485</u></u>	<u><u>37,213</u></u>	<u><u>36,409</u></u>

Interest-bearing bank and other borrowings

Our other interest-bearing borrowings of US\$5.0 million represented the amounts advanced from a third party with effective interest rate per annum ranged from 8.0% to 9.8% as at 31 December 2019. Such other interest-bearing borrowings were fully repaid as at 30 June 2020. As at 31 December 2020, our interest-bearing bank borrowings of US\$7.0 million represented the borrowings with effective interest rate per annum ranged from 0.75% to 1.5%. As at 31 December 2021, our interest-bearing bank borrowings of US\$20.3 million represented the borrowings with effective interest rate per annum ranged from 0.75% to 5.22%. As at 30 June 2022, our interest-bearing bank and other borrowings of US\$34.4 million represented the borrowings with effective interest rate per annum ranged from 0.75% to 8%.

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As at 31 October 2022, our unutilised banking facilities were US\$0.5 million.

As at the Latest Practicable Date, our Group entered into a loan agreement (the “**2022 New Loan**”) with a lender, which is a wholly owned subsidiary of a global investment firm which, in turn, is wholly owned by an individual, who is an Independent Third Party and, save for disclosed in this prospectus, does not have any past or present relationship (family, employment, business, financing or others) with our Group, including its subsidiaries, shareholders, directors, senior management and their respective associates.

The global investment firm was founded in 1995 and is headquartered in New York with offices in Europe, Asia and Middle East. As at 31 October 2022, it manages an asset portfolio with value of approximately US\$12.3 billion.

Pursuant to the 2022 New Loan:

- (i) there is an additional interest-bearing borrowings of up to US\$18 million, consisting of two tranches of US\$10 million and US\$8 million each, with the interest rate per annum of 8%; and
- (ii) the repayment schedule of the 2022 New Loan:
 - the first repayment of up to 30% of the actual borrowings, is due nine months after the first drawdown date;
 - the second repayment of up to 20% of the actual borrowings is due during the period between nine months and 18 months after the first drawdown date; and
 - the final payment of all unpaid principal and interests are due 24 months after the first drawdown date or 35 months after the first drawdown date upon agreement by the lender and our Group.

The proceeds of the loan will be used as working capital of our Group for purchasing raw materials. The first drawdown of the loan took place on 8 June 2022. Upon the request made by the lender, our Group approached and requested the financing company of which Mr. Hou’s nephew is a minority shareholder to transfer the three loans obtained in November 2019, December 2020 and May 2021 from the financing company that were secured by our Group’s relevant property, plant and equipment to a group company of the lender, who is an Independent Third Party, such that the group company of the lender will be the only chargee entitled to the charged assets.

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For details of the transfer, please refer to the paragraph headed “Transaction with Related Parties” in this section and the table below:

Transferor	Transferee	Contract Amount <i>(RMB million)</i>	Remaining Balance Transferred <i>(Note)</i> <i>(RMB million)</i>	Interest Rate	Contract Signing Date	Contract Ending Date
A financing company of which Mr. Hou’s nephew is a shareholder	A group company of the lender	20	10.6	8%	19 November 2019	31 May 2023
A financing company of which Mr. Hou’s nephew is a shareholder	A group company of the lender	50	33.3	8%	7 December 2020	7 June 2024
A financing company of which Mr. Hou’s nephew is a shareholder	A group company of the lender	15	9.6	8%	17 May 2021	23 November 2024

Note: A total refundable deposit of RMB4.3 million was also transferred with the three loans.

As at the Latest Practicable Date, we entered into a banking facility agreement with a global commercial bank, which is an Independent Third Party. Pursuant to such banking facility agreement, the bank granted an interest-bearing borrowings of up to US\$2 million to finance eligible green projects of our Group. The drawdown of the facility is conditional upon the Listing. Pursuant to the repayment schedule of the banking facility agreement, the facility will be repaid in 48 equal monthly instalments with the first instalment payable one month after the drawdown of the loan. The proceeds of the loan will be used to finance our Group’s eligible green projects capital expenditures. As required by the lender, our Group granted a corporate guarantee limited to US\$2 million and a negative pledge in favour of the lender.

Amounts due to related parties (unsecured)/a related party (secured)

Please refer to the paragraph headed “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Other payables and accruals” in this section for details.

As at 31 October 2022, being the latest practicable date for the purpose of indebtedness statement, the amounts due to related parties (unsecured) and amounts due to a related party (secured) had been fully settled.

Lease liabilities

HKFRS 16 “Leases” have been consistently applied throughout the Track Record Period, we recognised right-of-use assets and the corresponding lease liabilities in respect of all leases, except for short-term leases and low-value assets.

Our total obligations under lease liabilities were recorded as US\$5.6 million, US\$6.8 million, US\$1.6 million, US\$0.8 million and US\$1.7 million, as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, respectively.

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As at 31 October 2022, being the latest practicable date for the purpose of indebtedness statement, we had aggregate lease liabilities of US\$1.7 million.

Amount due to Controlling Shareholder

Please refer to the paragraph headed “Financial Information — Description of Certain Items of Consolidated Statements of Financial Position — Other payables and accruals” in this section for details.

The balance was non-trade related. As at 31 October 2022, being the latest practicable date for the purpose of indebtedness statement, the amount due to our Controlling Shareholder, which mainly included the bonus payable from our Group to Mr. Hou, had been fully settled.

Amount due to a shareholder

The balance was non-trade related. Our amount due to a shareholder of US\$0.6 million as at 31 October 2022 represented the dividend payable to our minority shareholder for FY2021. The amount will be fully settled upon Listing.

Contingent liabilities

As at 31 October 2022, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

Save as mentioned above or as otherwise disclosed herein, and apart from intra-group liabilities, as at the Latest Practicable Date, our Group did not have outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

During the Track Record Period, our transactions with related parties primarily included:

- (i) sales of needle cokes to Sangraf Energy (then a related company of our Company, of which Mr. Hou’s nephew, was a key management personnel and owned 16.67% equity interest at the time of our acquisition of Sangraf Energy) in FY2018. Sangraf Energy was one of our top five suppliers of graphite electrodes in FY2018. Due to the shortage of needle coke in 2018, we sourced and provided needle coke to Sangraf Energy such that Sangraf Energy can arrange for the production of graphite electrodes using needle cokes provided by our Group or other parties to fulfill orders on hand. We sold the needle cokes on prevailing market price;

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- (ii) purchases of finished goods from Sangraf Energy in FY2018 on an on-going basis on terms and conditions agreed on arm's length basis until our Group acquired Sangraf Energy in October 2018;
- (iii) payment of financing charge to Zhongxingrun Holdings (a company owned as to 16.67% by Mr. Hou's nephew) for the outstanding consideration payable for acquiring Sangraf Energy on an interest rate of 12.6% per annum for FY2018 and FY2019 agreed on arm's length basis. The interest rate was reduced to 7% per annum from 1 January 2020 agreed on arm's length basis;
- (iv) renting of (i) an office premises owned by Incubation Holding LLC, a company wholly owned by a sister of Mr. Hou, our executive Director and Controlling Shareholder, from 2018 to March 2020 and (ii) two office premises owned by Houson Equity LLC, a company wholly owned by Ms. Shao Mei, the wife of Mr. Hou, since March 2020 and April 2020, for our operation in the U.S. on an on-going basis on terms and conditions agreed on arm's length basis, which were renewed in March 2022 and May 2022, respectively, on such basis;
- (v) payment of financing charge under the financing arrangement on our Group's property, plant and equipment granted by the financing company of which Mr. Hou's nephew is a minority shareholder on an interest rate of 8% per annum agreed on arm's length basis for three loans obtained in November 2019, December 2020 and May 2021.

On 2 June 2022, the financing company transferred the outstanding loan receivable of US\$7.5 million of the three loans to the lender and the gain on novation of loans of US\$155,000 was credited to profit or loss for the six months ended 30 June 2022.

The determination of the US\$155,000 gain on loan novation was based on paragraph B5.4.6 of HKFRS 9 *Financial Instruments* considering the cash flows for loan repayment was revised upon the transfer. A gain on novation of the loans of US\$155,000 was credited to other income in 1H2022 by recalculating the discounted present value of the estimated future contractual cash flows under the new repayment term at the original effective interest rate.

The remaining balance of interest payable to the financing company of US\$0.4 million was subsequently paid in July 2022. Please refer to the paragraph headed "Financial Information — Indebtedness" in this section for more details on our interest-bearing bank and other borrowing;

- (vi) receipt of interest income derived from the loan to Mr. Hou, our executive Director and Controlling Shareholder, with the principal amount of US\$512,000. The interest income was calculated at a rate mutually agreed between the parties. As at the Latest Practicable Date, the principal and accrued interest of the loan to Mr. Hou had been fully settled;
- (vii) disposal of a vehicle to Mr. Hou, our executive Director and Controlling Shareholder, with reference to its net book value; and

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(viii) salaries were paid to Ms. Shao Mei, an office administration manager of Gosource Capital, a subsidiary of our Company, and the spouse of Mr. Hou, an executive Director and Controlling Shareholder of our Company.

The table below sets out transactions with our related parties during the Track Record Period:

	Year ended 31 December				Six months ended
	2018	2019	2020	2021	30 June 2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
(i) Sales of raw materials to Sangraf Energy	2,958	—	—	—	—
(ii) Purchases of finished goods from Sangraf Energy	52,025	—	—	—	—
(iii) Payment of financing charge to Zhongxingrun Holdings for the outstanding consideration for acquiring Sangraf Energy	200	1,513	609	780	70
(iv) Rental of office premises in the U.S. owned by Incubation Holding LLC, a company wholly owned by a sister of Mr. Hou and by Houson Equity LLC, a company wholly owned by Ms. Shao Mei, the spouse of Mr. Hou	32	56	91	115	57
(v) Payment of financing charge under the financing arrangement on our Group's property, plant and equipment granted by a financing company which, a nephew of Mr. Hou, is a shareholder	—	21	278	829	378
(vi) Interest income charged to our Controlling Shareholder	—	—	48	—	—
(vii) Sales of property, plant and equipment to our Controlling Shareholder	—	—	84	—	—
(viii) Salaries paid to a related party	45	51	78	—	20
Total	<u>55,260</u>	<u>1,641</u>	<u>1,188</u>	<u>1,724</u>	<u>525</u>

With respect to the related party transactions set out in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

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KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as at each of the periods and the dates indicated:

	FY2018	FY2019	FY2020	FY2021	1H2022
Gross Profit Margin (%) <i>(Note 1)</i>	62.5	22.7	15.2	21.0	26.1
Net Profit Margin (%) <i>(Note 2)</i>	42.8	3.4	3.9	4.0	10.9
Return on equity (%) <i>(Note 3)</i>	67.8	4.7	3.1	3.3	N/A ⁽⁸⁾
Return on total assets (%) <i>(Note 4)</i>	34.0	2.4	2.0	2.0	N/A ⁽⁸⁾
					As at
					30 June
	2018	2019	2020	2021	2022
Current ratio <i>(Note 5)</i>	1.8	1.8	2.0	1.7	2.0
Gearing ratio (%) <i>(Note 6)</i>	21.7	26.0	18.7	24.9	26.5
Net debt to equity ratio (%) <i>(Note 7)</i>	16.2	9.4	9.2	13.7	15.4

Notes:

- (1) Gross profit margin for FY2018, FY2019, FY2020, FY2021 and 1H2022 was calculated on gross profit for the year/period divided by revenue for the respective year/period. Please refer to the paragraph headed “Review of Historical Results of Operation” in this section for more details on our gross profit margins.
- (2) Net profit margin for FY2018, FY2019, FY2020, FY2021 and 1H2022 was calculated on profit for the year/period divided by revenue for the respective year/period. Please refer to the paragraph headed “Review of Historical Results of Operation” in this section for more details on our net profit margins.
- (3) Return on equity for FY2018, FY2019, FY2020, FY2021 and 1H2022 was calculated based on the profit for the respective year/period divided by the total equity attributable to our Shareholders as at the respective year/period end and multiplied by 100%.
- (4) Return on total assets for FY2018, FY2019, FY2020, FY2021 and 1H2022 was calculated based on the net profit for the respective year/period divided by the total assets of the respective year/period (sum of opening and closing balances of the total assets of the respective year and then divided by two) and multiplied by 100%.
- (5) Current ratios as at 31 December 2018, 2019, 2020, 2021 and 1H2022 were calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.
- (6) Total debt includes other interest-bearing payables and interest-bearing bank and other borrowings. Gearing ratios as at 31 December 2018, 2019, 2020, 2021 and 1H2022 were calculated based on the total debt as at the respective dates divided by total equity as at the respective dates.
- (7) Net debt to equity ratios as at 31 December 2018, 2019, 2020, 2021 and 1H2022 were calculated based on net debts (being total debts net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective dates.
- (8) Such ratios for the six months ended 30 June 2022 are not meaningful and potentially misleading as such ratios do not reflect a full year of results of operations.

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Gross profit margin

Our gross profit margin was 62.5%, 22.7%, 15.2%, 21.0%, 17.3% and 26.1% for FY2018, FY2019, FY2020, FY2021, 1H2021 and 1H2022, respectively. Our gross profit margin decreased from 62.5% for FY2018 to 22.7% for FY2019 mainly due to the combined effect of (i) the significant decrease of average selling price by 49.9% in FY2019 as the market price of graphite electrodes returned from the historical high in FY2018; and (ii) the decrease of unit cost of sales (excluding the provision for inventories) by 11.0% only in FY2019.

It further decreased to 15.2% for FY2020 mainly due to the combined effect of the decrease in the average selling price by 44.9% in FY2020 compared with FY2019 because of the downward adjustment in the price of the graphite electrode market during second half in 2019 and FY2020 following the slowing growth of the global EAF steel market as a result of COVID-19, the effect of which was partially offset by the decrease in the cost of sales by 21.1% from FY2019 to FY2020.

It increased to 21.0% in FY2021 mainly due to the decrease in the unit cost of sales by 13.5% from US\$3,588/MT for FY2020 to US\$3,103/MT for FY2021 due to the decrease in the market price of needle coke, the effect of which was partially offset by the decrease in the average selling price by 7.2% from US\$4,232/MT for FY2020 to US\$3,928/MT for FY2021.

It increased to 26.1% in 1H2022, mainly driven by the significant increase in the average selling price of graphite electrodes by 30.8% from US\$3,665/MT for 1H2021 to US\$4,793/MT for 1H2022, which was partially offset by the increase in the unit cost of sales by 16.9% from US\$3,032/MT to US\$3,544/MT.

Net Profit Margin

Our net profit margin was 42.8%, 3.4%, 3.9%, 4.0% and 10.9% for FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. Our net profit margin decreased significantly from 42.8% for FY2018 to 3.4% for FY2019 mainly due to the significant decrease in gross profit for FY2019 due to the increase in cost of sales which was mainly due to the combined effects of: (i) the increase in the sales volume by 8,662MT or 78.8%, from 10,994MT for FY2018 to 19,656MT for FY2019; (ii) the unit costs of graphite electrodes excluding the provision for inventories decreased by 11.0% from US\$5,740/MT in FY2018 to US\$5,109/MT in FY2019 as the cost for manufacturing graphite electrodes in FY2019 was lower than that of purchasing graphite electrodes in FY2018; and (iii) the provision for inventories of US\$16.2 million in FY2019.

It slightly increased to 3.9% for FY2020 mainly due to the combined effect of a further decrease in gross profit and a decrease in selling and administrative expenses, other expenses and financial costs for FY2020. It remained stable for FY2021 as compared to that of FY2020. It increased significantly from 0.9% for 1H2021 to 10.9% in 1H2022, mainly driven by the significant increase in gross profit in 1H2022 which resulted from the significant increase in the overall average selling price of graphite electrodes which was in line with the rising market trend during the corresponding period as advised by Frost & Sullivan.

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Return on equity

Our return on equity was 67.8%, 4.7%, 3.1% and 3.3% for FY2018, FY2019, FY2020 and FY2021, respectively. The return on equity decreased in from 67.8% in FY2018 to 4.7% in FY2019 due to the significant drop in net profit for the year. It then decreased to 3.1% in FY2020 mainly due to the combined effect of (i) the slight decrease in net profit for the year, and (ii) the increase in shareholders' equity. It increased to 3.3% in FY2021 mainly due to the increase in net profit for the year.

Return on total assets

Our return on total assets was 34.0%, 2.4%, 2.0% and 2.0% for FY2018, FY2019, FY2020 and FY2021, respectively. The fluctuation was in line with the net profits during the Track Record Period, which surged in FY2018 but decreased significantly in FY2019. Our return on total assets remained stable in FY2020 and FY2021.

Current ratio

Our current ratio was 1.8, 1.8, 2.0, 1.7 and 2.0 as at 31 December 2018, 2019, 2020, 2021 and 30 June 2022, respectively. The continuous increase from FY2018 to FY2020 was primarily because the rate of increase in our current asset is higher than that of increase in our current liabilities. Our current ratio slightly decreased from 2020 to 2021 due to the increase of current liabilities from US\$48.7 million as at 31 December 2020 to US\$61.2 million as at 31 December 2021. Our current ratio slightly increased from 31 December 2021 to 1H2022 due to the combined effect of the increase in our current assets and a decrease in our current liabilities.

Gearing ratio

Our gearing ratio was 21.7%, 26.0%, 18.7%, 24.9% and 26.5% as at 31 December 2018, 2019, 2020, 2021 and 30 June 2022, respectively. Our gearing ratio remained relatively stable in FY2018 and FY2019. Our gearing ratio decreased from 2019 to 2020 due to the combined effect of the increase of total equity by 20.7% from 2019 to 2020, and the decrease of total debt by 13.2% from 2019 to 2020. Our gearing ratio increased from 2020 to 2021 mainly due to the increase of total debt by 34.9%, from 2020 to 2021. Our gearing ratio increased from 31 December 2021 to 30 June 2022 mainly attributable to the combined effect of the decrease of total equity by 2.3% and the increase of total debt by 3.9% from 31 December 2021 to 30 June 2022.

Net debt to equity ratio

Our net debt to equity ratio was 16.2%, 9.4%, 9.2%, 13.7% and 15.4% as at 31 December 2018, 2019, 2020, 2021 and 30 June 2022, respectively. Our net debt to equity ratio increased from 2020 to 2021 mainly due to the increase of total debt by 34.9%, from 2020 to 2021. Our net debt to equity ratio increased from 31 December 2021 to 30 June 2022 mainly attributable to the combined effect of the decrease of total equity by 2.3% and the increase of net debt by 9.5% from 31 December 2021 to 30 June 2022.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, credit and liquidity.

Credit risk

Our Group trades only with recognised and creditworthy third parties. It is our policy that only well-established customers will be considered for open account terms and the approval of credit terms is subject to stringent credit check procedures. In addition, receivable balances are monitored on an ongoing basis and our Group's exposure to bad debts is not significant.

The maximum exposure to credit risk for each class of financial assets is the carrying amount of that class of financial instruments presented on the statement of financial position. Our Group's major classes of financial assets are cash and cash equivalents and trade receivables.

Further quantitative data in respect of our Group's exposure to credit risk arising from trade and other receivables are disclosed in note 34 to the Accountants' Report set out in Appendix I to this prospectus.

Foreign currency risk

Our Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

Approximately, 6.0%, 35.4%, 41.4%, 56.6% and 62.5% of our sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 44.1%, 50.0%, 54.2%, 54.4% and 57.9% of purchases were denominated in currencies other than the functional currencies of the operating units for FY2018, FY2019, FY2020, FY2021 and 1H2022, respectively. Our Group's trade receivables and trade payable balances at the end of the reporting period have similar exposures.

At present, we do not intend to seek to hedge our exposure to foreign exchange fluctuations. However, our management constantly monitors the economic situation and our foreign exchange risk profile and will consider appropriate hedging measures in the future where appropriate.

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The table below demonstrates the sensitivity at the end of each of the Track Record Period to a reasonably possible change in the US\$ exchange rate, with all other variables held constant, of our profit before tax due to changes in the translated value of monetary assets and liabilities and equity.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax <i>US\$'000</i>	Increase/ (decrease) in equity <i>(Note)</i> <i>US\$'000</i>
As at 31 December 2018			
If Renminbi weakens against US\$	-5%	2,811	(620)
If Renminbi strengthens against US\$	5%	(2,811)	620
If Euro weakens against US\$	-5%	1,074	(4,203)
If Euro strengthens against US\$	5%	(1,074)	4,203
As at 31 December 2019			
If Renminbi weakens against US\$	-5%	2,223	(577)
If Renminbi strengthens against US\$	5%	(2,223)	577
If Euro weakens against US\$	-5%	1,481	(4,380)
If Euro strengthens against US\$	5%	(1,481)	4,380
As at 31 December 2020			
If Renminbi weakens against US\$	-5%	(199)	(3,106)
If Renminbi strengthens against US\$	5%	199	3,106
If Euro weakens against US\$	-5%	2,392	(3,000)
If Euro strengthens against US\$	5%	(2,392)	3,000
As at 31 December 2021			
If Renminbi weakens against US\$	-5%	(11)	(3,403)
If Renminbi strengthens against US\$	5%	11	3,403
If Euro weakens against US\$	-5%	1,237	(3,799)
If Euro strengthens against US\$	5%	(1,237)	3,799
As at 30 June 2022			
If Renminbi weakens against US\$	-5%	(31)	(3,130)
If Renminbi strengthens against US\$	5%	31	3,130
If Euro weakens against US\$	-5%	264	(3,628)
If Euro strengthens against US\$	5%	(264)	3,628

Note: Excluding retained profits

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Liquidity risk

Our Group monitors our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from our operations. Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and funds generated from operations.

Further quantitative data in respect of our Group's exposure to liquidity risk arising from trade and other receivables are disclosed in note 34 to the Accountants' Report set out in Appendix I to this prospectus.

Capital management

The primary objective of our capital management is to safeguard our ability to continue as a going concern and to provide returns for Shareholders and to maintain an optimal capital structure to reduce the cost of capital.

We manage our capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, our Group may adjust the dividend payment to Shareholders and return capital to Shareholders. No changes were made to the objectives, policies or processes for managing capital for FY2018, FY2019, FY2020, FY2021 and 1H2022.

Our Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes amount due to related companies, other interest-bearing payables and other interest-bearing borrowings but excludes lease liabilities.

The gearing ratios as at the end of each of the Track Record Period are set out below:

	As at 31 December				As at
	2018	2019	2020	2021	30 June 2022
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Amount due to a related company — unsecured	11,752	12,687	7,965	2,907	41
Amount due to a related company — secured	—	2,675	9,267	10,473	422
Other interest-bearing payables ^(Note)	11,323	8,372	652	—	—
Interest-bearing bank and other borrowings	—	5,003	7,046	20,259	34,474
Total debt	<u>23,075</u>	<u>28,737</u>	<u>24,930</u>	<u>33,639</u>	<u>34,937</u>
Total Equity	<u>106,173</u>	<u>110,322</u>	<u>133,210</u>	<u>134,989</u>	<u>131,901</u>
Gearing ratio	<u>21.7%</u>	<u>26.0%</u>	<u>18.7%</u>	<u>24.9%</u>	<u>26.5%</u>

Note: Our other interest-bearing payables mainly represented our payables for the acquisition of the Extrusion Facilities.

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DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.12 to 13.19 of the Listing Rules.

LISTING EXPENSES

Our listing expenses mainly comprise professional fees paid to the Overall Coordinator, the Joint Global Coordinators, the Underwriters, legal advisers and the reporting accountant, among others, for their services rendered in relation to the Listing and the Global Offering. Up to 30 June 2022, we had incurred listing expenses of HK\$55.0 million, of which HK\$13.4 million will be accounted for as a deduction in equity upon Listing and HK\$41.6 million we had recorded as expenses.

We expect to incur further listing expenses amounting to HK\$34.1 million, of which HK\$14.4 million is expected to be accounted for as a deduction in equity upon Listing and the remaining HK\$19.7 million is expected to be recorded as expenses in the year ending 31 December 2022.

The total listing expenses are expected to be HK\$89.1 million, which is approximately 27.2% of the gross proceeds from the Global Offering (based on the mid-point of the Offer Price range). Such listing expenses comprise underwriting-related expenses of HK\$9.8 million and non-underwriting expenses of HK\$79.3 million, which included (i) professional fees paid and payable to the Sole Sponsor, legal advisers, and the reporting accountants of HK\$51.9 million, and (ii) fees paid and payable to other working parties and other expenses in relation to the Listing and the Global Offering of HK\$27.4 million.

As confirmed by our Directors, discretionary bonus of no more than HK\$3.3 million is expected to be given to the professional parties involved in the Listing and the Global Offering. The Sole Sponsor also confirms that our Group and/or our Controlling Shareholders have not engaged or will not engage any parties other than the professional parties in connection with this Listing and the Global Offering, the fees and expenses of which have already been accounted for as “listing expenses” in our consolidated statements of profit or loss and other comprehensive income.

DIVIDEND AND DIVIDEND POLICY

Our Company has declared a dividend of US\$14.0 million for FY2021, of which US\$13.4 million was settled during FY2021 and the remaining is expected to be paid before the Listing. Other than the above, no dividend has been paid or declared by our Company during the Track Record Period.

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Our Shareholders will be entitled to receive dividends that we declare. Our Group does not have a pre-determined dividend-payment ratio. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future. Any future declarations and payments of dividends will be at the discretion of our Directors and may require the approval of our Shareholders.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and is an investment holding company. An amount of approximately US\$7.9 million was available for distribution to our Shareholders as at 30 June 2022.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

Please refer to the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

RECENT DEVELOPMENTS

Outbreak of COVID-19

Since the outbreak of COVID-19 in December 2019, this new strain of coronavirus has spread globally. It is highly contagious and poses a serious public health threat. On 11 March 2020, the World Health Organisation declared COVID-19 as a pandemic. As at the Latest Practicable Date, the virus had spread over 200 countries and territories globally with a high number of fatalities. Measures, including travel restrictions and compulsory lockdowns have been imposed in most countries in order to contain the COVID-19 outbreak.

The outbreak of COVID-19 is likely to have an adverse impact on the livelihood of the people and the economy globally. According to the F&S Report, the global outbreak of COVID-19 has resulted in the suspension of works in various industries, including the construction, real estate, machinery and automobile industries. This, together with the disruption on the global logistics and transportation networks, has led to a decrease in the demand for steel products and accordingly, the demand for graphite electrodes from steel manufacturers in the U.S., Europe and the PRC. For further details on the market development of the graphite electrode industry as well as its downstream industries, namely, the steel, construction, machinery and automotive industries, please refer to the section headed “Industry Overview — Recent development of global and China steel and graphite electrode market amid the COVID19” in this prospectus.

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There have been delays in orders of some of our customers and postponement in the delivery of some of our products in the later part of the second and third quarters of 2020 and certain of our customers' sales volume has not yet recovered. The outbreak of COVID-19 has resulted in the cancellation of and the postponement in the delivery of some of our products in 2020 and hence, a decrease in our revenue. During the period of March to December 2020, orders in the aggregate sales amount of approximately (i) US\$0.7 million were cancelled, (ii) US\$3.7 million were postponed without indication of delivery time, (iii) US\$3.8 million were postponed from the first half of 2020 to the second half of 2020 and (iv) US\$1.1 million were postponed to 2021 due to COVID-19. Among the US\$8.6 million orders which were postponed, US\$4.7 million worth orders have been delivered and materialised in FY2021. The aggregate contract value of the cancelled sales orders and orders without delivery time schedule amounted to approximately 0.6% of our revenue for FY2020. This, together with the decrease in the average selling price of our graphite electrodes, have attributed to the decrease in our revenue in FY2020, the impact of which was partially offset by the increase in our sales volume. Despite the cancellation and postponement of the confirmed orders, our sales volume of 25,647MT in FY2020 represented an increase of approximately 30.5% compared with the sales volume of 19,656MT in FY2019.

During FY2021, businesses of our customers gradually return to normal and our customers no longer cancel purchase orders nor postpone delivery due to COVID-19, and orders in the aggregate sales amount of approximately (i) US\$1.7 million were cancelled by our customers and (ii) US\$1.1 million were postponed at customers' requests as the inventory level of graphite electrodes of the relevant customers was high.

In 1H2022, the lockdowns in various PRC cities have had some impact on our financial performance with PRC sales being lower than forecast due to lower demand. Operationally, the lockdowns had also posed logistical challenges with inter-provincial transports being affected although we attempted to mitigate such adverse effect by adopting more advance planning such as ascertaining the COVID-19 related measures of the relevant cities and having proactive communication with the relevant local governments' authorities.

According to Frost & Sullivan, the outbreak of COVID-19 in early 2020 had resulted in a decline in the growth rate of the EAF steel manufacturing industry due to the temporary suspension of operations and stagnation of logistics. Accordingly, the demand for UHP graphite electrodes in our major markets was affected, representing a decreased growth rate for the consumption volume in those markets. While the outbreak of COVID-19 had resulted in the near-term recession in the early 2020, the global economy has started to recover in the third quarter of 2020 as many economies have tentatively reopened from lockdowns and is expected to strengthen gradually over 2021 with a growth rate of approximately 5.2% in 2021 as projected by the IMF.

FINANCIAL INFORMATION

In addition, as mentioned above, Frost & Sullivan considers that the demand from downstream industries that the EAF steel manufacturing industry serves, such as the public infrastructure, the construction industry and the automobile industry, have started to recover in late 2020 and early 2021, which supported the recovery of the global EAF steel market. As the UHP graphite electrode market has been gradually recovering in terms of the average selling price in 2021, our business performance has shown improvement since the second quarter of 2021. During the period from September 2021 to July 2022, confirmed orders of approximately 8,168MT with an average selling price of US\$5,371/MT were received for the six months ending 31 December 2022, representing an increase of US\$578/MT or 12.1% in terms of the average selling price as compared to those of 1H2022. Furthermore, among confirmed orders of approximately 8,168 received during the above period, the orders which priced over US\$5,000 per tonne accounted for more than 50%.

While most countries have implemented travel restrictions as a result of the outbreak of COVID-19, such restrictions do not have a material impact on the transportation of goods, including the raw materials from our suppliers and our products except for a slight increase in freight changes. As such, our Directors consider that such restrictions did not have any material adverse impact on our operations up to the Latest Practicable Date. Our Directors confirm that there was no actual or foreseeable material disruption on the supply of raw materials from our suppliers up to the Latest Practicable Date.

As at 31 December 2021, our finished and semi-finished graphite electrodes on hand could produce approximately 17,552MT of graphite electrodes, which could fulfil the sales of approximately eight months assuming that the average monthly sales volume would be at the same level as that recorded for FY2021 of approximately 2,300MT.

We may however face risk of suspension of operation if the COVID-19 outbreak worsens and drags on and we may not be able to fulfil customers' orders which are scheduled to be produced during the suspension period. Our Directors have therefore devised certain contingency plans if the COVID-19 outbreak becomes more serious during 2022 and causes suspension of operation of our production facilities.

In the event that the operation of one of our factories is suspended, we may allocate the production scheduled for the suspended factory to the unaffected factory provided that the unaffected factory has sufficient production capacity. Depending on the circumstances, we may also source finished graphite electrodes from the open market and/or subcontract the manufacturing processes to our subcontractors to fulfill sales orders during the suspension period.

However, if both factories are suspended or the unaffected factory and/or subcontractors do not possess sufficient capacity to takeover the production of the suspended factory(ies), we may be unable to fulfil customer orders during the suspension period. Despite the force majeure provisions in our master purchase agreements and/or purchase orders with most of our major customers might protect our Group from claims for the unfulfilled orders, we endeavour to maintain our relationship with customers by continuing to actively communicate with them regarding the impact of the outbreak on our production.

FINANCIAL INFORMATION

As at 30 June 2022, we had cash and cash equivalents of approximately US\$14.6 million, and current assets, including mainly inventories, of approximately US\$110.8 million. In addition, we estimate that the aggregate net proceeds from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$1.9, being the mid-point of the indicative Offer Price ranges and that the Over-allotment Option is not exercised, will be approximately HK\$238.4 million. Taking into account of our cash and cash equivalents, account receivables of approximately US\$40.3 million and the net proceeds from the Global Offering designated for general working capital of approximately HK\$23.8 million, we believe we will be able to maintain financially viable for at least 12 months, assuming the scenario (i) our operations have been completely suspended; (ii) there will be no dividend payment; (iii) we will settle our trade payables and bank borrowings when due; (iv) expansion plans will be suspended; (v) our trade receivables will be settled based on historical settlement pattern and prudent estimates and (vi) we will incur minimum operating expenses such as staff cost and general expenses and finance costs.

Our Directors are of the view that since the COVID-19 outbreak had not caused any material disruption to our operations and supply chain as at the Latest Practicable Date, it is feasible for our Group to follow our expansion plan even in the event of a prolonged COVID-19 outbreak, and hence, it is unlikely for us to redesignate the Listing proceeds for purposes other than on our expansion plans. As at the Latest Practicable Date, to the best knowledge of our Directors, the COVID-19 outbreak was under control in the PRC. Notwithstanding the above, there is still a possibility of a large-scale subsequent wave(s) of the outbreak of COVID-19 in the PRC in the future, which may, in turn, affect our business, financial condition and results of operations.

