SANERGY

# SANERGY GROUP LIMITED
# 昇能集團有限公司

*(Incorporated in Cayman Islands with limited liability)*

**(Stock code: 2459)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

The board (the "**Board**") of directors (the "**Director(s)**") of Sanergy Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2022 ("**FY2022**"), together with the comparative figures for the year ended 31 December 2021 ("**FY2021**").

### FINANCIAL HIGHLIGHTS

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2022** | 2021 | Change |
| | ***US$'000*** | *US$'000* | |
| Revenue | **115,521** | 108,694 | +6.3% |
| Gross profit | **26,028** | 22,830 | +14.0% |
| Gross profit margin % | **22.5%** | 21.0% | +1.5% |
| Profit for the year attributable to owners of the Company | **7,496** | 4,388 | +70.8% |
| Net profit margin % | **6.5%** | 4.0% | +2.5% |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

2022 was a challenging year. Slowdown in economic growth, rising inflation and geopolitical tensions impacted global markets and the steel industry. International Monetary Fund estimated the global and the PRC's economic growth rates were approximately 3.4% and 3.0% in 2022, showing slower growth as compared to approximately 6.2% and 8.4% in 2021, respectively. On the other hand, the world crude steel production for the 64 countries reporting to the World Steel Association in 2022 decreased by 4.3% as compared to 2021, among which North America and the PRC's crude steel production decreased by 5.5% and 2.1% as compared to 2021. This slowdown in steel production has affected the downstream demand for graphite electrodes products.

Despite these challenges, the Group recorded revenue of approximately US$115.5 million for FY2022, representing an increase of approximately 6.3% as compared to last year. This growth was driven by an increase of approximately 21.6% in the overall average selling price of graphite electrodes sold by the Group from approximately US$3,928/MT in FY2021 to approximately US$4,777/MT in FY2022. The increase in the overall average selling price of our graphite electrodes sold for FY2022 was mainly driven by the increase of 38.1% in the average selling price of graphite electrodes sold to the Americas region and the increase of 25.5% in the average selling price of graphite electrodes sold to the Europe, Middle East and Africa region. However, the overall sales volume decreased from approximately 27,669 MT in FY2021 to approximately 24,184 MT in FY2022 due to a decrease of sales volume to the Americas region, as impacted by a slowdown in the crude steel production in North America in 2022.

However, the Group's total cost of sales increased in FY2022 as compared to FY2021, mainly due to the increase in the cost of raw materials and conversion cost. In particular, the Group's average cost of sales increased in the second half of 2022 as compared to the first half of 2022, mainly due to the increase in the cost of needle coke and other input costs.

The ongoing Russia-Ukraine conflict that began in February 2022 had led to a rapid increase in energy cost in Europe which is one of the major cost components of the Group's business. To mitigate the impact, the Group had secured an energy supply for its factory in Italy (the "**Italian Factory**") at a fixed rate until December 2023, sheltering the Group from the increased energy costs in Europe in 2022. The Group will continue to monitor the energy markets and take necessary actions to control its exposure to the volatility of the energy markets.

The Group's operations are subject to various legal, political and economic risks, such as the tension in the Sino-U.S. relation and the anti-dumping regulations. The U.S. government implemented a series of tariffs on Chinese-origin products, including graphite electrodes which were subject to a tariff of 6% before the tariffs on List 3 came into effect. After List 3 came into effect, other Chinese manufacturers have been subject to a tariff of 25% starting from 10 May 2019. However, since we commenced manufacturing in Italy in late 2018, we have used the production capacity of the Italian Factory to manufacture products for sales to our customers in the U.S. with an aim of minimizing our exposure to the additional tariff. During FY2022, all of our products for sales to our customers in the U.S. were manufactured by the Italian Factory and thus no additional tariff was incurred. We do not expect that the Sino-U.S. trade conflicts will have a material impact on our business and outlook.

Regarding 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**"), the Group considers that they do not exert material adverse impact on our businesses. The anti-dumping regulations of the European Commission is only applicable to graphite electrodes (other than connecting pins) imported from the PRC. Since the Group does not export graphite electrodes (other than connecting pins) from the PRC to the European Union, there is no anti-dumping duty chargeable on our products distributed in these regions. Under the anti-dumping and countervailing duty regulations of the U.S., the anti-dumping duty will only be applicable to our small diameter connecting pins sourced from our factory in the PRC (the "**PRC Factory**"). However, during FY2022, the amount of anti-dumping duty for the small diameter connecting pins originated from the PRC was minimal. The Anti-Dumping Regulations provide us with a competitive advantage in pricing against our Chinese competitors in these regions.

