SANERGY

SANERGY GROUP LIMITED
昇能集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock code: 2459)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 unaudited consolidated results of the Group for the six months ended 30 June 2023 (the "**Reporting Period**" or "**1H2023**"), together with the comparative figures for the six months ended 30 June 2022 ("**1H2022**").

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2023	2022	Change
	US$'000	*US$'000*	
	(unaudited)	(audited)	
Revenue	**43,685**	59,706	–26.8%
Gross profit	**5,301**	15,564	–65.9%
Gross profit margin %	**12.1%**	26.1%	–14.0%
(Loss) profit for the period attributable to owners of the Company	**(4,224)**	6,533	–164.7%
Adjusted net profit under non-HKFRS financial measures*(Note)*	**476**	7,092	93.3%
Net (loss) profit margin %	**(9.7)%**	10.9%	–20.6%

Note: Adjusted net profit under non-HKFRS financial measures represents (loss) profit for the period attributable to owners of the Company excluding non-recurring listing expenses and discretionary employee bonus.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The slowdown in economic growth, high inflation and geopolitical tensions remain to impact global markets and the steel industry. Based on International Monetary Fund's latest estimate, the global economic growth rate is projected to be approximately 3.0% in 2023, showing slower growth as compared to approximately 3.5% in 2022. On the other hand, the world's crude steel production for the 63 countries reporting to the World Steel Association during 1H2023 decreased by 1.1% as compared to 1H2022, among which North America and the European Union's crude steel production during 1H2023 decreased by 3.5% and 10.9%, respectively as compared to 1H2022. This slowdown in steel production has affected the Group's downstream demand for graphite electrode products.

Against the backdrop of a slowdown in economic growth, the Group recorded revenue of approximately US$43.7 million during 1H2023, representing a decrease of approximately 26.8% compared with 1H2022 due to suppressed customer demand and de-stocking in the downstream supply chain. Notwithstanding the Group's continuous efforts to maintain a relatively stable average selling price, these macroeconomic uncertainties led to a decrease in sales quantity of graphite electrodes in 1H2023 by 22.9% compared with 1H2022. In terms of geographic sectors, with the exception of slight increase in revenue from the Americas, all other regions recorded a decrease in revenue ranging from US$2.2 million to US$8.9 million, which were generally in line with the slowdown of the world's crude steel production in 1H2023.

In order to effectively manage our production resources and minimise our inventory risk exposure, we also adjusted our production plan to adhere to the decrease in sales quantities. Correspondingly, the Group's total cost of sales decreased from US$44.1 million in 1H2022 to US$38.4 million in 1H2023. Taking into account:

(i) the decreased production volume as well as the fixed overhead costs; and

(ii) the increase in the average purchase price of needle coke as compared to 1H2022, this resulted in an increase in the average cost of sales per metric ton ("**MT**").

The loss attributable to owners of the Company for 1H2023 amounted to approximately US$4.2 million, as compared to the profit attributable to owners of the Company for 1H2022 of approximately US$6.5 million. Excluding the non-recurring listing expenses and discretionary listing bonus expenses incurred during 1H2023 under non-HKFRS financial measures, the Group remained profitable by having profit attributable to owners of the Company amounting to approximately US$0.5 million.

Last but not least, 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 PROSPECT

With the full relaxation of the global COVID-19 pandemic control measures and the return to global normalcy, during the first half of 2023, the global market and the steel industry were temporarily affected by global macroeconomic uncertainty. Notwithstanding the above, the global context of carbon neutrality continues to be the Group's growth driver in the mid-to-long term. The Group remains optimistic about its future business outlook.

In connection with the graphite electrode business, despite the challenging market in the near term, the Group observed potential signs of market recovery, including:

(i) the utilisation rate of electric arc furnace in China demonstrated signs of recovering starting from May 2023;

(ii) the price increase of scrap steel during the second quarter of 2023; and

(iii) U.S. steel production utilisation rate rising from 72% in January 2023 to 78% in June 2023.