Meanwhile, we have implemented measures aiming at preventing the spread of COVID-19 at the Italian Factory and the PRC Factory, such as providing face masks and sanitiser to our employees and requiring them to undergo mandatory temperature checks. In addition, we have taken precautionary measures by imposing a 14 days' quarantine on all employees who returned from COVID-19 hotspots. If any of our employees contracted or is suspected to have contracted COVID-19, we are required to report to the relevant Italian and PRC authorities and such employee would be taken to hospital for treatment. Up to the Latest Practicable Date, no direction had been given by the relevant Italian and PRC authority to the Italian and the PRC Factory requiring the suspension of operations.

Please refer to the section headed “Risk Factors — Risks relating to Our Industry” in this prospectus for further details of the risks relating to the continuing spread and prolonged occurrence of COVID-19.

Other recent developments

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group continued to focus on developing its business and explored business opportunities and secured four new customers.

FINANCIAL INFORMATION

Our Directors confirmed that during the period from 2 January to 28 February, the production at the PRC Factory was substantially suspended according to the order from the relevant local government mandating power rationing for the preparation of the Beijing 2022 Winter Olympics. Following the mandatory power suspension, the PRC Factory recommenced operations at full power starting from 1 March 2022. As all the baking furnaces were switched off since 2 January 2022, the PRC Factory had to restart the baking furnaces and took 380 hours (which were approximately 16 days) to reach the baking temperature to 1,200 degrees celsius. The production schedule for steps following baking was therefore extended. Therefore, the production at the PRC Factory was partially suspended in March 2022 and gradually resumed normal in May 2022. As such, we had to source more graphite electrodes from our suppliers in FY2022 when compared to FY2021.

Due to the power rationing in the PRC, the delivery of 200MT and 1,200MT (in aggregate attributable to US\$5.6 million in terms of revenue) of graphite electrodes scheduled to be delivered in February and March 2022, respectively, were delayed and were delivered from April to June 2022 instead. Given the revenue amount attributable to the delayed deliveries was not substantial, the delay did not have any material effect on our Group after the Track Record Period.

Our Directors confirm that as at the Latest Practicable Date, none of the affected customers had cancelled their purchase orders. In addition, none of the affected customers who experienced delayed deliveries in February and March 2022 had cancelled their orders. According to the terms of the purchase orders placed by these affected customers, there were no contractual terms entitling them to claim compensation or penalties against our Group on the basis of the delayed deliveries. Our Directors consider that it is unlikely for the affected customers to bring compensation claims against our Group.

Despite the postponement of orders as described above, based on our Directors' understanding, the delivery arrangement of graphite electrodes in the PRC had gradually resumed normal in May 2022. Our Directors consider that the Winter Olympics was a one-off event and it would not have an ongoing impact on the operation of the PRC Factory.

Based on our Group's latest order book as at 30 September 2022, we received confirmed orders for sales volume of approximately 8,959MT for the year ending 31 December 2022. Based on the past experience of our Directors, we did not experience material difficulty in preparing logistic arrangements for delivery and material delay in the delivery of goods to our customers. Furthermore, among the confirmed orders received as at 30 September 2022 of approximately 2,843MT, 3,804MT and 202MT for Americas, EMEA, and APAC (excluding the PRC), respectively, their average selling prices achieved approximately US\$6,437/MT, US\$5,412/MT and US\$4,884/MT, respectively, which indicated that our Group has continued to align with the trend of the industry recovery.

There are no terms in relation to the permission of re-negotiation on the selling prices before delivery in the contracts entered in between our Group and the customers. In relation to confirmed orders which have not recognised as revenue up to the Latest Practicable Date, we had not come across a situation where customers that have placed orders and requested to negotiate on the selling prices before delivery. Furthermore, our Directors believe that customers will generally not re-negotiate the selling prices after they place order when the industry average selling price for UHP graphite electrodes is on an increasing trend.

FINANCIAL INFORMATION

Save for the Listing expenses, our Group did not have any significant non-recurring items in its consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period.

In view of the Russian-Ukraine conflict and to minimise our exposure to the risks relating to the conflict, our Group stopped approaching or reaching out to existing and potential customers in Russia since the conflict was instigated. As a result, we generated no revenue from the Russia market during 1H2022. Our Directors will continue to closely monitor the latest development and ensure that we will respond to any change in circumstances in a prudent and timely manner.

Our Directors confirm that there has been no material adverse change in our financial, operational, trading positions or prospects since 30 June 2022, which was the end of the period covered by the Accountants' Report as set out in Appendix I to this prospectus and up to the date of this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that save for the adverse impact from the Listing expenses and as disclosed under the section headed "Summary — Recent Development" in this prospectus, there has been no material adverse change in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this prospectus, which would materially affect the information shown in the Accountants' Report.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business — Business Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering, after deducting the underwriting fees and expenses payable by us in the Global Offering, of approximately HK\$238.4 million (assuming an Offer Price of HK\$1.9 per Share, being the midpoint of the indicative Offer Price range), assuming no exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme.

We currently intend to apply these net proceeds in the following manner:

- approximately HK\$83.0 million or 34.8% of our total estimated net proceeds will be used to pay for the purchase price of the Taigu Assets. For details of the acquisition of the Taigu Assets, please refer to the sections headed “Business — Business Strategies” in this prospectus;
- approximately HK\$131.6 million or 55.2% of our total estimated net proceeds will be used to upgrade our production systems in the Italian Factory, the PRC Factory and the Sanli Assets;
- approximately HK\$23.8 million or 10.0% of our total estimated net proceeds for our Group’s working capital and general corporate purposes.

If the Offer Price is fixed at HK\$2.2 per Offer Share, being the higher end of the indicative Offer Price range, the net proceeds will be increased to approximately HK\$289 million. The additional net proceeds will be used for the upgrade of our production systems in the PRC Factory and the Sanli Assets and our working capital. If the Offer Price is fixed at HK\$1.6 per Offer Share, being the lower end of the indicative Offer Price range, the net proceeds will be reduced to approximately HK\$188 million. We intend to reduce the net proceeds for the above purposes, except for the repayment of the loan and the upgrade of the Italian Factory.

The additional net proceeds that we would receive if the Over-allotment Option is exercised, which is currently estimated to be approximately HK\$40 million, HK\$48 million and HK\$55 million (assuming the lowest, middle and highest points of the indicative Offer Price range, respectively), will be used for the above purposes on a pro-rata basis.

If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would render the development of any of our projects not commercially viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate proceeds to other uses.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above, they will be placed in short-term demand deposits with licensed banks or other authorized financial institutions (as defined under the SFO or applicable laws in the relevant jurisdictions).

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR LISTING

Our Directors are of the view that the Listing and the Global Offering is beneficial to our Group and our Shareholders as a whole for the following reasons:

Capture business opportunities

Positive market outlook and our strategies to increase sales and capture potential market growth

According to the F&S Report, in 2026, the global production volume and the consumption volume of graphite electrodes (excluding the PRC) is expected to reach approximately 0.86 million tonnes and approximately 1.09 million tonnes with a CAGR of approximately 5.0% and approximately 4.9% from 2021 to 2026, respectively,

On the other hand, we see growth potential from the PRC market. The consumption volume of graphite electrodes in the PRC reached 749.3 thousand tonnes in 2021 with a CAGR of 15.0% from 2016 to 2021. In 2026, the consumption volume of graphite electrode is expected to reach 1.04 million tonnes. In particular, the production volume and consumption volume of UHP graphite electrodes in the PRC reached 107.0 thousand tonnes and 88.5 thousand tonnes, respectively in 2021. According to the F&S Report, in 2026, the production volume and the consumption volume of UHP graphite electrodes in the PRC are expected to reach approximately 189.3 thousand tonnes and approximately 159.7 thousand million tonnes at a CAGR of approximately 12.1% and approximately 12.5% from 2021 to 2026, respectively. Such growths are expected to be supported by the steady growth of the global steel industry driven by the growth of the economy. For further details, please refer to the section headed “Industry Overview” in this prospectus.

In view of the above, our Directors consider that it is important for us to capture such market growth and more business opportunities by the Listing. For this purpose, we intend to implement the business strategies as set out in the sections headed “Business — Business Strategies” in this prospectus through the use of the proceeds from the Global Offering in the manners as set out in this section in this prospectus.

Address our funding needs and access to the capital markets

We have historically financed our business operation through internally generated funds and other borrowings. Our total debt (including other interest-bearing payables and other interest-bearing borrowings) balance increased from approximately US\$23.1 million as at 31 December 2018 to approximately US\$34.9 million as at 30 June 2022. The cash and cash equivalent balance as at 31 December 2018 and 30 June 2022 were approximately US\$5.9 million and US\$14.6 million, respectively; and the respective gearing ratio of our Group were approximately 21.7% and 26.5%, respectively.

FUTURE PLANS AND USE OF PROCEEDS

Taking into account the amount of approximately HK\$214.6 million which we require to finance our expansion plan in Italy and the PRC, which includes the acquisition of the PRC Factory, the Sanli Assets and Taigu Assets as well as the upgrade of the Italian Factory and the PRC Factory, our cash on hand is not sufficient to finance our expansion plan and the upgrade of production systems. Accordingly, our Directors consider that equity financing could help and accelerate our Group's expansion plan. Furthermore, our Directors consider that our Group may not be able to implement its expansion plan, which primarily includes long-term capital expenditure investments by solely relying on debt financing as our Group's available long-term assets are unlikely to be sufficient or acceptable to provide the loan security required for financing its future plans. Our Directors consider that the net proceeds from the Global Offering can provide us with the necessary additional financial resources without exposing us to a high gearing ratio which would subject us to the inherent risks of higher interest rate and finance costs. Our Group's financial performance and liquidity may be negatively affected due to repayments of principal and interest payments if we were to fund our business expansion through debt financing. Our Directors believe that a listing status with an enlarged capital provides an additional platform for us to access the capital markets while putting us in a better position to negotiate with banks and financial institutions for future secondary fund-raising. In addition, our Directors consider that it would be difficult for our Group, without a listing status, to obtain bank borrowings at a more commercially favourable terms without personal guarantees, corporate guarantees or other collaterals.

As a result, our Directors believe that a combination of equity financing and debt financing will be more beneficial to our Group to fund our expansion plan as opposed to relying solely on debt financing. In the event that the Listing is delayed or otherwise not proceeded with, we may have to seek for further banking facilities, if available; and/or slow down our business development and expansion plan, which we may not have sufficient resources to pursue, and this will not be beneficial to our future growth.

Enhance our Group's corporate profile and creditability

We will benefit from the Listing through (i) an enhanced corporate image; (ii) the profile of the public listing status; and (iii) an enhanced internal control and corporate governance practices which, in turn, would provide higher confidence to new and existing customers, suppliers and banks.

Recruitment of experienced personnel

We believe that the business growth of our Group generated by the funds raised from the Global Offering and our listing status would enhance our reputation and could help us attract more experienced personnel to our Group.

Diversify shareholders base and enhancing liquidity in trading of our Shares

Our Directors believe that the high liquidity stock market in Hong Kong will enable us to expand and diversify our capital base and shareholders base as retail investors and institutional funds will be able to participate in the equity of our Company where the true value of our Group can be reflected.

UNDERWRITING

HONG KONG UNDERWRITERS

Southwest Securities (HK) Brokerage Limited
Yue Xiu Securities Company Limited
First Capital Securities Limited
Zhongtai International Securities Limited
BOCI Asia Limited
ABCI Securities Company Limited
China Everbright Securities (HK) Limited
Sheng Yuan Securities Limited
Tiger Brokers (HK) Global Limited
JMC Capital International Limited
Valuable Capital Limited
Venture Smart Asia Limited
Vision Capital International Holdings Limited
Eddid Securities and Futures Limited
Yuet Sheung International Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 17,240,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus.

Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, options that may be granted under the Share Option Scheme) as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriter(s) have severally agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered but which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

UNDERWRITING

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, any of the following event occurs at or prior to 8:00 a.m. on the Listing Date:

- (i) there has come to the notice of the Sole Sponsor, the Overall Coordinator and the Joint Global Coordinators:
 - (a) that any statement contained in this prospectus, the **GREEN** Application Form, the formal notice, any notices, announcements, advertisements, communications or other documents issued or authorised by our Company in writing in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any material respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (b) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute a material omission therefrom; or
 - (c) any material breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than by the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Lead Managers, the Underwriters and the Capital Market Intermediaries); or
 - (d) any event, act or omission which gives rise or is likely to give rise to any liability of our Company pursuant to the indemnities given by our Company under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or
 - (e) any change or development involving a prospective material adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group; or
 - (f) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties given under the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than by the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Lead Managers, the Underwriters and the Capital Market Intermediaries); or
 - (g) the approval by the Listing Committee of the listing of, and permission to deal in, our Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option and upon the exercise of any options that may be granted under the Share Option Scheme) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

UNDERWRITING

- (h) our Company withdraws this prospectus or any Relevant Documents or any other documents issued or used in connection with the Global Offering or the Global Offering; or
 - (i) any expert named in this prospectus (other than the Sole Sponsor) has withdrawn or sought to withdraw its consent to being named in any of the Relevant Documents or to the issue of any of the Relevant Documents; or
 - (j) that, other than disclosed in this prospectus, the **GREEN** Application Form and the formal notice, a petition or an order is presented for the winding-up or liquidation of any members of our Group or any members of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any members of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any members of our Group or anything analogous thereto occurs in respect of any members of our Group or its assets or undertaking; or
 - (k) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any members of our Group or any of our Directors and senior management of our Company as set out in the “Directors and Senior Management” section of this prospectus; or
 - (l) apportion of the orders in the book building process, which is considered by the Sole Sponsor, the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) or any of them, in its/their absolute opinion to be material, at the time the International Underwriting Agreement is being entered into, have been withdrawn, terminated or cancelled, and the Sole Sponsor, the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), in its/their sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering;
- (ii) there shall develop, occur, exist or come into effect:
- (a) any national or international event or series of events in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed)) in or affecting any of Hong Kong, the PRC, Japan, the United Kingdom, the United States, the European Union as a whole (or any member thereof) or any other jurisdiction relevant to any members of our Group (the “**Specific Jurisdiction**”); or

UNDERWRITING

- (b) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any national or international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, creditor market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting Specific Jurisdictions; or
- (c) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the Nasdaq Global Market, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
- (d) any new law(s), or any change or development involving a prospective change in existing laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing laws by any court or other competent authority, in each case, in or affecting any of the Specific Jurisdictions; or
- (e) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (f) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (g) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
- (h) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (i) any litigation or claim of any third party being threatened or instigated against any members of our Group; or
- (j) any of our Directors or the senior management of our Company set out in the section headed “Directors and Senior Management” in this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

UNDERWRITING

- (k) any executive Directors or chief executive officer of our Company vacating his office; or
- (l) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (m) a contravention by any members of our Group or any Director or senior management of our Company set out in the section headed “Directors and Senior Management” in this prospectus of the Listing Rules, the Companies Ordinance or any other laws applicable to the Global Offering, unless a waiver or an exemption has been granted by the Stock Exchange and/or the SFC; or
- (n) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or our Shares issued by exercising the Over-allotment Options pursuant to the terms of the Global Offering; or
- (o) any loss or damages has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) or any of them in its/their sole and absolute opinion to be material; or
- (p) a valid demand by any creditor for repayment of indebtedness of any member of our Group or any Group Company;

which in each case individually or in aggregate in the sole and absolute opinion of the Sole Sponsor, the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters):

- (1) has or is or will or may or could be expected to have a material adverse effect on the assets, liabilities, business, general affairs, management, shareholders’ equity, profits, losses, results of operation, financial, trading, prospects, risks or other condition of our Company or any members of our Group; or
- (2) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or
- (3) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with; or

UNDERWRITING

- (4) has or will or may have the effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

UNDERTAKINGS TO THE STOCK EXCHANGE UNDER THE LISTING RULES

By us

Under Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering or for the circumstances provided under Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have undertaken to the Stock Exchange that each of them shall not:

- (i) during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which he/it is shown by this prospectus to be the beneficial owners; and
- (ii) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be the controlling shareholders of our Company.

Each of our Controlling Shareholders has also undertaken to the Stock Exchange that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the expiry of the Second Six-Month Period date, he/it will:

- (a) when he/it pledges or charges any Shares beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

UNDERWRITING

Our Company shall also inform the Stock Exchange in writing as soon as we have been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters by way of a public announcement to be published in accordance with the Listing Rules as soon as possible.

UNDERTAKINGS UNDER THE HONG KONG UNDERWRITING AGREEMENT

Undertaking by our Company

We have undertaken to each of the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and the Capital Market Intermediaries that, except for the issue of Shares under the Global Offering, the Over-allotment Option or the Share Option Scheme, at any time from the date of the Hong Kong Underwriting Agreement up to and including the date falling on the date when the First Six-Month Period expires, our Company will not, unless in compliance with the requirements of the Listing Rules, without the prior written consent of the Sole Sponsor, the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters and the Capital Market Intermediaries):

- (i) offer, accept subscription for, pledge, charge, mortgage, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend, mortgage, assign or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital or equity securities of our Company or any interest in our securities (including but not limited any securities convertible into, exercisable or exchangeable for, or that represent the right to receive such share capital or equity securities or any interest in our securities); or
- (ii) enter into any swap, derivative, lending, repurchase and mortgage or other arrangement that or transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or equity securities; or
- (iii) enter into any transactions with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into any transactions described in (i), (ii) or (iii) above,

in each case, whether any of the foregoing transactions described in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company, in cash or otherwise (whether or not the issue of such Shares or other equity securities will be completed within the First Six-Month Period). We further agree that in the event that during the period of six months commencing on the date on which the First Six-Month Period expires, we enter into any of the transactions described in (i), (ii) or (iii) above or offers to or agrees to or announce any intention to effect any such transactions, we will take all reasonable steps to ensure that such transactions will not create a disorderly or false market for our Shares or other equity securities of our Company.

UNDERWRITING

UNDERTAKING BY OUR CONTROLLING SHAREHOLDER

Each of our Controlling Shareholder has undertaken with our Company, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters and the Capital Market Intermediaries that, except pursuant to the Global Offering, the Over-allotment Option or the Stock Borrowing Agreement, our Controlling Shareholders will not without the prior written consent of the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters and the Capital Market Intermediaries), at any time:

- (i) during the First Six-month Period:
 - (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or grant, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interest or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, or cause us to repurchase, any of our Shares or debt capital or our other securities or any interest in our Shares or debt capital or any voting right or any other right attaching thereto (including but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any of our Shares or debt capital or our other securities or any interest in our Shares or debt capital whether now owned or subsequently acquired, owned directly by our Controlling Shareholders (including holding as a custodian) or with respect to which our Controlling Shareholders have beneficial ownership (collectively the “**Lock-up Shares**”)). The foregoing restriction is expressly agreed to preclude our Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than our Controlling Shareholders. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any of our Shares or debt capital or our other securities or any interest in our Shares or debt capital or any voting right or any other right attaching thereto; or
 - (c) offer or agree or contract to enter or enter into any transactions with the same economic effect as any transactions described in (i)(a) or (i)(b) above; or
 - (d) publicly announce any intention to enter into, any transactions described in (i)(a), (i)(b) or (i)(c) above,

whether any transactions described in (i)(a), (i)(b) or (i)(c) above is to be settled by delivery of Shares or such other securities in cash or otherwise; and

UNDERWRITING

- (ii) during the Second Six-Month Period enter into any of the transactions in paragraphs (i)(a), (i)(b) or (i)(c) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, our Controlling Shareholders will cease to be our Controlling Shareholders. Our Controlling Shareholders further agrees that in the event of a disposal of any Shares, securities or any interest of our securities or any voting right or any other right attaching thereto after the Second Six-month Period, our Controlling Shareholders will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for our Shares.

Each of our Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Capital Market Intermediaries that at any time during the period from the commencement of the First Six-Month Period to the date on which the Second Six-Month Period expires, he/it shall:

- (a) if he/it pledges or charges or otherwise creates encumbrances over any Shares or securities of our Company or interests therein in respect of which he/it is the beneficial owner, whether directly or indirectly, immediately inform each of our Company, the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and the Capital Market Intermediaries in writing of any such pledges or charges or encumbrances and the number of Shares or securities of our Company so pledged or charged or encumbered; and
- (b) if he/it receives any indication, either verbal or written, from any pledgee or chargee or encumbrancee or such third party that any of the pledged, charged, encumbered Shares or other securities of our Company will be disposed of, immediately inform each of our Company, the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Hong Kong Underwriters and the Capital Market Intermediaries in writing of any such indication.

Indemnity

We and our Controlling Shareholder have agreed to indemnify the Hong Kong Underwriter(s) for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

International Placing

In connection with the International Placing, we, our Controlling Shareholder, expect to enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters, subject to certain conditions, will agree severally and not jointly to procure purchasers for, or themselves purchase, their respective proportions of the International Placing Shares being offered under the International Placing.

UNDERWRITING

Under the International Underwriting Agreement, we expect to grant to the International Underwriters the Over-allotment Option, exercisable by the Stabilising Manager (on behalf of the International Underwriters) at any time from the Listing Date up to (and including) the date which is the 30th day after the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 25,860,000 additional Shares, representing approximately 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be issued and sold at the Offer Price and will be solely for the purpose of covering over-allocations, if any, in the International Placing.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that if the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

We and our Controlling Shareholder have agreed to indemnify the International Underwriters against certain liabilities.

Commissions and expenses

The Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price of all the Offer Shares for both the Hong Kong Public Offering and the International Offering (including Offer Shares issued pursuant to the Over-allotment Option), out of which they will pay any sub-underwriting commission and other fees (the “**Fixed Fees**”). Our Company may pay the Underwriters an incentive fee up to 1.0% of the aggregate Offer Price of all the Offer Shares for both the Hong Kong Public Offering and International Offering (including Offer Shares issued pursuant to the Over-allotment Option) to be awarded at our Company’s discretion (the “**Discretionary Fees**”). The ratio of Fixed Fees and Discretionary Fees (if fully paid) is 75:25. For any unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, we will pay the underwriting commission for such Offer Shares to the International Underwriters (but not the Hong Kong Underwriters).

The aggregate underwriting commissions and fees payable to the Underwriters, together with the Stock Exchange listing fees, the SFC transaction levy, the AFRC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses in relation to the Global Offering are estimated to be approximately HK\$89.1 million (assuming the Over-allotment Option is not exercised, and based on the Offer Price of HK\$1.9 per Offer Share (which is the mid-point of the indicative Offer Price range) and the full payment of the discretionary incentive fee) in total and are payable by our Company.

Underwriters’ interest in our Group

Other than disclosed in the preceding paragraph, the obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement and, if applicable, the stock borrowing arrangement that may be entered into between the Stabilising Manager or its agent with our Controlling Shareholders, none of the Underwriters has any shareholding interests in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

UNDERWRITING

Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

Minimum public float

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands on accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING

The Global Offering

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (subject to adjustment):

- (a) the Hong Kong Public Offering of 17,240,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described in “The Hong Kong Public Offering” below; and
- (b) the International Placing of 155,160,000 Shares (subject to adjustment as mentioned below and the Over-allotment Option) outside the United States (including to professional, institutional and corporate investors and other investors within Hong Kong) in offshore transactions in reliance on Regulation S as described in the paragraph headed “The International Placing” in this section.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Placing Shares under the International Placing, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to professional, institutional and corporate investors and other investors in Hong Kong. The International Placing will involve selective marketing of the International Placing Shares to professional, institutional and corporate investors and other investors expected to have a sizeable demand for the International Placing Shares. The International Underwriters are soliciting from prospective investors’ indications of interest in acquiring the International Placing Shares. Prospective investors will be required to specify the number of International Placing Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Placing Shares to be offered under the Hong Kong Public Offering and the International Placing, respectively, may be subject to reallocation as described in the paragraph headed “Pricing and allocation” in this section.

Pricing and Allocation

The Offer Price is expected to be fixed by agreement between us, the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about Wednesday, 11 January 2023 and, in any event, not later than Friday, 13 January 2023. The Offer Price will be not more than HK\$2.20 and is currently expected not to be less than HK\$1.60, unless otherwise announced, as further explained below not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus. If, for any reason, the Offer Price is not agreed by Friday, 13 January 2023 between us, the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

STRUCTURE OF THE GLOBAL OFFERING

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$2.20 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%. If the Offer Price, as finally determined on the Price Determination Date, is lower than the maximum Offer Price, we will refund the respective difference (including brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to apply for the Hong Kong Offer Shares” of this prospectus.

If, based on the level of interest expressed by prospective professional, institutional and corporate investors and other investors during the book-building process, the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) consider it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the Stock Exchange’s website at www.hkexnews.hk, and on our Company’s website at www.sanergygroup.com an announcement, or a supplemental prospectus (as appropriate), in connection with such reduction. Such announcement or supplemental prospectus will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set out in the section headed “Summary” of this prospectus and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement or supplemental prospectus of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

If the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced, applicants who have already submitted an application may or may not (depending on the information contained in the announcement or supplemental prospectus) be notified that they are required to confirm their applications. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement or supplemental prospectus and all unconfirmed applications will not be valid. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering stated in this prospectus, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus.

The Hong Kong Offer Shares and the International Placing Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offering and International Placing at the discretion of the Overall Coordinator and the Joint Global Coordinators.

STRUCTURE OF THE GLOBAL OFFERING

Allocation of the International Placing Shares pursuant to the International Placing will be determined by the Overall Coordinator and the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and other investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Although the allocation of the Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable final Offer Price, the level of indications of interest in the International Placing, the level of applications and the basis of allotment of the Hong Kong Offer Shares are expected to be announced on Monday, 16 January 2023 through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares — D. Publication of Results".

Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, inter alia:

- the Listing Committee granting the listing of, and permission to deal in our Shares being offered pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- the Offer Price having been duly determined;
- the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Overall Coordinator and the Joint Global Coordinators, for themselves and on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us in the websites of the Stock Exchange at www.hkexnews.hk and us at www.sanergygroup.com on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Hong Kong Offer Shares” of this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank(s) or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on Monday, 16 January 2023 but will only become valid evidence of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on Tuesday, 17 January 2023, provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements have been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of Share certificates or prior to the Share certificates bearing valid evidence of title do so entirely at their own risk.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

Our Company is initially offering 17,240,000 Shares at the Offer Price under the Hong Kong Public Offering, representing 10% of the 172,400,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares initially offered under the Hong Kong Public Offering will represent approximately 1.72% of our total issued share capital immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised).

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Placing Shares will not be allotted International Placing Shares in the International Placing.

The Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of the Offer Shares to investors under the Global Offering will be based solely on the level of valid applications received under the Global Offering. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by applicants. Allocation of the Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The final Offer Price, the level of indication of interest in the International Placing, level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares are expected to be announced on Monday, 16 January 2023 through a variety of channels as described in section headed “How to apply for Hong Kong Offer Shares — D. Publication of results” of this prospectus.

For allocation purposes only, the 17,240,000 Shares initially being offered for subscription under the Hong Kong Public Offering will be divided equally into two pools (with any odd lots being allocated to Pool A): Pool A comprising initially 8,620,000 Hong Kong Offer Shares and Pool B comprising initially 8,620,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy payable) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy payable) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. When there is over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to Pool A and Pool B, will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of the Hong Kong Offer Shares validly applied for by each applicant. Multiple or suspected multiple applications and any application for more than 8,620,000 Hong Kong Offer Shares (i.e. approximately 50% of the 17,240,000 Shares initially comprised in the Hong Kong Public Offering) are liable to be rejected.

STRUCTURE OF THE GLOBAL OFFERING

Reallocation and Clawback

The allocation of Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation on the following basis:

- (a) Where the International Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Overall Coordinator and the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Overall Coordinator and the Joint Global Coordinators deem appropriate;
 - (ii) if the Hong Kong Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times, the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 17,240,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 34,480,000 Offer Shares, representing approximately 20% of the number of the Offer Shares initially available under the Global Offering;
 - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times, the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 34,480,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 51,720,000 Offer Shares, representing approximately 30% of the number of the Offer Shares initially available under the Global Offering;
 - (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times, the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 51,720,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 68,960,000 Offer Shares, representing approximately 40% of the number of the Offer Shares initially available under the Global Offering; and
 - (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more, the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 68,960,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 86,200,000 Offer Shares, representing approximately 50% of the number of the Offer Shares initially available under the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

- (b) Where the International Placing Shares are undersubscribed:
- (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus and the Underwriting Agreements; and
 - (ii) if the Hong Kong Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 17,240,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 34,480,000 Offer Shares, representing approximately 20% of the number of the Offer Shares initially available under the Global Offering.

In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, in the event of reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing in the circumstances where (x) the International Placing Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (y) the International Placing Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 34,480,000 Offer Shares) and the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$1.60 per Offer Share) stated in this prospectus.

In the event of a reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering in circumstances under paragraph (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

References in this prospectus to applications, **GREEN** Application Form, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

Number of International Placing Shares Offered

The number of International Placing Shares to be initially offered for subscription under the International Placing will be 155,160,000 Offer Shares representing 90% of the Offer Shares under the Global Offering. Subject to any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing Shares will represent approximately 15.5% of our enlarged issued share capital immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised). The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Pursuant to the International Placing, the International Placing Shares will be conditionally placed by the International Underwriters. The International Placing Shares will be selectively placed to certain professional and institutional and other investors anticipated to have a sizeable demand for such International Placing Shares in Hong Kong. The International Placing is subject to the Hong Kong Public Offering being unconditional.

Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the book-building process described in the paragraph headed “Pricing and allocation” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Overall Coordinator and the Joint Global Coordinators may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Overall Coordinator and the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of International Placing Shares to be transferred pursuant to the International Placing may change as a result of the clawback arrangement described in the sub-section headed “The Hong Kong Public Offering — Reallocation and clawback”, exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Placing.

Over-allotment Option

In connection with the Global Offering, our Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by Yue Xiu Securities Company Limited at its sole and absolute discretion on behalf of the International Underwriters for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, Yue Xiu Securities Company Limited will have the right to require our Company to issue up to an aggregate of 25,860,000 Shares representing in aggregate approximately 15% of the total number of the Offer Shares initially available under the Global Offering at the Offer Price to cover, among other things, over-allocations in the International Placing, if any. Yue Xiu Securities Company Limited may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, regulations and rules.

STRUCTURE OF THE GLOBAL OFFERING

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the International Placing, the Stabilising Manager or any person acting for it may choose to borrow up to 25,860,000 Shares (being the maximum number of Shares which may be issued pursuant to the exercise of the Over-allotment Option) from Otautahi Capital, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercise of the Over-allotment Option. The Stock Borrowing Agreement will comply with the following requirements set out in Rule 10.07(3) of the Listing Rules:

- (a) such stock borrowing arrangement with Otautahi Capital will only be effected by the Stabilising Manager for settlement of over-allocations in the International Placing and covering any short position prior to the exercise of the Over-allotment Option;
- (b) the maximum number of Shares borrowed from Otautahi Capital under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- (c) the same number of Shares so borrowed must be returned to Otautahi Capital on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the day on which the Over-allotment Option is exercised in full, or (iii) such earlier time as the parties may from time to time agree in writing;
- (d) the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- (e) no payment will be made to Otautahi Capital by the Stabilising Manager in relation to such stock borrowing arrangement.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

STRUCTURE OF THE GLOBAL OFFERING

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect short sales or any other stabilising transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offering. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole and absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-allotment Option, namely 25,860,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

Stabilising action will be entered into in accordance with the laws, regulations and rules in place in Hong Kong on stabilisation and stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;
- (c) liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the Shares;
- (d) no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on Thursday, 9 February 2023, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- (e) the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and

STRUCTURE OF THE GLOBAL OFFERING

- (f) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 25,860,000 Shares and cover such over-allocations by various methods including the exercise of the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means. In particular, for the purpose of settlement of over-allocations in connection with the International Placing, the Stabilising Manager may borrow up to 25,860,000 Shares from Otautahi Capital, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

NO OVERSEAS REGISTRATION

The documents issued and to be issued in connection with the Global Offering will not be registered under applicable securities legislation of any jurisdiction other than Hong Kong.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for the listing of and permission to deal in our Shares in issue and to be issued as mentioned in this prospectus. Subject to the granting of the listing of, and permission to deal in, our Shares on the main board of the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the main board of the Stock Exchange or such other date as determined by HKSCC. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangement has been made for our Shares to be admitted into CCASS.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 17 January 2023, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 17 January 2023.

Our Shares will be traded in board lots of 2,000 Shares each. The stock code of our Shares will be 2459.

STRUCTURE OF THE GLOBAL OFFERING

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter(s) under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between us and the Overall Coordinator and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date.

We expect that our Company will shortly after determination of the Offer Price on the Price Determination Date, enter into the International Underwriting Agreement relating to the International Placing. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” of this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

IMPORTANT NOTICE TO INVESTORS: FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide any printed copies of this prospectus or any printed copies of any application forms for use by the public.

This prospectus is available at the website of the Stock Exchange at www.hkexnews.hk under the “HKEXnews > New Listings > New Listing Information” section, and our website at www.sanergygroup.com If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

HOW TO APPLY FOR HONG KONG OFFER SHARES

A. APPLICATIONS FOR HONG KONG OFFER SHARES

1. How to Apply

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Offer Shares, you may:

- (1) apply online through the **White Form eIPO** service at www.eipo.com.hk; or
- (2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:
 - (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf; or
 - (ii) (if you are an existing CCASS Investor Participant) giving **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

We, the Overall Coordinator, the Joint Global Coordinators, the **White Form eIPO** Service Provider and our and their respective agents may reject or accept any application, in full or in part, for any reason at our or their discretion.

