CHINA GRAPHITE GROUP LIMITED
中国石墨集团有限公司

(incorporated in the Cayman Islands with limited liability)
Stock code: 2237

2022
Annual Report

Contents

FINANCIAL HIGHLIGHTS

Key Financial Data

	FY2022 RMB'000	FY2021 RMB'000	Change (%)
Sale of spherical graphite and its by-products	**131,327**	98,509	33.3%
Sale of flake graphite concentrate	**138,345**	97,672	41.6%
Sale of unprocessed marble	**3,923**	2,184	79.6%
Total Revenue	**273,595**	198,365	37.9%
Gross Profit	**135,897**	93,043	46.1%
Gross Profit Margin	**49.7%**	46.9%	
Profit and total comprehensive income attributable to owners of the Company	**78,982**	53,325	48.1%
Adjusted for:			
Government grants	**(4,816)**	(7,858)	(38.7%)
Listing expenses	**9,640**	6,881	40.1%
Adjusted net profit under non-HKFRS financial measures	**83,806**	52,348	60.1%
Adjusted net profit margin	**30.6%**	26.4%	

- The overall business maintained a growth momentum. Revenue amounted to approximately RMB273.6 million for FY2022 compared to approximately RMB198.4 million for FY2021, up by approximately 37.9% year-on-year;

- Revenue from the sale of spherical graphite and its by-products amounted to approximately RMB131.3 million for FY2022 compared to approximately RMB98.5 million for FY2021, up by approximately 33.3% year-on-year;

- Revenue from the sale of flake graphite concentrate amounted to approximately RMB138.3 million for FY2022 compared to approximately RMB97.7 million for FY2021, up by approximately 41.6% year-on-year;

- Gross profit amounted to approximately RMB135.9 million for FY2022 compared to approximately RMB93.0 million for FY2021, up by approximately 46.1% year-on-year. Gross profit margin increased to 49.7% for FY2022 from 46.9% for FY2021;

- Adjusted net profit under non-HKFRS financial measures reflecting the actual performance of the Group's operation amounted to approximately RMB83.8 million for FY2022 compared to approximately RMB52.3 million for FY2021, up by approximately 60.1% year-on-year. Adjusted net profit margin increased to approximately 30.6% for FY2022 from approximately 26.4% for FY2021; and

- The Directors have recommended the payment of final dividend for FY2022 of HK1.6 cents per Share subject to the approval of the Shareholders at the AGM to be held on 5 May 2023.

CORPORATE INFORMATION

Executive Directors

Mr. Zhao Liang
(Chairman and Chief Executive Officer)
Mr. Lei Wai Hoi

Independent Non-Executive Directors

Mr. Chiu G Kiu Bernard
Mr. Shen Shifu
Mr. Liu Zezheng
Ms. Zhao Jingran

Audit Committee

Mr. Chiu G Kiu Bernard *(Chairman)*
Mr. Shen Shifu
Mr. Liu Zezheng
Ms. Zhao Jingran

Nomination Committee

Mr. Zhao Liang *(Chairman)*
Mr. Chiu G Kiu Bernard
Mr. Shen Shifu
Mr. Liu Zezheng
Ms. Zhao Jingran

Remuneration Committee

Mr. Liu Zezheng *(Chairman)*
Mr. Zhao Liang
Mr. Chiu G Kiu Bernard
Mr. Shen Shifu
Ms. Zhao Jingran

Compliance Committee

Mr. Liu Zezheng *(Chairman)*
Mr. Chiu G Kiu Bernard
Mr. Lei Wai Hoi

Company Secretary

Ms. Mak Po Man Cherie

Authorised Representatives

Ms. Mak Po Man Cherie
Mr. Lei Wai Hoi

Headquarters and Principal Place of Business in the PRC

No. 1, Building 1, Graphite Development Zone
Yanjun Farm, Luobei County, Hegang City
Heilongjiang Province, PRC

Company Website

www.chinagraphite.com.hk

Principal Place of Business in Hong Kong

Unit 12, 23/F, Seapower Tower, Concordia Plaza
No. 1 Science Museum Road, Tsim Sha Tsui
Kowloon, Hong Kong

Registered Office

71 Fort Street, PO Box 500, George Town
Grand Cayman, KY1-1106
Cayman Islands

Independent Auditor

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
22/F, Prince's Building
Central, Hong Kong

Compliance Adviser

Lego Corporate Finance Limited
Room 1601, 16/F, China Building
29 Queen's Road Central
Central, Hong Kong

Legal Adviser

Tian Yuan Law Firm LLP
Suites 3304–3309, 33/F
Jardine House, One Connaught Place
Central, Hong Kong

Principal Share Registrar and Transfer Office

Appleby Global Services (Cayman) Limited
71 Fort Street, PO Box 500, George Town
Grand Cayman, KY1-1106
Cayman Islands

Hong Kong Share Registrar

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal Banks

Agricultural Bank of China Limited
Industrial and Commercial Bank of China Limited

Stock Code

2237

DEFINITIONS

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

"AGM"	the annual general meeting of the Company for the year ended 31 December 2022 to be held on 5 May 2023
"Beishan Mine"	a graphite mine located approximately 28 km northwest of Luobei County in Heilongjiang Province, the mining rights of which were obtained by us in 2019
"Board" or "Board of Directors"	our board of Directors
"Capitalisation Issue"	the allotment and issue 1,199,999,998 new Share to be made upon the capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in "Statutory and General Information — A. Further Information about our Group — 2. Changes in authorized and issued share capital of our Company" in Appendix VI to the Prospectus
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, as amended and supplemented from time to time, where references to code provisions in this annual report refer to code provisions in the CG Code that came into effect on 1 January 2022
"China" or "PRC"	the People's Republic of China, but for the purpose of this annual report, excluding Hong Kong, Macau Special Administrative Region and Taiwan
"Company"	China Graphite Group Limited (中国石墨集团有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 3 August 2020, the Shares of which are listed on the Stock Exchange (stock code: 2237)
"Director(s)"	the director(s) of our Company
"FY2021"	for the year ended 31 December 2021
"FY2022"	for the year ended 31 December 2022
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group", "we", or "us"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Offer Shares in Hong Kong at the offer price of HK$0.325 per Share on and subject to the terms and conditions described in the Prospectus, as further described in "Structure and Conditions of the Global Offering" in the Prospectus
"International Offer Shares"	the 360,000,000 new Shares being initially offered by our Company pursuant to the International Offering together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, subject to reallocation as described in "Structure and Conditions of the Global Offering" in the Prospectus
"International Offering"	the conditional placing of the International Offer Shares by the International Underwriters on behalf of our Company to professional, institutional and/or other investors outside the United States at the Offer Price, as further described in "Structure and Conditions of the Global Offering" in the Prospectus
"JORC Code (2012)"	2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	18 July 2022, the date on which dealings in the Shares first commenced on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Loan Consideration Capitalisation"	the capitalisation of the consideration for the assignment of the loans due to Mr. Zhao in an aggregate sum of approximately RMB73.1 million by way of issuance of one new Share, credited as fully paid, by our Company to Sandy Mining Limited
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange
"Mr. Zhao"	Mr. Zhao Liang (趙亮), the chairman of the Board, executive Director, chief executive officer and controlling shareholders of the Company
"NEV(s)"	new energy vehicles
"Offer Share(s)"	the Hong Kong Offer Shares and the International Offer Shares
"Prospectus"	the prospectus of the Company dated 30 June 2022