The Group continues to implement its capacity expansion plan as formulated during the listing exercise. Upon the completion of listing, the Group has proceeded with the acquisition of certain production facilities in Taigu County, Shanxi, the PRC (which will increase the Group's total annual production capacity from the current 35,000 MT to 46,000 MT post-acquisition); and signed a JV agreement with the government of Huixian, Henan, the PRC with an objective to further expand the Group's annual production capacity to 68,000 MT. The management believes that these will have long-term benefits to the Group, including realizing increased economies of scale, improving market competitiveness and enhancing financial performance.

With the vision of entering into the graphite anode material market due to the rapid development of electrical vehicles and energy storage industries, the Group has been proactively exploring research and development of synthetic graphite anode material and has produced trial lot of synthetic graphite anode material for customer qualification in the PRC and European markets. After a long qualification process including laboratory tests and customer trials, the Group has received its first purchase order from one of the leading European lithium-ion battery manufacturers and established a certain sales network in the European lithium-ion battery supply chain. In addition, as of the date of this announcement, the Group has invested its own fund in a PRC-based graphite anode material company with a well-established customer portfolio and strong research and development capabilities. The management believes this investment, along with the common process technologies between graphite electrode and graphite anode materials, has laid a strong foundation for the Group's future success in the graphite anode material business, and will contribute to the global lithium-ion battery supply chain.

Upholding the mission of driving the transformation of our downstream industries to be part of the sustainable value chain under the backdrop of dual carbon goals in the global market, we will continue to strive to realise and monetise our business strategies for the long-term interests of our stakeholders.

FINANCIAL REVIEW

Revenue

The revenue decreased from approximately US$59.7 million in 1H2022 to approximately US$43.7 million in 1H2023 mainly due to:

(i) the decrease in sales quantities from approximately 12,456MT in 1H2022 to 9,603MT in 1H2023; and

(ii) the slight decrease in the average selling price of approximately US$4,793/MT in 1H2022 to approximately US$4,549/MT in 1H2023.

Cost of Sales

The cost of sales decreased from approximately US$44.1 million in 1H2022 to approximately US$38.4 million in 1H2023 mainly due to the decrease in sales quantities from approximately 12,456MT in 1H2022 to 9,603MT in 1H2023 and partly offset by the increase in average cost of sales from approximately US$3,544/MT in 1H2022 to approximately US$3,997/MT in 1H2023 driven by the increase in average purchase price of needle coke and the decrease in production volume in 1H2023 as compared to that of 1H2022.

Gross Profit and Gross Profit Margin

The gross profit decreased from approximately US$15.6 million in 1H2022 to approximately US$5.3 million in 1H2023 and the gross profit margin decreased from approximately 26.1% in 1H2022 to approximately 12.1% in 1H2023. Such decrease in gross profit margin was mainly driven by:

(i) the decrease in average selling price;

(ii) the decrease in sales quantities; and

(iii) the increase in average cost of sales per MT.

Finance Costs

The total finance costs of the Group were approximately US$2.1 million in 1H2023, representing an increase of approximately US$1.1 million as compared to approximately US$1.0 million in 1H2022. The main reason for such increase was the increase in loan interests on bank and other borrowings during 1H2023.

Listing Expenses

The Group's listing expenses increased from approximately US$0.6 million in 1H2022 to approximately US$1.7 million in 1H2023. As the Company's shares were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 17 January 2023, higher listing expenses were incurred in 1H2023 as it was closer to the final stage of the listing as compared to that of 1H2022.

(Loss) profit for the Reporting Period

Overall, the profit attributable to owners of the Company decreased from approximately US$6.5 million in 1H2022 to the loss attributable to owners of the Company of approximately US$4.2 million in 1H2023, mainly driven by (i) substantial decrease in the gross profit, (ii) certain increase in administrative expenses, (iii) certain increase in finance costs and (iv) the declaration of discretionary bonus for employees which was incurred after the listing of the Company, and such effect was partially offset by the income tax credit given the Group was loss making for 1H2023.

