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 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 audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2023 ("**FY2023**"), together with the comparative figures for the year ended 31 December 2022 ("**FY2022**").

FINANCIAL HIGHLIGHTS

	Year ended 31 December	
	2023	2022
	US$'000	*US$'000*
Revenue	**72,292**	115,521
Gross profit	**841**	26,028
Gross profit margin %	**1.2%**	22.5%
(Loss) profit for the year attributable to owners of the Company	**(15,476)**	7,496

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year of 2023 has witnessed a significant decline in market conditions, characterized by global economic uncertainties, moderating inflation, intensifying political tensions, higher interest rates and industry-wide headwinds. The world's crude steel production for the 71 countries reporting to the World Steel Association during 2023 demonstrated a decreasing trend as compared to 2022, among which North America and the European Union decreased by 1.7% and 7.4%, respectively. The slowdown in steel production suppressed the downstream demand for graphite electrode products.

Under this business landscape, the Group recorded revenue of approximately US$72.3 million during FY2023, representing a decrease of approximately 37.4% compared with FY2022 due to softening customer demand and de-stocking in the downstream supply chain. Notwithstanding the Group's continuous efforts to maintain a relatively stable average selling price, the macroeconomic uncertainties led to a decrease in the Group's sales quantity of graphite electrodes in FY2023 by 29.6% as compared with that of FY2022. All geographical regions experienced a decline in revenue, which were largely consistent with the slowdown of the world's crude steel production in 2023.

Regarding our cost of sales, the reduced production volume and fixed overhead costs contributed to an increase in the Group's average cost of sales per metric tonne ("**MT**") of graphite electrode. In response to the short-term sluggish market, we carefully assessed the net realizable value of our inventory based on prevailing market prices of graphite electrodes. As a result, we recorded an inventory provision of approximately US$3.3 million for FY2023 (the "**Inventory Provision**") (compared to US$Nil in FY2022). Consequently, our gross profit margin declined from approximately 22.5% in FY2022 to approximately 1.2% in FY2023. Additionally, the Group incurred other non-recurring expenses, including listing expenses of approximately US$1.7 million in FY2023 (compared to approximately US$1.2 million in FY2022) and a discretionary listing bonus of US$3.0 million declared and paid after the Company's listing in FY2023. These factors collectively contributed to a significant shift from profit to loss for the Group in FY2023.

To navigate through the challenging market conditions, our Group has demonstrated resilience and adaptability. We swiftly implemented a comprehensive response strategy, focusing on preserving the Group's operating resources and minimizing our inventory risk exposure. While we have remained committed to our customers and their evolving needs, we also proactively adjusted our production volume to align with our expectation of the product demand.

FUTURE PROSPECTS

Looking ahead to 2024, we anticipate that the global economy will continue to be subdued in the near term. This projection is based on the prevailing softness in the commercial landscape, as various industries grapple with constraints stemming from the ongoing global economic uncertainty. In spite of the preceding, 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 and continues to pursue its business plan with a view to better position itself for business opportunities once the industry picks up its momentum.

In connection with the graphite electrode business, the Group will strive for improvement and a rebound in the operational and financial performance in the near short term. Additionally, the Group aims to increase the total annual effective production capacity in the long run. This demonstrates the Group's dedication to the core graphite electrode business and its confidence in the market's resurgence. In addition, global steelmaking capacity is projected to increase significantly over the next three years, with over 120 million MT of capacity additions underway or in the planning stage while electric arc furnace projects account for approximately 50.5% of the total. With the backdrop of dual carbon goals of carbon peaking before 2030 and carbon neutrality before 2050, the continuous adoption of electric arc furnace steelmaking will drive long-term growth in the demand for ultra high power graphite electrodes.

In view of the potential growth of the graphite anode material ("**GAM**") market for lithium-ion batteries and to leverage on the first-mover advantage in Europe, in December 2023, the Group has embarked on a brownfield GAM project to build a European GAM production plant with an annual effective synthetic GAM production capacity of 20,000MT in Europe. Such a strategic decision to establish the Group's own GAM production facilities in Europe is in line with future market development trends. This expansion into the European GAM market is bolstered by the Group's prior investment in Hubei Hairong Technology Company Limited* (湖北海容科技有限公司), a PRC-based GAM company, during FY2023 with strong research and development capabilities and advanced powder-route synthetic GAM manufacturing process technology. Our resolution lies in the belief that the investment made in Hubei Hairong Technology Company Limited, coupled with the synergies derived from common process technologies between graphite electrodes and GAM, has established a robust and solid foundation for the Group's prospective triumph in the GAM business. This strategic move is expected to play a pivotal role in bolstering the global lithium-ion battery supply chain.