2. Who Can Apply

Eligibility for the Application

You can apply for Hong Kong Offer Shares if you or any person(s) for whose benefit you are applying:

- are 18 years of age or older;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- have a Hong Kong address;
- are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If an application is made by a person under a power of attorney, we and the Overall Coordinator, the Joint Global Coordinators, as our agents, may accept it at our or its discretion, and on any conditions we or they think fit, including requiring evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules or any relevant waivers that have been granted by the Stock Exchange, you cannot apply for any Hong Kong Offer Shares if:

- you are an existing beneficial owner of Shares in our and/or any of its subsidiaries;
- you are our Director or chief executive and/or a director or chief executive officer of our subsidiaries;
- you are a close associate (as defined in the Listing Rules) of any of the above persons; or
- you have been allocated or have applied for any International Placing Shares or otherwise participate in the International Offering.

Items Required for the Application

If you apply for Hong Kong Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Offer Shares online by instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

3. Applying for Hong Kong Offer Shares

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, apply online through **White Form eIPO** Service at www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

4. Terms and Conditions of an Application

By applying through the application channels specified in this prospectus you:

- undertake to execute all relevant documents and instruct and authorise us, the Overall Coordinator and/or the Joint Global Coordinators (or its agents or nominees), as our agents, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with our Memorandum and Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Cayman Companies Act;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in making your application and will not rely on any other information or representations, except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering set out in this prospectus;
- agree that none of us, the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, the Capital Market Intermediaries, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, or the Relevant Persons, and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares nor participated in the International Offering;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or any of them may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and neither we nor the Relevant Persons will breach any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions in this prospectus;
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (within the meaning of Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- warrant that the information you have provided is true and accurate;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated to you under the application;
- authorise (i) us to place your name(s) or the name of HKSCC Nominees on our register of members as the holder(s) of any Hong Kong Offer Shares allocated to you and such other registers as required under our Memorandum and Articles of Association and (ii) us and/or our agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheques to you or the first-named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in “Personal Collection” below to collect the Share certificate(s) and/or refund cheques in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that we, our Directors, the Overall Coordinator and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or through the **White Form eIPO** service or by any one as your agent or by any other person; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as its agent.

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

5. Minimum Application Amount and Permitted Numbers

Your application through the **White Form eIPO** service or the **CCASS eIPO** service must be for a minimum of 2,000 Hong Kong Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

SANERGY GROUP LIMITED (HK\$2.20 per Hong Kong Offer Share)							
NUMBER OF HONG KONG OFFER SHARES THAT MAY BE APPLIED FOR AND PAYMENTS							
No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$	No. of Hong Kong Offer Shares applied for	Amount payable on application HK\$
2,000	4,444.38	40,000	88,887.48	350,000	777,765.46	2,500,000	5,555,467.50
4,000	8,888.75	50,000	111,109.36	400,000	888,874.80	3,000,000	6,666,561.00
6,000	13,333.13	60,000	133,331.22	450,000	999,984.16	3,500,000	7,777,654.50
8,000	17,777.50	70,000	155,553.09	500,000	1,111,093.50	4,000,000	8,888,748.00
10,000	22,221.86	80,000	177,774.95	600,000	1,333,312.20	4,500,000	9,999,841.50
12,000	26,666.24	90,000	199,996.84	700,000	1,555,530.90	5,000,000	11,110,935.00
14,000	31,110.62	100,000	222,218.70	800,000	1,777,749.60	6,000,000	13,333,122.00
16,000	35,554.99	150,000	333,328.06	900,000	1,999,968.30	7,000,000	15,555,309.00
18,000	39,999.37	200,000	444,437.40	1,000,000	2,222,187.00	8,620,000 ⁽¹⁾	19,155,251.95
20,000	44,443.75	250,000	555,546.76	1,500,000	3,333,280.50		
30,000	66,665.61	300,000	666,656.10	2,000,000	4,444,374.00		

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

6. Applying Through the White Form eIPO Service

General

Individuals who meet the criteria in the paragraph headed “2. Who Can Apply” in this section above may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at **www.eipo.com.hk**.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to us. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** Service Provider.

Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service through the designated website at **www.eipo.com.hk** (24 hours daily, except on the last day for applications) from 9:00 a.m. on Friday, 30 December 2022 until 11:30 a.m. on Tuesday, 10 January 2023 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 10 January 2023, the last day for applications, or such later time as described in the paragraph headed “C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Commitment to Sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “SANERGY GROUP LIMITED” **White Form eIPO** application submitted via the **www.eipo.com.hk** to support sustainability.

7. Applying Through CCASS EIPO Service

General

You may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf. CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Internet System (<https://ip.ccass.com>) or through the CCASS Phone System (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC’s Customer Service Centre at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to us, the Sole Sponsor, the Overall Coordinator, the Joint Global Coordinators, and the Hong Kong Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Applying through CCASS EIPO Service

Where you have applied through **CCASS EIPO** service (either indirectly through a broker or custodian or directly) and an application is made by HKSCC Nominees on your behalf:

- HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of this prospectus; and
- HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares nor participated in the International Offering;
 - *(if the **electronic application instructions** are given for your benefit)* declare that only one set of **electronic application instructions** has been given for your benefit;
 - *(if you are an agent for another person)* declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as its agent;
 - confirm that you understand that we, our Directors, the Overall Coordinator and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to allocate any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
 - authorise us to place HKSCC Nominees' name on our register of members as the holder of the Hong Kong Offer Shares allocated to you, and despatch Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- confirm that you have received and read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, except those in any supplement to this prospectus;
- agree that neither we nor any of the Relevant Persons is or will be liable for any information and representations not in this prospectus (and any supplement to this prospectus);
- agree to disclose to us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons any personal data which we or they may require about you;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us, and to become binding when you give the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Hong Kong Offer Shares to any person on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by. Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering by us;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with us, for ourselves and for the benefit of each shareholder (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for us and on behalf of each shareholder, with each CCASS Participant giving **electronic application instructions**) to observe and comply with our Memorandum Articles of Association, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and Cayman Companies Act; and
- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of Applying through CCASS EIPO Service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to us or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price initially paid on application, refund of the application monies (including brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application** instructions at the following times on the following dates:

Friday, 30 December 2022	—	9:00 a.m. to 8:30 p.m.
Saturday, 31 December 2022	—	8:00 a.m. to 1:00 p.m.
Tuesday, 3 January 2023	—	8:00 a.m. to 8:30 p.m.
Wednesday, 4 January 2023	—	8:00 a.m. to 8:30 p.m.
Thursday, 5 January 2023	—	8:00 a.m. to 8:30 p.m.
Friday, 6 January 2023	—	8:00 a.m. to 8:30 p.m.
Saturday, 7 January 2023	—	8:00 a.m. to 1:00 p.m.
Monday, 9 January 2023	—	8:00 a.m. to 8:30 p.m.
Tuesday, 10 January 2023	—	8:00 a.m. to 12:00 noon

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 30 December 2022 until 12:00 noon on Tuesday, 10 January 2023 (24 hours daily, except on Tuesday, 10 January 2023, the last day for applications).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 10 January 2023, the last day for applications, or such later time as described in the paragraph headed “C. Effect of Bad Weather and Extreme Conditions on the Opening and Closing of the Application Lists” in this section.

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing Participants, CCASS Custodian Participants and/or CCASS Investor Participants.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you are advised to contact your broker or custodian for the latest time for giving such instructions which may be different from the latest time as stated above.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by us, the Hong Kong Share Registrar, the receiving bank and the Relevant Persons about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Offer Shares, of the policies and practices of us and our Hong Kong Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Offer Shares to supply correct personal data to us or our agents and the Hong Kong Share Registrar when applying for the Hong Kong Offer Shares or transferring the Hong Kong Offer Shares into or out of their names or in procuring the services of the Hong Kong Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Offer Shares being rejected, or in delay or the inability of us or our Hong Kong Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Offer Shares inform us and the Hong Kong Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and refund check, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing results of allocation of the Hong Kong Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Register of Members;
- verifying identities of the holders of our Shares;
- establishing benefit entitlements of holders of our Shares, such as dividends, rights issues and bonus issues;
- distributing communications from us and our subsidiaries;
- compiling statistical information and profiles of the holder of our Shares;
- disclosing relevant information to facilitate claims on entitlements; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- any other incidental or associated purposes relating to the above and/or to enable us and the Hong Kong Share Registrar to discharge our or their obligations to holders of our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by us and our Hong Kong Share Registrar relating to the holders of the Hong Kong Offer Shares will be kept confidential but we and our Hong Kong Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to us or the Hong Kong Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

Retention of personal data

We and our Hong Kong Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Offer Shares have the right to ascertain whether we or the Hong Kong Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. We and the Hong Kong Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to us, at our registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the secretary, or our Hong Kong Share Registrar for the attention of the privacy compliance officer.

HOW TO APPLY FOR HONG KONG OFFER SHARES

8. Warning for Electronic Applications

The application for the Hong Kong Offer Shares by **CCASS EIPO** service (directly or indirectly through your broker or custodian) is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications to make your electronic application. We, the Relevant Persons, the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12 noon on 10 January, 2023.

9. How Many Applications Can You Make

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee and apply through the **White Form eIPO** service, in the box marked "For Nominees", you must include an account number or some other identification code for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner when you fill in the application details. If you do not include this information, the application will be treated as being made for your own benefit.

No Multiple Applications

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your broker or custodian) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf. If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

If you apply by means of the **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your behalf to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

B. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK\$2.20 per Offer Share. You must also pay brokerage of 1.0%, SFC transaction levy of 0.0027%, Stock Exchange trading fee of 0.00565% and AFRC transaction levy of 0.00015%. This means that for one board lot of 2,000 Hong Kong Offer Shares, you will pay HK\$4,444.38.

You must pay the maximum Offer Price, together with brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy, in full upon application for Hong Kong Offer Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. If you make an electronic application instruction for more than 2,000 Hong Kong Offer Shares, the number of Hong Kong Offer Shares you apply for must be in one of the specified numbers set out in the paragraph headed “— 5. Minimum Application Amount and Permitted Numbers” in this section.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy, the Stock Exchange trading fee and the AFRC transaction levy will be paid to the Stock Exchange (in the cases of the SFC transaction levy and the AFRC transaction levy, collected by the Stock Exchange on behalf of the SFC and the AFRC, respectively).

For further details on the Offer Price, see the section headed “Structure of the Global Offering-Pricing and Allocation” in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

C. EFFECT OF BAD WEATHER AND EXTREME CONDITIONS ON THE OPENING AND CLOSING OF THE APPLICATION LISTS

The application lists will not open or close if there is/are:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 10 January 2023. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 10 January 2023 or if there is/are a tropical cyclone warning signal number 8 or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “Expected Timetable,” an announcement will be made on our website at www.sanergygroup.com and the website of the Stock Exchange at www.hkexnews.hk.

D. PUBLICATION OF RESULTS

We expect to announce the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares on Monday, 16 January 2023 on our website at www.sanergygroup.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and dates and in the manner set out below:

- in the announcement to be posted on our website at www.sanergygroup.com and the website of the Stock Exchange at www.hkexnews.hk, respectively, by no later than Monday, 16 January 2023;
- from the designated results of allocations website at www.iporeresults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, 16 January 2023 to 12:00 midnight on Sunday, 22 January 2023; and
- from the allocation results telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Monday, 16 January 2023 to Thursday, 19 January 2023 (except Saturday and Sunday).

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If we accept your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are set out in the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

E. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with us.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before the fifth day after the time of opening of the application lists (excluding any days which is Saturday, Sunday or public holiday in Hong Kong) in the following circumstances:

- if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person’s responsibility for this prospectus; or
- if any supplement to this prospectus is issued, in which case applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If we or our agents exercise discretion to reject your application:

We, the Overall Coordinator the Joint Global Coordinators and the **White Form eIPO** Service Provider and our and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchanges notifies our Company of that longer period within three weeks of the closing date of the application lists.

If:

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you apply for, have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your payment is not made correctly;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website at **www.eipo.com.hk**;
- you apply for more than 8,620,000 Hong Kong Offer Shares, being 50% of the Hong Kong Offer Shares initially available under the Hong Kong Public Offering;
- we, the Overall Coordinator or the Joint Global Coordinators believe that by accepting your application, a violation of applicable securities or other laws, rules or regulations would result; or
- the Underwriting Agreements do not become unconditional or are terminated.

F. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price per Offer Share (excluding brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy payable thereon) paid on application, or if the conditions of the Global Offering as set out in the paragraph headed “Structure of the Global Offering” in this prospectus are not satisfied or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy, will be refunded, without interest.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Any refund of your application monies will be made on or before Monday, 16 January 2023.

G. DESPATCH/COLLECTION OF SHARE CERTIFICATES/e-REFUND PAYMENT INSTRUCTIONS/REFUND CHEQUES

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS eIPO** service where the Share certificates will be deposited into CCASS as described below).

Our Company will not issue temporary document of title in respect of the Offer Shares. Our Company will not issue receipt for sums paid on application.

Subject to arrangement on despatch/collection of Share certificates and refund cheques as mentioned below, any refund cheques and Share certificate(s) are expected to be posted on or before Monday, 16 January 2023. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of check(s) or banker's cashier order(s).

Share certificates will only become valid evidence of title at 8:00 a.m. on Tuesday, 17 January 2023, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of the Share certificates or prior to the Share certificates becoming valid do so entirely at their own risk.

Personal Collection

- *If you apply through White Form eIPO service:*
 - If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 16 January 2023, or any other place or date notified by us.
 - If you do not personally collect your Share certificate(s) and/or refund cheque(s) (where applicable) within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post and at your own risk.
 - If you apply for less than 1,000,000 Hong Kong Offer Shares through the **White Form eIPO** service, your Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 16 January 2023 by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post and at your own risk.
- *If you apply through CCASS EIPO service:*

Allocation of Hong Kong Offer Shares

- For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of *your* designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 16 January 2023 or on any other date determined by HKSCC or HKSCC Nominees.
- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (Hong Kong business registration number for corporations) and the basis of allocations of the Hong Kong Offer Shares in the manner as described in the paragraph headed "Publication of Results" in this section on Monday, 16 January 2023. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 16 January 2023 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf, you can also check the number of the Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 16 January 2023. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity

HOW TO APPLY FOR HONG KONG OFFER SHARES

statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy, Stock Exchange trading fee and AFRC transaction levy but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 16 January 2023.

H. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

We have made all necessary arrangements to enable the Shares to be admitted into CCASS.

The following version is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Reporting Accountants, Ernst & Young, Certified Public Accountants.



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SANERGY GROUP LIMITED AND SOUTHWEST SECURITIES (HK) CAPITAL LIMITED

INTRODUCTION

We report on the historical financial information of Sanergy Group Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-86, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2022 (the “**Track Record Period**”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 and a summary of significant accounting policies and other explanatory information (together, the “**Historical Financial Information**”). The Historical Financial Information set out on pages I-4 to I-86 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 December 2022 (the “**Prospectus**”) in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company (the “**Directors**”) are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the Directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, and of the financial performance and cash flows of the Group for each of the Track Record Period in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2021 and other explanatory information (the "**Interim Comparative Financial Information**"). The Directors are responsible for the preparation and presentation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

Dividends paid by the Company in respect of the Track Record Period are set out in note 12 to the Historical Financial Information.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Certified Public Accountants

Hong Kong

30 December 2022

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in United States dollars ("US\$") and all values are rounded to the nearest thousand (US\$'000) except when otherwise indicated.

(A) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June		
		2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	2022 US\$'000	
						(Unaudited)	
Revenue	6	168,319	150,844	108,540	108,694	41,786	59,706
Cost of sales		<u>(63,101)</u>	<u>(116,581)</u>	<u>(92,026)</u>	<u>(85,864)</u>	<u>(34,571)</u>	<u>(44,142)</u>
Gross profit		105,218	34,263	16,514	22,830	7,215	15,564
Other income and gains	6	6,616	3,350	5,427	1,300	1,117	705
Selling and administrative expenses		(20,022)	(26,298)	(13,145)	(12,096)	(5,749)	(5,950)
Other expenses		(1,972)	(2,056)	(798)	(1,931)	(625)	(863)
Finance costs	8	(352)	(3,727)	(1,988)	(1,988)	(893)	(967)
Listing expenses		<u>—</u>	<u>—</u>	<u>(2,804)</u>	<u>(1,961)</u>	<u>(670)</u>	<u>(559)</u>
PROFIT BEFORE TAX	7	89,488	5,532	3,206	6,154	395	7,930
Income tax (expense)/credit	11	<u>(17,472)</u>	<u>(369)</u>	<u>980</u>	<u>(1,766)</u>	<u>(18)</u>	<u>(1,397)</u>
PROFIT FOR THE YEAR/PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>72,016</u>	<u>5,163</u>	<u>4,186</u>	<u>4,388</u>	<u>377</u>	<u>6,533</u>

	Notes	Year ended 31 December				Six months ended 30 June	
		2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000	2022 US\$'000
(Unaudited)							
OTHER COMPREHENSIVE INCOME/(LOSS)							
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:							
Exchange differences on translation of foreign operations		<u>(262)</u>	<u>(1,701)</u>	<u>6,129</u>	<u>(3,749)</u>	<u>(1,170)</u>	<u>(9,329)</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:							
Revaluation gain/(loss) on property, plant and equipment	14	39,664	980	10,876	5,102	4,042	(347)
Income tax effect	24(b)	<u>(10,936)</u>	<u>(293)</u>	<u>(2,605)</u>	<u>(1,370)</u>	<u>(1,110)</u>	<u>55</u>
Net other comprehensive income/ (loss) that will not be reclassified to profit or loss in subsequent periods		<u>28,728</u>	<u>687</u>	<u>8,271</u>	<u>3,732</u>	<u>2,932</u>	<u>(292)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD, NET OF TAX							
		28,466	(1,014)	14,400	(17)	1,762	(9,621)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR/PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY							
		<u>100,482</u>	<u>4,149</u>	<u>18,586</u>	<u>4,371</u>	<u>2,139</u>	<u>(3,088)</u>

(B) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December				As at
		2018	2019	2020	2021	30 June
	Notes	US\$'000	US\$'000	US\$'000	US\$'000	2022
						US\$'000
NON-CURRENT ASSETS						
Property, plant and equipment	14	55,718	56,841	97,238	99,991	93,142
Right-of-use assets	15(a)	5,579	6,597	8,145	7,321	8,280
Intangible assets	16	1,476	1,252	1,449	1,268	1,065
Prepayments and deposits	19	43	1,200	309	2,092	1,657
Deferred tax assets	24	<u>1,648</u>	<u>4,766</u>	<u>6,319</u>	<u>5,362</u>	<u>3,773</u>
Total non-current assets		<u>64,464</u>	<u>70,656</u>	<u>113,460</u>	<u>116,034</u>	<u>107,917</u>
CURRENT ASSETS						
Inventories	17	92,676	92,378	54,220	60,872	62,857
Trade receivables measured at amortised cost	18	21,481	11,566	16,026	18,832	24,983
Trade receivables measured at fair value through profit or loss	18	11,329	1,629	991	3,017	668
Prepayments, deposits and other receivables	19	15,756	19,868	12,177	9,019	7,675
Cash and cash equivalents	20	<u>5,920</u>	<u>18,341</u>	<u>12,694</u>	<u>15,086</u>	<u>14,619</u>
Total current assets		<u>147,162</u>	<u>143,782</u>	<u>96,108</u>	<u>106,826</u>	<u>110,802</u>
CURRENT LIABILITIES						
Trade and notes payables	21	20,526	15,115	10,753	18,985	15,435
Other payables and accruals	22	35,279	55,040	27,953	18,408	13,045
Interest-bearing bank and other borrowings	23	—	—	493	14,503	17,496
Lease liabilities	15(b)	573	1,174	953	637	474
Income tax payable		<u>25,218</u>	<u>9,917</u>	<u>8,540</u>	<u>8,660</u>	<u>8,544</u>
Total current liabilities		<u>81,596</u>	<u>81,246</u>	<u>48,692</u>	<u>61,193</u>	<u>54,994</u>
NET CURRENT ASSETS		<u>65,566</u>	<u>62,536</u>	<u>47,416</u>	<u>45,633</u>	<u>55,808</u>

		As at 31 December				As at
		2018	2019	2020	2021	30 June
	Notes	US\$'000	US\$'000	US\$'000	US\$'000	2022
						US\$'000
NON-CURRENT LIABILITIES						
Other payables and accruals	22	7,003	1,774	5,825	6,743	1,077
Interest-bearing bank and other borrowings	23	—	5,003	6,553	5,756	16,978
Lease liabilities	15(b)	5,006	5,652	622	154	1,186
Deferred tax liabilities	24	<u>11,848</u>	<u>10,441</u>	<u>14,666</u>	<u>14,025</u>	<u>12,583</u>
Total non-current liabilities		<u>23,857</u>	<u>22,870</u>	<u>27,666</u>	<u>26,678</u>	<u>31,824</u>
NET ASSETS		<u>106,173</u>	<u>110,322</u>	<u>133,210</u>	<u>134,989</u>	<u>131,901</u>
EQUITY						
Equity attributable to owners of the Company						
Share capital	25	—	—	100	110	110
Reserves	26	<u>106,173</u>	<u>110,322</u>	<u>133,110</u>	<u>134,879</u>	<u>131,791</u>
		<u>106,173</u>	<u>110,322</u>	<u>133,210</u>	<u>134,989</u>	<u>131,901</u>

(C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022

	Attributable to owners of the Company					Retained profits*	Total	Non-controlling interests	Total equity
	Issued capital	Capital reserve*	Statutory reserve*	Asset revaluation reserve*	Exchange fluctuation reserve*				
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(note 25(b))	(note 26(a))	(note 26(b))	(note 26(c))	(note 26(d))				
At 1 January 2018	—	7,447	—	—	288	4,387	12,122	16	12,138
Profit for the year	—	—	—	—	—	72,016	72,016	—	72,016
Other comprehensive income/ (loss) for the year:									
Exchange differences on translation of foreign operations	—	—	—	—	(262)	—	(262)	—	(262)
Revaluation gains on property, plant and equipment (note 14)	—	—	—	39,664	—	—	39,664	—	39,664
Income tax effect on revaluation gains on property, plant and equipment (note 24)	—	—	—	(10,936)	—	—	(10,936)	—	(10,936)
Total comprehensive income/ (loss) for the year	—	—	—	28,728	(262)	72,016	100,482	—	100,482
Deemed distribution for acquisition of a subsidiary under common control pursuant to the Reorganisation (note 26(a))	—	(6,447)	—	—	—	—	(6,447)	—	(6,447)
Acquisition of a non-controlling interest (note 1(f))	—	16	—	—	—	—	16	(16)	—
Appropriation to statutory reserve	—	—	242	—	—	(242)	—	—	—
Release of asset revaluation reserve	—	—	—	(672)	—	672	—	—	—
At 31 December 2018	—	1,016	242	28,056	26	76,833	106,173	—	106,173

	Attributable to owners of the Company							Total US\$'000
	Issued capital US\$'000 (note 25(b))	Share premium* US\$'000 (note 26)	Capital reserve* US\$'000 (note 26(a))	Statutory reserve* US\$'000 (note 26(b))	Asset revaluation reserve* US\$'000 (note 26(c))	Exchange fluctuation reserve* US\$'000 (note 26(d))	Retained profits* US\$'000	
At 31 December 2018 and 1 January 2019	—	—	1,016	242	28,056	26	76,833	106,173
Profit for the year	—	—	—	—	—	—	5,163	5,163
Other comprehensive income/ (loss) for the year:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(1,701)	—	(1,701)
Revaluation gain on property, plant and equipment (note 14)	—	—	—	—	980	—	—	980
Income tax effect on revaluation gain on property, plant and equipment (note 24)	—	—	—	—	(293)	—	—	(293)
Total comprehensive income/ (loss) for the year	—	—	—	—	687	(1,701)	5,163	4,149
Release of asset revaluation reserve	—	—	—	—	(1,291)	—	1,291	—
At 31 December 2019	<u>—</u>	<u>—</u>	<u>1,016</u>	<u>242</u>	<u>27,452</u>	<u>(1,675)</u>	<u>83,287</u>	<u>110,322</u>

	Attributable to owners of the Company							Total US\$'000
	Issued capital US\$'000 (note 25(b))	Share premium* US\$'000 (note 26)	Capital reserve* US\$'000 (note 26(a))	Statutory reserve* US\$'000 (note 26(b))	Asset revaluation reserve* US\$'000 (note 26(c))	Exchange fluctuation reserve* US\$'000 (note 26(d))	Retained profits* US\$'000	
At 31 December 2019 and 1 January 2020	—	—	1,016	242	27,452	(1,675)	83,287	110,322
Profit for the year	—	—	—	—	—	—	4,186	4,186
Other comprehensive income for the year								
Exchange differences on translation of foreign operations	—	—	—	—	—	6,129	—	6,129
Revaluation gain on property, plant and equipment (note 14)	—	—	—	—	10,876	—	—	10,876
Income tax effect on revaluation gain on property, plant and equipment (note 24)	—	—	—	—	(2,605)	—	—	(2,605)
Total comprehensive income for the year	—	—	—	—	8,271	6,129	4,186	18,586
Issuance of shares (note 25)	100	9,902	—	—	—	—	—	10,002
Deemed distribution for acquisition of a subsidiary under common control pursuant to the Reorganisation (note 26(a))	—	—	(5,700)	—	—	—	—	(5,700)
Appropriation to statutory reserve	—	—	—	856	—	—	(856)	—
Release of asset revaluation reserve	—	—	—	—	(1,426)	—	1,426	—
At 31 December 2020	<u>100</u>	<u>9,902</u>	<u>(4,684)</u>	<u>1,098</u>	<u>34,297</u>	<u>4,454</u>	<u>88,043</u>	<u>133,210</u>

	Attributable to owners of the Company							Total US\$'000
	Issued capital US\$'000 (note 25(b))	Share premium* US\$'000 (note 26)	Capital reserve* US\$'000 (note 26(a))	Statutory reserve* US\$'000 (note 26(b))	Asset revaluation reserve* US\$'000 (note 26(c))	Exchange fluctuation reserve* US\$'000 (note 26(d))	Retained profits* US\$'000	
At 31 December 2020 and 1 January 2021	100	9,902	(4,684)	1,098	34,297	4,454	88,043	133,210
Profit for the year	—	—	—	—	—	—	4,388	4,388
Other comprehensive income/ (loss) for the year:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(3,749)	—	(3,749)
Revaluation gain on property, plant and equipment (note 14)	—	—	—	—	5,102	—	—	5,102
Income tax effect on revaluation gain on property, plant and equipment (note 24)	—	—	—	—	(1,370)	—	—	(1,370)
Total comprehensive income for the year	—	—	—	—	3,732	(3,749)	4,388	4,371
Issuance of shares (note 25)	10	11,398	—	—	—	—	—	11,408
Dividend declared (note 12)	—	(14,000)	—	—	—	—	—	(14,000)
Appropriation to statutory reserve	—	—	—	142	—	—	(142)	—
Release of asset revaluation reserve	—	—	—	—	(1,499)	—	1,499	—
At 31 December 2021	<u>110</u>	<u>7,300</u>	<u>(4,684)</u>	<u>1,240</u>	<u>36,530</u>	<u>705</u>	<u>93,788</u>	<u>134,989</u>

	Attributable to owners of the Company							Total US\$'000
	Issued capital US\$'000 (note 25(b))	Share premium* US\$'000 (note 26)	Capital reserve* US\$'000 (note 26(a))	Statutory reserve* US\$'000 (note 26(b))	Asset revaluation reserve* US\$'000 (note 26(c))	Exchange fluctuation reserve* US\$'000 (note 26(d))	Retained profits* US\$'000	
At 31 December 2020 and 1 January 2021	100	9,902	(4,684)	1,098	34,297	4,454	88,043	133,210
Profit for the period (unaudited)	—	—	—	—	—	—	377	377
Other comprehensive income/ (loss) for the period (unaudited):								
Exchange differences on translation of foreign operations (unaudited)	—	—	—	—	—	(1,170)	—	(1,170)
Revaluation gain on property, plant and equipment (unaudited)	—	—	—	—	4,042	—	—	4,042
Income tax effect on revaluation gain on property, plant and equipment (unaudited)	—	—	—	—	(1,110)	—	—	(1,110)
Total comprehensive income/ (loss) for the period (unaudited)	—	—	—	—	2,932	(1,170)	377	2,139
Dividend declared (note 12) (unaudited)	—	(1,000)	—	—	—	—	—	(1,000)
Appropriation to statutory reserve (unaudited)	—	—	—	106	—	—	(106)	—
Release of asset revaluation reserve (unaudited)	—	—	—	—	(773)	—	773	—
At 30 June 2021 (unaudited)	<u>100</u>	<u>8,902</u>	<u>(4,684)</u>	<u>1,204</u>	<u>36,456</u>	<u>3,284</u>	<u>89,087</u>	<u>134,349</u>

	Attributable to owners of the Company							Total US\$'000
	Issued capital US\$'000 (note 25(b))	Share premium* US\$'000 (note 26)	Capital reserve* US\$'000 (note 26(a))	Statutory reserve* US\$'000 (note 26(b))	Asset revaluation reserve* US\$'000 (note 26(c))	Exchange fluctuation reserve* US\$'000 (note 26(d))	Retained profits* US\$'000	
At 31 December 2021 and 1 January 2022	110	7,300	(4,684)	1,240	36,530	705	93,788	134,989
Profit for the period	—	—	—	—	—	—	6,533	6,533
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	—	—	—	—	—	(9,329)	—	(9,329)
Revaluation loss on property, plant and equipment (note 14)	—	—	—	—	(347)	—	—	(347)
Income tax effect on revaluation loss on property, plant and equipment (note 24)	—	—	—	—	55	—	—	55
Total comprehensive income/ (loss) for the period	—	—	—	—	(292)	(9,329)	6,533	(3,088)
Appropriation to statutory reserve	—	—	—	66	—	—	(66)	—
Release of asset revaluation reserve	—	—	—	—	(771)	—	771	—
At 30 June 2022	<u>110</u>	<u>7,300</u>	<u>(4,684)</u>	<u>1,306</u>	<u>35,467</u>	<u>(8,624)</u>	<u>101,026</u>	<u>131,901</u>

* These reserve accounts comprise the consolidated reserves of US\$106,173,000, US\$110,322,000, US\$133,110,000, US\$134,879,000 and US\$131,791,000 in the consolidated statements of financial position as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, respectively.