Non-HKFRS Financial Measures

	For the six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
(Loss) profit for the period attributable to owners of the Company	**(4,224)**	6,533
Add:		
Listing expenses	**1,655**	559
Discretionary listing bonus expenses	**3,045**	–
Adjusted net profit under non-HKFRS financial measures	**476**	7,092

The Board wishes to highlight that "adjusted net profit" is not defined under the Hong Kong Financial Reporting Standards ("**HKFRS**"). It is defined by the Group as (loss) profit for the period adjusted by eliminating the impact of listing expenses and discretionary employee bonus, which are non-recurring in nature. The Board believes that the presentation of such non-HKFRS financial measure when shown in conjunction with the corresponding HKFRS measures provides useful information to the shareholders of the Company and potential investors in illustrating a comparison of the Group's operating performance from period to period by eliminating the impact of incidental expenses. Such non-HKFRS financial measures provide an additional metric to allow investors to evaluate the Group's operating results. The use of the non-HKFRS financial measures has limitations as analytical tools and such non-HKFRS financial measures may differ from the non-HKFRS financial measures used by other companies, and therefore the comparability of such information may be limited. Shareholders and potential investors should not consider such non-HKFRS financial measures in an isolated form, or as a substitute for the financial information prepared and presented in accordance with HKFRS.

Liquidity, Capital Resources and Capital Structure

During the Reporting Period, the Group met its capital requirements principally with the following:

(i) cash generated from operations;

(ii) proceeds from bank and other borrowings; and

(iii) proceeds from the global offering of shares of the Company on the Stock Exchange on 17 January 2023.

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 30 June 2023, the Group's cash and cash equivalents were approximately US$28.3 million (31 December 2022: US$11.7 million) and mainly denominated in United States dollars ("**US$**"), Euro ("**EUR**"), Renminbi ("**RMB**") and Hong Kong dollars ("**HK$**").

The Group's total interest-bearing bank and other borrowings as at 30 June 2023 amounted to approximately US$30.0 million (31 December 2022: US$30.2 million), which were mainly denominated in US$, RMB, EUR and HK$. The interest-bearing bank borrowings were mainly used for working capital and all of which are at commercial lending interest rates.

The Group manages its capital structure by maintaining a balance between equity and debts. As at 30 June 2023, the Group's total equity and liabilities amounted to approximately US$159.3 million and US$70.2 million, respectively (31 December 2022: US$132.9 million and US$72.9 million, respectively).

Gearing Ratio

The Group's gearing ratio, as calculated based on total debts divided by total equity, decreased from approximately 22.7% as at 31 December 2022 to approximately 18.8% as at 30 June 2023. This was mainly attributable to the substantial increase in total equity due to the Listing in January 2023, which outweighed the effect of the interest bearing bank and other borrowings increased during the Reporting Period.

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 for the expansion of our operations. For the Reporting Period, the Group incurred capital expenditures of approximately US$2.7 million.

Contingent Liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 30 June 2023, certain of property, plant and equipment, trade receivables and industrial leasehold land with carrying amounts of approximately US$38.1 million, US$17.0 million and US$3.2 million, respectively (31 December 2022: US$38.2 million, US$14.8 million and US$3.3 million, respectively) were pledged to third parties for interest-bearing bank and other borrowings granted to the Group.

Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Venture

On 16 May 2023, Huixian Municipal People's Government (輝縣市人民政府) (the "**Huixian Government**") and the Company entered into a joint venture agreement and a supplemental agreement to the joint venture agreement (the "**JV Agreements**"), pursuant to which the parties agreed to establish a joint venture company in the PRC with limited liability (the "**JV Company**"). Pursuant to the JV Agreements, the registered capital of the JV Company will be RMB100 million, among which Huixian City Construction Investment Co., Ltd.* (輝縣市建設投資有限公司), a company wholly-owned by the Huixian Government, shall contribute RMB51 million, representing 51% of the total capital contribution of the JV Company, Gosource Capital Limited ("**Gosource Capital**"), an indirect wholly-owned subsidiary of the Company, shall contribute RMB37 million equivalent in US dollars, representing 37% of the total capital contribution of the JV Company, and Henan Sangraf Carbon Technology Company Limited* (河南昇瑞炭材料科技有限公司) ("**Sangraf Henan**"), an indirect wholly-owned subsidiary of the Company, shall contribute 12% of the total capital contribution by way of intellectual property. The JV Company will be a non-wholly owned subsidiary of the Company and thus the financial results of the JV Company will be consolidated into the financial statements of the Group.