"Reporting Period"	for the year ended 31 December 2022
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time
"Share(s)"	ordinary shares in the share capital of the Company, with a nominal value of HK$0.001 each
"Shareholder(s)"	holder(s) of the Shares from time to time
''Share Option Scheme''	the share option scheme conditionally adopted by our Company on 21 June 2022, the principal terms of which are summarized in ''Statutory and General Information — D. Other Information — 1. Share Option Scheme'' in Appendix VI to the Prospectus
"SRK"	SRK Consulting (Hong Kong) Limited, an independent third party that specializes in providing expert advice and solutions for clients requiring specialized services in the fields of mining, geotechnics, water, waste, energy and the environment
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"tonne"	metric tonne
"Yixiang Graphite"	Heilongjiang Baoquanling Farmland Yixiang Graphite Company Limited* (黑龍江省寶泉嶺農墾溢祥石墨有限公司), a company established under the laws of the PRC with limited liability on 26 June 2006 and is the Company's indirect wholly-owned subsidiary
"Yixiang New Energy"	Heilongjiang Baoquanling Farmland Yixiang New Energy Materials Company Limited* (黑龍江省寶泉嶺農墾溢祥新能源材料有限公司), a company established under the laws of the PRC with limited liability on 20 April 2011 and is the Company's indirect wholly-owned subsidiary
"%"	per cent

The English names of PRC entities referred to in this annual report are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail. The English translation of names or any descriptions in Chinese marked with "*" is for identification purposes only.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I hereby present the annual results of the Group for FY2022.

2022 was a year of carrying on the past and forging ahead to the future for both China and the Group. Looking back on the past year, the global economic recovery faced challenges amid the continued recurrence of the COVID-19 outbreak. Against such backdrop, China has demonstrated strong resilience and execution in its excellent management of the pandemic and gradual optimisation of the prevention and control policy in the second half of the year, which accelerated its reconnection with the world and maintained its leading position in economic development. Through years of operation and unremitting efforts, the Group was officially listed on the Main Board of the Stock Exchange on 18 July 2022, becoming the first listed private enterprise in Hegang City, Heilongjiang Province. This marks a milestone of the Group's development and continued success in the future.

The Group is principally engaged in the mining of natural graphite and the production and sales of flake graphite concentrate and spherical graphite in the PRC. Flake graphite concentrate is primarily used in metallurgy and steel making industry for heat resistant material manufacturing, as well as processed into spherical graphite and used as anode materials in lithium-ion batteries for electronic devices and new energy vehicles. In 2022, in the face of the rapid development of the graphite industry and the diversification of the competition and cooperation along the industry chain's upstream and downstream, the Group has concentrated its efforts and, with a shared ambition across all colleagues, grasped the valuable opportunities brought by the development of the new energy vehicle (NEV) industry. Relying on the quality of our mine resources, we continued to optimise the quality of our products to keep pace with industry demand while accelerating the increase in production capacity, thereby achieving rapid growth in operating results. Our upward momentum continues to grow and our position in the industry remains solid.

Annual Performance of 2022

For the year ended 31 December 2022, the Group recorded the total revenue of approximately RMB273.6 million, representing a year-on-year increase of approximately 37.9% as compared to approximately RMB198.4 million in 2021. In this connection, the revenue from the sales of spherical graphite and its by-products amounted to approximately RMB131.3 million, representing a year-on-year increase of approximately 33.3% as compared to approximately RMB98.5 million in 2021, and the revenue from the sale of flake graphite concentrate amounted to approximately RMB138.3 million, representing a year-on-year increase of approximately 41.6% as compared to approximately RMB97.7 million in 2021. In line with the accelerating growth in NEVs industry, the demand of anode materials in lithium-ion batteries will remain strong and continue to fuel impetus for the future growth of the Group.

The Group has further explored its potential, implemented efficient management of all staff members, production factors, and the entire process, and strived to improve production efficiency with remarkable results. Gross profit for 2022 amounted to approximately RMB135.9 million, representing a year-on-year increase of approximately 46.1% as compared to approximately RMB93.0 million in 2021. Gross profit margin increased to approximately 49.7% in 2022 from approximately 46.9% in 2021. Excluding the non-recurring listing expenses of approximately RMB9.6 million (2021: approximately RMB6.9 million) and government grant of approximately RMB4.8 million (2021:approximately RMB7.9 million), the adjusted net profit after tax amounted to approximately RMB83.8 million for 2022, representing a year-on-year increase of approximately 60.1% as compared to approximately RMB52.3 million in 2021.We maintained healthy cash flow with cash and cash equivalents at approximately RMB110.2 million as at 31 December 2022.

The Board recommended a final dividend payment of HK1.6 cents per Share for the year ended 31 December 2022. The Board believes that the Group's increasing profitability and healthy cash flows will provide support for our future growth and generate favorable returns for our Shareholders.

Achieving good performance of full year's production and business operation

The first quarter was a seasonal shutdown period for the Group, and our production was limited. This, coupled with the extraction activities at our mine disrupted by the removal of waste rocks and unprocessed marble, led to a reduction in the amount of extraction of graphite ore, thereby affecting our overall production for the first half of the year. Entering into the second half of 2022, after the successful Listing, all members of the Group worked with high maintenance of morale and continued to increase the mining level of graphite ore in our mines which helped improve production efficiency of our graphite products and deliver an excellent result for the year. For the year ended 31 December 2022, the production volume of flake graphite concentrate increased to approximately 52,500 tonnes from approximately 48,200 tonnes in 2021, representing an increase of approximately 8.9% and the production volume of the spherical graphite increased to approximately 6,900 tonnes from approximately 5,100 tonnes in 2021, representing an increase of approximately 35.3%.

As of 31 December 2022, the sales volume of flake graphite concentrate was approximately 36,372 tonnes, representing a slight decrease as compared to 37,258 tonnes in 2021. However, the gross profit margin of flake graphite concentrate sales segment was 54.7%, representing a year-on-year increase of approximately 1.5 percentage points as compared to approximately 53.2% in 2021.With our continuous investment in the production line and efforts in modifying our production process, we expect the production capacity of flake graphite concentrate will be raised to at least 60,000 tonnes per annum by the end of 2023. After the commissioning of our new beneficiation factory scheduled in the fourth quarter of 2025, the production capacity of flake graphite concentrate is expected to reach at least 100,000 tonnes per annum.

As of 31 December 2022, the sales volume of spherical graphite was approximately 7,169 tonnes, representing an increase of approximately 18.3% as compared to approximately 6,061 tonnes in 2021. The gross profit margin of the spherical graphite sales segment was approximately 45.4%, representing a year-on-year increase of approximately 3.6 percentage points as compared to approximately 41.8% in 2021. Expansion of the existing processing plant would be carried out in 2023 and the production capacity of spherical graphite is expected to increase to at least 10,000 tonnes per annum by the end of 2023.

As of 31 December 2022, the sales volume of micro graphite powder and high-purity graphite powder, which are by-products of spherical graphite processing, was approximately 10,091 tonnes, representing an increase of approximately 29.7% as compared to approximately 7,781 tonnes in the previous year.