* *for identification purpose only*

Going forward, the Group remains confident in its ability to navigate the current market conditions and is optimistic about the long-term outlook for the dual-core businesses. The Group will proactively and diligently execute its initiatives to provide a compelling value proposition to its customers and uphold 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. The Group will continue to strive to monetise its business strategies and capitalise on industry tailwinds to deliver long term growth for the long-term interests of its stakeholders.

FINANCIAL REVIEW

Revenue

The revenue decreased from approximately US$115.5 million in FY2022 to approximately US$72.3 million in FY2023 mainly due to:

(i) the decrease in sales quantities from approximately 24,184MT in FY2022 to 17,015MT in FY2023; and

(ii) the decrease in the average selling price of graphite electrodes of approximately US$4,777/MT in FY2022 to approximately US$4,249/MT in FY2023.

Cost of Sales

The cost of sales decreased from approximately US$89.5 million in FY2022 to approximately US$71.5 million in FY2023, mainly due to combined effect of (i) decrease in sales quantities from approximately 24,184MT in FY2022 to approximately 17,015MT in FY2023; (ii) the average cost of sales increased from approximately US$3,701/MT in FY2022 to approximately US$4,199/MT in FY2023 which was driven by the decrease in production volume in FY2023 as compared to that of FY2022; and (iii) the Inventory Provision of approximately US$3.3 million (FY2022: US$Nil) due to the decrease in the net realizable value of the inventory as assessed based on the market prices of graphite electrodes.

Gross Profit and Gross Profit Margin

The gross profit substantially decreased from approximately US$26.0 million in FY2022 to approximately US$0.8 million in FY2023 and the gross profit margin decreased from approximately 22.5% in FY2022 to approximately 1.2% in FY2023. Such decrease in gross profit margin was mainly driven by: (i) the decrease in the average selling price of graphite electrodes; (ii) the decrease in sales quantities of graphite electrodes; and (iii) the increase in average cost of sales of graphite electrodes per MT. Excluding the effect of the Inventory Provision, the adjusted gross profit in FY2023 would be approximately US$4.1 million and the corresponding adjusted gross profit margin would be approximately 5.7%.

Administrative Expenses

The total administrative expenses of the Group were approximately US$12.1 million in FY2023, representing an increase of approximately 32.5% as compared to FY2022. Such increase was mainly due to increase in ongoing compliance costs upon the Company's listing and increase in staff cost.

Finance Costs

The Group managed to secure loans from various financial institutions in FY2022 and FY2023 in support of the Group's expansion plans. Apart from the interest-rate-rising environment, the increase in the finance costs from approximately US$2.6 million in FY2022 to US$3.7 million in FY2023 was mainly attributable to certain loans drawn down in FY2022 and new loans obtained in FY2023.

Listing Expenses

The Group's listing expenses increased from approximately US$1.2 million in FY2022 to approximately US$1.7 million in FY2023 which was mainly attributable to certain underwriting-related expenses incurred upon the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 17 January 2023 (the "**Listing Date**").

Loss for the Year

The Company recorded loss attributable to its owners of approximately US$15.5 million in FY2023, which was mainly attributable to (i) substantial decrease in the gross profit due to the foregoing reasons; (ii) moderate increase in administrative expenses; (iii) increase in finance costs; and (iv) the declaration and payment of discretionary bonus for employees after the listing of the Company, and partially offset by the income tax credit.

Adjusted net (loss)/profit

	For the year ended 31 December	
	2023	2022
	US$'000	*US$'000*
(Loss) profit for the year attributable to owners of the Company	**(15,476)**	7,496
Add:		
Listing expenses	**1,655**	1,198
Discretionary listing bonus expenses	**3,045**	–
Adjusted net (loss) profit	**(10,776)**	8,694

The Board wishes to remind the shareholders of the Company (the "**Shareholders**") and the potential investors that the adjustments made above were not required to be made under Hong Kong Financial Reporting Standards and its sole purpose is to give the Shareholders and the potential investors a comprehensive and complete picture of the Group's operating performance, net of the non-recurring impact from the listing expenses and the discretionary employee bonus declared and paid after the Company's listing in FY2023, and provide them with an additional parameter for comparison purpose. The Shareholders and the potential investors should not solely rely on the financial figures adjusted and presented in this manner and should consult their advisers as and when appropriate.