The JV Company will, with the assistance of Gosource Capital and/or Sangraf Henan, expand the annual production capacity of the factory of the Group located in Hongzhou Town, Huixian City, Henan Province, the PRC to 40,000 tons of ultra high power graphite electrodes and the associated auxiliary facilities.

Further details of the JV Agreements are set out in the announcement dated 16 May 2023 and the supplemental announcement dated 8 August 2023.

Save as disclosed above or otherwise in this announcement, the Group did not have any material acquisitions nor disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Significant Investments

The Group did not have any significant investment which accounted for more than 5% of the Group's total assets as at 30 June 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2023

		Six months ended 30 June	
		2023	2022
	Notes	***US$'000***	*US$'000*
		(unaudited)	(audited)
Revenue	*4*	**43,685**	59,706
Cost of sales		**(38,384)**	(44,142)
Gross profit		**5,301**	15,564
Other income	*4*	**463**	705
Selling expenses		**(1,325)**	(1,612)
Administrative expenses		**(5,342)**	(4,338)
Other expenses		**(1,315)**	(863)
Finance costs		**(2,145)**	(967)
Listing expenses		**(1,655)**	(559)
Discretionary listing bonus expenses		**(3,045)**	–
(Loss) profit before tax	*5*	**(9,063)**	7,930
Income tax credit (expense)	*6*	**4,839**	(1,397)
(Loss) profit for the period attributable to owners of the Company		**(4,224)**	6,533
(Loss) earnings per share for profit attributable to the owners of the Company			
— Basic	*8*	**US$(0.4) cents**	US$0.8 cents
— Diluted	*8*	**US$(0.4) cents**	N/A

	Notes	Six months ended 30 June **2023** US$'000 **(unaudited)**	2022 US$'000 (audited)
Other comprehensive expense			
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(791)**	(9,329)
Other comprehensive expense that will not be reclassified to profit or loss in subsequent periods:			
Revaluation loss on property, plant and equipment		**–**	(347)
Income tax effect		**–**	55
Net other comprehensive expense that will not be reclassified to profit or loss in subsequent periods		**–**	(292)
Other comprehensive expense for the period, net of tax		**(791)**	(9,621)
Total comprehensive expense for the period attributable to owners of the Company		**(5,015)**	(3,088)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	Notes	**At 30 June 2023** **US$'000** **(unaudited)**	At 31 December 2022 *US$'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**92,995**	93,131
Right-of-use assets		**7,541**	8,109
Intangible assets		**772**	913
Prepayments and deposits		**2,376**	2,737
Interest in an associate		**5,693**	–
Deferred tax assets		**2,230**	2,147
Total non-current assets		**111,607**	107,037
CURRENT ASSETS			
Inventories		**64,286**	58,605
Trade receivables	*9*	**19,909**	21,046
Prepayments, deposits and other receivables		**5,382**	7,511
Cash and cash equivalents		**28,344**	11,652
Total current assets		**117,921**	98,814
CURRENT LIABILITIES			
Trade payables	*10*	**9,851**	12,314
Other payables and accruals		**11,494**	10,804
Interest-bearing bank and other borrowings		**25,609**	16,611
Lease liabilities		**528**	562
Income tax payable		**5,298**	5,232
Total current liabilities		**52,780**	45,523
Net current assets		**65,141**	53,291
Total assets less current liabilities		**176,748**	160,328

	Notes	At **30 June** **2023** ***US$'000*** **(unaudited)**	At 31 December 2022 *US$'000* (audited)
NON-CURRENT LIABILITIES			
Other payables and accruals		**2,392**	2,412
Interest-bearing bank and other borrowings		**4,385**	13,618
Lease liabilities		**1,020**	1,178
Deferred tax liabilities		**9,647**	10,203
Total non-current liabilities		**17,444**	27,411
Net assets		**159,304**	132,917
EQUITY			
Equity attributable to owners of the Company			
Share capital	*11*	**10,000**	110
Reserves		**149,304**	132,807
Total equity		**159,304**	132,917

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. GENERAL AND BASIS OF PREPARATION

Sanergy Group Limited (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 condensed consolidated financial statements are presented in United States dollars ("**US$**"), which is also the functional currency of the Company.