Continuously exploring the potential of upstream mine resources

In 2019, the Group obtained the mining rights to our Beishan Mine to better support the development of our main business. The unprocessed graphite from our Beishan Mine has been extracted only for our Group's own usage. With the abundance of graphite resources in our Beishan Mine, the use of graphite ores from our own mines allows us to create upstream and downstream synergies that reduces costs while securing a continuous and stable supply of quality graphite, thereby putting us in an advantageous position to maintain our profit margin.

As at 31 December 2022, the Group extracted approximately 423,000 tonnes of unprocessed graphite ore from our Beishan Mine, representing approximately 61.2% of the total unprocessed graphite supply. The average mining cost was approximately of RMB22.6 per tonne, as compared to the average price of approximately RMB72.6 per tonne of unprocessed graphite ore purchased by the Group from the independent third-party supplier.

In 2023, we plan to increase the unprocessed graphite mining capacity of our Beishan Mine to approximately 500,000 tonnes per annum. In the future, we will continue to expand our mine resources in line with our development requirements. We are currently working on a plan to increase the permitted graphite extraction volume of our mining license to exceed 500,000 tonnes per annum to meet our future expansion and will promptly inform our Shareholders as our development progresses.

Strengthening our innovation capability in scientific research and development

The Group adheres to the philosophy of "Enhancing strength for steady development and strengthening capability for innovation". Over the years, we continue to enhance innovation-oriented development through collaborating with a number of renowned institutions and research institutes in China to underpin the strength for our product research and development in various completed key scientific research projects.

As at 31 December 2022, the Group owns 91 patents in total, of which our self-developed SG10-T series of products put us in an favourable position in the technological field of spherical graphite in China. In addition, as an industry pioneer, we have played an active role in leading technological innovation in the graphite industry, and developed short-flow beneficiation process for graphite with the application of flotation column technique, process for processing graphene with micronized graphite and fluorine-free purification process. The Group's subsidiaries Yixiang Graphite and Yixiang New Energy were awarded with the titles of "High-tech Enterprise" and provincial level "Technologically Advanced Enterprise". Yixiang New Energy was further awarded with the title of state-level technologically advanced "Little Giant" enterprises, which set up an exemplary model for enterprises to strengthen development through scientific research. In short, we would continue to ride on our innovation capability to enhance the quality of our graphite products while exploring methods to further lower our operating and production costs.

Corporate Governance

The Group upholds the principles of openness, transparency and efficiency in corporate governance in compliance with the Listing Rules to achieve high standards of corporate governance. In this regard, the Board endeavours to foster the righteous value by taking the lead to act with integrity, set themselves as model example, and promote the desired corporate culture with a view to uphold the organisation norms of acting lawfully, ethically and responsibly.

We followed our Board Diversity Policy and Director Nomination Policy, leveraging on the experience and expertise of our independent non-executive Directors, so as to further improve our corporate governance structure and decision-making mechanism. We adhered to compliant operation, enhanced our compliance management capabilities, and strengthened the construction of a compliance culture for all staff. Focusing on key areas such as graphite mining, product research and development, production safety and product sales, we continued to conduct compliance checks and provide guidelines. We are committed to refining our risk control systems to enhance our ability in detecting risks, and have strengthened our supervision over key areas from mine extraction to factory production and sales to ensure healthy business operation.

Industry Development and Prospects

As a non-metal mineral resource with strategic importance, graphite's unique atomic structure empowers its premium performance such as high resistance to heat, lubrication, electrical conductivity and thermal conductivity. Before the emergence of lithium-ion batteries, manufacturing of refractory materials for the metallurgy and steelmaking industry was the major areas of graphite consumption. With the popularization of NEVs across China in recent years, tremendous changes have taken place in the graphite industry.

There is a growing demand for high-purity graphite products, which mainly includes natural and artificial graphite, as which are currently the most widely used and technologically mature anode material for lithium-ion batteries. Although the proportional usage of natural graphite in the industry is still relatively small compared to that of artificial graphite at present, with the deepening of the national "Dual-Control" policies for energy consumption, the advantages of natural graphite such as its processing performance, low energy consumption and cost effectiveness would gradually be realized. It is expected that the market share of natural graphite utilisation will further expand in the future.

At present, the NEVs industry is experiencing a strong growing momentum. In 2022, the Chinese government issued a series of policies to stimulate NEVs consumption, such as the extension on exempting vehicle acquisition tax for NEVs and the lifting of restrictions on the registration of used automobiles, further unlocking the potential of the lithium-ion battery market. Facing the overwhelming challenges in this era, while consolidating our profession of manufacturing refractory materials in the future, we will take the initiative in establishing presence throughout the anode material industrial chain. In terms of upstream, we aim to expand our procurement of mine resources while benefiting from our own mine to maximize profitability. In terms of midstream, we aim to enhance our production capacity and optimize product quality as well as to carry out in-depth development of product types in response to industry demand, in particular, anode materials to capture the robust demand arising from NEV sphere, hence consolidating our integrated capabilities and competitiveness. In terms of downstream, we aim to focus on deep processing businesses such as purification and extend our business opportunity to the manufacturing of anode related materials to closely keep up with the development trend of the industry. Currently, the Group is communicating with certain independent third party business partners with a view to cooperating to further expand our spherical graphite purification business in Weihai, Shangdong Province. Our Group would promptly inform our Shareholders when there is concrete development of our plan.

Moving forward, the Group will adhere to its original goal, pursue its dreams, and explore the market. It will make continuous efforts to promote the development of Chinese new energy industry and forge ahead towards the goal of becoming a world-class graphite enterprise, while creating greater values for our shareholders.

Acknowledgement

Finally, I would like to take this opportunity to express my sincere gratitude to the Board and all staff members of the Group for their dedication, professionalism and determination to succeed. I would also like to thank all shareholders, customers and business partners for their continuous support. We will endeavor to achieve outstanding performance and create greater value for investors in the future.

Zhao Liang
Chairman, executive Director and chief executive officer

Heilongjiang, the PRC, 23 March 2023

Mineral Resource and Ore Reserve

The Group has engaged SRK to perform an update of the Mineral Resources and Ore Reserves of our Beishan Mine as at 31 December 2022. The graphite and marble Mineral Resources in our Beishan Mine, within the elevation limits of our mining license as at 31 December 2022 are reported in accordance with the JORC Code (2012). These Mineral Resources are classified as Indicated and Inferred and are reported as follows:

Graphite Mineral Resource Statement within mining license elevation limits as at 31 December 2022

Domain	Mineral Resource Category	Tonnage (kt)	TGC (%)
V1	Indicated	1,742	7.85
	Inferred	138	12.64
V2	Indicated	229	7.71
	Inferred	48	7.98
V3	Indicated	3,333	10.99
	Inferred	656	11.81
V5	Indicated	2,440	11.86
V6	Indicated	1,177	8.85
	Inferred	106	8.88
V7	Indicated	1,765	8.88
V8	Indicated	1,816	8.11
	Inferred	20	12.57
Total	**Indicated**	12,502	9.75
	Inferred	968	11.43

Notes: The Mineral Resources are reported on an in situ basis, with a 3.5% total graphitic carbon (TGC) cut-off and bulk density values of 2.31 t/m^3 for the weathered zone, 2.70 t/m^3 for V1, 2.76 t/m^3 for V2, 2.69 t/m^3 for V3, 2.70 t/m^3 for V5, 2.62 t/m^3 for V6, 2.59 t/m^3 for V7, and 2.63 t/m^3 for V8. Tonnages are expressed in metric units, and grades are reported as a percentage of TGC. Appropriate rounding has been applied to tonnages and grades, which may result in apparent summation differences between tonnes, grade, and contained mineral content. SRK does not consider these differences to be material. The assumptions remain unchanged, compared with those used in the previous disclosed estimates and can be found in Appendix III of the Prospectus.