Profit attributable to owners of the Company for FY2022 amounted to approximately US$7.5 million, representing a significant increase of approximately 70.8% as compared to that of approximately US$4.4 million in FY2021. Excluding the listing expenses incurred during FY2022, profit attributable to owners of the Company amounted to approximately US$8.7 million, representing an increase of approximately 36.9% as compared to profit (excluding listing expenses) of last year.

Earnings before interest, tax, depreciation and amortization (before listing expenses) for FY2022 amounted to approximately US$17.8 million, representing an increase of approximately 17.2% as compared to that of FY2021.

The listing of the shares of the Company in January 2023 marked a significant milestone in the Group's history. This accomplishment is expected to provide access to different capital markets, thereby diversifying our financing options for business expansion and facilitating the expansion of our customer base.

## FUTURE PROSPECTS

The reopening from lockdowns and the gradual recovery of the downstream industries of the electric arc furnace ("**EAF**") steel market contributed to the further rebound of the global graphite electrodes industry. Numerous indicators for the recovery and growth drivers have been found in the ultra high power graphite electrodes industry, including but not limited to (i) continuous increase in the global average market selling price of graphite electrodes; (ii) 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.

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 continue its long-term growth trajectory.

In addition to the graphite electrode business, the Group is exploring the business development of producing graphite anode materials in light of the rapid growth in the global market of Li-ion battery industry driven by the boosting development of electrical vehicles and energy storage. Going forward, the Group will continue to put more efforts in the research and development of graphite anode materials, striving to satisfy the high demand for graphite anode materials driven by electrical vehicles and energy storage, which also benefit from the global context of carbon neutrality while the Group possesses similar technical know-how knowledge of the production of graphite anode materials that involves similar production procedures of graphite electrodes.

## FINANCIAL REVIEW

### Revenue

The revenue increased from approximately US$108.7 million in FY2021 to approximately US$115.5 million in FY2022 due to the increase in average selling price of graphite electrodes from US$3,928/MT in FY2021 to US$4,777/MT in FY2022.

### Cost of Sales

The cost of sales increased from approximately US$85.9 million in FY2021 to approximately US$89.5 million in FY2022, mainly due to the increase in average cost of sales of graphite electrodes per MT from US$3,103 in FY2021 to US$3,701 in FY2022, driven by the increase in average purchase price of needle coke in FY2022 as compared to that of FY2021.

**Gross Profit and Gross Profit Margin**

The gross profit increased from approximately US$22.8 million in FY2021 to approximately US$26.0 million in FY2022 and the gross profit margin increased from approximately 21.0% in FY2021 to approximately 22.5% in FY2022. The increase in gross profit margin was driven by the increase in average selling price of graphite electrodes, which was partially offset by the increase in average cost of sales of graphite electrodes per MT from US$3,103 in FY2021 to US$3,701 in FY2022.

**Finance Cost**

For FY2022, total finance cost of the Group was approximately US$2.6 million, representing an increase of approximately US$0.6 million as compared to approximately US$2.0 million for FY2021. The main reason for such increase was the increase of loan interests on bank and other borrowings during the year.

**Listing Expenses**

The Group's listing expenses decreased from approximately US$2.0 million in FY2021 to approximately US$1.2 million in FY2022, due to the successful listing of the shares of the Company on 17 January 2023 and certain listing expenses were incurred in the final stage of the listing process which will be recognised in the financial year ending 31 December 2023.

**Profit for the Year**

Overall, the profit attributable to owners of the Company increased from approximately US$4.4 million in FY2021 to approximately US$7.5 million in FY2022, mainly driven by the reasons as explained above.

**Liquidity, Capital Resources and Capital Structure**

From time to time, the Group meets its working capital and other capital requirements principally with the following: (i) cash generated from operations; and (ii) proceeds from bank and other borrowings. The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

As at 31 December 2022, the Group's cash and cash equivalents were approximately US$11.7 million and mainly denominated in United States dollars, Euro, Renminbi and Hong Kong dollars.

The Group's total interest-bearing bank and other borrowings as at 31 December 2022 amounted to approximately US$30.2 million (2021: US$20.3 million), which were mainly denominated in USD, RMB and HKD. The interest-bearing bank borrowings were mainly used for working capital and all of which are at commercial lending variable interest rates.

