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SANERGY

SANERGY GROUP LIMITED

昇能集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock code: 2459)

**DISCLOSEABLE TRANSACTION
ESTABLISHMENT OF JOINT VENTURE**

INTRODUCTION

The Board is pleased to announce that on 16 May 2023 (after trading hours), Huixian Government and the Company entered into the JV Agreements pursuant to which the parties agreed to establish the JV Company.

LISTING RULES IMPLICATIONS

As one or more than one of the applicable percentage ratios in respect of the maximum financial contribution of the Group as contemplated under the JV Agreements is more than 5% and below 25%, the entering into of the JV Agreements constitutes a discloseable transaction for the Company under the Listing Rules, and is therefore subject to the notification and announcement requirements but exempt from shareholders' approval requirements pursuant to Chapter 14 of the Listing Rules.

INTRODUCTION

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THE JV AGREEMENTS

The principal terms of the JV Agreements are set out below:

Date : 16 May 2023 (after trading hours)

Parties : (1) Huixian Government; and
(2) the Company

For detailed background of the parties, please refer to “Information about the Parties” below.

Subject matter : Huixian Government and the Company agreed that the JV Company shall be established between (i) Huixian Construction as nominated by Huixian Government; (ii) Gosource Capital; and (iii) Sangraf Henan, both nominated by the Company in accordance with the laws of the PRC and the provisions of the JV Agreements.

The proposed name of the JV Company is Shengrui (Xinxiang) New Material Technology Co., Ltd.* (昇瑞(新鄉)新材料科技有限公司) (subject to the final name as approved and registered by the relevant administration for market regulation of the PRC).

Objective of the JV Company : The JV Company will, with the assistance of Gosource Capital and/or Sangraf Henan, expand the PRC Factory’s annual production capacity to 40,000 tons of UHP graphite electrodes and the associated auxiliary facilities (the “**Construction Project**”).

Capital contribution : Pursuant to the JV Agreements, the registered capital of the JV Company will be RMB100 million, among which Huixian Construction shall contribute RMB51 million, representing 51% of the total capital contribution of the JV Company, Gosource Capital shall contribute RMB37 million equivalent in US dollars, representing 37% of the total capital contribution of the JV Company, and Sangraf Henan shall contribute 12% of the total capital contribution by way of intellectual properties required for the construction of the Construction Project, with the exact shareholding ratio of each party to be determined and adjusted based on the valuation of the intellectual properties.

All parties are required to make full payment of their respective capital contributions within 30 days from the date of signing of the JV Agreements.

The Group intends to finance the cash portion of its capital contribution in the JV Company from the net proceeds of the global offering of the shares of the Company.

The establishment of the joint venture with Huixian Government and the objectives of the JV Company is primarily to expand the PRC Factory's annual production capacity to 40,000 tons, which shall comprise the production capacity of the PRC Factory, the Sanli Assets and the Taigu Assets. The construction plan of the Construction Project includes (i) relocating and upgrading the graphitisation processing line from the Sanli Assets to the PRC Factory, (ii) purchasing and installing new furnaces for impregnation in the PRC Factory, (iii) purchasing and installing new furnace for rebaking in the PRC Factory and (iv) purchasing and installing new furnaces for baking and rebaking as disclosed in the section headed "Business — Business Strategies" in the Prospectus.

Total investment of the JV Company : The proposed investment amount for the JV Company under the JV Agreements is RMB600 million, which shall be implemented in two phases. The first phase will be RMB250 million and the contribution to the remaining investment amount of RMB350 million will be further discussed among the parties based on the actual operational situation of the JV Company.

Governance structure of the JV Company : The board of directors of the JV Company shall comprise three directors, one to be appointed by each of Huixian Construction, Gosource Capital and Sangraf Henan, with the chairman to be appointed by Huixian Construction.

The JV Company shall also establish a party organization, and the party secretary of the party organization shall be concurrently held by the chairman of the board of directors. The party organization shall be consulted before the board of directors make any major decisions of the JV Company, including, among others, (i) formulation of development strategies; (ii) change of business scope of the JV Company; (iii) mergers, dissolution or liquidation of the JV Company; (iv) selling, transferring, mortgaging or disposing of assets or business of the JV Company; and (v) appointment and removal of important personnel of the JV Company.

The general manager of the JV Company shall be appointed by Sangraf Henan who will be responsible for the day-to-day operations of the JV Company and be accountable to the board of directors.

- Exit option** : Upon the occurrence of any of the following circumstances, either party may request in writing that the Company or any entity designated by the Company to repurchase all of the equity interests held by Huixian Government in the JV Company:
- (a) the JV Company fails to achieve the agreed production capacity or other performance targets;
 - (b) the JV Company incurs losses for three consecutive years after reaching an agreed production target;
 - (c) the JV Company experiences significant debt or litigation that affects its continued operation;
 - (d) if Huixian Government considers that the JV Company meets the listing requirements of the China Securities Regulatory Commission for initial public offering and listing, but the Company refuses to submit a listing application on the A-share market;
 - (e) in the event that the JV Company secures project fixed asset loans from any bank with a term of less than five years, the expiry of the fifth year upon the Construction Project reaching a mutually agreed production capacity (including the year of reaching such production capacity); or
 - (f) in the event that the JV Company secures project fixed asset loans from any bank with a term of more than five years, the expiry date of the loan term.