Liquidity, Capital Resources and Capital Structure

During FY2023, 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.

Cash Flow

The net cash used in operating activities, the net cash used in investing activities and the net cash from financing activities in FY2023 amounted to US$6.1 million (2022: net cash from operating activities: US$5.4 million), US$15.0 million (2022: net cash used in investing activities: US$6.0 million) and US$38 million (2022: net cash used in financing activities: US$2.5 million), respectively.

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 2023, the Group's cash and cash equivalents were approximately US$29.6 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 31 December 2023 amounted to approximately US$38.7 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 purposes 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 31 December 2023, the Group's total equity and liabilities amounted to approximately US$148.5 million and US$77.6 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, increased from approximately 22.7% as at 31 December 2022 to approximately 26.1% as at 31 December 2023. This was mainly attributable to the overall increase in the interest-bearing bank and other borrowings.

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 mainly including Taigu Assets (as set out in the announcement of the Company dated 6 July 2023) and upgrades of our production systems. For FY2023, the Group incurred capital expenditures of approximately US$13.6 million.

Contingent Liabilities

As at 31 December 2023, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 31 December 2023, certain of property, plant and equipment, trade receivables and industrial leasehold land with carrying amounts of approximately US$22.7 million, US$10.1 million and US$3.2 million, respectively (as at 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

Establishment of 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 thereto (the "**JV Agreement**"), 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, which shall be contributed as to (i) 51% by 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; (ii) 37% by Gosource Capital Limited ("**Gosource Capital**"), an indirect wholly-owned subsidiary of the Company; and (iii) 12% 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. As at the date of this announcement, the JV Company was duly established under the PRC laws while its registered capital has not yet been paid up by the parties. Pursuant to the amendment of the PRC Company Law (to be effective on 1 July 2024), the registered capital of a limited liability company shall be fully paid within 5 years from the date of establishment. The parties to the JV Agreement are currently in further negotiation as to the timing and the method of contribution. The JV Company is a non-wholly owned subsidiary of the Company and thus its financial results were consolidated into the financial statements of the Group. Further details of the JV Agreements are set out in the announcement of the Company dated 16 May 2023 and the supplemental announcement of the Company dated 8 August 2023.

Acquisition of Taigu 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, entered into an agreement (the "**Asset Purchaser Agreement**") with Shanxi Taigu Mingxing Carbon Steel Company Limited * (山西太谷明興碳素瑪鋼有限公司) (the "**Vendor**") to acquire relevant buildings, production facilities, and intangible assets pertaining to graphite electrode products, etc (the "**Taigu Assets**") for a consideration of approximately RMB80.5 million, of which 50% had been settled as at the date of this announcement and the remaining balance shall be settled upon fulfilment of certain conditions including but not limited to obtaining the ownership certificates of the buildings within the Taigu Assets with the assistance of the Vendor (the "**Payment Condition**"). As at the date of this announcement, the Payment Condition is yet to be fulfilled and the Vendor attempted to seek rescission on the basis of force majeure which, as advised by the PRC legal advisers of the Company, is groundless given that the completion of the acquisition of the Taigu Assets had taken place in August 2023. The PRC legal advisers further advised that it is feasible and practicable for the Company to obtain the required certificates. As at the date of announcement, the Company is utilizing the Taigu Assets in the ordinary course of business and the Company will continue to negotiate with the Vendor in an effort to obtain the required certificates following the required procedures. The Company will update the Shareholders and potential investors on the latest developments as and when appropriate.