The Group manages its capital structure by maintaining a balance between the equity and debts. As at 31 December 2022, the Group's total equity and liabilities amounted to approximately US$132.9 million and US$72.9 million, respectively as at 31 December 2022 (31 December 2021: US$135.0 million and US$87.9 million).

**Gearing Ratio**

The Group's gearing ratio, as calculated based on total debts dividing by total equity, decreased from approximately 25% as at 31 December 2021 to approximately 23% as at 31 December 2022 mainly attributable to the decrease of total debts by approximately 10.1% as at 31 December 2022 as a result of the repayment of debts.

**Foreign Exchange Exposure**

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. At present, the Group does not intend to seek to hedge our exposure to foreign exchange fluctuations. However, the Group's management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future where appropriate.

**Capital Expenditures**

The 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 FY2022, the Group incurred capital expenditures of approximately US$6.0 million.

**Contingent Liabilities**

As at 31 December 2022, the Group did not have any material contingent liabilities.

**Pledge of Assets**

As at 31 December 2022, certain of property, plant and equipment, trade receivables and industrial leasehold land with carrying amounts of approximately US$38.2 million, US$14.8 million and US$3.3 million were pledged to third parties for interest-bearing borrowings granted to the Group, respectively.

**Material Acquisitions or Disposals**

The Group did not have any material acquisitions nor disposals of subsidiaries during FY2022.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*FOR THE YEAR ENDED 31 DECEMBER 2022*

| | *Notes* | **2022**<br>***US$'000*** | 2021<br>*US$'000* |
|---|---|---|---|
| REVENUE | *4* | **115,521** | 108,694 |
| Cost of sales | | **(89,493)** | (85,864) |
| Gross profit | | **26,028** | 22,830 |
| Other income and gains | *4* | **651** | 1,300 |
| Selling and administrative expenses | | **(12,060)** | (12,096) |
| Other expenses | | **(1,607)** | (1,931) |
| Finance costs | *6* | **(2,626)** | (1,988) |
| Listing expenses | | **(1,198)** | (1,961) |
| PROFIT BEFORE TAX | *5* | **9,188** | 6,154 |
| Income tax expense | *7* | **(1,692)** | (1,766) |
| PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY | | **7,496** | 4,388 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | | | |
| — Basic and diluted | *9* | **US$0.9 cents** | US$0.5 cents |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*FOR THE YEAR ENDED 31 DECEMBER 2022*

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| PROFIT FOR THE YEAR | **7,496** | 4,388 |
| OTHER COMPREHENSIVE LOSS | | |
| *Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:* | | |
| Exchange differences on translation of foreign operations | **(9,895)** | (3,749) |
| *Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:* | | |
| Revaluation gain/(loss) on property, plant and equipment | **(1,314)** | 5,102 |
| Income tax effect | **1,641** | (1,370) |
| *Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods* | **327** | 3,732 |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | **(9,568)** | (17) |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY | **(2,072)** | 4,371 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 31 DECEMBER 2022*

| | Notes | 2022<br>US$'000 | 2021<br>US$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **93,131** | 99,991 |
| Right-of-use assets | | **8,109** | 7,321 |
| Intangible assets | | **913** | 1,268 |
| Prepayments and deposits | | **2,737** | 2,092 |
| Deferred tax assets | | **2,147** | 5,362 |
| Total non-current assets | | **107,037** | 116,034 |
| CURRENT ASSETS | | | |
| Inventories | | **58,605** | 60,872 |
| Trade receivables | *10* | **21,046** | 21,849 |
| Prepayments, deposits and other receivables | | **7,511** | 9,019 |
| Cash and cash equivalents | | **11,652** | 15,086 |
| Total current assets | | **98,814** | 106,826 |
| CURRENT LIABILITIES | | | |
| Trade and notes payables | *11* | **12,314** | 18,985 |
| Other payables and accruals | | **10,804** | 18,408 |
| Interest-bearing bank and other borrowings | | **16,611** | 14,503 |
| Lease liabilities | | **562** | 637 |
| Income tax payable | | **5,232** | 8,660 |
| Total current liabilities | | **45,523** | 61,193 |
| NET CURRENT ASSETS | | **53,291** | 45,633 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **160,328** | 161,667 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**
*AS AT 31 DECEMBER 2022*

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| NON-CURRENT LIABILITIES | | |
| Other payables and accruals | **2,412** | 6,743 |
| Interest-bearing bank and other borrowings | **13,618** | 5,756 |
| Lease liabilities | **1,178** | 154 |
| Deferred tax liabilities | **10,203** | 14,025 |
| Total non-current liabilities | **27,411** | 26,678 |
| Net assets | **132,917** | 134,989 |
| EQUITY | | |
| **Equity attributable to owners of the Company** | | |
| Share capital | **110** | 110 |
| Reserves | **132,807** | 134,879 |
| Total equity | **132,917** | 134,989 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 31 DECEMBER 2022*

## 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 shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 January 2023 (the "Listing Date").