(D) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December				Six months ended 30 June	
		2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000 (Unaudited)	2022 US\$'000
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		89,488	5,532	3,206	6,154	395	7,930
Adjustments for:							
Interest income	6	(13)	(64)	(225)	(87)	(4)	(6)
Sublease interest income	6	—	—	—	(1)	—	(1)
Finance costs	8	352	3,727	1,988	1,988	893	967
Depreciation of property, plant and equipment	7	885	2,108	2,702	3,761	1,886	2,209
Depreciation of right-of-use assets	7	48	1,022	1,353	995	556	434
Amortisation of intangible assets	7	13	232	205	296	147	145
Impairment/(reversal of impairment) of trade receivables	7	—	877	(436)	95	—	114
Impairment of right-of-use assets	7, 15	—	—	—	153	—	—
Write-down of inventories to net realisable value	7	—	16,159	2,406	—	—	—
Revaluation loss on property, plant and equipment	7	1,290	366	598	594	348	618
Revaluation gain on property, plant and equipment	6, 7	—	(370)	(265)	(471)	(215)	(82)
Loss on disposal of property, plant and equipment	7	—	—	—	8	8	—
Government subsidy	6	—	—	—	(340)	(340)	—
(Gain)/loss on early termination of leases	7, 15	—	—	(225)	3	3	—
Loss on derecognition of right-of-use assets arising from sublease	7, 15	—	—	—	9	—	—
Gain on novation of loans	6	—	—	—	—	—	(155)
Gain on bargain purchase	6	(1,587)	—	—	—	—	—
		90,476	29,589	11,307	13,157	3,677	12,173
(Increase)/decrease in inventories		(92,528)	(17,253)	39,897	(8,270)	(1,982)	(5,958)
(Increase)/decrease in trade receivables		(4,838)	18,728	(10,250)	(5,974)	715	(4,552)
Decrease/(increase) in prepayments, deposits and other receivables		11,517	(5,434)	9,509	2,667	966	1,367
Increase/(decrease) in trade and notes payables		14,926	(5,273)	(4,833)	8,474	4,519	(3,004)
(Decrease)/increase in other payables and accruals		(27,315)	16,435	(18,778)	(182)	725	1,899
Cash (used in)/generated from operations		(7,762)	36,792	26,852	9,872	8,620	1,925
Interest received		13	64	177	88	4	7
Interest paid		(148)	(845)	(2,576)	(2,055)	(2,018)	(545)
Interest element on lease payments	28(d)	(4)	(505)	(361)	(44)	(24)	(12)
Income taxes paid		(102)	(20,166)	(2,096)	(1,584)	(267)	(128)
Net cash flows (used in)/from operating activities		(8,003)	15,340	21,996	6,277	6,315	1,247

APPENDIX I
ACCOUNTANTS' REPORT

	Notes	Year ended 31 December			Six months ended 30 June		
		2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000	2022 US\$'000
(Unaudited)							
CASH FLOWS FROM INVESTING ACTIVITIES							
Purchase of items of property, plant and equipment		(6,348)	(7,251)	(26,287)	(6,249)	(3,688)	(2,842)
Payment to acquire right-of-use assets		—	—	(6,368)	(178)	(178)	(376)
Proceed from sale of property, plant and equipment		—	—	84	3	3	—
Additions to intangible assets	16	(118)	(27)	(303)	(124)	(112)	(12)
Proceed from sublease		—	—	—	14	—	14
Acquisition of subsidiaries	26(a), 27	1,623	(3,593)	(10,040)	(9,134)	(2,448)	(2,459)
Decrease in an amount due from a related company	22(d)	—	1,058	—	—	—	—
Net cash flows used in investing activities		<u>(4,843)</u>	<u>(9,813)</u>	<u>(42,914)</u>	<u>(15,668)</u>	<u>(6,423)</u>	<u>(5,675)</u>
CASH FLOWS FROM FINANCING ACTIVITIES							
Issuance of shares	25	—	—	9,907	11,408	—	—
New borrowings	28(d)	—	5,003	7,749	14,326	1,548	9,424
Repayment of borrowings	28(d)	—	—	(6,175)	(351)	—	(2,165)
Loans from related companies	28(d)	—	2,654	9,276	2,201	2,201	—
Repayment of loans from related companies	28(d)	—	—	(2,921)	(1,668)	(1,668)	(2,356)
Principal portion of lease payments	28(d)	(48)	(790)	(1,452)	(869)	(469)	(485)
Dividend distribution	12, 28(f)	—	—	—	(12,664)	(280)	—
Net cash flows (used in)/from financing activities		<u>(48)</u>	<u>6,867</u>	<u>16,384</u>	<u>12,383</u>	<u>1,332</u>	<u>4,418</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS							
		(12,894)	12,394	(4,534)	2,992	1,224	(10)
Cash and cash equivalents at beginning of year/period		18,565	5,920	18,341	12,694	12,694	15,086
Effect of foreign exchange rate change, net		249	27	(1,113)	(600)	(280)	(457)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u>5,920</u>	<u>18,341</u>	<u>12,694</u>	<u>15,086</u>	<u>13,638</u>	<u>14,619</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS							
Cash and bank balances	20	<u>5,920</u>	<u>18,341</u>	<u>12,694</u>	<u>15,086</u>	<u>13,638</u>	<u>14,619</u>

(E) STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December			As at 30 June	
		2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	2022 US\$'000
NON-CURRENT ASSET						
Investment in a subsidiary*		—	—	—	—	—
CURRENT ASSETS						
Due from the immediate holding company**		—	—	95	4	4
Due from subsidiaries**		—	—	9,883	21,357	21,194
Prepayments		—	—	5	—	—
Cash on hand***		—	—	2	57	70
Total current assets		—	—	9,985	21,418	21,268
CURRENT LIABILITIES						
Due to a shareholder**		—	—	—	616	616
Due to subsidiaries****		9	13	10	315	300
Accruals		—	—	1	17	16
Interest-bearing bank borrowings		—	—	—	12,255	12,352
Total current liabilities		9	13	11	13,203	13,284
(NET LIABILITIES)/NET ASSETS						
		(9)	(13)	9,974	8,215	7,984
EQUITY						
Share capital*****	25	—	—	100	110	110
Reserve	26	(9)	(13)	9,874	8,105	7,874
(Deficiency in assets)/total equity		(9)	(13)	9,974	8,215	7,984

* The investment cost in a subsidiary amounted to HK\$1 as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022.

** The balances were non-trade related, unsecured, non-interest-bearing and recoverable/repayable within one year.

*** This item as at 31 December 2019 had an amount of less than US\$500.

**** The balance was non-trade related, unsecured, non-interest-bearing and repayable on demand.

***** This item as at 31 December 2018 and 2019 had an amount of less than US\$500.

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 26 June 2018. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 2602, 26/F, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong.

The Company is an investment holding company. During the Track Record Period, the subsidiaries now comprising the Group were engaged in the manufacturing and sale of graphite electrodes.

In the opinion of the directors, Otautahi Enterprises Trust Company Limited, a company incorporated in New Zealand on 9 January 2014, is the ultimate holding company of the Company. The controlling shareholder of the Group (the “**Controlling Shareholder**”) is the same before and after the Reorganisation.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History, Development and Reorganisation” in the Prospectus. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place of incorporation/ registration and place of operation	Date of incorporation	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Sanergy Group (Hong Kong) Limited ^{Note (b)}	Hong Kong (“HK”)	26 July 2018	HK\$1	100	—	Investment holding
Gosource Capital Limited ^{Note (h)}	HK	11 June 2018	HK\$1	—	100	Investment holding
Gosource (China) Limited ^{Notes (j) and (l)}	The People’s Republic of China (The “PRC”)	18 July 2018	RMB100,000,000	—	100	Investment holding
GoSource Group Limited ^{Note (a)}	HK	13 October 2011	HK\$50,000,000	—	100	Investment holding
Sanergy Asia Ltd ^{Note (b)}	The British Virgin Islands (The “BVI”)	11 June 2018	US\$1	—	100	Investment holding
Sanergy Europe Inc ^{Note (b)}	BVI	11 June 2018	US\$1	—	100	Investment holding
Sangraf Global Inc ^{Note (b)}	BVI	11 June 2018	US\$1	—	100	Investment holding
Sanergy Global Ltd ^{Note (b)}	BVI	11 June 2018	US\$1	—	100	Investment holding
Sanergy Holding International Inc ^{Note (b)}	BVI	11 June 2018	US\$1	—	100	Investment holding
Sangraf International (Hong Kong) Limited ^{Note (h)}	HK	11 June 2018	HK\$1	—	100	Investment holding and trading of graphite electrodes

Company name	Place of incorporation/ registration and place of operation	Date of incorporation	Issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Sangraf Italy S.R.L. <i>Note (c)</i>	Italy	17 November 2017	EUR100,000	—	100	Manufacturing of graphite electrodes
Henan Sangraf Carbon Technologies Company Limited <i>Notes (k) and (l)</i>	PRC	1 November 2018	RMB192,000,000	—	100	Manufacturing of graphite electrodes
Grafworld International Inc <i>Note (b)</i>	BVI	3 April 2012	US\$50,000	—	100	Trading of graphite electrodes
Sangraf Energy Technology Co., Ltd. <i>Notes (d) and (l)</i>	PRC	25 December 2013	RMB50,000,000	—	100	Trading of graphite electrodes and needle coke
Sangraf International Inc. <i>Note (b)</i>	The United States of America (The "USA")	27 February 2012	US\$100	—	100	Trading of graphite electrodes
Sangraf International (PTY) Ltd. <i>Note (e)</i>	South Africa	6 March 2015	ZAR25,000	—	100	Trading of graphite electrodes
SANGRAF International SA <i>Notes (f) and (i)</i>	Switzerland	18 November 2014	CHF820,000	—	100	Trading of graphite electrodes and needle coke
Gosource (Nanyang) Carbon Technology Co., Ltd. <i>Notes (b) and (l)</i>	PRC	6 March 2019	RMB50,000,000	—	100	Dormant
Gosource (Taigu) New Materials Technology Co., Ltd. <i>Notes (b) and (l)</i>	PRC	2 September 2019	RMB50,000,000	—	100	Dormant
Grafworld Macau Commercial Offshore Limited <i>Note (g)</i>	Macau	26 June 2003	MOP100,000	—	100	Trading of graphite electrodes
Sanergy International AG in Liquidation <i>Note (b)</i>	Switzerland	13 August 2018	CHF100,000	—	100	Dormant

Notes:

- (a) The statutory financial statements of this entity for the years ended 31 December 2018, 2019 and 2020 prepared under Hong Kong Financial Reporting Standards ("HKFRS") were audited by Chan Lok Hei CPA (certified public accountants registered in HK).
- (b) No statutory financial statements have been prepared for these entities for the Track Record Period as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their countries/ jurisdictions of incorporation.
- (c) The statutory financial statements of this entity for the period from its date of incorporation to 31 December 2018 and for the years ended 31 December 2019, 2020 and 2021 prepared under OIC, Organismo Italiano di Contabilità ("ITA GAAP") were audited by Ernst & Young S.p.A. (certified public accountants registered in Italy).

- (d) On 26 October 2018, the entire equity interest in this entity was acquired by the Group. Further details are set out in note 27 to the Historical Financial Information. No statutory financial statements have been prepared for this entity for the years ended 31 December 2018, 2019, 2020 and 2021 under PRC Generally Accepted Accounting Principles (“**PRC GAAP**”).
- (e) The statutory financial statements of this entity for each of the years ended 31 December 2018, 2019, 2020 and 2021 prepared under International Financial Reporting Standards (“**IFRS**”) were audited by Jordaan Botha and Partners Incorporated Chartered Accountants (S.A.) (chartered accountants registered in South Africa).
- (f) The company became a wholly-owned subsidiary of the Group on 19 January 2018 upon acquisition by the Group at a cash consideration of US\$16,000 of a 2.44% equity interest owned by the company’s then non-controlling shareholder.
- (g) On 20 March 2019, the entire equity interest in this entity was acquired by the Group. The statutory financial statements of this entity for each of the years ended 31 December 2019, 2020 and 2021 prepared under Financial Reporting Standards promulgated by the Macau Special Administrative Region (“**MFRS**”) were audited by Wong Wai Pan (registered auditor in Macau).
- (h) The statutory financial statements of these entities for the period from 11 June 2018 to 31 December 2019 and the year ended 31 December 2020 prepared under HKFRS were audited by Chan Lok Hei CPA (certified public accountants registered in HK).
- (i) No statutory financial statements have been prepared for this entity for the years ended 31 December 2018 and 2019. The statutory financial statement of this entity for each of the years ended 31 December 2020 and 2021 prepared under Swiss Standard on the Limited Statutory Examination were audited by Berney Associés Audit SA (registered auditor in Switzerland).
- (j) No statutory financial statements have been prepared for this entity for the period from 18 July 2018 to 31 December 2018 and the years ended 31 December 2019 and 2021. The statutory financial statements of this entity for the year ended 31 December 2020 prepared under PRC GAAP was audited by Guangzhou China United CPAS Co., Ltd. (Shenzhen Branch) (certified public accountants registered in the PRC).
- (k) The statutory financial statement of this entity for the period from its date of incorporation to 31 December 2018, and for the years ended 31 December 2019, 2020 and 2021 prepared under PRC GAAP were audited by Henan Yuehua CPAS Co., Ltd. (certified public accountants registered in the PRC).
- (l) These entities are registered as wholly-foreign-owned enterprises under the laws of the PRC.
- (m) The share capital structure of the subsidiaries incorporated in BVI, HK, South Africa, Switzerland and the USA refers to their issued shares. The share capital structure of the subsidiaries incorporated in Italy, Macau or established in the PRC refers to their registered capital.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Development and Reorganisation” in the Prospectus, the Company became the holding company of the companies now comprising the Group on or before 8 June 2020. The companies now comprising the Group were under the common control of the Controlling Shareholder before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Track Record Period and the period covered by the Interim Comparative Financial Information include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2018, 2019, 2020 and

2021 and 30 June 2022 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholder's perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholder prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated in full on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information and the Interim Comparative Financial Information have been prepared in accordance with HKFRSs (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2022, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Track Record Period and the period covered by the Interim Comparative Financial Information.

The Historical Financial Information and the Interim Comparative Financial Information have been prepared under the historical cost convention except for certain property, plant and equipment and certain trade receivables, which have been measured at fair value.

Subsidiaries and consolidation

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Except as further explained in note 2.1 to the Historical Financial Information regarding business combinations under common control, the results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16 and HKFRS 17	<i>Lease Liability in a Sale and Leaseback</i> ²
Amendments to HKFRS 17	<i>Insurance Contracts</i> ^{1, 4}
Amendment to HKFRS 17	<i>Insurance Contracts</i> ^{1, 4}
Amendments to HKAS 1	<i>Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information</i> ^{1, 5}
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{2, 6}
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Non-current Liabilities with Covenants</i> ²
Amendments to HKAS 8	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 12	<i>Definition of Accounting Estimate</i> ¹
	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after 1 January 2024

³ No mandatory effective date yet determined but available for adoption

⁴ As a consequence of the amendments to HKFRS 17 issued in October 2020, the effective date of HKFRS 17 was deferred to 1 January 2023, and HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

⁵ An entity that chooses to apply the transition option set out in this amendment shall apply it on initial application of HKFRS 17

⁶ As a consequence of both amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

The Group has already commenced an assessment of the impact of these new or revised standards and amendments. So far, the Group considers that these new and revised HKFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's financial performance and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations (other than those under common control) and goodwill

Business combinations (other than those under common control) are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures certain of the property, plant and equipment at fair value at the end of each of the Track Record Period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and certain property, plant and equipment), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, except for freehold land which is not depreciated. The principal economic useful lives used for this purpose are as follows:

Buildings	33 years
Plant and machinery	20 years
Leasehold improvements	Over the lease terms
Furniture, fixtures and office equipment	5–8 years
Motor vehicles	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Computer software is stated at cost less any impairment losses and is amortised using the straight-line basis over its estimated useful lives of 5 years.

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 94 months, which was based on the remaining registration period starting from the acquisition date.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Non-industrial buildings	1 to 5 years
Industrial land, industrial buildings, plant, machinery and equipment	3 to 42 years
Motor vehicles	4 years

If ownership of the leased asset is transferred to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery, equipment and buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income on the net investment in the lease is recognised in the statement of profit or loss so as to provide a constant periodic rate of return over the lease terms.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Investments and other financial assets*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contracted cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has evaluated the expected credit losses by considering the probability of default of the counterparty and adjusted for forward-looking factors specific to the debtors and the economic environment. For instance, if forecast economic conditions (i.e., gross domestic product and unemployment rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in the steel sector, the default rates are adjusted. At each reporting date, the probability of default and loss given default are updated and changes in the forward-looking estimates are analysed.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and notes payables, other payables and accruals, interest-bearing bank and other borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Sale of graphite electrodes

Revenue from the sale of graphite electrodes is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. There are no other promises in the contracts that are separate performance obligations that require allocation of revenue.

Other income

Other income from the sale of other carbon products is recognised when control of the asset is transferred to the customer, generally on delivery of the goods.

Interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Compensation income is recognised when the right to receive is firmly established and it is virtually certain that there will be an inflow of economic benefits to the Group.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Pension schemes

The Group operates a defined contribution retirement benefit scheme in Hong Kong for those employees who are eligible and have elected to participate in the scheme. Contributions are made based on a percentage of the participating employees' basic salaries. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the scheme.

The employees of the subsidiaries of the Group which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

The employees of the subsidiaries of the Group which operate in the USA participate in a defined contribution plan and a life insurance plan which require contributions to be made to a third-party trustee managed fund.

The subsidiary of the Group which operates in Macau makes monthly contributions to the social security fund managed by the relevant authority of the local government, which underwrites the retirement obligations of the employees. The subsidiary has no obligation for payment of retirement benefits beyond the monthly contributions.

The contributions to the above schemes are charged to profit or loss as they become payable in accordance with the rules of such schemes.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

The Historical Financial Information is presented in United States dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the United States dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into United States dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into United States dollars at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into United States dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into United States dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of fair value of land and buildings and plant and equipment

In the absence of current prices in an active market for similar property, plant and equipment, the Group considers information from a variety of sources, including:

- (a) current prices in an active market for property, plant and equipment of a different nature, condition or location, adjusted to reflect those differences;
- (b) recent prices of similar property, plant and equipment on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices;
- (c) an estimation of the new replacement cost of the assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimisation.

The carrying amounts of land and buildings and plant and equipment at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 were US\$55,639,000, US\$56,142,000, US\$96,797,000, US\$99,733,000 and US\$92,957,000, respectively. Further details, including the key assumptions used for the fair value measurement and sensitivity analysis, are given in note 14 to the Historical Financial Information.

Provision for ECLs on trade receivables

The Group has evaluated the expected credit losses by considering the probability of default of the counterparty and adjusted for forward-looking factors specific to the debtors and the economic environment. For instance, if forecast economic conditions (i.e., gross domestic product and unemployment rate) are expected to deteriorate over the next year which can lead to an increased number of defaults in the steel sector, the default rates are adjusted. At each reporting date, the probability of default and loss given default are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among probability of default, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's estimated probability of default and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 18 to the Historical Financial Information. The carrying amounts of trade receivables measured at amortised cost as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 were US\$21,481,000, US\$11,566,000, US\$16,026,000, US\$18,832,000 and US\$24,983,000, respectively.

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 24 to the Historical Financial Information.

Provision of inventories to net realisable value

Inventories are stated at the lower of cost and net realisable value. The assessment of the net realisable value involves management's judgement and estimates, based on management's expectations for future sales net of estimated selling expenses. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the inventories and any provision will be written down or written back in the period in which such estimate has been changed. The carrying amounts of inventories as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 were US\$92,676,000, US\$92,378,000, US\$54,220,000, US\$60,872,000 and US\$62,857,000, respectively. The provision of inventories to net realisable value as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 amounted to nil, US\$16,159,000, US\$4,784,000, US\$1,253,000 and US\$226,000, respectively.

5. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sale of graphite electrodes. Information reported to the Group's management for the purpose of resource allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information*(a) Revenue from external customers*

	Year ended 31 December				Six months ended 30 June	
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Americas	125,077	73,355	36,025	34,358	13,610	12,989
Europe, Middle East and Africa ("EMEA")	35,467	58,699	35,294	41,734	16,548	28,752
PRC	6,586	18,187	35,238	28,602	9,916	15,698
Asia Pacific excluding the PRC	1,189	603	1,983	4,000	1,712	2,267
	<u>168,319</u>	<u>150,844</u>	<u>108,540</u>	<u>108,694</u>	<u>41,786</u>	<u>59,706</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
Americas	201	205	307	65	233
EMEA	46,043	47,689	49,080	50,867	48,577
PRC	16,384	15,498	56,177	57,938	53,857
Asia Pacific excluding the PRC	145	2,124	1,268	1,744	1,435
	<u>62,773</u>	<u>65,516</u>	<u>106,832</u>	<u>110,614</u>	<u>104,102</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

	Year ended 31 December				Six months ended 30 June	
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
Customer A	46,394	N/A*	N/A*	N/A*	N/A*	N/A*
Customer B	40,469	25,574	N/A*	N/A*	N/A*	N/A*
Customer C	26,252	N/A*	N/A*	N/A*	N/A*	N/A*
Customer D	N/A*	16,862	N/A*	13,132	7,571	8,659
Customer E	N/A*	N/A*	26,344	13,403	5,552	7,361

* Nil/less than 10% of the Group's revenue

6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December				Six months ended 30 June	
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
Revenue from contracts with customers						
Sale of graphite electrodes	168,319	150,844	108,540	108,694	41,786	59,706

(a) Disaggregated revenue information for revenue from contracts with customers

	Year ended 31 December				Six months ended 30 June	
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
Type of goods or services						
Sale of graphite electrodes	168,319	150,844	108,540	108,694	41,786	59,706
Timing of revenue recognition						
Goods transferred at a point in time	168,319	150,844	108,540	108,694	41,786	59,706

Details of the disaggregated revenue based on geographical locations are disclosed in note 5(a) to the Historical Financial Information.

For the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, revenue of US\$13,665,000, nil, US\$16,971,000, US\$397,000, US\$309,000 (unaudited) and US\$36,000, respectively, was recognised that was included in the contract liabilities at the beginning of the relevant year/period.

(b) Performance obligation

The performance obligation of the sale of graphite electrodes is satisfied upon delivery of the products and payment is generally due within 30 to 60 days from delivery, except for new customers, where payment in advance is normally required. As a practical expedient in HKFRS 15, the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed in the notes to the Historical Financial Information because all the remaining performance obligations in relation to the sale of graphite electrodes are a part of contracts that have an original expected duration of one year or less.

An analysis of other income and gains is as follows:

Other income and gains

	Year ended 31 December			Six months ended 30 June		
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
Bank interest income	13	64	177	87	4	6
Sublease interest income	—	—	—	1	—	1
Interest income charged to the Controlling Shareholder (note 31(v))	—	—	48	—	—	—
Gain on bargain purchase (note 27)	1,587	—	—	—	—	—
Net profit from sale of other carbon products	4,583	2,820	80	289	549	188
Revaluation gain on property, plant and equipment (note 14)	—	370	265	471	215	82
Compensation income*	—	—	1,261	—	—	—
Gain on termination of a lease (note 15(c))	—	—	225	—	—	—
Gain on disposal of a trade receivable	—	—	178	—	—	—
Government subsidies**	—	—	297	440	340	189
Foreign exchange differences, net	—	—	2,560	—	—	—
Gain on novation of loans (note 22(e))	—	—	—	—	—	155
Others	433	96	336	12	9	84
	<u>6,616</u>	<u>3,350</u>	<u>5,427</u>	<u>1,300</u>	<u>1,117</u>	<u>705</u>

* The compensation income represented the income from the damages received from a supplier for not fulfilling a purchase contract.

** The subsidies for the years ended 31 December 2020 and 2021 and the six months ended 30 June 2022 represented business, export and environmental subsidies received from the Italian and PRC governments of US\$297,000 and US\$100,000 and US\$189,000, respectively. During the year ended 31 December 2021, an interest-bearing bank borrowing of US\$340,000 obtained by the Group during the year ended 31 December 2020 was waived by the US government in 2021 (note 23). There are no unfulfilled conditions or contingencies relating to these subsidies.

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December				Six months ended 30 June	
		2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000 (Unaudited)	2022 US\$'000
Cost of inventories sold*		63,101	100,422	89,620	85,864	34,571	44,142
Depreciation of property, plant and equipment**	14	885	2,108	2,702	3,761	1,886	2,209
Depreciation of right-of-use assets**	15(a)	48	1,022	1,353	995	556	434
Amortisation of intangible assets^^	16	13	232	205	296	147	145
Lease payments not included in the measurement of lease liabilities	15(c)	429	250	163	205	184	9
Auditor's remuneration		257	661	45	95	64	27
Employee benefit expense (excluding directors' and chief executive's remuneration (note 9)):							
Wages and salaries		6,311	9,427	8,051	8,080	3,718	3,403
Pension scheme contributions#		860	1,132	1,185	1,303	717	675
Less: Amount capitalised		(1,417)	(3,731)	(3,459)	(4,212)	(2,086)	(2,137)
Less: Government subsidies##		—	—	(175)	—	—	(13)
		<u>5,754</u>	<u>6,828</u>	<u>5,602</u>	<u>5,171</u>	<u>2,349</u>	<u>1,928</u>
Foreign exchange differences, net^		150	1,440	(2,560)	743	99	121
Revaluation loss on property, plant and equipment^	14	1,290	366	598	594	348	618
Revaluation gain on property, plant and equipment^	14	—	(370)	(265)	(471)	(215)	(82)
Write down of inventories to net realisable value*		—	16,159	2,406	—	—	—
Impairment/(reversal of impairment) of trade receivables^^	18	—	877	(436)	95	—	114
Impairment of right-of-use assets^	15(a)	—	—	—	153	—	—
Gain on bargain purchase^	27	(1,587)	—	—	—	—	—
Loss on disposal of property, plant and equipment^		—	—	—	8	8	—
(Gain)/loss on early termination of leases^	15(c)	—	—	(225)	3	3	—
Loss on derecognition of right-of-use assets arising from sublease^	15(c)	—	—	—	9	—	—

At the end of each of the Track Record Period and the six months ended 30 June 2021, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years.

There are no unfulfilled conditions or contingencies relating to these subsidies.

* Included in cost of sales on the face of the consolidated statements of profit or loss and other comprehensive income

** Certain depreciation charge for property, plant and equipment and right-of-use assets of US\$870,000, US\$2,562,000, US\$2,911,000, US\$3,781,000, US\$1,899,000 (unaudited) and US\$2,231,000 for the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively, are included in cost of inventories sold.

^ Included in other income/other expenses on the face of the consolidated statements of profit or loss and other comprehensive income

^^ Included in selling and administrative expenses on the face of the consolidated statements of profit or loss and other comprehensive income

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June		
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
	(Unaudited)					
Interest on lease liabilities (<i>note 15(b)</i>)	4	505	361	44	24	12
Interest on loans from a related company (<i>note 22(e)</i>)	—	21	278	829	413	378
Interest on bank borrowings (<i>note 23</i>)	—	—	20	218	44	223
Interest on other borrowings (<i>note 23</i>)	—	348	232	—	—	124
Interest on an outstanding balance derived from acquisition of property, plant and equipment (<i>note 14(a)</i>)	—	1,195	459	1	1	—
Interest on an outstanding balance derived from acquisition of a subsidiary (<i>note 27</i>)	200	1,513	609	780	397	70
Other arrangement fee	148	145	29	116	14	160
	<u>352</u>	<u>3,727</u>	<u>1,988</u>	<u>1,988</u>	<u>893</u>	<u>967</u>

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any independent non-executive directors at any time during the Track Record Period and the six months ended 30 June 2021.

On 26 June 2018, Mr. Peter Brendon Wyllie was appointed as an executive director and Mr. Wei-Ming Shen was appointed as the chief executive of the Company. On 8 October 2019, Mr. Wang Ping was appointed as a non-executive director of the Company. On 15 January 2020, Mr. Adriaan Johannes Basson, Mr. Wei-Ming Shen and Mr. Yan Haiting were appointed as executive directors of the Company. On 1 June 2020, Mr. Peter Brendon Wyllie resigned as an executive director. On 29 March 2021, Mr. Hou Haolong, the Controlling Shareholder, was appointed as an executive director of the Company.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors or officers of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December				Six months ended 30 June	
	2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000 (Unaudited)	2022 US\$'000
Fees	—	—	—	—	—	—
Other emoluments:						
Salaries, allowances and benefits in kind	880	1,438	1,275	861	435	426
Performance-related bonuses	5,820	4,144	15	—	—	—
Commission fees	—	—	34	24	12	6
Pension scheme contributions	23	38	33	28	14	14
	<u>6,723</u>	<u>5,620</u>	<u>1,357</u>	<u>913</u>	<u>461</u>	<u>446</u>
Total	<u>6,723</u>	<u>5,620</u>	<u>1,357</u>	<u>913</u>	<u>461</u>	<u>446</u>

(a) Independent non-executive directors

No independent non-executive directors were appointed during the Track Record Period and the six months ended 30 June 2021. Mr. Cheng Tai Kwan Sunny, Mr. Sun Qing and Mr. Michael Ngai Ming Tak, independent non-executive directors, would be appointed on the listing date for an initial fixed term of one year.

(b) Executive directors and non-executive directors and the chief executive

	Salaries, allowances and benefits		Performance related	Commission	Pension scheme	Total
	Fees US\$'000	in kind US\$'000	bonuses US\$'000	fees US\$'000	contributions US\$'000	
Year ended 31 December 2018						
<i>Executive directors</i>						
Adriaan Johannes Basson	—	60	22	—	—	82
Hou Haolong	—	456	5,456	—	21	5,933
Peter Brendon Wyllie	—	—	—	—	—	—
Wei-Ming Shen	—	193	342	—	2	537
Yan Haiting	—	171	—	—	—	171
	<u>—</u>	<u>880</u>	<u>5,820</u>	<u>—</u>	<u>23</u>	<u>6,723</u>

	Fees <i>US\$'000</i>	Salaries, allowances and benefits in kind <i>US\$'000</i>	Performance related bonuses <i>US\$'000</i>	Commission fees <i>US\$'000</i>	Pension scheme contributions <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended 31 December 2019						
<i>Executive directors</i>						
Adriaan Johannes Basson	—	86	9	—	—	95
Hou Haolong	—	457	3,899	—	5	4,361
Peter Brendon Wyllie	—	249	6	—	1	256
Wei-Ming Shen	—	330	165	—	25	520
Yan Haiting	—	272	34	—	5	311
	<u>—</u>	<u>1,394</u>	<u>4,113</u>	<u>—</u>	<u>36</u>	<u>5,543</u>
<i>Non-executive director</i>						
Wang Ping	—	44	31	—	2	77
	<u>—</u>	<u>1,438</u>	<u>4,144</u>	<u>—</u>	<u>38</u>	<u>5,620</u>
Year ended 31 December 2020						
<i>Executive directors</i>						
Adriaan Johannes Basson	—	121	15	34	4	174
Hou Haolong	—	362	—	—	3	365
Peter Brendon Wyllie	—	126	—	—	1	127
Wei-Ming Shen	—	289	—	—	20	309
Yan Haiting	—	269	—	—	3	272
	<u>—</u>	<u>1,167</u>	<u>15</u>	<u>34</u>	<u>31</u>	<u>1,247</u>
<i>Non-executive director</i>						
Wang Ping	—	108	—	—	2	110
	<u>—</u>	<u>1,275</u>	<u>15</u>	<u>34</u>	<u>33</u>	<u>1,357</u>

	Fees <i>US\$'000</i>	Salaries, allowances and benefits in kind <i>US\$'000</i>	Performance related bonuses <i>US\$'000</i>	Commission fees <i>US\$'000</i>	Pension scheme contributions <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended 31 December 2021						
<i>Executive directors</i>						
Adriaan Johannes Basson	—	123	—	24	12	159
Hou Haolong	—	229	—	—	2	231
Peter Brendon Wyllie	—	—	—	—	—	—
Wei-Ming Shen	—	231	—	—	9	240
Yan Haiting	—	170	—	—	3	173
	<u>—</u>	<u>753</u>	<u>—</u>	<u>24</u>	<u>26</u>	<u>803</u>
<i>Non-executive director</i>						
Wang Ping	—	108	—	—	2	110
	<u>—</u>	<u>861</u>	<u>—</u>	<u>24</u>	<u>28</u>	<u>913</u>
Six months ended 30 June 2021 (Unaudited)						
<i>Executive directors</i>						
Adriaan Johannes Basson	—	65	—	12	6	83
Hou Haolong	—	115	—	—	1	116
Peter Brendon Wyllie	—	—	—	—	—	—
Wei-Ming Shen	—	116	—	—	5	121
Yan Haiting	—	85	—	—	1	86
	<u>—</u>	<u>381</u>	<u>—</u>	<u>12</u>	<u>13</u>	<u>406</u>
<i>Non-executive director</i>						
Wang Ping	—	54	—	—	1	55
	<u>—</u>	<u>435</u>	<u>—</u>	<u>12</u>	<u>14</u>	<u>461</u>
Six months ended 30 June 2022						
<i>Executive directors</i>						
Adriaan Johannes Basson	—	59	—	6	6	71
Hou Haolong	—	114	—	—	1	115
Peter Brendon Wyllie	—	—	—	—	—	—
Wei-Ming Shen	—	115	—	—	5	120
Yan Haiting	—	84	—	—	1	85
	<u>—</u>	<u>372</u>	<u>—</u>	<u>6</u>	<u>13</u>	<u>391</u>
<i>Non-executive director</i>						
Wang Ping	—	54	—	—	1	55
	<u>—</u>	<u>426</u>	<u>—</u>	<u>6</u>	<u>14</u>	<u>446</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period and the six months ended 30 June 2021.

During the Track Record Period and the six months ended 30 June 2021, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included three directors for the years ended 31 December 2018, 2019 and 2020 and two directors for the year ended 31 December 2021 and the six months ended 30 June 2021 and 2022, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two non-director, highest paid employees during the years ended 31 December 2018, 2019 and 2020 and the remaining three non-director, highest paid employees during the year ended 31 December 2021 and the six months ended 30 June 2021 and 2022, are as follows:

	Year ended 31 December				Six months ended 30 June	
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
Salaries, allowances and benefits in kind	253	522	499	705	337	311
Performance related bonuses	373	104	37	—	—	—
Pension scheme contributions	5	21	79	76	34	50
	<u>631</u>	<u>647</u>	<u>615</u>	<u>781</u>	<u>371</u>	<u>361</u>

The numbers of the non-director, highest paid employees whose remuneration fell within the following bands which are presented in Hong Kong Dollar (“HK\$”) are as follows:

	Year ended 31 December				Six months ended 30 June	
	2018	2019	2020	2021	2021	2022
					(Unaudited)	
Nil to 1,000,000	—	—	—	—	2	2
1,000,001 to 1,500,000	—	—	—	1	1	1
2,000,001 to 2,500,000	2	1	1	1	—	—
2,500,001 to 3,000,000	—	1	1	1	—	—
	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Track Record Period and the six months ended 30 June 2021, no emoluments were paid by the Group to any of the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX EXPENSE/(CREDIT)

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for each of the Track Record Period and the six months ended 30 June 2021, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment of 2018/2019. The first HK\$2,000,000 of assessable profits of this subsidiary for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022 are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Pursuant to the relevant tax laws of the USA, federal corporation income tax was levied at the rate of up to 21% on the taxable income arising in the USA for the Track Record Period and the six months ended 30 June 2021. On 27 March 2020, the US government enacted the Coronavirus Aid, Relief, and Economic Security Act (the "Act"), which allowed taxpayers to file amended returns to carry net operating losses ("NOLs") of 2018, 2019 and 2020 back to previous years to generate immediate refunds. The Act also temporarily removed 80% limitation on NOLs' absorption of the taxable income, allowing NOLs to fully offset net taxable income.

Pursuant to the Enterprise Income Tax Law of the PRC and the respective regulations, the subsidiaries which operate in Mainland China are subject to enterprise income tax at a rate of 25% on the taxable income for the Track Record Period and the six months ended 30 June 2021.

Pursuant to the Italian tax laws and the respective regulations, the subsidiary which operates in Italy is subject to corporate income tax and regional tax on productive activities at a rate of 24.0% and 3.9%, respectively, on the taxable income for the Track Record Period and the six months ended 30 June 2021.