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 six months ended 30 June 2023.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as appropriate. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Other than additional accounting policies resulting from the application of amendments to the Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022.

Moreover, the Group has applied the following accounting policies which became relevant to the Group in the current period.

Interest in an associate

An associate is an entity, other than a subsidiary or a joint venture, of which the Group has significant influence over its financial and operating policy decisions.

Investments in associates are carried in the consolidated financial statements at cost plus share of post-acquisition results less dividends/distributions received and provision for impairment.

Results of associates are incorporated in the consolidated financial statements to the extent of the Group's share of total comprehensive income based on their financial statements made up to 30 June 2023 and where necessary, adjusted to ensure consistency with the Group's accounting policies.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sale of graphite electrodes. The executive directors of the Company have been identified as the chief operating decision maker. 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

	Six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
	(unaudited)	(audited)
Americas	**13,578**	12,989
Europe, Middle East and Africa ("**EMEA**")	**23,272**	28,752
People's Republic of China (the "**PRC**")	**6,771**	15,698
Asia Pacific excluding the PRC	**64**	2,267
	43,685	59,706

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

(b) Non-current assets

	At **30 June 2023** ***US$'000*** **(unaudited)**	At *31 December* 2022 *US$'000* (audited)
Americas	**140**	202
EMEA	**50,506**	50,739
PRC	**57,036**	52,168
Asia Pacific excluding the PRC	**1,542**	1,629
	109,224	104,738

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

4. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	Six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
	(unaudited)	(audited)
Revenue from contracts with customers		
Sale of graphite electrodes	**43,685**	59,706

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

	Six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
	(unaudited)	(audited)
Type of goods or service		
Sale of graphite electrodes	**43,685**	59,706

	Six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
	(unaudited)	(audited)
Timing of revenue recognition		
Goods transferred at a point in time	**43,685**	59,706

Details of the disaggregated revenue based on geographical locations are disclosed in note 3(a).

For the six months ended 30 June 2023 and 2022, revenue of US$26,000 and US$36,000, respectively, was recognised that was included in the contract liabilities at the beginning of the relevant 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 "Revenue from Contracts with Customers", the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed in the notes to these condensed consolidated financial statements 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 is as follows:

	Six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
	(unaudited)	(audited)
Bank interest income	**175**	6
Sublease interest income	**1**	1
Net profit from sale of other carbon products	**–**	188
Revaluation gain on property, plant and equipment	**–**	82
Government subsidies*	**283**	189
Gain on novation of loans	**–**	155
Others	**4**	84
	463	705

* The subsidies for the period represented business, export and environmental subsidies received from the PRC government of US$283,000 (six months ended 30 June 2022: US$189,000). There were no unfulfilled conditions or contingencies relating to these subsidies.

5. (LOSS) PROFIT BEFORE TAX

	Six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
	(unaudited)	(audited)
The Group's (loss) profit before tax is arrived at after charging (crediting):		
Cost of inventories sold*	**38,384**	44,142
Depreciation of property, plant and equipment**	**2,020**	2,209
Depreciation of right-of-use assets**	**462**	434
Amortisation of intangible assets^^	**142**	145
Lease payments not included in the measurement of lease liabilities	**9**	9
Employee benefit expense:		
— Wages and salaries and pension scheme contributions#	**8,349**	4,524
— Less: Amount capitalised	**(2,174)**	(2,137)
— Less: Government subsidies##	**(508)**	(13)
Total employee benefit expense	**5,667**	2,374
Foreign exchange differences, net^	**938**	121
Impairment of trade receivables^^	**–**	114

The amount included the discretionary listing bonus expense of US$3,045,000.