Both parties agree that Huixian Government's exit from the JV Company will be conducted through the equity exchange trading platform, and the transaction process will comply with the provisions of the "Administrative Measures for the Supervision and Management of the Trading of State-Owned Assets of Enterprises" and the transaction rules of the property rights trading platform.

Within 30 days after the occurrence of the repurchase triggering conditions and either party serves a written notice, Huixian Government shall ensure that Huixian Construction initiates the public tender process on the equity exchange. During such process, if Gosource Capital designates Sangraf Henan as the repurchasing entity, Sangraf Henan, as an existing shareholder of the JV Company, shall exercise its pre-emptive purchase right through either on-market or off-market methods.

The repurchase will be conducted in monetary funds, based on the equity value of the JV Company held by Huixian Construction at the time to be appraised by valuation, but the repurchase price shall not in any event be less than the sum calculated as follows:

$A * (1+8\%)^n$ – cash dividends and other earnings which have been received by Huixian Construction as of the repurchase date.

Where:

A = The amount of Huixian Construction's paid-in registered capital

n = investment period, which is the number of days from the date on which Huixian Construction paid the registered capital of the JV Company to the date on which Sangraf Henan fulfills its repurchase obligation, divided by 360.

INFORMATION ABOUT THE PARTIES

Information about the Company, Gosource Capital and Sangraf Henan

The Company is an investment holding company and the Group is a global manufacturer of UHP graphite electrodes with a worldwide customer base in over 25 countries comprising major global electric arc furnace steel manufacturers in Americas, Europe, the Middle East and Africa, Asia Pacific and the PRC that sell its products to the automotive, infrastructure, construction, appliance, machinery, equipment and transportation industries.

Gosource Capital is an indirect wholly-owned subsidiary of the Company and an investment holding company.

Sangraf Henan is an indirect wholly-owned subsidiary of the Company and is primarily engaged in the research and development, technology promotion, production and sale of graphite and carbon materials.

Information about Huixian Government and Huixian Construction

Huixian Government is the people's government of Huixian City, Henan Province, the PRC.

Huixian Construction is 100% owned by Huixian Government and an investment holding company.

Huixian Government, its substantial shareholders, controlling shareholders and ultimate beneficial owners are Independent Third Parties to the Group to the best of the Directors' knowledge, information and belief having made all reasonable enquiries.

REASONS FOR AND BENEFITS OF THE ESTABLISHMENT OF THE JOINT VENTURE

The Group is principally engaged in the manufacturing and sale of graphite electrodes.

In light of the capital expenditure required for the PRC expansion plan, on top of the Group's initiative in applying the net proceeds from the global offering of the Company in relation to the upgrade of the production systems, the Group intends to form the JV Company with the Huixian Government to meet the shortfall of the funding through, (a) capital contribution of RMB51 million from the Huixian Government and RMB49 million by the Group, including RMB37 million in cash and RMB12 million by way of transferring certain intellectual properties owned by the Group to the JV Company, respectively; and (b) banking facilities to be obtained by the JV Company in the future. The Group believes that the finance of the cash contribution to the capital of the JV Company is in line with the intended use of proceeds with the aim of expanding the PRC Factory's annual production capacity to 40,000 tons.

For the reasons above, the Board considers the terms of the JV Agreements and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of Directors
“Company”	Sanergy Group Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2459)
“Director(s)”	director(s) of the 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 the Company
“Group”	the Company and its subsidiaries
“Huixian Construction”	Huixian City Construction Investment Co., Ltd.* (輝縣市建設投資有限公司), a company incorporated under the laws of the PRC, which is 100% owned by Huixian Government and an Independent Third Party
“Huixian Government”	Huixian Municipal People’s Government (輝縣市人民政府), an Independent Third Party
“Independent Third Party(ies)”	third party(ies) independent from the Company and its connected persons, as well as the Company’s Directors, chief executive officer (or equivalent), substantial shareholders and their respective associates (as defined under the Listing Rules)
“JV Agreements”	the joint venture agreement and the supplemental agreement to the joint venture agreement to be entered into between Huixian Government and the Company in relation to, among others, the joint venture arrangements for the JV Company
“JV Company”	Shengrui (Xinxiang) New Material Technology Co., Ltd.* (昇瑞(新鄉)新材料科技有限公司) (subject to the final name as approved and registered by the relevant administration for market regulation of the PRC), a joint venture company to be established in the PRC with limited liability pursuant to the JV Agreements
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time

“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
“Prospectus”	the prospectus issued by the Company dated 30 December 2022
“RMB”	Renminbi, the lawful currency of the PRC
“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 the Company
“Sanli Assets”	the equipment associated with the Sanli Factory and 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
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 Mingxing Carbon Steel Company Limited* (山西太谷明興碳素瑪鋼有限公司), an Independent Third Party, and are situated at Taigu County, Jinzhong City, Shanxi Province, the PRC
“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

“%”

per cent.

By Order of the Board
SANERGY GROUP LIMITED

Dr. Wei-Ming Shen

*Chairman of the Board, Executive Director
and Chief Executive Officer*

Hong Kong, 16 May 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. Ngai Ming Tak Michael and Ms. Chan Chore Man Germaine as independent non-executive Directors.

* *For identification purpose only*