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally 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. There has been no significant change in the Group's principal activities during the year ended 31 December 2022.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They 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. These financial statements are presented in United States dollars ("US$") and all values are rounded to the nearest thousand except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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. 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 parent of the Group 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.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 3 | *Reference to the Conceptual Framework* |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use* |
| Amendments to HKAS 37 | *Onerous Contracts — Cost of Fulfilling a Contract* |
| *Annual Improvement to HKFRS 2018–2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 |

The nature and the impact of the revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments:* clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

- HKFRS 16 *Leases:* removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 3. 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*

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Americas | **33,484** | 34,358 |
| Europe, Middle East and Africa ("EMEA") | **51,664** | 41,734 |
| PRC | **27,871** | 28,602 |
| Asia Pacific excluding the PRC | **2,502** | 4,000 |
| | **115,521** | 108,694 |

The revenue information above is based on the locations of the customers.

*(b) Non-current assets*

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Americas | **202** | 65 |
| EMEA | **50,739** | 50,867 |
| PRC | **52,168** | 57,938 |
| Asia Pacific excluding the PRC | **1,629** | 1,744 |
| | **104,738** | 110,614 |

The non-current asset information above is based on the locations the assets and excludes financial instruments and deferred tax assets.

### Information about major customers

Revenue from customers individually contributing over 10% to the total revenue of the Group during the year is as follows:

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Customer A | **14,421** | 13,132 |
| Customer B | **13,184** | 13,403 |

## 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| *Revenue from contracts with customers* | | |
| Sale of graphite electrodes | **115,521** | 108,694 |

### (a) Disaggregated revenue information for revenue from contracts with customers

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **Types of goods or services** | | |
| Sale of graphite electrodes | **115,521** | 108,694 |
| **Timing of revenue recognition** | | |
| Goods transferred at a point in time | **115,521** | 108,694 |

Revenue of US$40,000 (2021: US$397,000) was recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting 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 amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed in the notes to the financial statements because all the remaining performance obligations in relation to the sale of graphite electrodes are part of the contracts that have an original expected duration of one year or less.

## 4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

An analysis of other income and gains is as follows:

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| *Other income and gains* | | |
| Bank interest income | **23** | 87 |
| Sublease interest income | **2** | 1 |
| Net profit from sale of other carbon products | **21** | 289 |
| Revaluation gain on property, plant and equipment | **117** | 471 |
| Government subsidies* | **218** | 440 |
| Gain on novation of loans | **155** | – |
| Others | **115** | 12 |
| | **651** | 1,300 |

* The subsidies for the year represented business, export and environmental subsidies received from the Italian and PRC governments of US$218,000 (2021: US$100,000). In the prior year, an interest-bearing bank borrowing of US$340,000 obtained by the Group in 2020 was waived by the US government in 2021. There were no unfulfilled conditions or contingencies relating to these subsidies.

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at charging/(crediting):

| | 2022<br>*US$'000* | 2021<br>*US$'000* |
|---|---|---|
| Cost of inventories sold* | **89,493** | 85,864 |
| Depreciation of property, plant and equipment** | **3,660** | 3,761 |
| Depreciation of right-of-use assets** | **811** | 995 |
| Amortisation of intangible assets^^ | **279** | 296 |
| Lease payments not included in the measurement of lease liabilities | **16** | 205 |
| Auditor's remuneration^^^ | **367** | 95 |
| Employee benefit expense (excluding directors' and chief executive's remuneration): | | |
| Wages and salaries | **7,478** | 8,080 |
| Pension scheme contributions# | **1,265** | 1,303 |
| Less: Amount capitalised | **(4,323)** | (4,212) |
| Less: Government subsidies## | **(35)** | – |
| | **4,385** | 5,171 |
| Foreign exchange differences, net^ | **534** | 743 |
| Revaluation loss on property, plant and equipment^ | **829** | 594 |
| Revaluation gain on property, plant and equipment^ | **(117)** | (471) |
| Impairment of trade receivables^^ | **211** | 95 |
| Impairment of right-of-use assets^ | **–** | 153 |
| Loss on disposal of property, plant and equipment^ | **–** | 8 |
| Loss on early termination of leases^ | **–** | 3 |
| Loss on derecognition of right-of-use assets arising from sublease^ | **–** | 9 |

# There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions. At 31 December 2022, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years (2021: Nil).