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

* Included in cost of sales on the condensed consolidated statement of profit or loss and other comprehensive income.

** Certain depreciation charge for property, plant and equipment and right-of-use assets of US$1,933,000 and US$2,231,000 for the six months ended 30 June 2023 and 2022, respectively, are included in cost of sales on the condensed consolidated statement of profit or loss and other comprehensive income.

^ Included in other income or other expenses on the condensed consolidated statements of profit or loss and other comprehensive income.

^^ Included in administrative expenses on the condensed consolidated statements of profit or loss and other comprehensive income.

6. INCOME TAX (CREDIT) 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% on the estimated assessable profits arising in Hong Kong for both periods, except for one subsidiary of the Company 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 both periods are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Pursuant to the relevant tax laws of the United States of America (the "**US**"), federal corporation income tax was levied at the rate of up to 21% for both periods on the taxable income arising in the US during the period.

The Coronavirus Aid, Relief, and Economic Security Act ("**CARES Act**") was enacted on 27 March 2020 in the US. Under the CARES Act, the companies incorporated in the US can carry back net operating loss incurred (if any), in the calendar year ended 31 December 2018, 2019 and 2020 to previous five financial years that has taxable profit for tax refund. As such, the subsidiary of the Company in the US is eligible to carry back approximately US$21,952,000 net operating loss incurred in the year ended 31 December 2020 which give rise to approximately US$4,610,000 tax credit.

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 both periods, except for one subsidiary of the Company which enjoys preferential enterprise income tax at a rate of 15%, on the taxable income generated during both periods.

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% and 3.9%, respectively, on the taxable income for both periods.

	Six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
	(unaudited)	(audited)
Current — Hong Kong		
Charge for the period	**3**	–
Current — elsewhere*	**(4,082)**	229
Deferred tax	**(760)**	1,168
Income tax (credit) expense for the period	**(4,839)**	1,397

* The amount for the current period included the tax credit impact of CARES Act received in March 2023, amounting to US$4,610,000 (six months ended 30 June 2022: US$Nil).

7. DIVIDENDS

No dividend was declared by the Company to its shareholders during the six months ended 30 June 2023 and 2022.

8. (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

The weighted average number of ordinary shares used for the purpose of calculating basic loss per share and diluted loss per share for the six months ended 30 June 2023 and basic earnings per share for the six months ended 30 June 2022 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 six months ended 30 June 2022.

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

	Six months ended 30 June	
	2023	2022
	US$'000	*US$'000*
	(unaudited)	(audited)
(Loss) Earnings:		
(Loss) profit for the period attributable to owners of the Company for the purpose of calculating basic and diluted (loss) earnings per share	**(4,224)**	6,533
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss) earnings per share	**984,760,221**	827,600,000

The computation of diluted loss per share for the six months ended 30 June 2023 does not assume the exercise of the Company's over-allotment option during the period since their assumed exercise would result in a decrease in loss per share.

9. TRADE RECEIVABLES

	At 30 June 2023 US$'000 (unaudited)	At 31 December 2022 US$'000 (audited)
Trade receivables measured at amortised cost	**15,372**	16,955
Impairment losses	**(258)**	(260)
	15,114	16,695
Trade receivables measured at fair value through profit or loss ("**FVTPL**")	**4,795**	4,351
	19,909	21,046

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.

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 on a non-recourse basis.

As part of its normal business, the Group entered into a trade receivable factoring arrangement and transferred certain trade receivables to a bank with recourse. The carrying amount of the assets that the Group continued to recognise as at 30 June 2023 was US$Nil (2022: US$617,000) and that of the associated liabilities as at 30 June 2023 was US$Nil (2022: US$506,000).

At 30 June 2023 and 31 December 2022, certain trade receivables of approximately US$16,954,000 and US$14,843,000, respectively were pledged to third parties to secure interest-bearing borrowings granted to the Group.