Marble Mineral Resource Statement within mining license elevation limits as at 31 December 2022

Mineral Resource Category	Tonnage (kt)
Indicated	1,068
Inferred	826
Total	1,894

Notes: Appropriate rounding has been applied to tonnages and grades, which may result in apparent summation differences between tonnes, grade, and contained mineral content. SRK does not consider these differences to be material. The assumptions remain unchanged, compared with those used in the previous disclosed estimates and can be found in Appendix III of the Prospectus.

Competent Persons Statement:

The information in this Report that relates to Mineral Resources is based on information compiled by Dr. (Gavin) Heung Ngai Chan, who is a Fellow of The Australasian Institute of Geoscientists (AIG). He is a full-time employee of SRK Consulting (Hong Kong) Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the 2012 Edition of the JORC Code. Dr. Chan consents to the inclusion in the Report of the Mineral Resources in the form and context which it appears.

The graphite and marble ore Reserves in our Beishan Mine within the elevation limits of our mining license as at 31 December 2022 are reported in accordance with the JORC Code (2012). These Ore Reserves are classified as Probable and are reported as follows:

Graphite Ore Reserve Statement within mining license elevation limits as at 31 December 2022

Type	Ore Reserve Category	Tonnage (kt)	TGC (%)
Graphite	Probable	9,174	10.00

Notes: The Ore Reserves are reported, with a 6.2% total graphitic carbon (TGC) cut-off. A 10% dilution rate and 5% mining loss have been taken into account. Appropriate rounding has been applied to tonnages and grades, which may result in apparent summation differences between tonnes, grade, and contained mineral content. SRK does not consider these differences to be material. The assumptions, except the cut-off remain unchanged, compared with those used in the previous disclosed estimates and can be found in Appendix III of the Prospectus. The lower cut-off is due to changes of operating costs and selling price.

Marble Ore Reserve Statement within mining license elevation limits as at 31 December 2022

Type	Ore Reserve Category	Tonnage (kt)
Marble	Probable	772

Notes: Appropriate rounding has been applied to tonnages and grades, which may result in apparent summation differences between tonnes, grade, and contained mineral content. SRK does not consider these differences to be material. The assumptions used in the previous disclosed estimates remain unchanged and can be found in Appendix III of the Prospectus.

Competent Person Statement:

The information in this Report that relates to Ore Reserves is based on information compiled by Falong Hu, who is a Member of The Australasian Institute of Mining and Metallurgy (AusIMM). He is a full-time employee of SRK Consulting (China) Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the 2012 Edition of the JORC Code. Falong Hu consents to the inclusion in the Report of the Mineral Resources in the form and context which it appears. The assumptions remain unchanged, compared with those used in the previous disclosed estimates and can be found in Appendix III of the Prospectus.

Exploration, Development and Mining Production Activities

During FY2022, the Group had not conducted any exploration drilling works in Beishan Mine as those works had been completed in previous year and we had not entered into any contracts or commitments in respect of the development activities including mining structure or infrastructure. We focused on the extracting activities and removing the waste rocks and unprocessed marble from our Beishan Mine for our access to the unprocessed graphite ore. The following table illustrates the extraction costs (including the capitalised amount) incurred for FY2022 and FY2021:

	FY2022 (RMB'000)	FY2021 (RMB'000)
Depreciation	**2,877**	1,607
Blasting services	**6,602**	2,460
Fuel costs	**3,971**	1,805
Salaries and benefits	**2,703**	1,145
Machinery expenses	**6,130**	1,198
Amortisation of mining rights	**1,842**	1,108
Raw materials	**1,149**	1,043
Repairs and maintenance	**133**	85
Others	**182**	529
Total	**25,589**	10,980
Portion capitalised	**12,612**	3,504
Portion accounted for as cost of sales for the extraction of graphite ore	**9,579**	5,195
Portion accounted for as cost of sales for the extraction of marble	**3,398**	2,281
Total	**25,589**	10,980

During FY2022, significant extraction works to remove the waste rocks and unprocessed marble between the 195–255 meters above sea level had been conducted and approximately 3,243,000 tonnes (2021: approximately 1,552,000 tonnes) of materials including approximately 2,820,000 tonnes (2021: approximately 1,294,000 tonnes) of unprocessed marble and wastes rocks and approximately 423,000 tonnes (2021: approximately 258,000 tonnes) of unprocessed graphite ore were extracted. In order to support the increased extracting activities in FY2022, we purchased additional set of drilling machine, an excavator and front-end loader amounting to approximately RMB2.4 million in total. In FY2022, the Group also subcontracted certain mining production activities to independent third parties including blasting activities, graphite product processing services, logistic and transportation of the unprocessed graphite ore to our production site and finished graphite products to our customers and the leasing of equipment and machinery to assist with our mining operations amounting to approximately RMB32.2 million in total (2021: approximately RMB23.4 million).

The Group had extracted over 400,000 tonnes of graphite ore from our Beishan Mine in FY2022 and had successfully met the target stated in our Prospectus. Our Beishan Mine continued to provide synergies to the production and profitability of the Group. During FY2022, portion accounted for as cost of sales for the extraction of graphite ore was approximately RMB9.6 million (2021: RMB5.2 million) and the graphite ore extracted was approximately 423,000 tonnes (2021: 258,000 tonnes). Thus, the extraction cost per tonne of the graphite ore was approximately RMB22.6 for FY2022 (2021: approximately RMB20.1 per tonne). Increase of the extract cost of the graphite ore in FY2022 compared to FY2021 was mainly attributable to the inflation from the blasting services and the diesel oil. Compared to the graphite ore purchased from the independent third party supplier amounting to approximately RMB72.6 per tonne, the cost of the graphite ore extracted from our Beishan Mine was far lower than those purchased from independent third party suppliers.

As stated in the Prospectus, we expected extraction of the graphite ore from our Beishan Mine to reach 500,000 tonnes in the year of 2023 and the Board believes that Beishan Mine will continue to provide value to our Group.

Extraction cost

The extraction cost consisted of primarily blasting services expenses, fuel cost of the mining equipment, salaries and benefits and machinery expenses for the lease of the mining equipment. Significant increase in the extracting costs to approximately RMB25.6 million for FY2022 from approximately RMB11.0 million for FY2021 was due to significant effort made to remove the waste rocks and marbles from Beishan Mine for our future extraction of the unprocessed graphite ore, leading to a significant increase in blasting services expenses, fuel cost of our mining equipment and machinery expenses for the lease of the mining equipment and an increase in the salaries and benefits as a result of increase in the mining staff.