## There are no unfulfilled conditions or contingencies relating to these subsidies.

* Included in cost of sales on the face of the consolidated statement of profit or loss. Certain government subsidies of US$2,718,000 for the year are included in cost of inventories sold. These are no unfulfilled conditions or contingencies relating to these subsidies.

** Certain depreciation charge for property, plant and equipment and right-of-use assets of US$3,762,000 (2021: US$3,781,000) for the year is included in cost of inventories sold.

^ Included in other income and gains/other expenses on the face of the consolidated statements of profit or loss.

^^ Included in selling and administrative expenses on the face of the consolidated statements of profit or loss.

^^^ The amount excluded the remuneration paid to the reporting accountant for the initial public offering exercise of listing on the Main Board of the Stock Exchange of Hong Kong Limited.

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Interest on lease liabilities | **93** | 44 |
| Interest on loans from a related company | **378** | 829 |
| Interest on bank borrowings | **541** | 218 |
| Interest on other borrowings | **1,242** | – |
| Interest on an outstanding balance derived from acquisition of property, plant and equipment | **–** | 1 |
| Interest on an outstanding balance derived from acquisition of a subsidiary | **70** | 780 |
| Other arrangement fee | **302** | 116 |
| | **2,626** | 1,988 |

## 7. INCOME TAX EXPENSE

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (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% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2021: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 16.5%).

Pursuant to the relevant tax laws of the USA, federal corporation income tax has been levied at the rate of up to 21% (2021: 21%) on the taxable income arising in the USA during the year.

Pursuant to the Enterprise Income Tax Law of the PRC and the respective regulations, the subsidiaries which operate in Mainland China are normally subject to enterprise income tax at the rate of 25% (2021: 25%), except for one subsidiary of the Group which enjoys preferential enterprise income tax at a rate of 15%, on the taxable income generated during the year.

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% (2021: 24.0% and 3.9%), respectively, on the taxable income generated during the year.

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current — Hong Kong | | |
| Charge for the year | **6** | – |
| Current — elsewhere | **(275)** | 1,849 |
| Deferred | **1,961** | (83) |
| Total tax charge for the year | **1,692** | 1,766 |

## 8. DIVIDENDS

No dividend was declared by the Company to its shareholders during the year. In the prior year, the Company declared and paid dividend to its shareholders at US$1.4 per ordinary shares, totalling US$14,000,000, out of the Company's share premium account which is distributable under Cayman Islands law. The rate of dividend was calculated based on the number of ordinary shares as at the date of the board of directors approving the dividend distribution.

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares used for the purpose of calculating basic earnings per share and diluted earnings per share for the years ended 31 December 2022 and 2021 has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation issue which was completed on 17 January 2023.

The Group had no potentially diluted ordinary shares in issue during the years ended 31 December 2022 and 2021.

The calculation of basic and diluted earnings per share is based on:

| | **2022** | 2021 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic and diluted earnings per share calculation | **7,496** | 4,388 |

| | **Number of shares** | |
|---|---|---|
| | **2022** | 2021 |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation | **827,600,000** | 801,320,795 |

## 10. TRADE RECEIVABLES

An ageing analysis of the trade receivables as at the end of the reporting period, based on the past due date and net of loss allowance, is as follows:

| | 2022 | 2021 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Not past due | **18,242** | 18,717 |
| Within 1 month | **2,483** | 2,318 |
| 1 to 3 months | **321** | 556 |
| Over 3 months | **–** | 258 |
| | **21,046** | 21,849 |

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.

At the end of the reporting period, the Group had certain concentrations of credit risk as 21% (2021: 17%) and 66% (2021: 50%) of the Group's trade receivables from the Group's largest and the five largest customers, respectively.

## 11. TRADE AND NOTES PAYABLES

An ageing analysis of the trade and notes payables as at the end of the reporting period, based on the past due date, is as follows:

| | 2022 | 2021 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Not past due | **10,982** | 17,185 |
| Within 1 month | **705** | 516 |
| 1 to 3 months | **476** | 453 |
| Over 3 months | **151** | 831 |
| | **12,314** | 18,985 |

The trade and notes payable are non-interest-bearing and are normally settled on terms ranging from 60 to 120 days.

## EVENTS AFTER THE REPORTING PERIOD

Save for the successful listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 17 January 2023 (the "**Listing Date**"), there are no other significant events affecting the Group after FY2022 and up to the date of this announcement.