Pursuant to the Macau tax laws and the respective regulations, the subsidiary which operates in Macau was exempted from Macau profits tax for the years ended 31 December 2019 and 2020 based on the tax exemption regime for Macau offshore companies. The Macau subsidiary, Grafworld Macau Commercial Offshore Limited, which is primarily engaged in trading of graphite electrodes with non-USA customers, was subject to Macau profits tax at progressive rates ranging from 3% to 9% on the taxable income above MOP32,000 but below MOP300,000, and thereafter at a fixed rate of 12% for the year ended 31 December 2021 and for the six months ended 30 June 2021 and 2022. In addition, special tax incentives were provided such that annual income up to MOP600,000 were tax-free for the year ended 31 December 2021 and the six months ended 30 June 2021.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

	Year ended 31 December				Six months ended 30 June	
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
Current — Hong Kong						
Charge for the year/period	8	735	39	—	1	—
Current — elsewhere	18,157	4,250	(129)	1,849	416	229
Deferred (note 24)	(693)	(4,616)	(890)	(83)	(399)	1,168
	<u>17,472</u>	<u>369</u>	<u>(980)</u>	<u>1,766</u>	<u>18</u>	<u>1,397</u>
Total tax charge/(credit) for the year/period						

A reconciliation of the tax expense applicable to profit before tax at the statutory rates of the countries or jurisdictions in which the Group operates to the tax expense at the effective tax rates are as follows:

	Year ended 31 December				Six months ended 30 June	
	2018	2019	2020	2021	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
					(Unaudited)	
Profit before tax	<u>89,488</u>	<u>5,532</u>	<u>3,206</u>	<u>6,154</u>	<u>395</u>	<u>7,930</u>
Tax at the statutory rates	16,830	(630)	21	1,887	152	1,600
Impact of the Act	—	—	(1,143)	—	—	—
Income not subject to tax	(399)	(11)	(29)	(71)	(72)	(1)
Others	<u>1,041</u>	<u>1,010</u>	<u>171</u>	<u>(50)</u>	<u>(62)</u>	<u>(202)</u>
	<u>17,472</u>	<u>369</u>	<u>(980)</u>	<u>1,766</u>	<u>18</u>	<u>1,397</u>
Tax charge/(credit) at the Group's effective tax rate (2018: 19.5%; 2019: 6.7%; 2020: -30.6%; 2021: 28.7%; 30 June 2021: 4.6%; 30 June 2022: 17.6%)						

12. DIVIDENDS

Dividend amounting to nil, nil, nil, US\$14,000,000, US\$1,000,000 (unaudited) and nil was declared by the Company to its shareholders during the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the presentation of the results of the Group for the Track Record Period and the six months ended 30 June 2021 by applying principles of merger accounting as disclosed in note 2.1 above.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings <i>US\$'000</i>	Plant and machinery <i>US\$'000</i>	Furniture, fixtures and office equipment <i>US\$'000</i>	Total <i>US\$'000</i>
31 December 2018				
At 31 December 2017 and at 1 January 2018:				
Cost	—	—	24	24
Accumulated depreciation	—	—	(16)	(16)
Net carrying amount	<u>—</u>	<u>—</u>	<u>8</u>	<u>8</u>
At 1 January 2018, net of accumulated depreciation	—	—	8	8
Additions (<i>note a</i>)	5,938	12,500	59	18,497
Acquisition of a subsidiary (<i>note 27</i>)	—	—	27	27
Depreciation (<i>note 7</i>)	(148)	(722)	(15)	(885)
Revaluation surplus credited to asset revaluation reserve	13,970	25,694	—	39,664
Revaluation loss charged to profit or loss (<i>note 7</i>)	(755)	(535)	—	(1,290)
Exchange realignment	(103)	(200)	—	(303)
At 31 December 2018, net of accumulated depreciation	<u>18,902</u>	<u>36,737</u>	<u>79</u>	<u>55,718</u>
At 31 December 2018:				
Cost or valuation	18,902	36,737	110	55,749
Accumulated depreciation	—	—	(31)	(31)
Net carrying amount	<u>18,902</u>	<u>36,737</u>	<u>79</u>	<u>55,718</u>

	Freehold land and buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
31 December 2019						
At 31 December 2018 and at 1 January 2019:						
Cost or valuation	18,902	36,737	—	110	—	55,749
Accumulated depreciation	—	—	—	(31)	—	(31)
Net carrying amount	<u>18,902</u>	<u>36,737</u>	<u>—</u>	<u>79</u>	<u>—</u>	<u>55,718</u>
At 1 January 2019, net of accumulated depreciation	18,902	36,737	—	79	—	55,718
Additions	—	2,561	442	50	225	3,278
Depreciation (<i>note 7</i>)	(362)	(1,651)	(61)	(7)	(27)	(2,108)
Revaluation surplus/(deficit) credited/ (charged) to asset revaluation reserve	(666)	1,646	—	—	—	980
Revaluation gain credited to profit or loss (<i>note 6</i>)	224	146	—	—	—	370
Revaluation loss charged to profit or loss (<i>note 7</i>)	—	(366)	—	—	—	(366)
Exchange realignment	(350)	(679)	(2)	—	—	(1,031)
At 31 December 2019, net of accumulated depreciation	<u>17,748</u>	<u>38,394</u>	<u>379</u>	<u>122</u>	<u>198</u>	<u>56,841</u>
At 31 December 2019:						
Cost or valuation	17,748	38,394	440	160	225	56,967
Accumulated depreciation	—	—	(61)	(38)	(27)	(126)
Net carrying amount	<u>17,748</u>	<u>38,394</u>	<u>379</u>	<u>122</u>	<u>198</u>	<u>56,841</u>

	Freehold land and buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
31 December 2020						
At 31 December 2019 and at 1 January 2020:						
Cost or valuation	17,748	38,394	440	160	225	56,967
Accumulated depreciation	—	—	(61)	(38)	(27)	(126)
Net carrying amount	<u>17,748</u>	<u>38,394</u>	<u>379</u>	<u>122</u>	<u>198</u>	<u>56,841</u>
At 1 January 2020, net of accumulated depreciation						
depreciation	17,748	38,394	379	122	198	56,841
Additions*	10,129	16,124	28	6	—	26,287
Depreciation (note 7)	(424)	(2,066)	(164)	(18)	(30)	(2,702)
Revaluation surplus credited to asset revaluation reserve	6,385	4,491	—	—	—	10,876
Revaluation gain credited to profit or loss (note 6)	120	145	—	—	—	265
Revaluation loss charged to profit or loss (note 7)	(175)	(423)	—	—	—	(598)
Disposal (note 31(vi))	—	—	—	—	(84)	(84)
Exchange realignment	<u>2,117</u>	<u>4,232</u>	<u>4</u>	<u>(1)</u>	<u>1</u>	<u>6,353</u>
At 31 December 2020, net of accumulated depreciation	<u>35,900</u>	<u>60,897</u>	<u>247</u>	<u>109</u>	<u>85</u>	<u>97,238</u>
At 31 December 2020:						
Cost or valuation	35,900	60,897	437	147	130	97,511
Accumulated depreciation	—	—	(190)	(38)	(45)	(273)
Net carrying amount	<u>35,900</u>	<u>60,897</u>	<u>247</u>	<u>109</u>	<u>85</u>	<u>97,238</u>

* Included in the additions was an acquisition of buildings and plant and machinery of US\$3,092,000 and US\$2,939,000, respectively, from an entity which was then controlled by the Controlling Shareholder.

	Freehold land and buildings	Plant and machinery	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
31 December 2021						
At 31 December 2020 and at 1 January 2021:						
Cost or valuation	35,900	60,897	437	147	130	97,511
Accumulated depreciation	—	—	(190)	(38)	(45)	(273)
Net carrying amount	<u>35,900</u>	<u>60,897</u>	<u>247</u>	<u>109</u>	<u>85</u>	<u>97,238</u>
At 1 January 2021, net of accumulated depreciation						
depreciation	35,900	60,897	247	109	85	97,238
Additions	236	3,945	—	34	—	4,215
Depreciation (note 7)	(664)	(2,893)	(155)	(22)	(27)	(3,761)
Revaluation surplus credited to asset revaluation reserve	1,739	3,363	—	—	—	5,102
Revaluation gain credited to profit or loss (note 6)	325	146	—	—	—	471
Revaluation loss charged to profit or loss (note 7)	(201)	(393)	—	—	—	(594)
Disposals	—	—	—	(11)	—	(11)
Exchange realignment	(693)	(1,974)	—	(2)	—	(2,699)
At 31 December 2021, net of accumulated depreciation	<u>36,642</u>	<u>63,091</u>	<u>92</u>	<u>108</u>	<u>58</u>	<u>99,991</u>
At 31 December 2021:						
Cost or valuation	36,642	63,091	437	163	130	100,463
Accumulated depreciation	—	—	(345)	(55)	(72)	(472)
Net carrying amount	<u>36,642</u>	<u>63,091</u>	<u>92</u>	<u>108</u>	<u>58</u>	<u>99,991</u>

	Freehold land and buildings <i>US\$'000</i>	Plant and machinery <i>US\$'000</i>	Leasehold improvements <i>US\$'000</i>	Furniture, fixtures and office equipment <i>US\$'000</i>	Motor vehicles <i>US\$'000</i>	Total <i>US\$'000</i>
30 June 2022						
At 31 December 2021 and at 1 January 2022:						
Cost or valuation	36,642	63,091	437	163	130	100,463
Accumulated depreciation	—	—	(345)	(55)	(72)	(472)
Net carrying amount	<u>36,642</u>	<u>63,091</u>	<u>92</u>	<u>108</u>	<u>58</u>	<u>99,991</u>
At 1 January 2022, net of accumulated depreciation						
At 1 January 2022, net of accumulated depreciation	36,642	63,091	92	108	58	99,991
Additions	77	2,791	17	—	—	2,885
Depreciation (note 7)	(342)	(1,778)	(65)	(11)	(13)	(2,209)
Revaluation surplus/(deficit) credited/ (charged) to asset revaluation reserve	123	(470)	—	—	—	(347)
Revaluation gain credited to profit or loss (note 6)	—	82	—	—	—	82
Revaluation loss charged to profit or loss (note 7)	(136)	(482)	—	—	—	(618)
Exchange realignment	(2,289)	(4,352)	—	(1)	—	(6,642)
At 30 June 2022, net of accumulated depreciation	<u>34,075</u>	<u>58,882</u>	<u>44</u>	<u>96</u>	<u>45</u>	<u>93,142</u>
At 30 June 2022:						
Cost or valuation	34,075	58,882	442	161	129	93,689
Accumulated depreciation	—	—	(398)	(65)	(84)	(547)
Net carrying amount	<u>34,075</u>	<u>58,882</u>	<u>44</u>	<u>96</u>	<u>45</u>	<u>93,142</u>

Notes:

- (a) Included in the Group's total additions of plant and machinery for the year ended 31 December 2018 were plant and machinery of approximately US\$11,323,000 (RMB77.9 million) which were originally scheduled to be settled by four instalments payable in 2019 and 2020. During the year ended 31 December 2019, the Group paid in aggregate US\$4,146,000 and extended the settlement of the remaining consideration as at 31 December 2019 of US\$7,177,000 to December 2020. During the year ended 31 December 2020, consideration of US\$7,118,000 was settled through setting off against sales of finished goods to the same company while interest of US\$1,195,000 for the year ended 31 December 2019 was settled in cash. The balance of consideration payable of US\$138,000 as at 31 December 2020 was interest-bearing at 12.5% per annum. During the year ended 31 December 2021, the remaining consideration of US\$138,000 and interest of US\$515,000 were settled through setting off against sales of finished goods to the same company. Interest expenses of US\$1,195,000, US\$459,000 and US\$1,000 were charged to profit or loss for the years ended 31 December 2019, 2020 and 2021, respectively (note 8). The outstanding consideration payable together with the accrued interest as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 of US\$11,323,000, US\$8,372,000, US\$652,000, nil and nil, respectively, are included in note 22(a) to the Historical Financial Information.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, certain of these plant and machinery with a carrying amount of approximately US\$5,540,000, US\$16,248,000, US\$18,576,000 and nil, respectively, were pledged to a related company to secure for interest-bearing borrowings granted to the Group (note 22(e)). As at 30 June 2022, certain of these plant and machinery with a carrying amount of approximately US\$40,355,000 was pledged to third parties for interest-bearing borrowings granted to the Group (note 23).

(b) Set out below is a summary of the valuation of industrial land and buildings and plant and machinery:

Nature and location	Independently professionally qualified valuer	Revalued Balance
Industrial land and buildings in Italy	2018: D&P China (HK) Limited	2018: US\$15,833,000
	2019: D&P China (HK) Limited	2019: US\$14,566,000
	2020: D&P China (HK) Limited	2020: US\$15,251,000
	2021: D&P China (HK) Limited	2021: US\$14,170,000
	30 June 2022: Kroll (HK) Limited	30 June 2022: US\$14,153,000
Industrial plant and machinery in Italy	2018: D&P China (HK) Limited	2018: US\$30,022,000
	2019: D&P China (HK) Limited	2019: US\$32,038,000
	2020: D&P China (HK) Limited	2020: US\$33,150,000
	2021: D&P China (HK) Limited	2021: US\$35,219,000
	30 June 2022: Kroll (HK) Limited	30 June 2022: US\$31,982,000
Industrial buildings in the PRC*	2018: Chungrui Worldunion Assets Appraisal Group Co., Ltd	2018: US\$3,069,000
	2019: CAREA Assets Appraisal Co., Ltd	2019: US\$3,182,000
	2020: CAREA Assets Appraisal Co., Ltd	2020: US\$20,649,000
	2021: CAREA Assets Appraisal Co., Ltd	2021: US\$22,742,000
	30 June 2022: CAREA Assets Appraisal Co., Ltd	30 June 2022: US\$19,922,000
Industrial plant and machinery in the PRC	2018: Chungrui Worldunion Assets Appraisal Group Co., Ltd	2018: US\$6,715,000
	2019: CAREA Assets Appraisal Co., Ltd	2019: US\$6,356,000
	2020: CAREA Assets Appraisal Co., Ltd	2020: US\$27,747,000
	2021: CAREA Assets Appraisal Co., Ltd	2021: US\$27,872,000
	30 June 2022: CAREA Assets Appraisal Co., Ltd	30 June 2022: US\$26,900,000

* In the opinion of the directors, the Group is entitled to lawfully and validly occupy and use certain of the industrial buildings in the PRC for its daily operations, notwithstanding the fact that the related building ownership certificates have not been obtained.

Each year, the Group's management decides to appoint which valuers to be responsible for the valuations of the Group's land and buildings and plant and machinery. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuers on the valuation assumptions and valuation results at least once a year when the valuation is performed for financial reporting.

As at 31 December 2018, 2019, 2020 and 2021, a revaluation surplus of US\$39,664,000, US\$980,000, US\$10,876,000 and US\$5,102,000, net of tax of US\$10,936,000, US\$293,000, US\$2,605,000 and US\$1,370,000, respectively, resulting from the above valuations has been credited to other comprehensive income. As at 30 June 2022, a revaluation deficit of US\$347,000, net of tax of US\$55,000, resulting from the above valuations has been charged to other comprehensive income.

As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, a revaluation loss of US\$1,290,000, US\$366,000, US\$598,000, US\$594,000 and US\$618,000, respectively, resulting from the above valuations has been charged to profit or loss.

As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, a revaluation gain of nil, US\$370,000, US\$265,000, US\$471,000 and US\$82,000, respectively, resulting from the above valuations has been credited to profit or loss.

At 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, had the freehold land and buildings and the plant and machinery been stated at cost, the carrying amounts of the Group's land and buildings would have been US\$6,164,000, US\$5,931,000, US\$16,250,000, US\$16,071,000 and US\$15,212,000, respectively, and the carrying amounts of the Group's plant and machinery would have been US\$12,444,000, US\$14,155,000, US\$31,051,000, US\$32,716,000 and US\$32,740,000, respectively.

- (c) The following tables illustrate the fair value measurement hierarchy of the Group's freehold land and buildings and plant and machinery:

Fair value hierarchy

	Fair value measurement as at 31 December 2018 using			
	Quoted price in active markets (Level 1) US\$'000	Significant observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	Total US\$'000
Recurring fair value measurement for:				
Freehold land and buildings	—	—	18,902	18,902
Plant and machinery	—	—	36,737	36,737
Net carrying amount	—	—	55,639	55,639

	Fair value measurement as at 31 December 2019 using			
	Quoted price in active markets (Level 1) US\$'000	Significant observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	Total US\$'000
Recurring fair value measurement for:				
Freehold land and buildings	—	—	17,748	17,748
Plant and machinery	—	—	38,394	38,394
Net carrying amount	—	—	56,142	56,142

	Fair value measurement as at 31 December 2020 using			
	Quoted price in active markets (Level 1) US\$'000	Significant observable inputs (Level 2) US\$'000	Significant unobservable inputs (Level 3) US\$'000	Total US\$'000
Recurring fair value measurement for:				
Freehold land and buildings	—	—	35,900	35,900
Plant and machinery	—	—	60,897	60,897
Net carrying amount	—	—	96,797	96,797

	Fair value measurement as at 31 December 2021 using			
	Quoted price in active markets (Level 1) <i>US\$'000</i>	Significant observable inputs (Level 2) <i>US\$'000</i>	Significant unobservable inputs (Level 3) <i>US\$'000</i>	Total <i>US\$'000</i>
Recurring fair value measurement for:				
Freehold land and buildings	—	—	36,642	36,642
Plant and machinery	—	—	63,091	63,091
Net carrying amount	—	—	99,733	99,733

	Fair value measurement as at 30 June 2022 using			
	Quoted price in active markets (Level 1) <i>US\$'000</i>	Significant observable inputs (Level 2) <i>US\$'000</i>	Significant unobservable inputs (Level 3) <i>US\$'000</i>	Total <i>US\$'000</i>
Recurring fair value measurement for:				
Freehold land and buildings	—	—	34,075	34,075
Plant and machinery	—	—	58,882	58,882
Net carrying amount	—	—	92,957	92,957

During the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2022, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

- (d) The following tables illustrate the reconciliation of fair value measurement categorised within Level 3 of the fair value hierarchy:

Freehold land and buildings

	Total <i>US\$'000</i>
At 1 January 2018	—
Additions	5,938
Depreciation recognised in profit and loss	(148)
Revaluation surplus recognised in other comprehensive income	13,970
Revaluation loss recognised in profit or loss	(755)
Exchange realignment	<u>(103)</u>
At 31 December 2018 and 1 January 2019	<u>18,902</u>
Depreciation recognised in profit and loss	(362)
Revaluation deficit recognised in other comprehensive income	(666)
Revaluation gain recognised in profit or loss	224
Exchange realignment	<u>(350)</u>
At 31 December 2019 and 1 January 2020	<u>17,748</u>
Additions	10,129
Depreciation recognised in profit and loss	(424)
Revaluation surplus recognised in other comprehensive income	6,385
Revaluation gain recognised in profit or loss	120
Revaluation loss recognised in profit or loss	(175)
Exchange realignment	<u>2,117</u>
At 31 December 2020 and 1 January 2021	<u>35,900</u>
Additions	236
Depreciation recognised in profit and loss	(664)
Revaluation surplus recognised in other comprehensive income	1,739
Revaluation gain recognised in profit or loss	325
Revaluation loss recognised in profit or loss	(201)
Exchange realignment	<u>(693)</u>
At 31 December 2021 and 1 January 2022	<u>36,642</u>
Additions	77
Depreciation recognised in profit and loss	(342)
Revaluation surplus recognised in other comprehensive income	123
Revaluation loss recognised in profit or loss	(136)
Exchange realignment	<u>(2,289)</u>
At 30 June 2022	<u><u>34,075</u></u>

Plant and machinery

	Total <i>US\$'000</i>
At 1 January 2018	—
Additions	12,500
Depreciation recognised in profit and loss	(722)
Revaluation surplus recognised in other comprehensive income	25,694
Revaluation loss recognised in profit or loss	(535)
Exchange realignment	<u>(200)</u>
At 31 December 2018 and 1 January 2019	<u>36,737</u>
Additions	2,561
Depreciation recognised in profit and loss	(1,651)
Revaluation surplus recognised in other comprehensive income	1,646
Revaluation gain recognised in profit or loss	146
Revaluation loss recognised in profit or loss	(366)
Exchange realignment	<u>(679)</u>
At 31 December 2019 and 1 January 2020	<u>38,394</u>
Additions	16,124
Depreciation recognised in profit and loss	(2,066)
Revaluation surplus recognised in other comprehensive income	4,491
Revaluation gain recognised in profit or loss	145
Revaluation loss recognised in profit or loss	(423)
Exchange realignment	<u>4,232</u>
At 31 December 2020 and 1 January 2021	<u>60,897</u>
Additions	3,945
Depreciation recognised in profit and loss	(2,893)
Revaluation surplus recognised in other comprehensive income	3,363
Revaluation gain recognised in profit or loss	146
Revaluation loss recognised in profit or loss	(393)
Exchange realignment	<u>(1,974)</u>
At 31 December 2021 and 1 January 2022	<u>63,091</u>
Additions	2,791
Depreciation recognised in profit and loss	(1,778)
Revaluation deficit recognised in other comprehensive income	(470)
Revaluation gain recognised in profit or loss	82
Revaluation loss recognised in profit or loss	(482)
Exchange realignment	<u>(4,352)</u>
At 30 June 2022	<u><u>58,882</u></u>

- (e) Set out below is a summary of the valuation techniques used and the key inputs to the valuation of freehold land and building, plant and machinery:

As at 31 December 2018:

	Valuation techniques	Significant unobservable inputs	Range
Freehold industrial land in Italy	Market approach	Price per square meter	EUR1 to 15 per square meter (sq. m.)
Buildings, plant and machinery in Italy	Depreciated replacement cost (“DRC”) approach	Remaining useful life	1 to 16 years
Buildings, plant and machinery in the PRC	DRC approach	Remaining useful life	3 to 50 years

As at 31 December 2019:

	Valuation techniques	Significant unobservable inputs	Range
Freehold industrial land in Italy	Market approach	Price per square metre	EUR1 to 15 per square metre (sq. m.)
Buildings, plant and machinery in Italy	DRC approach	Remaining useful life	1 to 15 years
Buildings, plant and machinery in the PRC	DRC approach	Remaining useful life	2 to 49 years

As at 31 December 2020:

	Valuation techniques	Significant unobservable inputs	Range
Freehold industrial land in Italy	Market approach	Price per square metre	EUR1 to 15 per square metre (sq. m.)
Buildings, plant and machinery in Italy	DRC approach	Remaining useful life	1 to 17 years
Buildings, plant and machinery in the PRC	DRC approach	Remaining useful life	1 to 48 years

As at 31 December 2021:

	Valuation techniques	Significant unobservable inputs	Range
Freehold industrial land in Italy	Market approach	Price per square metre	EUR1 to 15 per square metre (sq. m.)
Buildings, plant and machinery in Italy	DRC approach	Remaining useful life	1 to 16 years
Buildings, plant and machinery in the PRC	DRC approach	Remaining useful life	1 to 47 years

As at 30 June 2022:

	Valuation techniques	Significant unobservable inputs	Range
Freehold industrial land in Italy	Market approach	Price per square metre	EUR1 to 15 per square metre (sq. m.)
Buildings, plant and machinery in Italy	DRC approach	Remaining useful life	1 to 16 years
Buildings, plant and machinery in the PRC	DRC approach	Remaining useful life	1 to 47 years

Under the market approach, the freehold industrial land is valued on the market basis assuming sale in its existing state with the benefit of vacant possession and by reference to comparable sales evidence available in the relevant markets. Comparison is based on prices realised in actual transactions or asking prices of comparable properties. Appropriate adjustments are then made to account for the differences between such properties in terms of location, size and other relevant factors.

A significant increase/(decrease) in price per square metre would result in a significant increase/(decrease) in the fair value of the industrial land.

Under the DRC approach, the valuation of the market value of the buildings, plant and machinery is determined based on their existing use which is the cost to reproduce or replace in a new condition the assets appraised in accordance with the current construction costs for similar assets in the locality, with allowance for accrued depreciation as evidenced by all forms of obsolescence and optimisation.

The DRC approach is used for the valuation of the buildings, plant and machinery due to the lack of comparables determining an active market for the assets being valued and the lack of recent sales transactions of these specialised assets.

The highest and best use of the buildings, plant and machinery at the measurement date is the most reliable indication for valuing the assets in the absence of a known market based on comparable sales. The Group has determined that this indication is the value of the existing use.

A significant increase/(decrease) in the estimated useful life of the buildings, plant and machinery in isolation would result in a significant increase/(decrease) in the fair value of such property, plant and equipment.

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of non-industrial building, industrial land, industrial buildings, plant, machinery and equipment, and motor vehicles used in its operations. Leases of non-industrial buildings have lease terms of 1 to 5 years, and those of industrial land, industrial buildings, plant, machinery and equipment have lease terms of 3 to 42 years, and those of motor vehicles generally have lease terms of 4 years. Generally, the Group is restricted from assigning and subleasing the leased assets. There are no lease contracts that include extension and termination options and variable lease payments.

The Group also has certain leases of machinery and equipment with lease terms of 12 months or less and leases of office equipment of low value. The Group applies the “short-term lease” and “lease of low-value assets” recognition exemptions for these leases.

- (a) Set out below are the carrying amounts of right-of-use assets recognised and the movements during the Track Record Period:

	Non-industrial buildings US\$'000	Industrial leasehold land, industrial buildings, plant, machinery and equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
At 1 January 2018	—	—	—	—
Acquisition of a subsidiary (<i>note 27</i>)	62	—	—	62
Additions	310	5,189	66	5,565
Depreciation (<i>note 7</i>)	(17)	(26)	(5)	(48)
At 31 December 2018 and 1 January 2019	355	5,163	61	5,579
Additions	2,085	23	—	2,108
Depreciation (<i>note 7</i>)	(457)	(549)	(16)	(1,022)
Exchange realignment	—	(66)	(2)	(68)
At 31 December 2019 and 1 January 2020	1,983	4,571	43	6,597
Additions*	209	6,569	—	6,778
Depreciation (<i>note 7</i>)	(916)	(421)	(16)	(1,353)
Termination	—	(4,296)	—	(4,296)
Exchange realignment	(9)	425	3	419
At 31 December 2020 and 1 January 2021	1,267	6,848	30	8,145
Additions	8	263	30	301
Depreciation (<i>note 7</i>)	(751)	(224)	(20)	(995)
Impairment (<i>note 7</i>)**	—	(153)	—	(153)
Decrease arising from a sublease	(78)	—	—	(78)
Termination	(28)	—	—	(28)
Exchange realignment	—	133	(4)	129
At 31 December 2021 and 1 January 2022	418	6,867	36	7,321
Additions	219	1,519	5	1,743
Depreciation (<i>note 7</i>)	(312)	(111)	(11)	(434)
Exchange realignment	—	(347)	(3)	(350)
At 30 June 2022	325	7,928	27	8,280

* Included in the additions was an acquisition of industrial leasehold land of US\$574,000 from an entity which was then controlled by the Controlling Shareholder. The total addition of industrial leasehold land of US\$6,368,000 was settled by cash during the year ended 31 December 2020.

** During the year ended 31 December 2021, the Group's management identified certain industrial buildings which were not in use and expected that no cash inflow would be generated throughout the remaining lease period. The recoverable amount of these right-of-use assets was determined based on their value in use which was approximate to nil. The industrial buildings cannot be subleased. Impairment loss of nil, nil, nil, US\$153,000, nil (unaudited) and nil was recognised to write down the carrying amount of right-of-use assets for the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively.

As at 31 December 2021, certain of the industrial leasehold land with a carrying amount of approximately US\$2,255,000 was pledged to a bank to secure for an interest-bearing bank borrowing granted to the Group. As at 30 June 2022, certain of the industrial leasehold land with a carrying amount of approximately US\$5,981,000 was pledged to a third party to secure for an interest-bearing borrowing granted to the Group (note 23).

(b) Set out below are the carrying amounts of lease liabilities and the movements during the Track Record Period:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Carrying amount as at 1 January	—	5,579	6,826	1,575	791
Acquisition of a subsidiary (note 27)	62	—	—	—	—
Additions	5,565	2,108	410	123	1,367
Termination	—	—	(4,521)	(25)	—
Accretion of interest (note 8)	4	505	361	44	12
Payments	(52)	(1,295)	(1,813)	(913)	(497)
Exchange realignment	—	(71)	312	(13)	(13)
	<u>—</u>	<u>(71)</u>	<u>312</u>	<u>(13)</u>	<u>(13)</u>
Carrying amount as at 31 December/30					
June	<u>5,579</u>	<u>6,826</u>	<u>1,575</u>	<u>791</u>	<u>1,660</u>
Analysed into:					
Current portion	573	1,174	953	637	474
Non-current portion	<u>5,006</u>	<u>5,652</u>	<u>622</u>	<u>154</u>	<u>1,186</u>
	<u>5,579</u>	<u>6,826</u>	<u>1,575</u>	<u>791</u>	<u>1,660</u>

The carrying amount of lease liabilities are repayable:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Within one year or on demand	573	1,174	953	637	474
In the second year	400	1,098	527	111	274
In the third to fifth years, inclusive	1,421	1,926	95	43	537
Beyond 5 years	<u>3,185</u>	<u>2,628</u>	<u>—</u>	<u>—</u>	<u>375</u>
	<u>5,579</u>	<u>6,826</u>	<u>1,575</u>	<u>791</u>	<u>1,660</u>

The maturity analysis of lease liabilities is disclosed in note 34 to the Historical Financial Information.

- (c) Set out below are the amounts recognised in profit or loss in relation to leases during the Track Record Period and the six months ended 30 June 2021:

	Year ended 31 December				Six months ended 30 June	
	2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	2021 US\$'000 (Unaudited)	2022 US\$'000
Sublease interest income (<i>note 6</i>)	—	—	—	(1)	—	(1)
Depreciation of right-of-use assets (<i>note 7</i>)	48	1,022	1,353	995	556	434
Expense relating to short-term leases and leases of low-value assets (<i>note 7</i>)	429	250	163	205	184	9
Impairment of right-of-use assets (<i>note 7</i>)	—	—	—	153	—	—
(Gain)/loss on early termination of leases (<i>note 7</i>)	—	—	(225)	3	3	—
Loss on derecognition of right-of-use assets arising from a sublease (<i>note 7</i>)	—	—	—	9	—	—
Interest on lease liabilities (<i>note 8</i>)	4	505	361	44	24	12
Total amount recognised in profit or loss	<u>481</u>	<u>1,777</u>	<u>1,652</u>	<u>1,408</u>	<u>767</u>	<u>454</u>

- (d) The total cash outflow for leases is disclosed in note 28(e) to the Historical Financial Information.

The Group as a lessor

The Group has also subleased an office building it leased in 2018. The Group has classified the sublease as a finance lease because the sublease is for the whole of the remaining term of the head lease.

The following table sets out an analysis of maturity of lease receivables, showing the undiscounted lease payments to be received after each of the Track Record Period.