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:

	At 30 June 2023 *US$'000* **(unaudited)**	At 31 December 2022 *US$'000* (audited)
Not past due	**17,595**	18,242
Within 1 month	**1,103**	2,483
1 to 3 months	**1,090**	321
Over 3 months	**121**	–
	19,909	21,046

10. TRADE PAYABLES

	At 30 June 2023 *US$'000* **(unaudited)**	At 31 December 2022 *US$'000* (audited)
Trade payables	**9,851**	12,314

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

	At 30 June 2023 *US$'000* **(unaudited)**	At 31 December 2022 *US$'000* (audited)
Not past due	**9,024**	10,982
Within 1 month	**440**	705
1 to 3 months	**222**	476
Over 3 months	**165**	151
	9,851	12,314

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

11. SHARE CAPITAL

Authorised:

	Number of shares	Share capital *US$'000*
At 1 January 2022	30,000,000	300
Increased of authorised share capital with par value of US$0.01 each *(note)*	4,970,000,000	49,700
At 31 December 2022 and 30 June 2023	5,000,000,000	50,000

Note: On 19 December 2022, the shareholders of the Company resolved to increase the authorised share capital of US$300,000 to US$50,000,000 by the creation of 4,970,000,000 additional shares, each ranking pari passu in all aspects with the Company's shares then in issue.

Issued and fully paid:

	Number of shares in issue	Share capital *US$'000*
At 1 January 2022 and 31 December 2022	11,000,000	110
Capitalisation issue of 816,600,000 ordinary shares	816,600,000	8,166
Issue of 172,400,000 ordinary shares	172,400,000	1,724
At 30 June 2023	1,000,000,000	10,000

Pursuant to a written resolution passed by the shareholders of the Company on 19 December 2022, a total of 816,600,000 shares of US$0.01 each were allotted to the shareholders of the Company whose names appeared on the register of members of the Company as at 31 December 2021 on a pro rata basis by way of capitalisation of US$8,166,000 from the Company's share premium account on 17 January 2023, being the date of listing of the shares on the Stock Exchange. The capitalisation issue was completed on 17 January 2023, resulting in increase in share capital and reduction in share premium of US$8,166,000, respectively.

The Company's shares were listed on the Stock Exchange on 17 January 2023 and as a result, an additional 172,400,000 ordinary shares were issued at US$0.21 (equivalent to HK$1.6) per share for a total consideration of US$35,364,000 (equivalent to HK$275,840,000), resulting in increase in share capital and share premium of US$1,724,000 and US$33,640,000, respectively. Transaction costs attributable to issue of shares amount to US$3,962,000 which is debited into share premium during the six months ended 30 June 2023.

EVENTS AFTER THE REPORTING PERIOD

Acquisition of the Target Assets

On 6 July 2023, Shengrui (Shanxi) New Materials Technology Co. Limited* (昇瑞(山西) 新材料科技有限公司) (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, and Shanxi Taigu Mingxing Carbon Steel Company Limited* (山西太谷明興碳素瑪鋼有限公司) (the "**Vendor**") entered into an asset purchase agreement (the "**Asset Purchase Agreement**"). Pursuant to the Asset Purchase Agreement, the Vendor has agreed to sell and the Purchaser has agreed to purchase the target assets which shall comprise (a) the land, buildings, and facilities essential for production and operational purposes used in the re-baking, pitch impregnation and graphitisation of graphite electrodes; and (b) the intangible assets pertaining to graphite electrode products or similar products including a comprehensive range of proprietary technologies, technical documentation, data and archives, and other relevant media materials in various fields (the "**Target Assets**") at a consideration of approximately RMB80.5 million. Upon the completion of the acquisition of the Target Assets and the commencement of the operation of the Target Assets, the Group's annual effective production capacity of graphite electrodes is expected to increase from 35,000MT to 46,000MT.

Further details of the acquisition of the Target Assets are set out in the announcement of the Company dated 6 July 2023.

Change of Auditors

On 31 July 2023, the Company announced that Ernst & Young ("**EY**") has resigned as the auditors of the Company upon the request of the Company with effect from 31 July 2023 as the Company and EY were unable to reach a consensus in respect of the audit fees for the year ending 31 December 2023.