Financial Review

Revenue

During FY2022, the Group generated the revenue primarily from (i) the sale of spherical graphite and its by-products; (ii) the sale of flake graphite concentrate and (iii) the sale of unprocessed marble. The following table sets forth the revenue generated from each business segment for the years indicated:

	FY2022		FY2021	
	(RMB'000)	**(%)**	(RMB'000)	(%)
Sale of spherical graphite and its by-products	**131,327**	**48.0**	98,509	49.7
Sale of flake graphite concentrate	**138,345**	**50.6**	97,672	49.2
Sale of unprocessed marble	**3,923**	**1.4**	2,184	1.1
Total	**273,595**	**100**	198,365	100.0

Revenue generated from the sale of spherical graphite and by-products

The sale of the spherical graphite generated represented approximately 48.0% and 49.7% of the total revenue for FY2022 and FY2021, respectively. The Group has been selling spherical graphite since September 2012, all of which are with a carbon content between 95% and 99.5%. Model numbers of the spherical graphite (i.e. SG-10 being the spherical graphite with a radius of 10 μm) are designated according to the size of the spherical graphite processed, and additional specifications to spherical graphite may include designated density, purity or shapes of such spherical graphite. As by-products of processing the spherical graphite, we also produce and sell micro graphite powder and high-purity graphite powder. The following table summarizes the revenue generated by the sales volume and the average selling prices of the spherical graphite and its by-products during FY2022 and FY2021.

	FY2022			FY2021		
	Revenue (RMB'000)	**Sales volume (Tonnes)**	**Average selling price (RMB/tonne)**	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)
Spherical graphite						
SG-10	**49,778**	**3,296**	**15,103**	47,842	3,059	15,638
SG-9	**59,329**	**3,867**	**15,342**	40,533	2,825	14,348
Other models	**88**	**6**	**14,667**	1,910	177	10,791
Subtotal	**109,195**	**7,169**		90,285	6,061	
Micro graphite and high-purity graphite powder	**22,132**	**10,091**	**2,193**	8,224	7,781	1,057
Total	**131,327**	**17,260**		98,509	13,842	

Revenue generated from the sale of flake graphite concentrate

The sale of the flake graphite concentrate accounted for approximately 50.6% and 49.2% of the total revenue for FY2022 and FY2021, respectively. The Group have been selling flake graphite concentrate since the business was founded in 2006. For FY2022 and FY2021, sales from the flake graphite concentrate, mainly included types, "193" (indicating a carbon content of 93% or from 93% to less than 94%), "194" (indicating a carbon content of 94% or from 94% to less than 95%) and "195" (indicating a carbon content of 95% or from 95% to less than 96%). The following table summarizes the revenue generated by, the sales volume and the average selling prices of our flake graphite concentrate during FY2022 and FY2021:

	FY2022			FY2021		
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)
193	38,586	9,901	3,897	3,691	1,466	2,518
194	54,218	13,395	4,048	47,254	18,094	2,612
195	14,770	3,437	4,297	41,806	15,803	2,645
Others[1]	30,771	9,639	3,192	4,921	1,895	2,597
Total	138,345	36,372		97,672	37,258	

Note:

(1) Others primarily include flake graphite concentrates of other carbon content specifications.

The revenue generated from the sales of spherical graphite and by-products increased to approximately RMB131.3 million for FY2022 compared to approximately RMB98.5 million for FY2021, representing an increase of approximately 33.3%.

The revenue generated from the sale of flake graphite concentrate increased to approximately RMB138.3 million for FY2022 compared to approximately RMB97.7 million for FY2021, representing an increase of approximately 41.6%.

Total revenue from the sale of our graphite products increase to approximately RMB269.7 million for FY2022 compared to approximately RMB196.2 million for FY2021, representing an increase of approximately 37.5%.

The Board believes that such increase was primarily attributable to: (i) the rapid development of new energy vehicle industry in PRC during FY2022 which increased the demand from our downstream customers and the average selling price of our graphite products and the sales volume of our spherical graphite; (ii) the increase in the production volume of our flake graphite concentrate and spherical graphite as a result of our effective management in our operating activities; and (iii) the synergy brought by our Beishan Mine, the extraction of which significantly increased the volume of our graphite ore during FY2022, thereby providing a stable supply for our production, which leads to increase in the revenue of the graphite products.

Revenue generated from the sales of unprocessed marble

For FY2022, the revenue generated from the sales of unprocessed marble amounted to approximately RMB3.9 million as compared to approximately RMB2.2 million for FY2021. Increase of the unprocessed marble sale were due to the increase of the marble extracted in FY2022 and the increase of the demand from our customers as a result of the increasing constructing projects in the nearby area.

Total revenue of the Group increase to approximately RMB273.6 million for FY2022 compared to approximately RMB198.4 million for FY2021, representing an increase of approximately 37.9%.

Cost of Sales

The cost of sales consisted of primarily raw materials and consumables, electricity fees, extraction costs, direct labor costs, depreciation, subcontractor fees and outsourcing charges.

The cost of sales increased to approximately RMB137.7 million for FY2022 compared to approximately RMB105.3 million for FY2021, representing an increase of approximately 30.7%. Such increase was mainly due to the increase of raw materials and consumables, electricity fees, extraction costs, direct labor cost and depreciation by approximately RMB3.3 million, RMB13.8 million, RMB5.5 million, RMB2.7 million and RMB5.2 million respectively as a result of increase in production of the graphite products, increased mining activities of our Beishan Mine and addition of production machineries and enhancement work for the tailing storage in FY2022.

Gross Profit and Gross Profit Margin

For FY2022 and FY2021, the Group's gross profit amounted to approximately RMB135.9 million and RMB93.0 million, representing a gross profit margin of approximately 49.7% and 46.9%, respectively. The following table summarizes the gross profit and gross profit margin breakdown by business segment for FY2022 and FY2021:

	FY2022		FY2021	
	Gross profit (RMB'000)	**Gross profit margin (%)**	Gross profit (RMB'000)	Gross profit margin (%)
Sale of spherical graphite and its by-products	**59,681**	**45.4**	41,180	41.8
Sale of flake graphite concentrate	**75,691**	**54.7**	51,960	53.2
Sale of unprocessed marble	**525**	**13.4**	(97)	(4.4)
Gross profit/gross profit margin	**135,897**	**49.7**	93,043	46.9

Gross profit and gross profit margin from the sales of spherical graphite and its by-products increased to approximately RMB59.7 million and 45.4% for FY2022 from approximately RMB41.2 million and 41.8% for FY2021. Increase of the gross profit was in line with the increase of sales of spherical graphite and its by-products. Increase of the gross profit margin was mainly due to the increase of average selling price of the spherical graphite and micro graphite powder, the increasing use of the graphite ore extracted from our Beishan Mine in the production during FY2022 with a lower cost than those purchased from the independent third party suppliers and the decrease of subcontractor fee for the purification process of our spherical graphite during FY2022, significantly reducing the production cost of the spherical graphite and its by-products and leading to an increase of the gross profit margin.