	As at 31 December				As at
	2018 US\$'000	2019 US\$'000	2020 US\$'000	2021 US\$'000	30 June 2022 US\$'000
Less than one year	—	—	—	30	30
One to two years	—	—	—	28	13
Total undiscounted lease payments receivable	—	—	—	58	43
Unearned finance income	—	—	—	(2)	(1)
Net investment in a lease (<i>note 19</i>)	<u>—</u>	<u>—</u>	<u>—</u>	<u>56</u>	<u>42</u>

16. INTANGIBLE ASSETS

	Computer software US\$'000	Patents US\$'000	Total US\$'000
31 December 2018			
At 1 January 2018	—	—	—
Acquisition of a subsidiary (<i>note 27</i>)	—	1,371	1,371
Additions	118	—	118
Amortisation provided during the year (<i>note 7</i>)	(13)	—	(13)
	<u>105</u>	<u>1,371</u>	<u>1,476</u>
At 31 December 2018, net of accumulated amortisation			
At 31 December 2018			
Cost	118	1,371	1,489
Accumulated amortisation	(13)	—	(13)
	<u>105</u>	<u>1,371</u>	<u>1,476</u>
Net carrying amount			
31 December 2019			
At 1 January 2019	105	1,371	1,476
Additions	27	—	27
Amortisation provided during the year (<i>note 7</i>)	(28)	(204)	(232)
Exchange realignment	(3)	(16)	(19)
	<u>101</u>	<u>1,151</u>	<u>1,252</u>
At 31 December 2019, net of accumulated amortisation			
At 31 December 2019			
Cost	142	1,352	1,494
Accumulated amortisation	(41)	(201)	(242)
	<u>101</u>	<u>1,151</u>	<u>1,252</u>
Net carrying amount			
31 December 2020			
At 1 January 2020	101	1,151	1,252
Additions	303	—	303
Amortisation provided during the year (<i>note 7</i>)	(30)	(175)	(205)
Exchange realignment	29	70	99
	<u>403</u>	<u>1,046</u>	<u>1,449</u>
At 31 December 2020, net of accumulated amortisation			
At 31 December 2020			
Cost	481	1,446	1,927
Accumulated amortisation	(78)	(400)	(478)
	<u>403</u>	<u>1,046</u>	<u>1,449</u>
Net carrying amount			

	Computer software <i>US\$'000</i>	Patents <i>US\$'000</i>	Total <i>US\$'000</i>
31 December 2021			
At 1 January 2021	403	1,046	1,449
Additions	124	—	124
Amortisation provided during the year (<i>note 7</i>)	(109)	(187)	(296)
Exchange realignment	(31)	22	(9)
	<u>387</u>	<u>881</u>	<u>1,268</u>
At 31 December 2021, net of accumulated amortisation			
At 31 December 2021			
Cost	563	1,479	2,042
Accumulated amortisation	(176)	(598)	(774)
	<u>387</u>	<u>881</u>	<u>1,268</u>
Net carrying amount			
30 June 2022			
At 1 January 2022	387	881	1,268
Additions	12	—	12
Amortisation provided during the period (<i>note 7</i>)	(52)	(93)	(145)
Exchange realignment	(30)	(40)	(70)
	<u>317</u>	<u>748</u>	<u>1,065</u>
At 30 June 2022, net of accumulated amortisation			
At 30 June 2022			
Cost	528	1,406	1,934
Accumulated amortisation	(211)	(658)	(869)
	<u>317</u>	<u>748</u>	<u>1,065</u>
Net carrying amount			

17. INVENTORIES

	2018 <i>US\$'000</i>	As at 31 December			As at 30 June 2022 <i>US\$'000</i>
		2019 <i>US\$'000</i>	2020 <i>US\$'000</i>	2021 <i>US\$'000</i>	
Raw materials	9,976	11,197	5,905	13,241	12,433
Work in progress	49,470	62,260	38,501	31,556	30,449
Finished goods	33,230	35,080	14,598	17,328	20,201
	<u>92,676</u>	<u>108,537</u>	<u>59,004</u>	<u>62,125</u>	<u>63,083</u>
Provision	—	(16,159)	(4,784)	(1,253)	(226)
	<u>92,676</u>	<u>92,378</u>	<u>54,220</u>	<u>60,872</u>	<u>62,857</u>

18. TRADE RECEIVABLES

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Trade receivables measured at amortised cost	21,481	12,443	16,065	18,968	25,229
Impairment	—	(877)	(39)	(136)	(246)
	<u>21,481</u>	<u>11,566</u>	<u>16,026</u>	<u>18,832</u>	<u>24,983</u>
Trade receivables measured at fair value through profit or loss	11,329	1,629	991	3,017	668
	<u>32,810</u>	<u>13,195</u>	<u>17,017</u>	<u>21,849</u>	<u>25,651</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally within 30 to 60 days from delivery. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, the Group had certain concentrations of credit risk as 25%, 12%, 25%, 17% and 18% of the Group's trade receivables were due from the Group's largest debtor, respectively, and 59%, 51%, 51%, 50% and 48% of the Group's trade receivables were due from the five largest debtors, respectively.

Certain trade receivable balances were classified and measured at fair value through profit or loss as these trade receivables are held within a business model with the objective to sell the financial assets.

As part of its normal business, the Group entered into a trade receivable factoring arrangement with a bank. Under the arrangement, trade receivables are transferred with recourse. The carrying amount of the assets that the Group continued to recognise was nil, nil, US\$430,000, US\$663,000 and nil as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, respectively, and that of the associated liabilities was nil, nil, US\$292,000, US\$566,000 and nil as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, respectively.

As at 30 June 2022, certain of these trade receivables with a carrying amount of approximately US\$20,143,000 was pledged to third parties for interest-bearing borrowings granted to the Group (note 23).

An aged analysis of the trade receivables, based on the past due date as at the end of each of the Track Record Period, is as follows:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Not past due	19,724	8,093	13,443	18,717	24,307
Within 1 month	11,504	4,736	3,004	2,318	930
1 to 3 months	1,531	366	12	556	292
Over 3 months	51	—	558	258	122
	<u>32,810</u>	<u>13,195</u>	<u>17,017</u>	<u>21,849</u>	<u>25,651</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
At beginning of year/period	—	—	(877)	(39)	(136)
Impairment losses	—	(877)	(39)	(95)	(118)
Reversal	—	—	475	—	4
Amount written off as uncollectible	—	—	417	—	—
Exchange realignment	—	—	(15)	(2)	4
At end of year/period	—	(877)	(39)	(136)	(246)

An impairment analysis is performed at each reporting date by considering the probability of default of the counterparty. The Group also takes into account forward-looking information to reflect the debtors' probability of default under the current and future economic conditions, as appropriate. The expected credit loss rates were assessed to be insignificant and accordingly, minimal loss allowance was provided for upon the assessment of expected credit losses. As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, the expected credit loss rates ranged from 0.1% to 0.8%, 0.1% to 1.4%, 0.1% to 2.3%, 0.1% to 1.7% and 0.1% to 1.0%, respectively.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Prepayments	4,462	4,921	2,330	4,839	4,554
Deposits and other receivables (note a)	11,337	16,140	9,738	6,010	4,340
Net investment in a lease (note 15)	—	—	—	56	42
Due from the intermediate holding company (note b)	—	—	313	192	382
Due from the immediate holding company (note b)	—	—	95	4	4
Due from related companies: Rental deposit (note c)	—	7	10	10	10
	15,799	21,068	12,486	11,111	9,332
Less: Non-current portion of prepayments and deposits	(43)	(1,200)	(309)	(2,092)	(1,657)
	15,756	19,868	12,177	9,019	7,675

Notes:

- (a) Deposits and other receivables mainly represent deposits paid to suppliers. Where applicable, the expected credit losses are estimated by considering the probability of default of the counterparty. The Group also takes into account forward-looking information to reflect the debtors' probability of default under the current and future economic conditions, as appropriate. The expected credit loss rates were assessed to be insignificant and accordingly, minimal loss allowance was provided for upon the assessment of expected credit losses.
- (b) The balances were non-trade related, unsecured, non-interest-bearing, and repayment on demand. The balances will be settled prior to listing.

- (c) The balance as at 31 December 2019 was due from a related company, which is wholly owned by a close family member of the Controlling Shareholder. The balance was non-trade related, unsecured, non-interest-bearing and was refunded upon termination of the rental contract in March 2020. The balance as at 31 December 2020 and 2021 and 30 June 2022 was due from another related company which is wholly owned by a close family member of the Controlling Shareholder. The balance was non-trade related, unsecured, non-interest-bearing and was refundable upon expiry of the rental contracts in February and April 2024.

Details of all related party transactions are disclosed in note 31 to the Historical Financial Information.

20. CASH AND CASH EQUIVALENTS

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Cash and cash equivalents	5,920	18,341	12,694	15,086	14,619

The cash and bank balances of the Group denominated in Renminbi ("RMB") as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 amounted to approximately US\$1,959,000, US\$7,345,000, US\$2,075,000, US\$1,021,000 and US\$1,182,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE AND NOTES PAYABLES

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Trade payables	20,526	14,628	10,753	18,530	15,435
Notes payables	—	487	—	455	—
	<u>20,526</u>	<u>15,115</u>	<u>10,753</u>	<u>18,985</u>	<u>15,435</u>

Included in the balances as at 31 December 2018 and 2019 was a balance of US\$941,000 due to a related company in which the Controlling Shareholder owns a controlling equity interest and the above balance was settled during the year ended 31 December 2020.

An ageing analysis of the trade and notes payables, based on the past due date as at the end of each of the Track Record Period, is as follows:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Not past due	11,963	1,011	7,446	17,185	13,726
Within 1 month	259	2,616	489	516	972
1 to 3 months	—	3,022	567	453	509
Over 3 months	8,304	8,466	2,251	831	228
	<u>20,526</u>	<u>15,115</u>	<u>10,753</u>	<u>18,985</u>	<u>15,435</u>

The trade and notes payables are non-interest-bearing and are normally settled on terms ranging from 21 to 120 days.

22. OTHER PAYABLES AND ACCRUALS

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Other payables (<i>note a</i>)	14,742	12,945	6,284	5,406	6,862
Accruals	4,097	3,960	2,777	3,119	2,757
Contract liabilities (<i>note b</i>)	—	16,985	412	191	3,424
Due to the Controlling Shareholder (<i>note c</i>)	5,285	3,778	3,012	2,439	—
Due to the ultimate holding company (<i>note c</i>)	50	50	—	—	—
Due to a shareholder (<i>note c</i>)	—	—	—	616	616
Due to a related company — unsecured (<i>note d</i>)	18,108	16,421	12,026	2,907	41
Loan from a related company — secured (<i>note e</i>)	—	2,675	9,267	10,473	422
	<u>42,282</u>	<u>56,814</u>	<u>33,778</u>	<u>25,151</u>	<u>14,122</u>
Less: Non-current portion of other payables and accruals	<u>(7,003)</u>	<u>(1,774)</u>	<u>(5,825)</u>	<u>(6,743)</u>	<u>(1,077)</u>
	<u><u>35,279</u></u>	<u><u>55,040</u></u>	<u><u>27,953</u></u>	<u><u>18,408</u></u>	<u><u>13,045</u></u>

Except as set out below, other payables are unsecured, non-interest-bearing and have an average term of 30 days to 90 days:

Notes:

- (a) Included in the balance at 31 December 2018 were amounts of US\$10,191,000 and US\$1,132,000 which were then repayable in 2019 and 2020, respectively. Included in the balance at 31 December 2019 was an amount of US\$8,372,000 which was then repayable in December 2020. Included in the balance at 31 December 2020 was an amount of US\$652,000 which was fully settled during the year ended 31 December 2021. The abovementioned balances bore interest at 12.5% per annum and were related to acquisition of plant and machinery as set out in note 14(a) to the Historical Financial Information.
- (b) The balance of contract liabilities as at 1 January 2018 amounted to US\$13,665,000. Contract liabilities represent short-term advances received from customers in relation to sale of graphite electrodes and there were no such advances as at 31 December 2018. The increase/decrease in contract liabilities was mainly due to the increase/decrease in short-term advances received from customers in relation to the sale of graphite electrodes.
- (c) Save for a balance due from the Controlling Shareholder of US\$512,000 included in the balance due to the Controlling Shareholder as at each of 31 December 2018 and 2019, which bore interest at 1.8% per annum, all other balances were non-trade related, unsecured, non-interest-bearing and repayable on demand. The balance due to the Controlling Shareholder was settled during the six months ended 30 June 2022 and the balance due to a shareholder will be settled prior to listing.

- (d) The balances as at 31 December 2018 were due to a related company in which a close family member of the Controlling Shareholder is a key management personnel and owns certain equity interest. The balances were mainly related to the acquisition of a subsidiary as set out in note 27 to the Historical Financial Information. The balances will be settled prior to listing. An analysis of the balances due to a related company is as follows:

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Interest-bearing at 7% per annum (2019 and 2018: 12.6%)	11,752	12,687	7,965	2,907	41
Non-interest-bearing*	<u>7,414</u>	<u>3,734</u>	<u>4,061</u>	<u>—</u>	<u>—</u>
	19,166	16,421	12,026	2,907	41
Less: Non-current portion	<u>(5,871)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	13,295	16,421	12,026	2,907	41
Less: Due from the related company	<u>(1,058)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Current portion	<u><u>12,237</u></u>	<u><u>16,421</u></u>	<u><u>12,026</u></u>	<u><u>2,907</u></u>	<u><u>41</u></u>

* The balance as at 31 December 2020 of US\$4,061,000 bears interest at 7% per annum from 1 January 2021.

- (e) The loans as at 31 December 2019, 2020 and 2021 were borrowed from a related company in which a close family member of the Controlling Shareholder is a key management personnel and owns certain equity interest. The amounts were non-trade related, interest-bearing at 8% per annum and secured by the Group's property, plant and equipment with carrying amount of US\$5,540,000, US\$16,248,000 and US\$18,576,000 as at 31 December 2019, 2020 and 2021, respectively (note 14(a)). The loan as at 31 December 2019 included amounts of US\$901,000 and US\$1,774,000 which were then repayable in 2020 and 2021 to 2022, respectively. The loans as at 31 December 2020 included amounts of US\$3,442,000 and US\$5,825,000 which were repayable in 2021 and 2022 to 2023, respectively. The loans as at 31 December 2021 included amounts of US\$4,807,000 and US\$5,666,000 which were repayable in 2022 and 2023 to 2024, respectively. On 2 June 2022, the related company transferred the outstanding loan receivable of approximately US\$7.5 million to a third party pursuant to a refinancing arrangement as set out in note 23(d)(ii). The remaining balance of interest payable to the related company of \$422,000 was subsequently paid in July 2022. Interest expenses of US\$21,000, US\$278,000, US\$829,000 and US\$378,000 were charged to profit or loss for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022, respectively (note 8). The gain on novation of loans of US\$155,000 was credited to profit or loss for the six months ended 30 June 2022.

	As at 31 December				As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Analysed into repayable:					
Within one year or on demand	—	—	493	14,503	17,496
In the second year	—	5,003	324	114	12,926
In the third to fifth years, inclusive	—	—	4,497	5,642	4,052
Beyond 5 years	—	—	1,732	—	—
	<u>—</u>	<u>—</u>	<u>1,732</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>5,003</u>	<u>7,046</u>	<u>20,259</u>	<u>34,474</u>

24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Track Record Period are as follows:

(a) Deferred tax assets

	Provision for inventories	Tax losses	Lease liabilities	Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2018	—	—	—	43	43
Deferred tax credited to profit or loss during the year (<i>note 11</i>)	<u>—</u>	<u>—</u>	<u>1,344</u>	<u>1,605</u>	<u>2,949</u>
At 31 December 2018 and 1 January 2019	—	—	1,344	1,648	2,992
Deferred tax credited to profit or loss during the year (<i>note 11</i>)	<u>3,544</u>	<u>297</u>	<u>426</u>	<u>428</u>	<u>4,695</u>
At 31 December 2019 and 1 January 2020	3,544	297	1,770	2,076	7,687
Deferred tax credited/(charged) to profit or loss during the year (<i>note 11</i>)	<u>(2,537)</u>	<u>5,477</u>	<u>(1,486)</u>	<u>90</u>	<u>1,544</u>
At 31 December 2020 and 1 January 2021	1,007	5,774	284	2,166	9,231
Deferred tax credited/(charged) to profit or loss during the year (<i>note 11</i>)	<u>(742)</u>	<u>69</u>	<u>(116)</u>	<u>578</u>	<u>(211)</u>
At 31 December 2021 and 1 January 2022	265	5,843	168	2,744	9,020
Deferred tax credited/(charged) to profit or loss during the period (<i>note 11</i>)	<u>(206)</u>	<u>(1,449)</u>	<u>(2)</u>	<u>793</u>	<u>(864)</u>
At 30 June 2022	<u>59</u>	<u>4,394</u>	<u>166</u>	<u>3,537</u>	<u>8,156</u>

(b) Deferred tax liabilities

	Right-of use assets US\$'000	Fair value adjustments arising from acquisition of a subsidiary US\$'000	Revaluation of property, plant and equipment US\$'000	Others US\$'000	Total US\$'000
At 1 January 2018	—	—	—	—	—
Acquisition of a subsidiary (note 27)	—	343	—	—	343
Deferred tax charged/(credited) to profit or loss during the year (note 11)	1,344	—	(327)	1,239	2,256
Deferred tax charged to asset revaluation reserve during the year	—	—	10,936	—	10,936
Exchange realignment	—	—	(343)	—	(343)
At 31 December 2018 and 1 January 2019	1,344	343	10,266	1,239	13,192
Deferred tax charged/(credited) to profit or loss during the year (note 11)	275	(43)	(1)	(152)	79
Deferred tax charged to asset revaluation reserve during the year	—	—	293	—	293
Exchange realignment	—	—	(202)	—	(202)
At 31 December 2019 and 1 January 2020	1,619	300	10,356	1,087	13,362
Deferred tax charged/(credited) to profit or loss during the year (note 11)	(1,392)	(34)	(85)	2,165	654
Deferred tax charged to asset revaluation reserve during the year	—	—	2,605	—	2,605
Exchange realignment	—	—	957	—	957
At 31 December 2020 and 1 January 2021	227	266	13,833	3,252	17,578
Deferred tax credited to profit or loss during the year (note 11)	(131)	(47)	(35)	(81)	(294)
Deferred tax charged to asset revaluation reserve during the year	—	—	1,370	—	1,370
Exchange realignment	—	—	(971)	—	(971)
At 31 December 2021 and 1 January 2022	96	219	14,197	3,171	17,683
Deferred tax charged/(credited) to profit or loss during the period (note 11)	(17)	(24)	(144)	489	304
Deferred tax credited to asset revaluation reserve during the period	—	—	(55)	—	(55)
Exchange realignment	—	—	(966)	—	(966)
At 30 June 2022	<u>79</u>	<u>195</u>	<u>13,032</u>	<u>3,660</u>	<u>16,966</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018	As at 31 December			As at
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Net deferred tax assets recognised in the consolidated statements of financial position	1,648	4,766	6,319	5,362	3,773
Net deferred tax liabilities recognised in the consolidated statements of financial position	<u>(11,848)</u>	<u>(10,441)</u>	<u>(14,666)</u>	<u>(14,025)</u>	<u>(12,583)</u>
	<u>(10,200)</u>	<u>(5,675)</u>	<u>(8,347)</u>	<u>(8,663)</u>	<u>(8,810)</u>

As at 31 December 2019, 2020 and 2021 and 30 June 2022, the Group had aggregated tax losses of US\$1,656,000, US\$29,251,000, US\$28,624,000 and US\$20,535,000, respectively, for which deferred tax assets have been recognised for such tax losses that are available for setting off against taxable profits generated indefinitely or within the next 5 to 7 years.

Pursuant to the PRC Corporate Income Tax Law and the Italian tax laws and the respective regulations, a 10% and 26% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China and Italy, respectively. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China, Italy, respectively, and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% and 26%, respectively. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China and Italy, respectively.

As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China and Italy. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. As at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, the aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China and Italy for which deferred tax liabilities have not been recognised totalled approximately US\$719,000, US\$636,000, US\$910,000, US\$1,300,000 and US\$1,523,000, respectively.

25. SHARE CAPITAL

(a) Set out below are the movements in the Company's authorised share capital during the Track Record Period:

	Number of shares	Authorised share capital US\$
At 26 June 2018 (date of incorporation)		
Initial authorised share capital with par value of US\$1 each (i)	<u>50,000</u>	<u>50,000</u>
At 31 December 2018, 1 January 2019, 31 December 2019 and 1 January 2020	50,000	50,000
Increase of authorised share capital with par value of US\$1 each (ii)	50,000	50,000
Redesignation of par value to par value of US\$0.01 each and subdivision of shares (iii)	<u>9,900,000</u>	<u>—</u>
At 31 December 2020	10,000,000	100,000
Increase of authorised share capital with par value of US\$0.01 each (iv)	<u>20,000,000</u>	<u>200,000</u>
At 31 December 2021, 1 January 2022 and 30 June 2022	<u>30,000,000</u>	<u>300,000</u>

(b) Set out below are the movements in issued share capital of the Company during the Track Record Period:

	Number of shares in issue	Share capital US\$'000
At 26 June 2018 (date of incorporation)		
Issue of an ordinary share (v)*	<u>1</u>	<u>—</u>
At 31 December 2018, 1 January 2019, 31 December 2019 and 1 January 2020*	1	—
Issue of 99,999 ordinary shares (vi)	99,999	100
Subdivision of shares (iii)	<u>9,900,000</u>	<u>—</u>
At 31 December 2020 and 1 January 2021	10,000,000	100
Issue of 1,000,000 ordinary shares (vii)	<u>1,000,000</u>	<u>10</u>
At 31 December 2021, 1 January 2022 and 30 June 2022	<u><u>11,000,000</u></u>	<u><u>110</u></u>

* Amount less than US\$500

Notes:

- (i) The Company was incorporated on 26 June 2018 with initial authorised share capital of US\$50,000 divided into 50,000 shares with par value of US\$1 each.
- (ii) On 5 May 2020, the authorised share capital of the Company was increased from US\$50,000 to US\$100,000 divided into 100,000 shares with par value of US\$1 each.
- (iii) On 24 June 2020, the authorised share capital of 100,000 shares of US\$100,000 with par value of US\$1 was redesignated and subdivided into 10,000,000 shares of US\$100,000 with par value of US\$0.01 each.
- (iv) On 31 August 2021, the authorised share capital of the Company was increased from US\$100,000 to US\$300,000 divided into 30,000,000 shares with par value of US\$0.01 each.
- (v) On the date of incorporation, 1 ordinary share of US\$1 was allotted and issued by the Company.
- (vi) On 28 May 2020, 95,260 additional shares were allotted to the immediate holding company for approximately US\$95,000 while 4,739 additional ordinary shares were allotted to an independent new shareholder for a total cash consideration of US\$9,907,000, resulting in share premium of US\$9,902,000.
- (vii) On 31 August 2021, 442,540 additional shares were allotted to the immediate holding company while 557,460 additional shares were allotted to various independent shareholders for a total cash consideration of US\$11,408,000, resulting in share premium of approximately US\$11,398,000.

26. RESERVES

Group

The amounts of the Group's reserves and the movements therein during the Track Record Period and the six months ended 30 June 2021 are presented in the consolidated statements of changes in equity.

Company

The amounts and movements of the Company's reserves during the Track Record Period and the six months ended 30 June 2021 are as follows:

	Share premium US\$'000	Retained earnings/ (accumulated losses) US\$'000	Total US\$'000
At 26 June 2018 (date of incorporation)	—	—	—
Net loss and total comprehensive loss for the period	—	(9)	(9)
At 31 December 2018 and 1 January 2019	—	(9)	(9)
Net loss and total comprehensive loss for the year	—	(4)	(4)
At 31 December 2019 and 1 January 2020	—	(13)	(13)
Net loss and total comprehensive loss for the year	—	(15)	(15)
Issue of shares (<i>note 25(vi)</i>)	9,902	—	9,902
At 31 December 2020 and 1 January 2021	9,902	(28)	9,874
Profit and total comprehensive income for the year	—	833	833
Dividend declared (<i>note 12</i>)	(14,000)	—	(14,000)
Issue of shares (<i>note 25(vii)</i>)	11,398	—	11,398
At 31 December 2021 and 1 January 2022	7,300	805	8,105
Net loss and total comprehensive loss for the period	—	(231)	(231)
At 30 June 2022	<u>7,300</u>	<u>574</u>	<u>7,874</u>
At 31 December 2020 and 1 January 2021	9,902	(28)	9,874
Profit and total comprehensive income for the period (unaudited)	—	994	994
Dividend declared (<i>note 12</i>) (unaudited)	(1,000)	—	(1,000)
At 30 June 2021 (unaudited)	<u>8,902</u>	<u>966</u>	<u>9,868</u>

(a) Capital reserve

The capital reserve represents the paid-up capital of subsidiaries now comprising the Group attributable to the Controlling Shareholder prior to the Reorganisation and non-controlling interest of a non-wholly-owned subsidiary which was acquired by the Controlling Shareholder on 19 January 2018. On 23 June 2018, the capital reserve of US\$6,447,000 was derecognised upon deemed distribution for acquisition of a subsidiary under common control pursuant to the Reorganisation. On 8 June 2020, the capital reserve was decreased by US\$5,700,000 upon deemed distribution for acquisition by cash of a subsidiary under common control pursuant to the Reorganisation.

(b) Statutory reserve

In accordance with the Company law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards to their respective statutory reserve until the reserve reaches 50% of their respective registered capital. Subject to certain restrictions set out in the Company law of the PRC, part of the statutory reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(c) Asset revaluation reserve

The asset revaluation reserve represents the revaluation surplus, net of tax, arising from the revaluation of property, plant and equipment. Release of asset revaluation reserve represents depreciation of the revaluation surplus, net of tax, of the related property, plant and equipment.

(d) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

27. ACQUISITION OF A SUBSIDIARY**Sangraf Energy Technology Co., Ltd.**

On 26 October 2018, the Group entered into a sale and purchase agreement with a related company to acquire a 100% interest in Sangraf Energy Technology Co., Ltd. (“**Sangraf Energy**”) at a consideration of US\$14,456,000 (RMB99.4 million) and an assignment of loan from its former shareholder of US\$4,510,000 (RMB31 million), to be settled by instalments. Sangraf Energy is principally engaged in the trading of graphite electrodes and was a related company of the Group prior to the acquisition as a close family member of the Controlling Shareholder, a key management personnel of this related company, previously owned 16.67% of its equity interest.

	<i>Notes</i>	Fair value recognised on acquisition US\$'000
Property, plant and equipment	<i>14</i>	27
Right-of-use assets	<i>15(a)</i>	62
Intangible assets	<i>16</i>	1,371
Trade receivables		18,665
Prepayments, deposits and other receivables		22,166
Cash and bank balances		1,623
Trade and other payables		(20,673)
Deferred tax liabilities	<i>24(b)</i>	(343)
Lease liabilities	<i>15(b), 28(d)</i>	(62)
Tax payable		<u>(2,283)</u>
Total identifiable net assets at fair value		20,553
Gain on bargain purchase recognised in other income in the consolidated statements of profit or loss and other comprehensive income*		<u>(1,587)</u>
		<u>18,966</u>
Satisfied by:		
Other payable		14,456
Assignment of loan		<u>4,510</u>
		<u>18,966</u>

* A gain on bargain purchase was mainly attributable to the recognition of intangible assets previously not recognised by the former shareholder of Sangraf Energy.

Pursuant to the above sale and purchase agreement, the consideration of US\$14,456,000 and the loan assigned from the former shareholder of US\$4,510,000 were scheduled to be repayable by four instalments payable in 2018, 2019 and 2020. The unpaid consideration of US\$19,166,000 as at 31 December 2018 included an amount of US\$11,752,000 which was interest-bearing at 12.6% per annum and an amount of US\$7,414,000 which was non-interest-bearing. During the year ended 31 December 2019, the Group paid in aggregate consideration of US\$3,593,000 and interest of US\$418,000. The unpaid consideration of US\$16,421,000 as at 31 December 2019 included an amount of US\$12,687,000 which was interest-bearing at 12.6% per annum and an amount of US\$3,734,000 which was non-interest-bearing. On 28 June 2020, the

settlement of the outstanding consideration of US\$10,841,000 which included an amount of US\$6,705,000 which bore interest at 7% per annum and an amount of US\$3,686,000 which was non-interest-bearing up to 31 December 2020 was further extended to December 2021. During the year ended 31 December 2020, the Group paid in aggregate consideration of US\$4,340,000 and interest of US\$1,133,000. On 15 September 2021, the settlement of the outstanding consideration of US\$8,406,000 which bore interest at 7% per annum was further extended to December 2022 while outstanding interest of US\$221,000 was repayable in March 2022. During the year ended 31 December 2021, the Group paid in aggregate consideration of US\$9,134,000 and interest of US\$1,095,000. During the six months ended 30 June 2022, the Group paid in aggregate consideration of US\$2,459,000 and interest of US\$430,000. Interest expenses of US\$200,000, US\$1,513,000, US\$609,000, US\$780,000 and US\$70,000 were charged to the profit or loss for the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2022, respectively (note 8).

Such outstanding consideration payable together with the accrued interest as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022 are included in the balance due to related company as set out in note 22(d) to the Historical Financial Information.

An analysis of the net inflow/outflow of cash and cash equivalents in respect of the consideration for the acquisition of Sangraf Energy for the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2022 are as follows:

	Year ended 31 December				Six months ended
	2018	2019	2020	2021	30 June 2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash paid	—	3,593	4,340	9,134	2,459
Cash and bank balances acquired	<u>1,623</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net inflow/(outflow) of cash and cash equivalent included in cash flows used in investing activities	<u>1,623</u>	<u>(3,593)</u>	<u>(4,340)</u>	<u>(9,134)</u>	<u>(2,459)</u>

The fair values and gross contractual amounts of trade receivables and prepayments, deposits and other receivables as at the date of acquisition amounted to US\$18,665,000 and US\$22,166,000, respectively.

The Group incurred transaction costs of US\$14,000 for this acquisition. These transaction costs have been expensed and are included in selling and administrative expenses in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

Since the acquisition, Sangraf Energy contributed US\$3,527,000, US\$16,386,000, US\$1,378,000, US\$3,752,000 and US\$1,250,000 to the Group's revenue and contributed net profit of US\$1,084,000, net loss of US\$998,000, US\$654,000 and US\$116,000 and net profit of US\$81,000 to the Group's profit for the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2022, respectively.

Had the combination taken place at the beginning of 2018, the Group's revenue and profit for the year ended 31 December 2018 would have been US\$190,096,000 and US\$79,110,000 respectively.

28. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

- (a) Consideration for the acquisition of plant and machinery during the year ended 31 December 2018 amounting to US\$11,323,000 (note 14(a)) were settled by cash instalments of US\$4,146,000 during the year ended 31 December 2019. During the year ended 31 December 2020, the outstanding consideration of US\$7,118,000 was settled through setting off the balance against sales of finished goods to the same company and interest of US\$1,195,000 for the year ended 31 December 2019 was settled in cash. The balance of the unpaid consideration of US\$11,323,000 as at 31 December 2018, US\$7,177,000 together with the interest accrued thereon of US\$1,195,000 totaling US\$8,372,000 as at 31 December 2019, and US\$138,000 together with the interest accrued thereon of US\$514,000 totaling US\$652,000 as at 31 December 2020 were included in other payables in note 22(a) to the Historical Financial Information. During the year ended 31 December 2021, the outstanding consideration of US\$138,000 and interest of US\$515,000 were settled through setting off the balance against sales of finished goods to the same company.
- (b) Total consideration for the acquisition of Sangraf Energy during the year ended 31 December 2018 amounting to US\$18,966,000 (note 27) were settled by cash instalments of US\$3,593,000 with accrued interest of US\$418,000 during the year ended 31 December 2019, and cash instalments of US\$4,340,000 with accrued interest of US\$1,133,000 during the year ended 31 December 2020, and cash instalments of US\$9,134,000 with accrued interest of US\$1,095,000 during the year ended 31 December 2021, cash instalments of US\$2,459,000 with accrued interest of US\$430,000 during the six months ended 30 June 2022. The balance of unpaid consideration of US\$18,966,000 together with the interest accrued thereon of US\$200,000 totaling US\$19,166,000 as at 31 December 2018, US\$15,129,000 together with the interest accrued thereon of US\$1,292,000 totaling US\$16,421,000 as at 31 December 2019, US\$11,274,000 together with the interest accrued thereon of US\$752,000 totaling US\$12,026,000 as at 31 December 2020, US\$2,459,000 together with the interest accrued thereon of US\$448,000 totaling US\$2,907,000 as at 31 December 2021, and the interest accrued of US\$41,000 as at 30 June 2022 were included in balance due to a related company in note 22(d) to the Historical Financial Information.
- (c) During the years ended 31 December 2018, 2019, 2020 and 2021 and the six months ended 30 June 2022, the Group had non-cash additions to right-of-use assets and additions to lease liabilities of US\$5,565,000, US\$2,108,000, US\$410,000, US\$123,000 and US\$1,367,000, respectively, in respect of lease arrangements for various items of non-industrial buildings, industrial leasehold land, industrial buildings, plant, machinery and equipment and motor vehicles (note 15).