Deloitte Touche Tohmatsu ("**Deloitte**") was appointed as the new auditors of the Company with effect from 31 July 2023 to fill the casual vacancy following the resignation of EY and to hold office until the conclusion of the next annual general meeting of the Company. The Board and the audit committee of the Board (the "**Audit Committee**") are of the view that the change of auditors would enable the Company to carry out more effective cost control. The Board and the Audit Committee confirm that there are no other matters in relation to the change of auditors that need to be brought to the attention of the shareholders.

Further details of the change of auditors are set out in the announcement of the Company dated 31 July 2023.

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 "**Listing Date**"). 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 has utilised and will continue to utilise the net proceeds from the global offering as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus issued by the Company on 30 December 2022 (the "**Prospectus**"). The intended application of the net proceeds as stated in the Prospectus and the actual utilisation of the net proceeds from the global offering as at 30 June 2023 are as below:

	Purpose	Percentage of total amount	Net proceeds	Utilised up to 30 June 2023	Unutilised as at 30 June 2023	Expected timeline of full utilisation of the balance as at 30 June 2023
			HK$ million	*HK$ million*	*HK$ million*	
1	Pay for the purchase price of the Taigu Assets (as defined in the Prospectus) *(Note)*	34.8%	65.0	–	65.0	first half of 2024
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	(28.8)	74.2	first half of 2025
3	Working capital and general corporate purposes	10.0%	18.7	(18.7)	–	–

Note: As disclosed in the announcement of the Company dated 6 July 2023, the Asset Purchase Agreement has superseded the original agreements entered into between the Purchaser and the Vendor for the acquisition of the Taigu Assets, and the Group intends to finance a portion of the consideration for the acquisition of the Target Assets in the sum of approximately RMB59 million (approximately equivalent to HK$65 million) from the net proceeds of the global offering.

The net proceeds have been and will be used according to the allocations and 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 30 June 2023, the Group employed 206 staff. The staff costs (including directors remuneration) for the Reporting Period amounted to approximately US$8.3 million (1H2022: US$4.5 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.

INTERIM DIVIDEND

The Board did not declare any interim dividend for 1H2023 and 1H2022.

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 was not applicable to the Company prior to the Listing Date. Throughout the period from the Listing Date to 30 June 2023, the Company has complied with the code provisions as set out in the CG Code. It is worth noting that the roles of chairman and chief executive officer should be separate and performed by different individuals pursuant to Code A.2.1 of the Code Provisions. During the Reporting Period, Dr. Wei-Ming Shen ("**Dr. Shen**") resigned as the chairman of the Board with effect from 19 May 2023 and following his resignation, Mr. Peter Brendon Wyllie, an executive Director at the time, was appointed as the chairman of the Board. Such change of chairman of the Board is in line with the requirement under the Code A.2.1 of the Code Provisions and demonstrated a clear division of responsibilities between the management of the Board and the day-to-day management of the Company's business to ensure a balance of power and authority.

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. Since the shares were listed on the Main Board of the Stock Exchange on 17 January 2023, the Model Code was not applicable to the Company prior to the Listing Date. 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 30 June 2023.

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules, and currently comprises three independent non-executive Directors, namely Mr. Cheng Tai Kwan Sunny (Chairman), Ms. Chan Chore Man Germaine and Mr. Ngai Ming Tak Michael.

The Audit Committee has discussed with the management and the external auditors and reviewed this interim results announcement and the unaudited condensed consolidated interim financial statements of the Group for 1H2023.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial information for 1H2023 has been reviewed and agreed by the Company's auditors, Deloitte, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The review report of the auditors will be included in the interim report of the Company for the Reporting Period to be dispatched to the Shareholders.

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 INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sanergygroup.com). The interim report for the Reporting Period 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
Peter Brendon Wyllie
Chairman of the Board and Executive Director

Hong Kong, 29 August 2023

As at the date of this announcement, the Board comprises (i) Mr. Peter Brendon Wyllie (chairman of the Board), Dr. Wei-Ming Shen, 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*