Gross profit and gross profit margin from the sales of flake graphite concentrate increased to approximately RMB75.7 million and 54.7% for FY2022 from approximately RMB52.0 million and 53.2% for FY2021. Increase of the gross profit was in line with the increase of sales of flake graphite concentrate. Increase of the gross profit margin was due to the robust demand from our customers and the increase of the average selling price of the flake graphite concentrate in FY2022 and the increasing use of the graphite ore extracted from our Beishan Mine during FY2022 with a lower cost than those purchased from the independent third party suppliers, significantly reducing the production cost of the flake graphite concentrate.

Increase of the gross profit and gross profit margin from the sales of unprocessed marble was mainly due to the increase of the selling price of the unprocessed marble to approximately RMB8.2 per tonne in FY2022 from approximately RMB6.4 per tonne in FY2021 due to the increase of demand from our customers as a result of the increasing construction projects nearby.

Other Income

Our other income consisted of primarily government grants. They decreased to approximately RMB5.0 million for FY2022 compared to approximately RMB8.0 million for FY2021. Such decrease was due to the decrease of government grants by approximately RMB3.0 million during FY2022.

Selling and Distribution Expenses

Our selling and distribution expenses consisted of primarily the transportation fee to deliver our products to the customers and the labor cost of the selling department. They decreased to approximately RMB7.6 million for FY2022 compared to approximately RMB10.1 million for FY2021, representing a decrease of approximately 25.5%. Despite the increase in sales, decrease in the selling and distribution expenses was mainly due to decrease in transportation fees incurred during FY2022 as those fees were borne by certain of our customers.

General and Administrative Expenses

Our general and administrative expenses consisted of primarily the listing expense, labor cost of the administrative department, depreciation and professional fee. They increased to approximately RMB25.8 million for FY2022 compared to approximately RMB19.7 million for FY2021, representing an increase of approximately 30.8%, mainly due to increase of listing expenses of approximately RMB2.8 million in line with our progress in Listing, professional fee and auditor's remuneration of approximately RMB2.5 million and labour cost of approximately RMB3.1 million in line with our business growth.

Research and Development Expenses

Our research and development expenses consisted of primarily the raw materials, electricity and labor cost used in the research and development activities. They increased to approximately RMB11.5 million for FY2022 compared to approximately RMB8.1 million for FY2021, representing an increase of approximately 41.9%, due to our continuous efforts to strengthen our research and development activities to improve our production methods, develop new products and enhance the quality of our existing products and the labour cost, raw materials consumed and molding cost in the research and development activities increased accordingly.

Finance Costs, Net

Our finance costs, net, consisted of primarily interest income and interest expenses from bank borrowings. They decreased to approximately RMB0.5 million for FY2022 compared to approximately RMB0.8 million for FY2021 mainly due to the decrease of the interest expenses as a result of the decrease in average borrowings during FY2022.

Income Tax Expense

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "CIT Law"), companies in the PRC are subject to income tax of 25% unless preferential rate is applicable. The Group's major operating subsidiary, Yixiang New Energy and Yixiang Graphite are subject to a tax rate of 15% for FY2022 and FY2021 as they are eligible for the tax concession granted by the PRC government as a high-tech enterprise.

No Hong Kong profits tax has been provided for FY2022 and FY2021 since there was no tax assessable profit generated from Hong Kong. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

Income tax expense consisted of primarily PRC corporate income tax and increase of such was mainly attributable to the increase of the net profit of Yixiang New Energy and Yixiang Graphite.

We recorded an effective tax rate at 15.9% in 2022 and 12.4% in 2021. Increase in effective tax rate was due to the increment of the listing expenses recognized and the expenses incurred in our Hong Kong office during FY2022 which is non-deductible for tax purpose.

Profit for the Year

Net profit after tax increased to approximately RMB79.0 million for FY2022 from approximately RMB53.3 million for FY2021.

Excluding the non-recurring listing expenses of approximately RMB9.6 million for FY2022 (2021: approximately RMB6.9 million) and government grant of approximately RMB4.8 million for FY2022 (2021: approximately RMB7.9 million), adjusted net profit after tax increased to approximately RMB83.8 million for FY2022 from approximately RMB52.3 million for FY2021, representing an increase of approximately 60.1%.

The Board believes that increase of the net profit after tax and adjusted net profit after tax was primarily attributable to: (i) the increase of the Group's revenue driven by the rapid development of new energy vehicle industry in the PRC during FY2022 which increased the demand from our downstream customers, and the average selling price of our graphite products and our sales volume of spherical graphite increased accordingly; (ii) the increase in the production volume of our flake graphite concentrate and spherical graphite as a result of our effective management in our operating activities which leads to increase in revenue; and (iii) the synergy brought by our Beishan Mine, the extraction of which significantly increased the volume of our graphite ore during FY2022, thereby providing a stable supply for our production and contributing to the reduction of our production cost.

Non-HKFRS Financial Measures

Adjusted net profit under non-HKFRS financial measures is defined as profit for the year attributable to owners of the Company excluding non-recurring listing expenses and government grant. As listing expenses and government grant are non-recurring in nature and not related to the performance of the Group's operation, the Directors consider that the presentation of the Group's adjusted net profit under non-HKFRS financial measures by eliminating the impact of listing expenses and government grant can better reflect the actual performance of the Group's operation during the respective years. Furthermore, the Group's management also uses the non-HKFRS financial measures to assess the Group's operating performance and formulate business plans. The Group believes that the non-HKFRS financial measures provide useful information to the investors about its core business operations, which they can use to evaluate the Group's operating results and understand its consolidated results of operations in the same manner as the management.

The following table sets forth a reconciliation of the Group's adjusted net profit under non-HKFRS financial measures for the years indicated to that prepared in accordance with HKFRS measures:

	FY2022 (RMB'000)	FY2021 (RMB'000)
Profit and total comprehensive income attributable to owner of the Company	**78,982**	53,325
Add:		
Listing expenses	**9,640**	6,881
Less:		
Government grants	**(4,816)**	(7,858)
Adjusted net profit under non-HKFRS financial measures	**83,806**	52,348

Use of Proceeds from the Global Offering

The Shares were listed on the Stock Exchange since 18 July 2022. Based on 400,000,000 Offer Share and the offer price of HK$0.325 per Share, the net proceeds from the Global Offering, after deducting listing related expenses, amounted to approximately HK$83.1 million (equivalent to approximately RMB71.7 million) (the "Net Proceeds"). The Net Proceeds would be applied in manners described under the section headed "Future Plans and Use of Proceeds" to the Prospectus.

The details of the utilisation of the Net Proceeds are set out below:

Items	Net Proceeds RMB'000
Approximately 32.4% of Net Proceeds for land acquisition costs	23,200
Approximately 31.6% of the Net Proceeds for construction costs	22,700
Approximately 36.0% of the Net Proceeds for purchasing and installing machinery and equipment	25,800

The Net Proceeds have not yet been utilised and were placed as deposits with licensed banks in Hong Kong and PRC as at the date of this annual report.

As disclosed in our Prospectus, certain Net Proceeds were planned to be utilised as the land acquisition costs and the construction costs of our new beneficiation plant in the second half of FY2022. The construction of our new beneficiation plant was delayed due to the development of the Covid-19 pandemic in the second half of FY2022 in PRC and the utilisation of our Net Proceeds was delayed accordingly.