Acquisition of Rights and Obligations under a Deed of Sale and Purchase

On 13 November 2023, Tianjin Binhai New District Baochang Shipping Investment Management Co., Ltd.* (天津濱海新區保昌船舶投資管理有限公司) ("**Baochang**") as the assignor, Gosource Group Limited, an indirect wholly-owned subsidiary of the Company, as the assignee, and the Company entered into a deed of assignment (the "**Deed of Assignment**"), pursuant to which Baochang conditionally agreed to assign to Gosource all of its rights, obligations and interests (the "**Assignment**") under a deed of sale and purchase (the "**Sub-sale Agreement**") dated 19 July 2022 and entered into between Gosource and Baochang (pursuant to which Gosource shall sell, and Baochang shall purchase, a land, together with the buildings and tangible assets located in Narni 1, Narni Scalo (TR) 05035, Via del Lavoro, 8, Italy at an estimated consideration of approximately EUR2.2 million), including any sums paid by Baochang under the Sub-sale Agreement, at a total consideration of US$5.5 million (equivalent to approximately HK$43.0 million), among which US$4.6 million (equivalent to approximately HK$36.0 million) shall be satisfied by way of allotment and issuance of 10,000,000 new shares of the Company (the "**Consideration Shares**") at the issue price of HK$3.60 per Consideration Share (credited as fully paid) by the Company to Baochang under the general mandate granted to the Directors pursuant to the ordinary resolution of the Shareholders passed at the annual general meeting of the Company held on 19 May 2023.

Further details of the Assignment are set out in the announcement of the Company dated 13 November 2023.

The completion of the Assignment took place and the Consideration Shares were issued and allotted on 22 December 2023 pursuant to the Deed of Assignment.

Save as disclosed above or otherwise in this announcement, the Group did not have any other material acquisitions nor disposals of subsidiaries, associates and joint ventures during FY2023.

Significant Investments

The Group did not have any significant investment which accounted for more than 5% of the Group's total assets as at 31 December 2023.

Designation of the Headquarter and Principal Place of Business in the PRC

The Group has designated its Henan office at 3 East Industrial Road, Hongzhou Industrial Park, Huixian Industries Concentration Zone, Xinxiang, Henan, China as its headquarter and principal place of business in the PRC.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	**2023** *US$'000*	2022 *US$'000*
REVENUE	*5*	**72,292**	115,521
Cost of sales		**(71,451)**	(89,493)
Gross profit		**841**	26,028
Other income	*5*	**691**	358
Other gains and losses		**(128)**	(1,070)
Selling expenses		**(2,781)**	(2,942)
Administrative expenses		**(12,081)**	(9,118)
Other expenses		**(250)**	(244)
Share of result of an associate		**(265)**	–
Finance costs	*7*	**(3,653)**	(2,626)
Listing expenses		**(1,655)**	(1,198)
Discretionary listing bonus expense		**(3,045)**	–
(LOSS) PROFIT BEFORE TAX	*6*	**(22,326)**	9,188
Income tax credit (expense)	*8*	**6,850**	(1,692)
(LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(15,476)**	7,496
(LOSS) EARNINGS PER SHARE — Basic and diluted	*10*	**US$(1.6) cents**	US$0.9 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	US$'000	*US$'000*
(LOSS) PROFIT FOR THE YEAR	**(15,476)**	7,496
OTHER COMPREHENSIVE INCOME (EXPENSE)		
Other comprehensive income (expense) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,806**	(9,895)
Other comprehensive (expense) income that will not be reclassified to profit or loss in subsequent periods:		
Revaluation loss on property, plant and equipment	**(2,458)**	(1,314)
Income tax effect	**302**	1,641
Net other comprehensive (expense) income that will not be reclassified to profit or loss in subsequent periods	**(2,156)**	327
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX	**(350)**	(9,568)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(15,826)**	(2,072)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Notes	2023 US$'000	2022 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**100,053**	93,131
Right-of-use assets		**7,156**	8,109
Intangible assets		**713**	913
Prepayments and deposits		**652**	2,737
Interest in an associate		**6,651**	–
Deferred tax assets		**3,413**	2,147
		118,638	107,037
CURRENT ASSETS			
Inventories		**57,024**	58,605
Trade receivables	*11*	**12,950**	21,046
Prepayments, deposits and other receivables		**6,282**	7,511
Financial asset at fair value through profit or loss		**1,540**	–
Cash and cash equivalents		**29,620**	11,652
		107,416	98,814
CURRENT LIABILITIES			
Trade payables	*12*	**7,200**	12,314
Other payables and accruals		**15,745**	10,804
Interest-bearing bank and other borrowings		**34,699**	16,611
Lease liabilities		**240**	562
Income tax payable		**4,687**	5,232
		62,571	45,523
NET CURRENT ASSETS		**44,845**	53,291
TOTAL ASSETS LESS CURRENT LIABILITIES		**163,483**	160,328