## USE OF PROCEEDS FROM THE LISTING

The Company's shares have been listed on the Main Board of the Stock Exchange since 17 January 2023. The net proceeds from the global offering after deducting the underwriting fees and commissions and related expenses were approximately HK$186.7 million. The Group will continue to utilize the net proceeds from the global offering as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 30 December 2022 (the "**Prospectus**"). The intended application of the net proceeds as stated in the Prospectus and the actual utilization of the net proceeds from the global offering up to the date of this announcement was as below:

| | **Purpose** | **Percentage of total amount** | **Net proceeds** | **Utilized** | **Unutilized** |
|---|---|---|---|---|---|
| | | | *HK$ million* | *HK$ million* | *HK$ million* |
| 1 | Pay for the purchase price of the Taigu Assets (as defined in the Prospectus) | 34.8% | 65.0 | – | 65.0 |
| 2 | Upgrade of the Group's production systems on the Italian Factory, the PRC Factory and the Sanli Assets (as defined in the Prospectus) | 55.2% | 103.0 | 26.9 | 76.1 |
| 3 | Working capital and general corporate purposes | 10.0% | 18.7 | 18.7 | – |

The net proceeds have been and will be used according to the purposes as stated in the Prospectus, and there are no material change or delay in the use of proceeds.

## HUMAN RESOURCES AND REMUNERATION POLICIES

As at 31 December 2022, the Group employed approximately 210 staff. The staff costs (including directors remuneration) for FY2022 amounted to approximately US$9.6 million (2021: US$10.3 million). The remuneration policies of the Group are determined based on market trends, future plans, and the performance of individuals. In addition, the Group also provides other staff benefit such as mandatory provident fund, state-managed social welfare scheme and share option scheme.

## FINAL DIVIDEND

No final dividend in respect of FY2022 (31 December 2021: US$14,000,000) was recommended by the Board.

## CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code as set out in Part 2 of Appendix 14 to the Listing Rules (the "CG Code"). Since the Shares were listed on the Main Board of the Stock Exchange on 17 January 2023, the CG Code were not applicable to the Company during the year ended 31 December 2022. Throughout the period from the Listing Date to the date of this announcement, the Board considers that, the Company has complied, to the extent applicable and permissible, with the code provisions as set out in the CG Code 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 the Board. The Board believes that vesting the roles of both chief executive officer and chairman of the Board in the same person has the benefit of ensuring consistent leadership and efficient discharge of executive functions within the Group. The 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 the Group, the Board will make consultations with appropriate Board committees and senior management. Therefore, the Directors consider that the present arrangement is beneficial to and in the interest of the Company and the shareholders of the Company as a whole and the deviation from Code A.2.1 of the CG Code is appropriate in such circumstance.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. As the shares of the Company have not yet been listed on the Stock Exchange during FY2022, the Model Code was not applicable to the Company during FY2022. However, after making specific enquiries to all the Directors, each of them has confirmed that they have complied with the Model Code throughout the period from the Listing Date up to the date of this announcement.

## AUDIT COMMITTEE

The audit committee of the Board comprises four independent non-executive Directors, namely Mr. Cheng Tai Kwan Sunny (Chairman), Ms. Chan Chore Man Germaine, Mr. Ngai Ming Tak and Mr. Sun Qing.

The audit committee has reviewed together with the management the accounting principles and practices adopted by the Group and has discussed risk management, internal control and financial reporting matters with management including a review of the consolidated financial statements and annual results for FY2022.

## SCOPE OF WORK OF THE COMPANY'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2022, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this preliminary announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement and consequently no assurance has been expressed by the Company's auditor on the preliminary announcement.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to the date of this announcement.

## PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sanergygroup.com). The annual report for FY2022 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the same websites in due course.

By Order of the Board
**SANERGY GROUP LIMITED**
**Dr. Wei-Ming Shen**
*Chairman of the Board, Executive Director*
*and Chief Executive Officer*

Hong Kong, 29 March 2023

*As at the date of this announcement, the Board comprises (i) Dr. Wei-Ming Shen, Mr. Adriaan Johannes Basson, Mr. Yan Haiting and Mr. Hou Haolong as executive Directors; (ii) Mr. Wang Ping as non-executive Director; and (iii) Mr. Cheng Tai Kwan Sunny, Mr. Sun Qing, Mr. Ngai Ming Tak Michael and Ms. Chan Chore Man Germaine as independent non-executive Directors.*