Immediately after the Listing in July 2022, the Group endeavoured to complete the technical design of our new plant and prepare all the necessary document for the acquisition of the land and the construction of the new factory. However, with the Covid-19 pandemic measures and the lockdown of the cities in PRC, certain necessary design and preparation work of the above development project such as surveys works, environmental assessment work and governmental application work were delayed. With the enhancement policies on the Covid-19 pandemic in PRC currently, the progress of the abovementioned design and preparation work had been resumed and accelerated as at the date of this report.

We are of the view that we could obtain the land and started the construction of our new beneficiation plant in early July 2023 and would complete its construction and commence production by the fourth quarter of the year 2024.

Following is the expected utilisation of Net Proceeds:

	Utilisation of Net Proceeds during each period indicated						
	2023Q3 (RMB'000)	2023Q4 (RMB'000)	2024Q1 (RMB'000)	2024Q2 (RMB'000)	2024Q3 (RMB'000)	2024Q4 (RMB'000)	**Sub-total (RMB'000)**
Utilisation of Net Proceeds							
— Land acquisition costs	23,200	–	–	–	–	–	**23,200**
— Construction costs	5,500	5,500	5,500	5,500	700	–	**22,700**
— Purchasing of equipment and installation	–	–	12,300	11,300	2,200	–	**25,800**
Total utilisation of Net Proceeds	**28,700**	**5,500**	**17,800**	**16,800**	**2,900**	–	**71,700**

Liquidity, Financial Resources and Capital Structure

The Group requires a substantial amount of capital to fund the working capital requirements and business expansion. Our operation and growth have been primarily been financed by cash generated from our operating activities and we adopt a prudent funding and treasury policy to our overall business operation. During FY2022, we had not used any financial instruments for hedging purpose.

The Group had also made certain loans from the banks to finance our operation and details of them are set out in note 24 to the consolidated financial statements in this annual report.

The following table sets forth selected data from the consolidated statement of cash flows for the years indicated:

	FY2022 (RMB'000)	FY2021 (RMB'000)
Net cash generated from operating activities	**77,335**	75,698
Net cash used in investing activities	**(88,797)**	(29,122)
Net cash generated from/(used in) financing activities	**85,945**	(22,649)
Net increase in cash and cash equivalents	**74,483**	23,927
Cash and cash equivalents at the beginning of the year	**33,934**	10,007
Effects of exchange rate changes on cash and cash equivalents	**1,765**	–
Cash and cash equivalents at end of the year	**110,182**	33,934

Net cash generated from operating activities

We had net cash generated from operating activities of approximately RMB77.3 million, mainly as a result of (i) profit before taxation of approximately RMB93.9 million; (ii) adjusted by depreciation of property, plant and equipment of approximately RMB16.6 million, increase in trade payables of approximately RMB8.6 million, increase in accruals and other payables of approximately RMB19.7 million ; and (iii) offset by increase in trade and bills receivables of approximately RMB55.0 million and payment of the income tax during FY2022 of approximately RMB6.5 million that negatively affected our operating cash flow.

Net cash used in investing activities

We had net cash used in investing activities of approximately RMB88.8 million, which primarily consists of the enhancement work for our tailing storage, purchases of property, plant and equipment for our beneficiation and processing plant, purchase of the land for the acceleration of the extraction of our Beishan Mine and prepayment for certain production equipment for our production plants amounting to approximately RMB63.1 million and placement of the short-term bank deposit amounting to approximately RMB25.8 million.

Net cash generated from financing activities

We had net cash generated from financing activities of approximately RMB85.9 million, which primarily consists of proceed from the Listing of approximately RMB111.7 million offset by the payment of the listing expenses of approximately RMB24.6 million.

Details of the cash and cash equivalents are set out in note 21 to the consolidated financial statements in this annual report.

The following table sets forth certain key financial for the year end date indicated:

	FY2022	FY2021
Gross profit margin	**49.7%**	46.9%
Net profit margin	**28.9%**	26.9%
Adjusted net profit margin	**30.6%**	26.4%

	As at 31 December	
	2022	2021
Current ratio (times)	**4.7**	1.6
Gearing ratio	**N/A**	19.6%

Gross profit margin equals to gross profit for the year divided by revenue for the year, multiplied by 100%. Reason for the increase of the gross profit margin was stated in the paragraph "Gross Profit and Gross Profit Margin" above.

Net profit margin equals to net profit for the year divided by revenue for the year, multiplied by 100%.

Adjusted net profit margin equals to adjusted net profit for the year (excluding the non-recurring listing expenses and government grants) divided by revenue for the year, multiplied by 100%. Increase of the net profit and adjusted net profit margin was mainly due to the increase of the gross profit margin of the Group.

Current ratio equals to total current assets divided by total current liabilities as at the year ended date. Significant increase of the current ratio was mainly due to the increase of cash and cash equivalents and short-term bank deposit to approximately RMB136.7 million in total as at 31 December 2022 from approximately RMB33.9 million in total as at 31 December 2021 and such increase was mainly due to the Net Proceeds received and net cash generated from our operating activities, and decrease of the amount due to a related party by approximately RMB73.1 million as at 31 December 2022 with the capitalisation of such amount.

Gearing ratio equals to net debt divided by total capital as at the year ended date. Net debt is calculated as total borrowings (including borrowings and amount due to a related party as shown in the consolidated statement of financial position and excluding lease liabilities) less cash and cash equivalents. As at 31 December 2022, our cash and cash equivalent of approximately RMB110.2 million exceeded the total borrowing of approximately RMB10.0 million. Accordingly, the Group was in net cash position as at 31 December 2022. Detail calculation is set out in note 3 to the consolidated financial statements in this annual report.

Charge Over the Group's Assets

As at 31 December 2022 and 2021, there were no charges or pledges of assets in the Group.

Financial Management Policies and Practices

Our Group is also exposed to certain financial risks which are set out in note 3 to the consolidated financial statements in this annual report.

Employees and Remuneration Policies

As at 31 December 2022, the Group had a total of 196 workers (2021: 178) of which 141 were full-time employees (2021: 112) and the remaining 55 workers were sourced from the crowdsourcing service provider (2021: 66). For the full-time employees, all of which were based in PRC as at 31 December 2021. As at 31 December 2022, two full-time employees were based in Hong Kong and the remaining were all based in PRC. Increase of the total workers as at 31 December 2022 compared to that in 2021 was in line with our expected increasing production and to support our business growth.

We believe that the employees are valuable assets that contribute to our success. We recruit the employees based on a number of factors such as their industry experience in the graphite mining industry, their educational background, and the vacancy needs. We generally pay the employees a fixed salary and other allowances based on their respective positions and responsibilities. We also enter into individual employment contracts with the employees covering matters such as wages, employee benefits, employment scope and grounds for termination. The employees do not negotiate their terms of employment through any labour union or by way of collective bargaining agreements.

Capital Expenditure

As at 31 December 2022, our capital expenditures amounted to approximately RMB52.9 million, which mainly represented the purchase of our production equipment and the enhancement work of our tailing storage facilities (2021: RMB30.7 million).

Contingent Liabilities

As at 31 December 2022 and 2021, the Directors confirm that the Group had no contingent liabilities. The Group are currently not a party to any litigation that is likely to have a material adverse effect on the business, results of operations or financial condition.