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2023

	2023	2022
	US$'000	*US$'000*
NON-CURRENT LIABILITIES		
Other payables and accruals	**1,288**	2,412
Interest-bearing bank and other borrowings	**3,964**	13,618
Lease liabilities	**911**	1,178
Deferred tax liabilities	**8,827**	10,203
	14,990	27,411
NET ASSETS	**148,493**	132,917
CAPITAL AND RESERVES		
Equity attributable to owners of the Company		
Share capital	**10,100**	110
Reserves	**138,393**	132,807
TOTAL EQUITY	**148,493**	132,917

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

1. GENERAL INFORMATION

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 "**Listing Date**").

The 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 year ended 31 December 2023.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time, which are mandatorily effective for the annual periods beginning on 1 January 2023 for the preparation of the 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
Amendments to HKAS 12	International Tax Reform-Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties, plant and equipment and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the fair value hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

4. 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

	2023	2022
	US$'000	*US$'000*
Americas	**19,326**	33,484
Europe, Middle East and Africa ("**EMEA**")	**38,319**	51,664
People's Republic of China (the "**PRC**")	**12,907**	27,871
Asia Pacific excluding the PRC	**1,740**	2,502
	72,292	115,521

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

(b) Non-current assets

	2023	2022
	US$'000	*US$'000*
Americas	**78**	202
EMEA	**50,241**	50,739
PRC	**64,836**	52,168
Asia Pacific excluding the PRC	**36**	1,629
	115,191	104,738

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:

	2023	2022
	US$'000	*US$'000*
Customer A	**12,599**	14,421
Customer B	**N/A***	13,184

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	2023	2022
	US$'000	*US$'000*
Revenue from contracts with customers		
Sale of graphite electrodes	**72,292**	115,521

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

	2023	2022
	US$'000	*US$'000*
Types of goods or services		
Sale of graphite electrodes	**72,292**	115,521
Timing of revenue recognition		
Goods transferred at a point in time	**72,292**	115,521

For the years ended 31 December 2023 and 2022, revenue of US$409,000 and US$40,000, respectively, was recognized that was included in the contract liabilities at the beginning of the relevant period.

(b) Performance obligation

Revenue from the sale of graphite electrodes is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. There are no other promises in the contracts that are separate performance obligations that require allocation of revenue.

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 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.

An analysis of other income is as follows:

	2023	2022
	US$'000	*US$'000*
Other income		
Bank interest income	**389**	23
Sublease interest income	**1**	2
Government subsidies*	**283**	218
Others	**18**	115
	691	358

* The subsidies for the year represented business, export and environmental subsidies received from the Italian and PRC governments of US$283,000 (2022: US$218,000). There were no unfulfilled conditions or contingencies relating to these subsidies.

6. (LOSS) PROFIT BEFORE TAX

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

	2023	2022
	US$'000	*US$'000*
Cost of inventories sold*	**68,160**	89,493
Depreciation of property, plant and equipment**	**4,075**	3,660
Depreciation of right-of-use assets**	**796**	811
Amortization of intangible assets^	**279**	279
Lease payments not included in the measurement of lease liabilities	**88**	16
Auditor's remuneration^^	**243**	367
Directors' remuneration	**3,599**	876
Other employee benefit expenses		
Wages and salaries and pension scheme contributions#	**10,847**	8,744
Less: Amount capitalized	**(3,939)**	(4,323)
Less: Government subsidies##	**(508)**	(35)
Total employee benefit expenses	**9,999**	5,262
Impairment of trade receivables^	**59**	211
Write-down of inventories*	**3,291**	–

The amount in current year 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 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$4,540,000 and US$3,762,000 for the year ended 31 December 2023 and 2022, respectively, are included in cost of sales on the consolidated statement of profit or loss and other comprehensive income.

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

^^ Excluded the amounts paid to the reporting accountant for the initial public offering exercise of the listing of the Company's shares on the Stock Exchange.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2023	2022
	US$'000	*US$'000*
Interest on lease liabilities	**128**	93
Interest on loans from a related company	**–**	378
Interest on bank borrowings	**813**	541
Interest on other borrowings	**2,368**	1,242
Interest on an outstanding balance derived from acquisition of a subsidiary	**–**	70
Other arrangement fee	**344**	302
	3,653	2,626

8. 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% (2022: 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 (2022: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

Pursuant to the relevant tax laws of the United States of America (the "**US**"), federal corporation income tax has been levied at the rate of up to 21% (2022: 21%) on the taxable income arising in the US during the year.

