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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)

VOLUNTARY ANNOUNCEMENT

This is a voluntary announcement made by Sanergy Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) to keep the shareholders of the Company (the “**Shareholders**”) and potential investors informed of the latest business developments of the Group.

Reference is made to the announcement of the Company dated 13 November 2023 (the “**Assignment Announcement**”) in relation to the assignment of rights to GoSource Group Limited (being a wholly-owned subsidiary of the Company) to acquire a land parcel next to the Company’s existing graphite electrode production in Narni, Italy (the “**Assignment**”). Capitalised terms used in this announcement shall have the same meanings as defined in the Assignment Announcement.

COMPLETION OF THE ASSIGNMENT

The Board is pleased to announce that the completion of the Assignment took place on 22 December 2023, upon which the Group is a step closer to realise its vision of establishing a total manufacturing capacity of 120,000MT synthetic graphite anode material (“**GAM**”) per year in Europe.

It is the Group’s business plan to first embark on the GAM brownfield project, that is, to build on the Narni 1 Land a Europe GAM manufacturing plant with an annual synthetic GAM production capacity of 20,000MT (the “**GAM Plant**”), and then a 100,000MT greenfield project, with a view to serving the European GAM market. The Board believes that amidst the local supply shortage in the European synthetic GAM market, launching the GAM brownfield project would enable the Group to take the first-mover advantage. It is expected that the GAM Plant will be equipped with full range of manufacturing capabilities which are integral to the advanced powder-route synthetic GAM production process.

BACKGROUND

The Group is principally engaged in manufacturing and sale of UHP graphite electrodes. As disclosed in the interim report of the Company for the six months ended 30 June 2023, with the vision of entering into the GAM market for lithium-ion battery arising from the rapid development of electrical vehicles (“EV”) and energy storage system (“ESS”) industries, the Group has been proactively seeking opportunities for developing GAM production in Europe and exploring research and development of synthetic GAM, including the production of trial lot of synthetic GAM for customer qualification in the European and PRC markets. In view of the potential growth of the GAM market as detailed below, the Group is minded to expand into the GAM market to seize business opportunities on the increasing global demand for GAM and set up its own GAM production plant in Europe. Such strategic decision to establish the Group’s own GAM production facilities in Europe is in line with the future market development trends and is expected to be beneficial to the growth of the Group in the long run. This expansion into European GAM market is bolstered by the Group’s prior investment in Hubei Hairong Technology Company Limited* (“**Hubei Hairong**”), a PRC-based GAM company, with a well-established customer portfolio and strong research and development capabilities. The investment in Hubei Hairong not only enables the Group to have direct access to the advanced powder-route synthetic GAM manufacturing process technology and the technical know-how knowledge for graphitization technology and particle design, but also gain direct resources to quality machinery manufacturers for lower cost fixed assets investments. The investment in Hubei Hairong, along with synergies from the common process technologies between graphite electrode and GAM, have laid a strong foundation for the Group’s future success in the GAM business, contributing to the global lithium-ion-battery supply chain.

OVERVIEW OF GAM AND MARKET PROSPECT IN EUROPE

The global commitment by governments and the Original Equipment Manufacturers towards the development of green industries and electrification of transportation is driving the demand for lithium-ion batteries due to their wide applications, particularly in the new energy vehicle and energy storage industries. Graphite anode material is a key component of lithium-ion batteries and graphite is the key raw material in the battery anode with over 95% of EV battery anodes comprising graphite. Amongst various GAM’s technologies, synthetic GAM is superior to natural GAM in most performance and cost indicators that are needed to achieve EV performance levels. The powder-route is currently recognized as the most advanced technological route to produce synthetic GAM.

The global battery production capacity is expected to grow from 350 GWh in 2020 to 2,900 GWh in 2030 at a compound annual growth rate of 24% and the global lithium-ion battery market is expected to grow from 250 GWh in 2020 to 2,260 GWh in 2030 at a compound annual growth rate of 25%. For Europe, the battery production capacity is expected to grow from 25 GWh in 2020 to 696 GWh in 2030 at a compound annual growth rate of 39%, which exceeds the aforesaid global growth rate. In this regard, Europe is expected to become the second largest growing battery market after China. The Europe battery production capacity is expected to account for 24% of global battery production capacity in 2030, lower than 54% from China.

Currently, over 90% of global GAM supply is produced in the PRC and most of the GAM used in Europe is imported from the PRC. With the transformation of supply chains from “globalisation” to “localisation”, main EV manufacturers are planning to localize their supply chains. There are increasing number of lithium-ion battery gigafactories being set up in Europe who are in the process of looking to secure long term quality raw material supply, including GAM, for their production facilities and are prioritising GAM suppliers from Europe. GAM customer qualification process will typically take a number of years due to scrutiny on performance and quality. As a result, any GAM suppliers that can establish the synthetic GAM capacity in Europe early will have significant first-mover advantage. Furthermore, the European Union (EU) has implemented favourable policies that support the development of the GAM industry, such as the EU Batteries Regulation, which aims to enhance the sustainability and competitiveness of the battery industry within the EU. This regulation emphasizes the importance of developing sustainable and environmentally friendly battery technologies, including GAM. In addition, the EU has identified critical raw materials, including graphite, as essential for the EU’s industrial competitiveness and green transition by diversifying import sources and encouraging a higher EU’s annual consumption for processing of such raw materials within the EU. This emphasis on securing a sustainable supply of raw materials creates opportunities for companies in the GAM industry as it ensures a stable and reliable supply chain for the production of GAM.

EXPANDING INTO THE GAM MARKET BY THE GROUP

The global lithium-ion battery demand and the abovementioned supporting policies provide a favourable framework and incentives for the Group to enter the GAM market in Europe. The Directors are of the view that expanding into the GAM market will significantly broaden the income sources and reinforce the profitability of the Group and is thus beneficial to the growth of the Group in the long run.

The Directors are of the view that the Group possess sufficient technological knowhow for it to be successful in the GAM market. Firstly, there are common process technologies and common raw materials between graphite electrode production and graphite anode materials production. Secondly, the Group has invested its own fund into Hubei Hairong with a well-established customer portfolio and strong research and development capabilities. Thirdly, driven by the Group’s prior continuous effort in research and development of GAM and decades of experience and technical know-how in the synthetic graphite industry within the course of the Group’s business operation, the Group has also developed a well-positioned GAM product portfolio for EV and ESS applications tailored to customers’ requirements.

Along with the research and development efforts of the Group, the Group has made positive market development and established a certain sales network in the European lithium-ion battery supply chain. Leveraging on existing well-established customer portfolio of the Group and the investment in Hubei Hairong, the Group reached out to a number of potential GAM customers and are undergoing supplier qualification process. After long cycle of laboratory tests and customer trials, the Company has received its first bulk purchase order from one of the leading European lithium-ion battery manufacturers recently.

The completion of the Assignment also signified a milestone development of the Group's expansion plan into the European synthetic GAM market. The Board will update the Shareholders and the potential investors with the developments and progress of the construction of the GAM Plant as and when appropriate.

By order of the Board
SANERGY GROUP LIMITED

Peter Brendon Wyllie

Executive Director and Chairman of the Board

Hong Kong, 22 December 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.