(d) Changes in liabilities arising from financing activities

	Loans from related companies <i>US\$'000</i>	Lease liabilities <i>US\$'000</i>	Interest- bearing bank and other borrowings <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2018	—	—	—	—
Financing cash flows				
— Repayment of principal portion of lease payments	—	(48)	—	(48)
Acquisition of a subsidiary (<i>note 27</i>)	—	62	—	62
New leases (<i>note 15(b)</i>)	—	5,565	—	5,565
Interest expenses (<i>note 8</i>)	—	4	—	4
Interest paid classified as operating cash flows	—	(4)	—	(4)
At 31 December 2018	<u>—</u>	<u>5,579</u>	<u>—</u>	<u>5,579</u>
At 1 January 2019	—	5,579	—	5,579
Financing cash flows				
— A loan from a related company	2,654	—	—	2,654
— New borrowings	—	—	5,003	5,003
— Repayment of principal portion of lease payments	—	(790)	—	(790)
New leases (<i>note 15(b)</i>)	—	2,108	—	2,108
Interest expenses (<i>note 8</i>)	21	505	—	526
Interest paid classified as operating cash flows	—	(505)	—	(505)
Exchange realignment	—	(71)	—	(71)
At 31 December 2019	<u>2,675</u>	<u>6,826</u>	<u>5,003</u>	<u>14,504</u>
At 1 January 2020	2,675	6,826	5,003	14,504
Financing cash flows				
— Loans from related companies	9,276	—	—	9,276
— Repayment of loans from related companies	(2,921)	—	—	(2,921)
— New borrowings	—	—	7,749	7,749
— Repayment of borrowings	—	—	(6,175)	(6,175)
— Repayment of principal portion of lease payments	—	(1,452)	—	(1,452)
New leases (<i>note 15(b)</i>)	—	410	—	410
Termination (<i>note 15(b)</i>)	—	(4,521)	—	(4,521)
Interest expenses (<i>note 8</i>)	278	361	—	639
Interest paid classified as operating cash flows	(214)	(361)	—	(575)
Exchange realignment	173	312	469	954
At 31 December 2020	<u>9,267</u>	<u>1,575</u>	<u>7,046</u>	<u>17,888</u>

	Loans from related companies <i>US\$'000</i>	Lease liabilities <i>US\$'000</i>	Interest- bearing bank and other borrowings <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2021	9,267	1,575	7,046	17,888
Financing cash flows				
— Loans from related companies	2,201	—	—	2,201
— Repayment of loans from a related company	(1,668)	—	—	(1,668)
— New borrowings	—	—	14,326	14,326
— Repayment of borrowings	—	—	(351)	(351)
— Repayment of principal portion of lease payments	—	(869)	—	(869)
New leases (<i>note 15(b)</i>)	—	123	—	123
Termination (<i>note 15(b)</i>)	—	(25)	—	(25)
Interest expenses (<i>note 8</i>)	829	44	—	873
Interest paid classified as operating cash flows	(395)	(44)	—	(439)
Government subsidy (<i>note 6</i>)*	—	—	(340)	(340)
Exchange realignment	239	(13)	(422)	(196)
At 31 December 2021	<u>10,473</u>	<u>791</u>	<u>20,259</u>	<u>31,523</u>
At 1 January 2021	9,267	1,575	7,046	17,888
Financing cash flows (unaudited)				
— Loans from related companies	2,201	—	—	2,201
— Repayment of loans from a related company	(1,668)	—	—	(1,668)
— New borrowings	—	—	1,548	1,548
— Repayment of principal portion of lease payments	—	(469)	—	(469)
New leases (unaudited)	—	41	—	41
Termination (unaudited)	—	(25)	—	(25)
Interest expenses (unaudited)	413	24	—	437
Interest paid classified as operating cash flows (unaudited)	(395)	(24)	—	(419)
Government subsidy (unaudited)	—	—	(340)	(340)
Exchange realignment (unaudited)	99	(4)	(216)	(121)
At 30 June 2021 (unaudited)	<u>9,917</u>	<u>1,118</u>	<u>8,038</u>	<u>19,073</u>

	Loans from related companies <i>US\$'000</i>	Lease liabilities <i>US\$'000</i>	Interest- bearing bank and other borrowings <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2022	10,473	791	20,259	31,523
Financing cash flows				
— Repayment of loans from a related company	(2,356)	—	—	(2,356)
— New borrowings	—	—	9,424	9,424
— Repayment of borrowings	—	—	(2,165)	(2,165)
— Repayment of principal portion of lease payments	—	(485)	—	(485)
Gain on novation of loans	(155)	—	—	(155)
Transfer of loans (<i>note 22(e)</i>)	(7,518)	—	7,518	—
New leases (<i>note 15(b)</i>)	—	1,367	—	1,367
Interest expenses (<i>note 8</i>)	378	12	—	390
Interest paid classified as operating cash flows	—	(12)	—	(12)
Exchange realignment and others	(400)	(13)	(562)	(975)
At 30 June 2022	<u>422</u>	<u>1,660</u>	<u>34,474</u>	<u>36,556</u>

* The amount represented an interest-bearing bank borrowing obtained during the year ended 31 December 2020 which was recognised as a government grant during the year ended 31 December 2021 as a result of a waiver by the lender (*note 23*).

(e) **Total cash outflow for leases**

The total cash outflow for leases included in the consolidated statements of cash flows is as follows:

	Year ended 31 December			Six months ended 30 June	
	2018 <i>US\$'000</i>	2019 <i>US\$'000</i>	2020 <i>US\$'000</i>	2021 <i>US\$'000</i>	2022 <i>US\$'000</i>
Within operating activities	433	755	524	248	20
Within investing activities	—	—	6,368	164	362
Within financing activities	48	790	1,452	869	485
	<u>481</u>	<u>1,545</u>	<u>8,344</u>	<u>1,281</u>	<u>867</u>

(f) During the year ended 31 December 2021, dividend payable of US\$720,000 was settled through the current account with the immediate holding company and the intermediate holding company while unpaid dividend of US\$616,000 was included in due to a shareholder under other payables in *note 22* to the Historical Financial Information.

29. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other borrowings are included in *notes 14, 15, 18, 22(e)* and *23* to the Historical Financial Information.

30. COMMITMENTS

The Group had the following capital commitments at the end of each of the Track Record Period:

	Year ended 31 December				Six months ended
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
					US\$'000
Contracted, but not provided for:					
Acquisition of land, property, plant and equipment	—	10,751	12,108	11,763	11,175
	—	10,751	12,108	11,763	11,175

31. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances as set out in notes 14, 15, 19(b), 19(c), 22(c), 22(d), 22(e), 27 and 28(b) to the Historical Financial Information, the Group had the following transactions with related parties for each of the Track Record Period and the six months ended 30 June 2021:

	Notes	Year ended 31 December				Six months ended 30 June	
		2018	2019	2020	2021	2021	2022
		US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Sale of raw materials to a related company	(i)	2,958	—	—	—	—	—
Purchases of finished goods from a related company	(i)	52,025	—	—	—	—	—
Financing charge paid/payable to a related company charged on the outstanding balances derived from the acquisition of a subsidiary	(ii)	200	1,513	609	780	397	70
Rental expenses paid to related companies	(iii)	32	56	91	115	57	57
Financing charge paid/payable to a related company	(iv)	—	21	278	829	413	378
Interest income charged to the Controlling Shareholder	(v)	—	—	48	—	—	—
Sale of property, plant and equipment to the Controlling Shareholder	(vi)	—	—	84	—	—	—
Salaries paid to a related party	(vii)	45	51	78	—	—	20

The transactions were conducted on terms and conditions mutually agreed between the relevant parties. Management are of the opinion that those related party transactions were conducted in the ordinary course of business of the Group.

Notes:

- (i) The sales of raw materials and purchases of finished goods were with Sangraf Energy, a related company in which a close family member of the Controlling Shareholder was a key management personnel and owned certain equity interest prior to its acquisition by the Group in October 2018 as set out in note 27 to the Historical Financial Information. The sales and purchases were made at prices mutually agreed between the parties.
- (ii) The financing charge was related to unpaid consideration for the acquisition of Sangraf Energy, as set out in notes 22(d), 27 and 28(b) to the Historical Financial Information and was paid/payable to a related company in which a close family member of the Controlling Shareholder is a key management personnel and owns certain equity interest. The financing charge was calculated at a rate mutually agreed between the parties (notes 8 and 22(d)).
- (iii) The rental expenses were paid based on terms determined between the Group and related companies which are wholly-owned by close family members of the Controlling Shareholder. In respect of the lease agreements entered into during the year ended 31 December 2020 and during the six months ended 30 June 2022 with lease terms longer than 1 year, US\$209,000 and US\$219,000 of right-of-use assets and lease liabilities were recognised on the commencement of the leases in 2020 and 2022, respectively, and depreciation of US\$78,000, US\$105,000, US\$52,000 (unaudited) and US\$54,000 and lease interest of US\$7,000, US\$3,000, US\$2,000 (unaudited) and US\$3,000 were charged to profit or loss during the years ended 31 December 2020 and 2021 and the six months ended 30 June 2021 and 2022, respectively.
- (iv) The financing charge was related to loans of US\$2,675,000, US\$9,267,000, US\$10,473,000 and US\$422,000 as of 31 December 2019, 2020 and 2021 and 30 June 2022, respectively, from a related company in which a close family member of the Controlling Shareholder is a key management personnel and owns certain equity interest. The financing charge was calculated on the loan at a rate mutually agreed between the parties (notes 8 and 22(e)).
- (v) The interest income was calculated at a rate mutually agreed between the parties (note 22(c)).
- (vi) A motor vehicle was disposed to the Controlling Shareholder at its net book value of US\$84,000 as mutually agreed between the parties (note 14).
- (vii) Salaries were paid to a close family member of the Controlling Shareholder.
- (viii) The compensation of key management personnel of the Group paid during the Track Record Period and the six months ended 30 June 2021 included directors' and chief executive's remuneration (note 9).

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of the Group's financial instruments as at the end of each of the Track Record Period:

Financial assets at fair value through profit or loss — mandatorily measured as such

	Year ended 31 December				Six months ended
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
Trade receivables	11,329	1,629	991	3,017	668

Financial assets at amortised cost

	Year ended 31 December				Six months ended
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
Trade receivables	21,481	11,566	16,026	18,832	24,983
Financial assets included in prepayments, deposits and other receivables (note 19)	2,785	909	1,297	1,318	1,641
Cash and cash equivalents	5,920	18,341	12,694	15,086	14,619
	30,186	30,816	30,017	35,236	41,243

Financial liabilities at amortised cost

	Year ended 31 December				Six months ended
	2018	2019	2020	2021	30 June
	US\$'000	US\$'000	US\$'000	US\$'000	2022
Trade and notes payables	20,526	15,115	10,753	18,985	15,435
Financial liabilities included in other payables and accruals (note 22)	38,185	35,869	30,589	20,764	6,864
Lease liabilities	5,579	6,826	1,575	791	1,660
Interest-bearing bank and other borrowings	—	5,003	7,046	20,259	34,474
	64,290	62,813	49,963	60,799	58,433

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, certain balance of trade receivables, trade and notes payables, financial assets included in the current portion of prepayments, deposits and other receivables and financial liabilities included in the current portion of other payables and accruals and current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of financial assets included in non-current deposits, financial liabilities included in non-current other payables and accruals and non-current interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, and were assessed to approximate their carrying amounts.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the directors. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the directors.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Except for certain balances of trade receivables of US\$11,329,000, US\$1,629,000, US\$991,000, US\$3,017,000 and US\$668,000 which were measured at fair value as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022, respectively, by discounting the expected future cash flows using rates currently available for instalments with similar terms and risks, all other financial assets and financial liabilities of the Group were measured at amortised cost.

The fair value measurement hierarchy of the Group's trade receivables measured at fair value through profit or loss is as follows:

Fair value hierarchy

	Year ended 31 December				Six months ended
	2018	2019	2020	2021	30 June 2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Quoted prices in active market (Level 1)	—	—	—	—	—
Significant observable inputs (Level 2)	11,329	1,629	991	3,017	668
Significant unobservable inputs (Level 3)	—	—	—	—	—
Total	<u>11,329</u>	<u>1,629</u>	<u>991</u>	<u>3,017</u>	<u>668</u>

During the Track Record Period and the six months ended 30 June 2021, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, interest-bearing bank and other borrowings and interest-bearing payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables, deposits and other receivables, trade and notes payables and other payables, which arise directly from the Group's operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each of the Track Record Period to a reasonably possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the translated value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax US\$'000	Increase/ (decrease) in equity* US\$'000
As at 31 December 2018			
If Renminbi weakens against US\$	-5%	2,811	(620)
If Renminbi strengthens against US\$	5%	(2,811)	620
If Euro weakens against US\$	-5%	1,074	(4,203)
If Euro strengthens against US\$	5%	(1,074)	4,203
As at 31 December 2019			
If Renminbi weakens against US\$	-5%	2,223	(577)
If Renminbi strengthens against US\$	5%	(2,223)	577
If Euro weakens against US\$	-5%	1,481	(4,380)
If Euro strengthens against US\$	5%	(1,481)	4,380
As at 31 December 2020			
If Renminbi weakens against US\$	-5%	(199)	(3,106)
If Renminbi strengthens against US\$	5%	199	3,106
If Euro weakens against US\$	-5%	2,392	(3,000)
If Euro strengthens against US\$	5%	(2,392)	3,000
As at 31 December 2021			
If Renminbi weakens against US\$	-5%	(11)	(3,403)
If Renminbi strengthens against US\$	5%	11	3,403
If Euro weakens against US\$	-5%	1,237	(3,799)
If Euro strengthens against US\$	5%	(1,237)	3,799
As at 30 June 2022			
If Renminbi weakens against US\$	-5%	(31)	(3,130)
If Renminbi strengthens against US\$	5%	31	3,130
If Euro weakens against US\$	-5%	264	(3,628)
If Euro strengthens against US\$	5%	(264)	3,628

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that only well-established customers will be considered for open account terms and the approval of credit terms is subject to stringent credit check procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year/period-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year/period-end staging classification as at 31 December 2018, 2019, 2020 and 2021 and 30 June 2022. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			Total US\$'000
	Stage 1 US\$'000	Stage 2 US\$'000	Stage 3 US\$'000	Simplified approach US\$'000	
Trade receivables*	—	—	—	21,481	21,481
Financial assets included in prepayments, deposits and other receivables					
— Normal**	2,785	—	—	—	2,785
Cash and cash equivalents					
— Not yet past due	5,920	—	—	—	5,920
	8,705	—	—	21,481	30,186

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			Total US\$'000
	Stage 1 US\$'000	Stage 2 US\$'000	Stage 3 US\$'000	Simplified approach US\$'000	
Trade receivables*	—	—	—	12,443	12,443
Financial assets included in prepayments, deposits and other receivables					
— Normal**	909	—	—	—	909
Cash and cash equivalents					
— Not yet past due	18,341	—	—	—	18,341
	19,250	—	—	12,443	31,693

As at 31 December 2020

	12-month		Lifetime ECLs		Total US\$'000
	ECLs				
	Stage 1 US\$'000	Stage 2 US\$'000	Stage 3 US\$'000	Simplified approach US\$'000	
Trade receivables*	—	—	—	16,065	16,065
Financial assets included in prepayments, deposits and other receivables					
— Normal**	1,297	—	—	—	1,297
Cash and cash equivalents					
— Not yet past due	12,694	—	—	—	12,694
	<u>13,991</u>	<u>—</u>	<u>—</u>	<u>16,065</u>	<u>30,056</u>

As at 31 December 2021

	12-month		Lifetime ECLs		Total US\$'000
	ECLs				
	Stage 1 US\$'000	Stage 2 US\$'000	Stage 3 US\$'000	Simplified approach US\$'000	
Trade receivables*	—	—	—	18,968	18,968
Financial assets included in prepayments, deposits and other receivables					
— Normal**	1,318	—	—	—	1,318
Cash and cash equivalents					
— Not yet past due	15,086	—	—	—	15,086
	<u>16,404</u>	<u>—</u>	<u>—</u>	<u>18,968</u>	<u>35,372</u>

As at 30 June 2022

	12-month		Lifetime ECLs		Total US\$'000
	ECLs				
	Stage 1 US\$'000	Stage 2 US\$'000	Stage 3 US\$'000	Simplified approach US\$'000	
Trade receivables*	—	—	—	25,229	25,229
Financial assets included in prepayments, deposits and other receivables					
— Normal**	1,641	—	—	—	1,641
Cash and cash equivalents					
— Not yet past due	14,619	—	—	—	14,619
	<u>16,260</u>	<u>—</u>	<u>—</u>	<u>25,229</u>	<u>41,489</u>

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the probability of default of customers is disclosed in note 18 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets are “doubtful”.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of other loans and funds generated from operations.

The maturity profile of the Group's financial liabilities as at the end of each of the Track Record Period, based on the contractual and undiscounted payments, is as follows:

	On demand <i>US\$'000</i>	Within 1 year <i>US\$'000</i>	2 to 5 years <i>US\$'000</i>	Beyond 5 years <i>US\$'000</i>	Total <i>US\$'000</i>
As at 31 December 2018					
Trade and notes payables	—	20,526	—	—	20,526
Financial liabilities included in other payables and accruals	—	34,348	7,714	—	42,062
Lease liabilities	—	626	2,531	6,911	10,068
	<u>—</u>	<u>55,500</u>	<u>10,245</u>	<u>6,911</u>	<u>72,656</u>
As at 31 December 2019					
Trade and notes payables	—	15,115	—	—	15,115
Financial liabilities included in other payables and accruals	—	39,467	2,054	—	41,521
Lease liabilities	—	1,205	4,033	5,309	10,547
Interest-bearing other borrowings	—	—	6,032	—	6,032
	<u>—</u>	<u>55,787</u>	<u>12,119</u>	<u>5,309</u>	<u>73,215</u>
As at 31 December 2020					
Trade and notes payables	—	10,753	—	—	10,753
Financial liabilities included in other payables and accruals	—	25,963	7,016	—	32,979
Lease liabilities	—	998	639	—	1,637
Interest-bearing bank borrowings	—	562	5,122	1,890	7,574
	<u>—</u>	<u>38,276</u>	<u>12,777</u>	<u>1,890</u>	<u>52,943</u>
As at 31 December 2021					
Trade and notes payables	—	18,985	—	—	18,985
Financial liabilities included in other payables and accruals	—	15,685	6,775	—	22,460
Lease liabilities	—	654	161	—	815
Interest-bearing bank borrowings	12,384	2,339	6,111	—	20,834
	<u>12,384</u>	<u>37,663</u>	<u>13,047</u>	<u>—</u>	<u>63,094</u>
As at 30 June 2022					
Trade and notes payables	—	15,435	—	—	15,435
Financial liabilities included in other payables and accruals	—	6,864	—	—	6,864
Lease liabilities	—	553	1,006	401	1,960
Interest-bearing bank and other borrowings	12,384	5,548	19,215	—	37,147
	<u>12,384</u>	<u>28,400</u>	<u>20,221</u>	<u>401</u>	<u>61,406</u>

Ignoring the effect of any repayment on demand clause and based on the maturity terms of the bank and other borrowings, the undiscounted amount repayable in respect of the Group's interest-bearing bank and other borrowings were as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one year	—	—	562	14,723	17,932
In the second to fifth years, inclusive	—	6,032	5,122	6,111	19,215
Beyond 5 years	—	—	1,890	—	—
Total	—	6,032	7,574	20,834	37,147

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders and return capital to shareholders. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Group monitors capital using a gearing ratio which is total debt divided by the total capital. Total debt includes other interest-bearing payables and interest-bearing bank and other borrowings. The gearing ratios as at the end of each of the Track Record Period were as follows:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2021	2022
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Other interest-bearing payables (note 22)	23,075	23,734	17,884	13,380	463
Interest-bearing bank and other borrowings (note 23)	—	5,003	7,046	20,259	34,474
Total debt	23,075	28,737	24,930	33,639	34,937
Total equity	106,173	110,322	133,210	134,989	131,901
Gearing ratio	22%	26%	19%	25%	26%

35. SUBSEQUENT EVENTS

No material subsequent event was noted after the end of the Track Record Period.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2022.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information sets out in this appendix does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, our Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Capitalisation and Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Capitalisation and Global Offering had taken place on 30 June 2022. This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Capitalisation and Global Offering been completed as at 30 June 2022 or any future dates:

	Consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2022 <i>US\$'000</i> <i>(note 1)</i>	Estimated net proceeds from the Capitalisation and Global Offering <i>US\$'000</i> <i>(notes 2, 4)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company <i>US\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share <i>US\$</i> <i>(note 3)</i>
Based on an Offer Price of HK\$1.6	130,836	29,462	160,298	0.1603
Based on an Offer Price of HK\$2.2	130,836	42,326	173,162	0.1732

Notes:

1. The consolidated net tangible assets attributable to owners of the Company as at 30 June 2022 is based on the consolidated net assets of the Group of US\$131,901,000 as extracted from the Accountants' Report set out in Appendix I to this prospectus, after netting off intangible asset of US\$1,065,000.
2. The estimated net proceeds from the Capitalisation and Global Offering are based on the indicative Offer Price range of HK\$1.6 and HK\$2.2 per Share, after deduction of the underwriting fees and other related listing expenses payable by the Company (excluding listing expenses which have been recognised in profit or loss prior to 30 June 2022) and assuming no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 1,000,000,000 Shares expected to be in issue immediately following the completion of the Capitalisation and Global Offering without taking into account of any Shares which may be issued under the Over-allotment option or any shares which may be allotted, issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

4. The estimated net proceeds from the Capitalisation and Global Offering are converted into United States dollar at an exchange rate of US\$1.0 to HK\$7.8 as of 30 June 2022.
5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2022.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



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To the Directors of Sanergy Group Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Sanergy Group Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 30 June 2022, and related notes as set out on Appendix II of the prospectus dated 30 December 2022 (the “**Prospectus**”) issued by the Company (the “**Pro Forma Financial Information**”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in notes 1 to 5 therein.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the capitalisation and global offering of the Company on the Group’s financial position as at 30 June 2022 as if the transaction had taken place at 30 June 2022. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the period ended 30 June 2022, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline (“**AG**”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the capitalisation and global offering of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Certified Public Accountants

Hong Kong

30 December 2022

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26 June 2018 under the Companies Act (As Revised) of the Cayman Islands (the “Companies Act”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “Memorandum”) and its Amended and Restated Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 19 December 2022 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN COMPANY LAW**

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

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(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by announcement or by electronic communication or by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year. The period of thirty (30) days may be extended for a further period or periods not exceeding thirty (30) days in respect of any year if approved by the members by ordinary resolution.

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Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

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A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director (including a managing or other executive director) may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

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- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

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Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

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The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

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(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (a) the giving of any security or indemnity either:
 - (aa) to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or
 - (bb) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (b) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (c) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:
 - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or
 - (bb) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to the Directors, his close associate(s) and employee(s) of the Company or any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;
- (d) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

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(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

Any corporation which is a member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any general meeting of the Company or at any meeting of any class of members.

The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member and such corporation shall for the purposes of the Articles be deemed to be present in person at any such meeting if a person so authorised is present thereat.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, the right to speak and to vote, and where a show of hands is allowed, the right to vote individually on a show of hands.

All members have the right to speak and vote at a general meeting except where a member is required, by the rules of the Stock Exchange, to abstain from voting to approve the matter under consideration.

Where the Company has any knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every financial year and such general meeting must be held within six (6) months after the end of the Company's financial year unless a longer period would not infringe the rules of the Stock Exchange.

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Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business or resolution specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

Notwithstanding any provisions in the Articles, any general meeting or any class meeting may be held by means of such telephone, electronic or other communication facilities as to permit all persons participating in the meeting to communicate with each other, and participation in such a meeting shall constitute presence at such meeting.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days. All other general meetings must be called by notice of at least fourteen (14) clear days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify (a) the time and date of the meeting, (b) save for an electronic meeting, the place of the meeting and if there is more than one meeting location as determined by the Board pursuant to the Articles, the principal place of the meeting (the "Principal Meeting Place"), (c) if the general meeting is to be a hybrid meeting or an electronic meeting, the notice shall include a statement to that effect and with details of the electronic facilities for attendance and participation by electronic means at the meeting or where such details will be made available by the Company prior to the meeting, and (d) particulars of resolutions to be considered at the meeting.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be given or issued by the following means:

- (aa) by serving it personally on the relevant person;
- (bb) by sending it through the post to such member's registered address;
- (cc) by delivering or leaving it at such member's registered address;

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- (dd) by placing an advertisement in newspapers or other publication and where applicable, in accordance with the requirements of the Stock Exchange;
- (ee) by sending or transmitting it as an electronic communication to the relevant person at such electronic address as he may provide under the Articles, subject to the Company complying with the Cayman Islands laws and any other applicable laws, rules and regulations from time to time in force with regard to any requirements for the obtaining of consent (or deemed consent) from such person;
- (ff) by publishing it on the Company's website to which the relevant person may have access, subject to the Company complying with the Cayman Islands law and any other applicable laws, rules and regulations from time to time in force with regard to any requirements for the obtaining of consent (or deemed consent) from such person and/or for giving notification to any such person stating that the notice, document or publication is available on the Company's computer network website;
or
- (gg) by sending or otherwise making it available to such person through such other means to the extent permitted by and in accordance with the Cayman Islands law and other applicable laws, rules and regulations.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers; and
 - (ee) the fixing of the remuneration of the directors and of the auditors.
- (v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

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The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy or, for quorum purposes only, two persons appointed by the clearing house as authorised representative or proxy, and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

(vi) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

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A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall by ordinary resolution appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by ordinary resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may by ordinary resolution determine.

The Directors may fill any casual vacancy in the office of the auditors but while any such vacancy continues the surviving or continuing auditor(s), if any, may act. The remuneration of any auditor so appointed by the Directors may be fixed by the board.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

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Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

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(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

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(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

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The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Act.

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A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

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Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 30 July 2020.

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

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(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

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For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by (i) a majority in number representing seventy-five per cent. (75%) in value of creditors, or (ii) seventy-five per cent. (75%) in value of shareholders or class of shareholders, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

The Companies Act also contains statutory provisions which provide that a company may present a petition to the Court for the appointment of a restructuring officer on the grounds that the company (a) is or is likely to become unable to pay its debts within the meaning of section 93 of the Companies Act; and (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either, pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring. The petition may be presented by a company acting by its directors, without a resolution of its shareholders or an express power in its articles of association. On hearing such a petition, the Court may, among other things, make an order appointing a restructuring officer or make any other order as the Court thinks fit.

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(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 of the Cayman Islands ("ES Act") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies and Available on Display — 2. Documents Available on Display" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on 26 June 2018. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 17 December 2020 and our Company's principal place of business in Hong Kong is at Room 2602, 26/F China Resources Building, No. 26 Harbour Road, Wan Chai, Hong Kong. Ms. Ip Cheuk Man Louisa of Room 2602, 26/F China Resources Building, No. 26 Harbour Road, Wan Chai, Hong Kong, a Hong Kong resident, has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and the articles of association. A summary of the relevant aspects of the Companies Act and certain provisions of Articles of Association is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

As at the date of the incorporation of our Company, the authorised share capital of our Company was US\$50,000 divided into 50,000 Shares of US\$1.00 each. At the time of incorporation, the issued share capital of our Company was US\$1.00, with one Share of US\$1.00 held by initial subscriber, an Independent Third Party. On the same date, the said one Share was transferred to Otautahi Capital for a consideration at par value.

On 5 May 2020, the authorised share capital of our Company was increased from US\$50,000 divided into 50,000 Shares of US\$1.00 each to US\$100,000 divided into 100,000 Shares of US\$1.00 each by the creation of 50,000 Shares, such new Shares ranking *pari passu* in all respects with the existing Shares.

On 28 May 2020, 95,260 Shares of US\$1.00 each were allotted and issued to Otautahi Capital. On 1 June 2020, 4,739 Shares of US\$1.00 each were allotted and issued to Everbright Financial Holding.

On 24 June 2020, each issued and unissued share of a par value of US\$1.00 in the share capital of our Company was sub-divided into 100 Shares of a par value of US\$0.01 each. Upon the share subdivision, the authorised and issued share capital of our Company was US\$100,000 divided into 10,000,000 Shares of a par value of US\$0.01 each.

On 31 August 2021, the authorised share capital of our Company was increased from US\$100,000 divided into 10,000,000 Shares of US\$0.01 each to US\$300,000 divided into 30,000,000 Shares of US\$0.01 each by the creation of 200,000 Shares, such new Shares ranking *pari passu* in all respects with the existing Shares.

On 31 August 2021, 442,540 Shares, 21,980 Shares, 445,060 Shares, 50,270 Shares and 40,150 Shares, all of US\$0.01 each, were allotted and issued to Otautahi Capital, Everbright Financial Holding, Liaoning Jinhao, Hexagon and Kiu Yeung Asset Management, respectively.

Immediately following completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, our authorised share capital will be US\$50,000,000 divided into 5,000,000,000 Shares, of which 1,000,000,000 Shares will be issued fully paid or credited as fully paid, and 4,000,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “A. Further Information about our Company — 4. Written resolutions of the then shareholders of our Company passed in a general meeting of our Company held on 19 December 2022” in this Appendix, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meetings, no issue of Shares will be made which would effectively alter the control of our Company.

3. Changes in share capital of our subsidiaries

Save as disclosed in the paragraph headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus, there has been no alteration in the share capital or registered capital of the subsidiaries of our Company within the two years preceding the date of this prospectus.

4. Written resolutions of the then shareholders of our Company passed in a general meeting of our Company held on 19 December 2022

Pursuant to the written resolutions of the then shareholders of our Company entitled to vote at the general meeting of our Company held on 19 December 2022:

- (a) our Company approved and adopted the Memorandum of Association with immediate effect;
- (b) our Company approved and adopted the Chinese name of our Company 昇能集團有限公司 with immediate effect;
- (c) the authorised share capital of our Company was increased from US\$300,000 divided into 30,000,000 Shares of US\$0.01 each to US\$50,000,000 divided into 5,000,000,000 Shares of US\$0.01 each by the creation of 4,970,000,000 Shares of US\$0.01 each, which shall rank pari passu in all respects with the Shares in issue as at the date of the resolution;
- (d) conditional upon (i) the Listing Committee granting the listing of, and permission to deal in, on the Main Board, our Shares in issue and to be issued (pursuant to the Capitalisation Issue, the Global Offering, the Over-allotment Option and the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:

- (i) our Company approved and adopted the Articles of Association with effect from the Listing Date;
- (ii) conditional on the share premium account of our Company being credited as a result of the Global Offering, the sum of US\$8,166,000 be capitalised and applied in paying up in full at par value 816,600,000 Shares for allotment and issue to our Shareholders whose names were on the register of members of our Company immediately prior to the Global Offering and such Shares (or as they may direct) to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respect with the existing issued Shares;
- (iii) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
- (iv) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorised, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;
- (v) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue (as defined below), or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Associations or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to Directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by our Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the total number of Shares of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but before any exercise of the Over-allotment Option and any options

which may be granted under the Share Option Scheme, until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within the next annual general meeting of our Company is required by the Articles of Association or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meetings of our Company varying or revoking the authority given to our Directors, whichever occurs first;

For the purpose of this paragraph, “Rights Issue” means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognised regulatory body or any stock exchange applicable to our Company);

- (vi) a general unconditional mandate be and is hereby given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the total number of Shares of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but before the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of our Company is required by the Article of Association of our Company or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in a general meeting of our Company varying or revoking the authority given to our Directors, whichever occurs first;

- (vii) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (c)(v) above by the addition to the aggregate number of Shares of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to paragraph (c)(vi) above, provided that such extended amount shall not exceed 10% of the aggregate number of Shares of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but before the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme be and is approved; and

Each of the general mandates referred to in paragraphs (c)(v), (c)(vi) and (c)(vii) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (2) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (3) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of our Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions of the then shareholders of our Company passed in a general meeting of our Company held on 19 December 2022, a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate number of Shares in issue or to be issued immediately following completion of the Global Offering (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), further details of which have been described above in the paragraph headed “A. Further information about our Company — 4. Written resolutions of the then shareholders of our Company passed in a general meeting of our Company held on 19 December 2022” in this Appendix.

(ii) Source of funds

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Companies Act. We are not permitted to repurchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as it would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No core connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANISATION

In order to streamline the corporate structure and rationalise our corporate structure for the Listing, our Group underwent the Reorganisation. Please see the sub-section headed "History, Reorganisation and Group Structure — Reorganisation" in this prospectus for details.

C. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of the material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

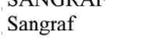
- (1) the preliminary sale and purchase agreement dated 16 March 2021 entered into between Gosource Group Limited and SGL Carbon S.p.A., pursuant to which Gosource Group Limited agreed to purchase and SGL Carbon S.p.A. agreed to sell the buildings, tangible assets and plots of land adjacent to the Italian Factory;
- (2) the Bailment Agreement dated 17 March 2021 entered into between Sangraf Italy, Gosource Group Limited and SGL Carbon S.p.A., pursuant to which SGL Carbon S.p.A. had temporarily allowed Sangraf Italy to use the buildings, tangible assets and plots of land adjacent to the Italian Factory at the Bailment Consideration starting from 14 September 2021;
- (3) the investment agreement dated 15 June 2021 entered into between our Company, Otautahi Capital and Liaoning Jinhao, pursuant to which Liaoning Jinhao agreed to subscribe for 425,280 new Shares at a consideration of RMB65.0 million;
- (4) the deed of sale and purchase dated 19 July 2021 entered into between Gosource Group Limited and Tianjin Binhai New District Baochang Shipping Investment Management Co., Ltd, pursuant to which Gosource Group Limited agreed to sell and Tianjin Binhai New District Baochang Shipping Investment Management Co., Ltd agreed to purchase the buildings, tangible assets and plots of land adjacent to the Italian Factory;
- (5) the investment agreement dated 5 August 2021 entered into between our Company, Otautahi Capital and Hexagon, pursuant to which Hexagon agreed to subscribe for new Shares equivalent to 0.457% shareholding of the then enlarged issued share capital of our Company at a consideration of HK\$10.0 million;
- (6) the investment agreement dated 5 August 2021 entered into between our Company, Otautahi Capital and Kiu Yeung Asset Management, pursuant to which Kiu Yeung Asset Management agreed to subscribe for new Shares equivalent to 0.1826% shareholding of the then enlarged issued share capital of our Company at a consideration of HK\$4.0 million;
- (7) the investment agreement dated 18 August 2021 entered into between our Company, Otautahi Capital and Kiu Yeung Asset Management, pursuant to which Kiu Yeung Asset Management agreed to subscribe for new Shares equivalent to 0.1826% shareholding of the then enlarged issued share capital of our Company at a consideration of HK\$4.0 million;

- (8) the share transfer agreement dated 23 September 2021 entered into between our Company, Otautahi Capital, Liaoning Jinhao and ZhengNan Enterprise, pursuant to which Liaoning Jinhao agreed to assign all the shares it held in our Company to ZhengNan Enterprise;
- (9) the Deed of Indemnity;
- (10) the Deed of Non-competition; and
- (11) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

Trademarks

As at the Latest Practicable Date, we had registered 13 trademarks which, in the opinion of our Directors, are material to our business:

No.	Trademark	Class	Registered owner	Place of registration/ Organisation of filing	Registration number	Expiration date
1		9	Sangraf US	United States	4316453	10 April 2023
2		9	Sangraf US	World Intellectual Property Organization (the registration is designated under Switzerland)	1315300	18 January 2026
3	SANGRAF INTERNATIONAL	9	Sangraf US	South Africa	2016/02389	28 January 2026
4	 	9, 35, 40, 42	Sangraf International (HK)	Hong Kong	305147965	18 December 2029
5	  	9, 35, 40, 42	Sangraf International (HK)	Hong Kong	305147947	18 December 2029
6	 	9, 35, 40, 42	Sangraf International (HK)	Hong Kong	305185774	5 February 2030
7	  	9, 35, 40, 42	Sangraf International (HK)	Hong Kong	305185765	5 February 2030

No.	Trademark	Class	Registered owner	Place of registration/ Organisation of filing	Registration number	Expiration date
8	SANGRAF	9	Sangraf International (HK)	PRC	44190372	13 October 2030
9	SANGRAF	42	Sangraf International (HK)	PRC	44199134	13 October 2030
10	 SANGRAF INTERNATIONAL	9	Sangraf International (HK)	PRC	39079305	27 December 2030
11	SANERGY	35	Sangraf International (HK)	PRC	44188742	13 January 2031
12	SANERGY	40	Sangraf International (HK)	PRC	44153676	20 February 2031
13	SANERGY	42	Sangraf International (HK)	PRC	44185652	13 February 2031

Patents

As at the Latest Practicable Date, we have registered 22 patents which, in the opinion of our Directors, are material to our business:

No.	Patent	Type	Registered owner	Place of registration	Patent number	Application	Expiration date
1	Three-phase multi-extrusion large-scale graphite electrode industrial silicon electric furnace power transmission smelting system (三相多根擠壓大規格石墨電極工業矽電爐送電冶煉系統)	Utility model and design	Sangraf Energy Sangraf Henan Feng Jianguo Ding Jiebin Shao Mei	PRC	201620981773.7	30 August 2016	29 August 2026
2	Three-phase multi-extrusion graphite electrode layout ferroalloy furnace power transmission smelting system (三相多根擠壓石墨電極佈局鐵合金爐送電冶煉系統)	Utility model and design	Sangraf Energy Sangraf Henan Feng Jianguo Ding Jiebin Shao Mei	PRC	201621065273.5	21 September 2016	20 September 2026
3	Three-phase multi-extruded graphite electrode layout large capacity yellow phosphorus furnace smelting system (三相多根擠壓石墨電極佈局大容量黃磷爐冶煉系統)	Utility model and design	Sangraf Energy Sangraf Henan Feng Jianguo Ding Jiebin Shao Mei	PRC	201620982858.7	30 August 2016	29 August 2026
4	Environmentally-friendly asphalt melting and conveying system (碳製品工業中環保型瀝青熔化輸送系統)	Utility model and design	Sangraf Energy Sangraf Henan Feng Jianguo Ding Jiebin Shao Mei	PRC	201620986141.X	30 August 2016	29 August 2026

No.	Patent	Type	Registered owner	Place of registration	Patent number	Application	Expiration date
5	Three-phase multi-extrusion large-scale graphite electrode layout calcium carbide furnace power transmission smelting system (三相多根擠壓大規格石墨電極佈局電石爐送電冶煉系統)	Utility model and design	Sangraf Energy Sangraf Henan Feng Jianguo Ding Jiebin Shao Mei	PRC	ZL 2016 2 0981358.1	30 August 2016	29 August 2026
6	Flue gas purification system of graphitisation furnace (石墨製品工業中石墨化爐煙氣淨化系統)	Utility model and design	Sangraf Energy Sangraf Henan Feng Jianguo Ding Jiebin Shao Mei	PRC	ZL 2016 2 0981388.2	30 August 2016	29 August 2026
7	GHP ϕ 960- ϕ 1420 mm Extra-large graphite electrode and its production method (GHP ϕ 960- ϕ 1420 mm超大規格石墨電極及其生產方法)	Invention	Sangraf Henan	PRC	ZL 2019 1 0847056.3	6 September 2019	5 September 2039
8	Kneading temperature control device for the pressing process of ultra-high power graphite electrode (超高功率石墨電極壓型工序混捏溫度控制裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 1253946.6	1 July 2020	30 June 2030
9	Two sets of temperature equalization device of dry material heating equipment for simultaneous heating (兩套同時加熱的乾料加熱設備均溫裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 1253940.9	1 July 2020	30 June 2030

No.	Patent	Type	Registered owner	Place of registration	Patent number	Application	Expiration date
10	Grinding powder control device for the pressing process of ultra-high-power graphite electrode (超高功率石墨電極壓型工序磨粉控制裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 1253951.7	1 July 2020	30 June 2030
11	Improved end flue device of ring furnace with cover (帶蓋環式焙燒爐改進後的端部煙道裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 1273297.6	3 July 2020	2 July 2030
12	Jaw crusher for the pre-crushing graphite electrodes (對石墨電極進行預碎的顎式破碎機)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 3178420.9	25 December 2020	24 December 2030
13	Graphite electrodes length measuring device (用於石墨電極的測長裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 3178441.0	25 December 2020	24 December 2030
14	Spreader for graphite electrode installation (用於石墨電極安裝的吊具)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 3181204.X	25 December 2020	24 December 2030
15	Tester for graphite electrode resistivity measurement (用於石墨電極電阻率測量的測試儀)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 3181254.8	25 December 2020	24 December 2030
16	Graphite electrode grinding and grinding powder collection system (石墨電極碾磨及磨粉收集系統)	Utility model and design	Sangraf Henan	PRC	ZL 2020 2 3181264.1	25 December 2020	24 December 2030

No.	Patent	Type	Registered owner	Place of registration	Patent number	Application	Expiration date
17	A dry material heating device with dust treatment function (一種具有揚塵處理功能的乾料加熱設備)	Utility model and design	Sangraf Henan	PRC	ZL 2022 2 0084177.4	13 January 2022	12 January 2032
18	A powder conveying pipeline sampling device (一種粉料輸送管道取樣裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2022 2 0084226.4	13 January 2022	12 January 2032
19	A powder conveying feeding device (一種粉料輸送給料裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2022 2 0085280.0	13 January 2022	12 January 2032
20	A bucket belt elevator for preventing crush and blockage of materials (一種防堵料壓死的斗式皮帶提昇機)	Utility model and design	Sangraf Henan	PRC	ZL 2022 2 0084178.9	13 January 2022	12 January 2032
21	An elastic variable device for preventing heavy-load and no-load of elevator's wire rope (一種防止提昇機鋼絲繩重載和空載彈性變量裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2022 2 0085279.8	13 January 2022	12 January 2032
22	An automatic sampling device for batch scale (一種配料秤自動取樣裝置)	Utility model and design	Sangraf Henan	PRC	ZL 2022 2 0085245.9	13 January 2022	12 January 2032

Domain Names

As at the Latest Practicable Date, we had registered the following domain names which, in the opinion of our Directors, are material to our business:

Registrant	Domain name	Date of registration	Expiration date
Sangraf US	www.sangrafintl.com	24 February 2012	24 February 2025
Domain masked (James Feng)	www.gosourcegroup.com	17 July 2017	17 July 2023
Gosource Group	www.sanergygroup.com	6 February 2020	6 February 2024

D. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Directors' service contracts and letters of appointment**

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than one month's notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Our non-executive Director has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than one month's notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our independent non-executive Directors has entered into a letter of appointment with us for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than one month's notice in writing served by the independent non-executive Director to our Company or with immediate effect following the notice in writing served by our Company to the independent non-executive Director.

The current basic annual salaries of our Directors are as follows:

Name of Director	US\$'000
Dr. Wei-Ming Shen	363
Mr. Adriaan Johannes Basson	123
Mr. Yan Haiting	170
Mr. Hou Haolong	456
Mr. Wang Ping	108
Mr. Cheng Tai Kwan Sunny	26
Mr. Sun Qing	19
Mr. Ngai Ming Tak	38
Ms. Chan Chore Man Germaine	26

Save as aforesaid, none of our Directors has or is proposed to have a service contract or a letter of appointment with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For the four years ended 31 December 2021 and the six months ended 30 June 2022, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was approximately US\$6.7 million, US\$5.6 million, US\$1.4 million, US\$0.9 million and US\$0.4 million, respectively. Details of our remuneration are also set out in note 9 of the Accountants' Report set out in Appendix I to this prospectus.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable to our Directors during the Track Record Period.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending 31 December 2022 will be approximately US\$0.9 million.

E. DISCLOSURE OF INTERESTS

1. Disclosure of interests

(a) Interests and short positions of our Directors or our chief executive officer in our share capital and our associated corporations as at the Latest Practicable Date and following the Capitalisation Issue and the Global Offering

Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, none of our Directors or chief executive of our had any the interests or short positions in our Shares, underlying Shares and debentures of our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, so far as our Directors are aware, the following persons (not being our Director or chief executives of our Company) are expected to have interests or short positions in our Shares or underlying Shares which are required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or interested in 10% or more of the issued voting shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Name	Capacity/Nature of Interest	Immediately after the Capitalisation Issue and the Global Offering ⁽¹⁾	
		Number of Shares	Approximate percentage of shareholding in our Company
Otautahi Capital	Beneficial owner	750,004,224	75.00%
Otautahi Holdings	Interest in a controlled corporation ⁽²⁾	750,004,224	75.00%
Otautahi Enterprises	Trustee ⁽²⁾	750,004,224	75.00%
Mr. Hou	Founder of a discretionary trust ⁽²⁾	750,004,224	75.00%

Notes:

- (1) Assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme.
- (2) Otautahi Capital is owned as to 100% by Otautahi Holdings, which is in turn wholly-owned by Otautahi Enterprises. Otautahi Enterprises is the trustee of the Otautahi Trust, which is a discretionary trust established by Otautahi Enterprises as the trustee and Mr. Hou is one of the beneficiaries. Accordingly, each of Otautahi Holdings, Otautahi Enterprises and Mr. Hou is deemed to be interested in all the Shares held by Otautahi Capital under the SFO.

2. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executives of our Company) who will, immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of options granted under the Share Option Scheme and the Capitalisation Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the issued voting shares of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group;
- (b) none of our Directors has any interest or short position in any of our Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once our Shares are listed;
- (c) none of our Directors nor any of the parties listed in “G. Other Information — 10. Consents of experts” in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of our Directors nor any of the parties listed in “G. Other Information — 10. Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;

- (e) save in connection with the Underwriting Agreements, none of the parties listed in “G. Other Information — 10. Consents of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their close associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of our Shareholders passed on 19 December 2022 (the “**Adoption Date**”) and adopted by a resolution of the Board on 16 December 2022. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Participants (as defined in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of an Employee Participant (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

The Board may, at its absolute discretion, offer options (“**Options**”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to any of the Employee Participant, the Related Entity Participant or the Service Provider (collectively, the “**Eligible Participants**”) below:

- (a) any director or employee of our Company or any of its subsidiaries, including persons who are granted Options as an inducement to enter into employment contracts with our Company or any of its subsidiaries (“**Employee Participants**”);
- (b) a director or employee of a holding company, a subsidiary of the holding company or an associated company of our Company (“**Related Entity Participants**”); and

- (c) any person who provides services to our Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long-term growth of our Group, including (i) a supplier of goods or services to any member of our Group; (ii) a customer of any member of our Group; (iii) a business or joint venture partner, franchisee, contractor, agent or representative in the sports product industry of any member of our Group; (iv) a person or entity (as an independent contractor, consultant, advisor or otherwise) that provides support or any advisory, consultancy, professional or other services to any member of our Group (including support or services in relation to design, research, development, marketing, innovation upgrading, strategic or commercial planning on corporate image, investor relations, product quality control, regulations and policies); and (v) an associate of any of the foregoing persons (“**Service Providers**”). For the avoidance of doubt, Service Provider may not include placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions, as well as professional service providers (such as auditors or valuers) who provide assurance or are required to perform their services with impartiality and objectivity.

3. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company, shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (such 10% limit representing 100,000,000 Shares) excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option granted by our Company (the “**Scheme Mandate Limit**”). The Scheme Mandate Limit may be adjusted in the event of any alteration to the capital structure of our Company by way of capitalisation issue, rights issue, consolidation, reclassification, reconstruction, subdivision or reduction of the share capital of our Company but shall not in any event exceed the limits imposed by the Listing Rules. Any such adjustments shall give the Eligible Participants the same proportion of equity capital as they were previously entitled to. In respect of any such adjustments, other than any made on a capitalisation issue, the auditors shall confirm to the committee of the Board in writing that the adjustments satisfy the requirement.

Our Company may seek approval by its shareholders in general meeting for refreshing the Scheme Mandate Limit after three years from (i) the adoption date of the Share Option Scheme; or (ii) the date of the Shareholders’ approval for the last refreshment (as the case may be). The total number of Shares which may be issued in respect of all options and awards to be granted under the Share Option Scheme and any other schemes of our Company under the Scheme Mandate Limit as refreshed shall not 10% of the Shares in issue as at the date of the Shareholders’ approval for the refreshment.

Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought, and subject to compliance with the requirements set out in the Listing Rules.

4. Maximum entitlement of each participants

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of any relevant class of our Company's issued share capital from time to time (the "**1% Individual Limit**"). Where any further grant of Options to such an Eligible Participant would result in our Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over the 1% Individual Limit, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Participant and his close associates (or his associates if such Eligible Participant is a connected person) abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Participant, the number and terms of the Options to be granted (and Options previously granted in the 12-month period) to such Eligible Participant, the purpose of granting Options to such Eligible Participant and an explanation as to how the terms of the Options serve such purpose. The number and terms (including the exercise price) of the Options to be granted to such Eligible Participant must be fixed before the approval of our Shareholders. In respect of any Options to be granted, the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price of those Options.

5. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Participant as the Board may in its absolute discretion select to subscribe at the exercise price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. Granting Options to connected persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, any grant of Options to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, shall be approved by the independent non-executive directors of our Company (excluding the independent non-executive Director who is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of securities in issue, such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favor at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to an Eligible Participant who is a Director, chief executive or a substantial shareholder, or any of their respective associates. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

7. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after inside information has come to its knowledge until (and including) the trading day after it has announced the information. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to announce its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements. No Options shall be granted during any period of delay in publishing a results announcement or during any period specified in the Listing Rules as being a period during which no Option may be granted.

8. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion (i) when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set out in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Group and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of the Shares shall vest; and (ii) at any time after the grant of an Option, waive or amend such conditions, restrictions or limitations to the advantage of the grantee, provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. Unless otherwise determined by the Board and specified in the grant letter, there is no performance target which need to be achieved by the grantee before the Option can be exercised. Options granted to Directors and senior management of our without performance targets shall be subject to any other requirements under the Listing Rules.

In certain circumstances, it may be regarded as inequitable for any Options to be vested or retained (as the case may be). Such Options are therefore subject to, in respect of any Options granted to an Eligible Participant, the return or repayment of all or a specific part of such Options by such Eligible Participant and/or the ceasing or variation of the Eligible Participant's entitlement to receive or be vested with all or a specified part of any such Options which have not yet been vested in the Eligible Participant (the "**Clawback**"), including but not limited to where there has been a material misstatement or omission in the financial report of our Group or if the relevant grantee has engaged in serious negligence, fraud or misconduct. Notwithstanding any other terms of the Share Option Scheme, any Options may be subject to Clawback pursuant to our Company's policy on Clawback, as amended from time to time. Options granted to Directors and senior management of our Company without Clawback shall be subject to any other requirements under the Listing Rules.

9. Amount payable for Options and offer period

An offer of the grant of an Option shall remain open for acceptance by the Eligible Participant concerned for a period of 28 days from the grant date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme or after the Share Option Scheme has been terminated. An Option shall be deemed to have been granted and accepted by the Eligible Participant and to have taken effect when the duplicate grant letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of our Company of US\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Participant, being a date no later than 28 days after the offer date (the "**Acceptance Date**"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate grant letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

10. Exercise price

The exercise price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the exercise price shall not be less than whichever is the higher of:

- (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the grant date; and
- (b) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Business Days (as defined in the Listing Rules) immediately preceding the grant date.

11. Exercise of Option

- (a) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the exercise period in the manner as set out in this Share Option Scheme by the grantee (or any other person so permitted pursuant to this Share Option Scheme) by giving notice in writing to our Company in the manner to the satisfactory to our Company and stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or any other person so permitted pursuant to this Share Option Scheme) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or any other person so permitted pursuant to this Share Option Scheme) share certificate(s) in respect of the Shares so allotted.
- (b) The exercise of any Option shall be subject to the approval of shareholders of our Company in general meeting for any necessary increase in the authorised share capital of our Company.
- (c) Subject as hereinafter provided and subject to the terms and conditions upon which the Option was granted, an Option may be exercised by the Grantee at any time during the exercise period, provided that:
 - (i) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full) and none of the events for termination of employment or engagement pursuant to the terms of the Share Option Scheme exists with respect to such grantee, he (or his personal representative(s)) may exercise the Option up to the grantee's entitlement immediately prior to the death or permanent disability (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;
 - (ii) in the event that the grantee ceases to be (i) an Employee Participant by reason of his retirement pursuant to such retirement scheme applicable to our at the relevant time or (ii) a Related Entity Participant by reason of his retirement pursuant to such retirement scheme applicable to the Related Entity (as the case may be), and none of the events for termination of employment or engagement under subparagraph (v) below exists with respect to such grantee, his Option (to the extent not already exercised) shall be exercisable up to the grantee's entitlement immediately prior to his retirement until the expiry of the relevant exercise period;

- (iii) in the event that the grantee ceases to be (i) an Employee Participant by reason of his transfer of employment to a Related Entity or (ii) a Related Entity Participant by reason of his transfer of employment to our (as the case may be), his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant exercise period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined;
- (iv) in the event that the grantee ceases to be (i) an Employee Participant for any reason (including his employing company ceasing to be a member of our Group or a Related Entity (as the case may be)) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group or Related Entity (as the case may be) at the relevant time or the transfer of his employment to a Related Entity or our Group (as the case may be) or the termination of his employment with the relevant member of our Group or a Related Entity (as the case may be) by resignation or culpable termination, Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;
- (v) in the event that the grantee ceases to be an Employee Participant or a Related Entity Participant (as the case may be) by reason of the termination of his employment by resignation or culpable termination, the Option (to the extent not already exercised) shall lapse on the date on which the notice of termination is served (in the case of resignation) or the date on which the grantee is notified of the termination of his employment (in the case of culpable termination) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such service or notification;
- (vi) if a grantee being:
 - (A) an executive Director ceases to be an executive director or senior management of our but remains a non-executive Director, his Option (to the extent not already exercised) shall be exercisable until the expiry of the relevant exercise period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined; or

(B) a non-executive Director or an independent non-executive Director ceases to be a Director:

- (1) by reason of his retirement pursuant to our Articles of Association and who notifies our Company that he is not offering himself for re-election at our Company's annual general meeting ("**Non-Executive Director Retirement**"), his Option (to the extent not already exercised) shall be exercisable up to the grantee's entitlement immediately prior to his retirement until the expiry of the relevant exercise period unless the Board in its absolute discretion otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board has determined; or
- (2) for reasons other than Non-Executive Director Retirement, his Option (to the extent not already exercised) shall lapse on the date of cessation of such appointment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

(vii) if:

- (A) the Board in its absolute discretion at any time determines that a grantee has ceased to be an Eligible Participant;
- (B) a grantee has failed to or no longer satisfies or complies with such criteria or terms and conditions that may be attached to the grant of the Option or which were the basis on which the Option was granted,

the Option (to the extent not already exercised) shall lapse on the date on which the grantee is notified thereof (in the case of (A)) or on the date on which the grantee has failed to or no longer satisfies or complies with such criteria or terms and conditions as aforesaid (in the case of (B)) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable up to the grantee's entitlement immediately prior to the determination of the Board (in the case of (A)) or the failure of the grantee to satisfy or comply with the criteria or terms and conditions attached to the grant of the Option or which were the basis on which the Option was granted (in the case of (B)) within such period as the Board may in its absolute discretion determine following the date of such notification or the date of such failure, non-satisfaction or non-compliance;

(viii) if a grantee (being a corporation):

- (A) has a liquidator or receiver appointed anywhere in the world in respect of the whole or any part of the assets or undertaking of the grantee; or
- (B) has suspended, ceased or threatened to suspend or cease business; or
- (C) is unable to pay its debts; or
- (D) otherwise becomes insolvent; or
- (E) suffers a change in its constitution, management, directors or shareholding which in the opinion of the Board is material; or
- (F) commits a breach of any contract entered into between the grantee or his associate and any member of our Group,

the Option (to the extent not already exercised) shall lapse on the date of appointment of the liquidator or receiver or on the date of suspension or cessation of business or threatened suspension or cessation of business or on the date when the grantee is deemed to be unable to pay its debts as aforesaid or otherwise becomes insolvent or on the date of notification by our Company that the said change in constitution, management, directors or shareholding is material or on the date of notification by our Company of the said breach of contract (as the case may be) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable up to the grantee's entitlement immediately prior to the occurrence of any of the event(s) mentioned in paragraphs (A) to (F) of this paragraph within such period as the Board may in its absolute discretion determine following the date of such occurrence;

(ix) if a grantee (being an individual):

- (A) is unable or has no reasonable prospects of being able to pay his debts within the meaning of the Bankruptcy Ordinance (Chapter 6 of the Laws of Hong Kong) or any other applicable law or has otherwise become insolvent; or
- (B) has made any arrangement or composition with his creditors generally; or
- (C) has been convicted of any criminal offence involving his integrity or honesty; or

(D) commits a breach of any contract entered into between the grantee or his associate and any member of our Group,

the Option (to the extent not already exercised) shall lapse on the date on which he is deemed unable or to have no reasonable prospects of being able to pay his debts as aforesaid or on the date on which a petition for bankruptcy has been presented in any jurisdiction or on the date on which he enters into the said arrangement or composition with his creditors or on the date of his conviction or on the date of the said breach of contract (as the case may be) and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable up to the grantee's entitlement immediately prior to the occurrence of any of the event(s) mentioned in paragraphs (A) to (D) of this paragraph within such period as the Board may in its absolute discretion determine following the date of such occurrence;

- (x) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
- (xi) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his personal representatives or receiver) may until the expiry of the earlier of:
 - (1) the exercise period;
 - (2) the period of two months from the date of such notice; or
 - (3) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his or her Option.

Except insofar as exercised in accordance with this paragraph, all Options outstanding at the expiry of the relevant period referred to in this paragraph shall lapse. Our Company may thereafter require each grantee to transfer or otherwise deal with the Shares issued on exercise of the Option to place the grantee in the same position as would have been the case had such Shares been the subject of such compromise or arrangement; and

- (xii) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her options at any time not later than two Business Days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company in the manner to the satisfactory to our Company, accompanied by a remittance for the full amount of the aggregate exercise price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee (or any other person so permitted pursuant to the share Option Scheme) credited as fully paid.

12. Life of Share Option Scheme

Subject to the terms of this Share Option Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

13. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the exercise period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of the Option;
- (c) subject to the terms of the period mentioned in the paragraph headed “F. Share Option Scheme — 11. Exercise of Option” in this Appendix, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgment, order or award outstanding against the grantee or the Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;
- (e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in this Share Option Scheme with respect to the exercise of the Option;
- (f) a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

14. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation issue, right issue, consolidations, reclassification, reconstruction, sub-division or reduction of the share capital of our Company (or any other actions which may have an impact on the share capital of our Company, other than an issue of Shares as consideration in respect of a transaction to which our Company is a party), the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the exercise price of each outstanding Option,

provided that the maximum number of Shares that may be issued in respect of all options and awards to be granted under all of the schemes of our Company under the Scheme Mandate Limit or the Service Provider Limit as a percentage of the total number of issued Shares immediately before and after such alteration to the capital structure of our shall be the same, rounded to the nearest whole share.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall give an Eligible Participant the same proportion of equity capital, rounded to the nearest whole share, as that to which the Eligible Participant was previously entitled to, but no such adjustments shall be made to the extent that a Share would be issued at less than its normal value (if any). In respect of any such adjustments, other than any made on a capitalisation issue, the auditors shall confirm to the Board in writing that the adjustments satisfy the requirement set out in this paragraph;
- (b) any such adjustments shall be made on the basis that the aggregate exercise price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable same as (but shall not be greater than) it was before such event;
- (c) any such adjustments shall be made to in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

15. Cancellation of options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- (a) the grantee commits or permits or attempts to commit or permit a breach of restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

Options cancelled will be regarded as utilized for the purpose of calculating the Scheme Mandate Limit and the Service Provider Limit. Where our Company cancels Options granted to an Eligible Participant, and makes a new grant to the same Eligible Participant, such new grant may only be made under the Scheme with available Scheme Mandate Limit approved by the shareholders of our Company.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue commencing from (i) the allotment date or, (ii) if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members. Accordingly, it will entitle the holders to participate in all dividends or other distributions paid or made on or after (i) the allotment date or, (ii) if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

New grantee shall enjoy any rights of a Shareholder by virtue of the grant of an Option pursuant to the Scheme, unless and until Shares are actually issued to the grantee pursuant to the exercise of an Option. The Options do not carry any right to vote in general meeting of our Company, or the right to dividend and other rights, including those arising on a liquidation of our Company. Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person so permitted pursuant to the Share Option Scheme) as the holder thereof.

The outstanding Options granted may not be exercised if all or part of the exercise of the Options will result in the holding of the total issued Shares by the public falling below 25% (or such other percentage stipulated under the Listing Rules or permitted by the Stock Exchange).

In the event the grantee has been suspended from his duties or performance of the relevant contract of employment, directorship, appointment or engagement by the relevant member of our Group or the Related Entity (as the case may be), no Option can be exercised until such suspension has been lifted.

17. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable until expiry of the relevant exercise period subject to and in accordance with the Share Option Scheme.

18. Transferability

The Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any Option or attempt to do so, except for a transfer to a vehicle (such as a trust or a private company) for the benefit of the grantee and any family members of such grantee for estate planning or tax planning as permitted by the Stock Exchange or under the Listing Rules). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

19. Alteration of Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior approval of our Shareholders in general meeting by ordinary resolution:

- (a) any alteration to the terms and conditions of the Scheme which are material in nature or any alterations to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of the Eligible Participants;
- (b) any change to the authority of the Board to alter the terms of the Scheme; and
- (c) any alteration to the aforesaid alteration provisions, provided always that the amended terms of the Share Option Scheme or the Options shall comply with the applicable requirements of the Listing Rules.

20. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) the approval of our Shareholders for the adoption of the Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 100,000,000 Shares to be allotted and issued pursuant to the exercise of the Share Option Scheme in accordance with the terms and conditions of the Share Option Scheme;
- (c) the commencement of dealing in our Shares on the Stock Exchange; and
- (d) the obligations of the underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms thereof or otherwise.

If the permission referred to in paragraph (b) above is not granted within two calendar months after the Adoption Date:

- (i) the Share Option Scheme will forthwith terminate;
- (ii) any Option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect;
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any Option; and
- (iv) the Board may further discuss and devise another share option scheme that is applicable to a private company for adoption by our Company.

Application has been made to the Stock Exchange for the listing of 100,000,000 Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme.

G. OTHER INFORMATION**1. Deed of Indemnity**

Our Controlling Shareholders have entered into the Deed of Indemnity with and in favour of our Company for itself and as trustee for its subsidiaries, to provide indemnities in respect of, among other things:

- (a) certain estate duty which might be payable by any companies in our Group by virtue of or under the provisions of the Estate Duty Ordinance (Chapter 111 of Laws of Hong Kong); and

- (b) any liability of any or all of the members of our Group to any form of taxation and duty whenever created or imposed, whether of Hong Kong, the U.S., South Africa, Switzerland, Italy, the PRC or of any other part of the world, and without prejudice to the generality of the foregoing includes profits tax, provisional profits tax, business tax on gross income, income tax, value added tax, interest tax, salaries tax, property tax, land appreciation tax, lease registration tax, estate duty, capital gains tax, death duty, capital duty, stamp duty, payroll tax, withholding tax, rates, import, customs and excise duties and generally any tax duty, impost, levy or rate or any amount payable to the revenue, customs or fiscal authorities of local, municipal, provincial, national, state or federal level whether of Hong Kong, the U.S., South Africa, Switzerland, Italy, the PRC or of any other part of the world falling on any of the members of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any event or transaction on or before Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company.

The Deed of Indemnity does not cover any claim and our Controlling Shareholders shall be under no liability under this Deed of Indemnity in respect of above:

- (a) to the extent that provision or allowance has been made for such liability, taxation in the consolidated financial statements of our Group as set out in Appendix I to this prospectus or in the audited accounts of the relevant members of our Group for the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022 (the “**Accounts**”); or
- (b) for which any company of our Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 30 June 2022 up to and including the Listing Date or consisting of any company of our Group ceasing, or being deemed to cease, to be a company in our Group for the purposes of any matter of the taxation; or
- (c) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice by the Hong Kong Inland Revenue Department, the Inland Revenue service in the U.S., the South African Revenue Service, the Swiss Federal Tax Administration, the Italian Revenue Agency, the state Tax administration in the PRC or the tax authorities or any other authority in any part of the world coming into force after the Listing Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Listing Date with retrospective effect; or
- (d) to the extent that any provision or reserve made for such taxation in the Accounts is finally established to be an over-provision or an excessive reserve as certified by a firm of accountants acceptable to our Company then the liability of our Controlling Shareholders (if any) in respect of such taxation shall be reduced by an amount not exceeding such over-provision or excess reserve.

2. Litigation

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge after having made reasonable enquiries, there was no litigation or arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's business, financial condition, results of operations or reputation.

3. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$40,000 and have been paid by us.

4. Promoter

There are no promoters of our Company.

5. Sole Sponsor

The Sole Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the Capitalisation Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the Shares that may be issued upon the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS. The Sole Sponsor confirms that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Our Company has entered into an engagement agreement with the Sole Sponsor, pursuant to which our Company agreed to pay the Sole Sponsor a fee of HK\$7.4 million to act as sponsor to our Company in the Global Offering.

6. No material adverse change

Our Directors confirm that, save as disclosed in this prospectus, there has been no material adverse change in our Company's financial or trading position or prospects since 30 June 2022 (being the date to which our latest consolidated financial statements were made up).

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) so far as applicable.

8. Miscellaneous

- (1) Save as disclosed in this prospectus:
 - (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
 - (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
 - (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
 - (g) we have no outstanding convertible debt securities; and
 - (h) there is no arrangement under which future dividends are waived or agreed to be waived.
- (2) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Southwest Securities (HK) Capital Limited	A corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants and Registered Public Interest Entity Auditor
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Legal advisers to our Company as to PRC law
Green Horse Legal Advisory	Legal advisers to our Company as to Italian law
Des Gouttes & Associés	Legal advisers to our Company as to Swiss law
Lou Sio Fong Lawyer & Associates	Legal advisers to our Company as to Macau law
Bowman Gilfillan Incorporated	Legal advisers to our Company as to South African law
Squire Patton Boggs (US) LLP	Legal advisers to our Company as to U.S. law
Hogan Lovells	Legal advisers to our Company as to International Sanctions law
Frost & Sullivan Limited	Independent industry consultant
Andersen Tax LLC	Tax adviser
Ascent Partners Advisory Service Limited	Independent environmental, social and governance consultant

10. Consents of experts

Each of the experts named in paragraph 9 of Part G of this Appendix has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this document and delivered to the Registrar of Companies in Hong Kong for registration were (a) a copy of the **GREEN** Application Form; (b) the written consents referred to in the section headed “Statutory and General Information — G. Other Information — 10. Consents of experts” in Appendix IV to this prospectus; and (c) copies of each of the material contracts referred to in the section headed “Statutory and General Information — C. Further Information about our Business — 1. Summary of the material contracts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at www.hkexnews.hk and our website at www.sanergygroup.com during a period of 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report from Ernst & Young, our reporting accountants, the text of which is set out in Appendix I to this prospectus;
- (c) the report from Ernst & Young, our reporting accountants, relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the consolidated financial statements of our Group for the four years ended 31 December 2018, 2019, 2020 and 2021 and six months ended 30 June 2022;
- (e) the letter issued by Conyers Dill & Pearman, our legal advisers as to Cayman Islands law, summarising certain aspects of the Cayman Islands company law as referred to in Appendix III to this prospectus;
- (f) the material contracts referred to in the section headed “Statutory and General Information — C. Further Information about our Business — 1. Summary of the material contracts” in Appendix IV to this prospectus;
- (g) the PRC legal opinions prepared by Jingtian & Gongcheng, our legal advisers as to PRC law;
- (h) the Italian legal opinion prepared by Green Horse Legal Advisory, our legal advisers as to Italian law;
- (i) the Swiss legal opinion prepared by Des Gouttes & Associés, our legal advisers as to Swiss law;
- (j) the Macau legal opinion prepared by Lou Sio Fong Lawyer & Associates, our legal advisers as to Macau law;

- (k) the South African legal opinion prepared by Bowman Gilfillan Incorporated, our legal advisers as to South African law;
- (l) the US legal opinion prepared by Squire Patton Boggs (US) LLP, our legal advisers as to U.S. law;
- (m) the legal memorandum issued by Hogan Lovells, our legal advisers as to International Sanctions law;
- (n) the service agreements and appointment letters entered into between our Company and each of our Directors;
- (o) the written consents referred to in the section headed “Statutory and General Information — G. Other Information — 10. Consents of experts” in Appendix IV to this prospectus;
- (p) the industry report prepared by Frost & Sullivan Limited;
- (q) the transfer pricing memorandum prepared by Andersen Tax LLC;
- (r) the environmental, social and governance report issued by Ascent Partners Advisory Service Limited;
- (s) the Companies Act; and
- (t) the Share Option Scheme.



SANERGY

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