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 was 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 refund in current 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% (2022: 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 both years.

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% (2022: 24.0% and 3.9%), respectively, on the taxable income for both years.

A reconciliation of the tax expense applicable to (loss) profit before tax at the statutory rates of the jurisdictions in which the Group operates to the tax (credit) expense at the effective tax rates is as follows:

	2023	2022
	US$'000	*US$'000*
Current — Hong Kong		
Charge for the year	**9**	6
Current — elsewhere*		
Credit for the year	**(4,217)**	(275)
Deferred tax	**(2,642)**	1,961
Income tax (credit) expense for the year	**(6,850)**	1,692

* The amount for the current year included the tax credit impact of CARES Act received, amounting to US$4,610,000 (2022: US$Nil).

9. DIVIDENDS

No dividend was declared by the Company to its shareholders during the years ended 31 December 2023 and 2022.

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

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

	2023	2022
	US$'000	*US$'000*
(Loss) earnings:		
(Loss) profit for the year attributable to owners of the Company for the purpose of calculating basic and diluted (loss) earnings per share	**(15,476)**	7,496

	Number of shares 2023	2022
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss) earnings per share	**992,442,740**	827,600,000

The calculation of the basic (loss) earnings per share amounts is based on the (loss) 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 loss per share and diluted loss per share for the years ended 31 December 2023 and basic earnings per share for the year ended 31 December 2022 has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalization issue which was completed on the Listing Date.

The computation of basic loss per share for the year ended 31 December 2023 does not include the issuance of 10,000,000 share as a consideration for acquisition of a land in Italy as the share is subjected to return.

The computation of diluted loss per share for the year ended 31 December 2023 does not assume the exercise of the Company's over-allotment option and issuance of 10,000,000 share since their assumed exercise would result in a decrease in loss per share.

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

11. TRADE RECEIVABLES

An aging 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:

	2023 *US$'000*	2022 *US$'000*
Not past due	**7,524**	18,242
Within 1 month	**2,060**	2,483
1 to 3 months	**1,026**	321
Over 3 months	**2,340**	–
	12,950	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 minimize 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 26% (2022: 21%) and 71% (2022: 66%) of the Group's trade receivables from the Group's largest and the five largest customers, respectively.

12. TRADE PAYABLES

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

	2023	2022
	US$'000	*US$'000*
Not past due	**5,678**	10,982
Within 1 month	**1,092**	705
1 to 3 months	**281**	476
Over 3 months	**149**	151
	7,200	12,314

The trade payable are non-interest-bearing and are normally settled on terms ranging from 28 to 120 days.

EVENTS AFTER THE REPORTING PERIOD

Save as otherwise disclosed in this announcement, there are no significant events affecting the Group after FY2023 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 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 utilized and will continue to utilize the net proceeds from the global offering according to the purposes 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 utilization of the net proceeds from the global offering as at 31 December 2023 are as follows:

	Purpose	Percentage of total amount	Net proceeds *HK$ million*	Utilized up to 31 December 2023 *HK$ million*	Unutilized up to 31 December 2023 *HK$ million*	Expected timeline of full utilization of the balance as at 31 December 2023 *(Note)*
1	Pay for the purchase price of the Taigu Assets	34.8%	65.0	(44.2)	20.8	first half of 2025
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: The expected dates of utilisation of the net proceeds for the following purposes have been adjusted with the latest progress of the projects.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 31 December 2023, the Group employed 211 staff (31 December 2022: 220 staff). The staff costs (including directors' remuneration) for FY2023 amounted to approximately US$14.4 million (2022: US$9.6 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

The Board did not recommend any final dividend for FY2023 (FY2022: US$Nil).

CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). 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 31 December 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 C.2.1 of the Code Provisions. During FY2023, 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 C.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 C3 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 31 December 2023.

AUDIT COMMITTEE

The Company has established the audit committee (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 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 FY2023.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board of Directors on 21 March 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu 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 since the Listing Date and up to 31 December 2023.

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 FY2023 containing all the information required by Appendix D2 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, 21 March 2024

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*