Capital Commitments

The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December	
	2022 **RMB'000**	2021 RMB'000
Commitments for the:		
— Purchase of machinery and equipment	**523**	–

Foreign Exchange Exposure

Assets and liabilities of the Group are mainly denominated in RMB. Most of these assets and liabilities are in the functional currency of the operations to which the transactions relate. We have certain HK$ denominated deposit in bank during FY2022 which is exposed to foreign exchange risk. However, the exposure to foreign exchange risk is not material to the Group. As such, we currently do not have a foreign currency hedging policy.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures, and Future Plans for Material Investments or Capital Assets

Save for those disclosed in this annual report and the Prospectus, there were no other significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates and joint ventures, during FY2022. Apart from those disclosed in this annual report and the Prospectus, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this annual report.

Final Dividend

The Directors have recommended the payment of final dividend for FY2022 of HK1.6 cents per Share payable to Shareholders whose names appear on the register of members of the Company on 15 May 2023, totalling HK$25,600,000 based on the number of issued Shares as at the date of this annual report (2021: Nil).

Subject to the approval of Shareholders at the AGM to be held on 5 May 2023, the final dividend will be paid on or about 13 June 2023.

Significant Events after the Balance Sheet Date

Save as disclosed above, as at the date of this annual report, the Group did not have any significant event after the balance sheet date.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhao Liang (趙亮)

Chairman and chief executive officer

Mr. Zhao Liang (趙亮), aged 44, is an executive Director, chairman of the Board and chief executive officer of our Company. He is primarily responsible for the overall management, decision-making and strategy planning of our Group.

Mr. Zhao is one of our founders and has approximately 20 years of experience in the graphite mining industry. Prior to founding our Group, Mr. Zhao was the deputy general manager of Jixi Yixiang Graphite Company Limited* (雞西市溢祥石墨有限公司) from June 2002 to May 2004. He founded and served as deputy general manager of Jixi Lishu Yixiang Graphite Factory* (雞西市梨樹區溢祥石墨廠) in February 2006 which was dissolved in July 2015. Mr. Zhao then founded our Group in June 2006 and has held directorship roles in our principal operating subsidiaries, namely Yixiang Graphite and Yixiang New Energy since April 2019 and April 2011, respectively. He also served as the general manager of Yixiang Graphite from June 2006 to May 2019 and since April 2021. He has been a Hegang City Deputy of the National People's Congress (鶴崗市人大代表) since January 2017.

Mr. Zhao obtained a college degree from Northeast Agricultural University (東北農業大學) in December 2006.

Mr. Lei Wai Hoi (李偉海)

Chief financial officer

Mr. Lei Wai Hoi (李偉海), aged 37, is an executive Director and the chief financial officer of our Group. Mr. Lei joined our Group in March 2021 and is responsible for overseeing the overall financial management as well as corporate governance matters of our Group. Mr. Lei has over 13 years of experience in the accounting and compliance profession.

Mr. Lei was employed by PricewaterhouseCoopers from October 2009 to July 2017 with his last position as a manager.

Prior to joining our Group, Mr. Lei served as the financial controller and company secretary of WT Group Holdings Limited ("WT Group"), a company listed on the GEM of the Stock Exchange (Stock Code: 8422) from July 2017 to March 2021 and the director of Healthy Luck Holdings Limited, a directly wholly-owned subsidiary of WT Group incorporated in British Virgin Islands from May 2019 to March 2021.

Mr. Lei also served as a director of Million Sea Development Limited, an indirectly wholly-owned subsidiary of WT Group incorporated in Hong Kong, from May 2019 to March 2021, where he was responsible for its daily operation.

Mr. Lei obtained a bachelor's degree in business administration (majoring in accounting) from the Hong Kong Baptist University in November 2009. Mr. Lei was admitted as a member of the Hong Kong Institute of Certified Public Accountants in January 2013.

Independent Non-Executive Directors

Mr. Chiu G Kiu Bernard (趙之翹)

Mr. Chiu G Kiu Bernard (趙之翹), aged 43, is an independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Chiu has over 19 years of experience in the accounting and finance field. He began his career as auditor of KPMG in August 2003 and was later promoted to deputy manager of the audit department in March 2007 before finally leaving KPMG in May 2008. He then served as senior associate in the assurance department of BDO McCabe Lo Limited from September 2008 to July 2009. From October 2009 to September 2010, he worked as finance manager for NT Pharma (HK) Limited and then he joined Pfizer Corporation Hong Kong Limited as senior accountant in November 2010 and worked there until July 2012. From July 2012 to September 2016, he served as accounting manager of CGN New Energy Holdings Co., Ltd and later joined ORG International Holdings Limited where he served as senior finance manager until September 2017. From September 2017 to February 2018, he worked as the financial controller of China Life Science Service Limited. Since February 2018, he has been working as deputy chief financial officer of Carry Wealth Holdings Limited (stock code: 643), a company listed on the Main Board, principally engaged in the manufacture and trade of garment products. Mr. Chiu has been serving as a director of Carry Wealth Limited (近旺有限公司), Hillwealth International Limited (領溢國際有限公司), Mass Wealth Investments Limited (尚豪投資有限公司), Win Sonic Investments Limited (永聲投資有限公司) and Dragon Insight Investments Limited (穎揚投資有限公司) since 1 January 2018. Mr. Chiu has also been serving as the group finance director of Cosmo Supply Limited since May 2022.

Mr. Chiu graduated in October 2003 with a bachelor of commerce degree in accounting and finance from The University of New South Wales. He is also a member of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants.

Mr. Shen Shifu (申士富)

Mr. Shen Shifu (申士富), aged 56, is an independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Shen has over 19 years of experience in the mineral and mining industries. He joined Qingdao Changcheng Jiaozhou Building Materials Group Company Limited* (青島膠州長城建材集團公司) in August 2002 and worked as senior engineer until July 2005. Since August 2004 and until the date of this annual report, he has been working as a chief expert of the Mineral Processing Research and Design Institute of BGRIMM Technology Group Co., Ltd. ("BGRIMM Group") (北京礦冶科技集團有限公司選礦研究設計所). He has been serving as an independent non-executive director of Zhaojin Mining Industry Company Limited (Stock code: 1818), a company listed on the Main Board since February 2016. Mr. Shen has been serving as an independent non-executive director of Huaiji Dengyun Auto-Parts Holding Co. Ltd., a company listed on the Shenzhen Stock Exchange (SZSE: 2715), since March 2021.

Mr. Shen was an academic foregoer of China Inorganic Chemical Industry Society (中國無機化工學會) from October 2008 to October 2012, and has been an expert committee member of China Nonmetallic Mineral Industry Association Professional Committee of Graphite (中國非金屬礦工業協會石墨專業委員會) and a professor committee member of China Nonferrous Metals Society Technical Experts Working Committee (中國有色金屬學會技術專家工作委員會) since August 2014 and October 2018, respectively.

Mr. Shen has undertaken over 40 enterprise commissions (including the beneficiation of various kinds of minerals, the comprehensive utilization of tailings, and the harmless disposal of hazardous waste and comprehensive utilization of mineral material).

Mr. Shen graduated from Shandong Institute of Building Materials* (山東建築材料工業學院) (currently known as University of Jinan (濟南大學)) with a bachelor of Silicate Engineering in July 1988, and later obtained a doctorate degree in Mineral Processing Engineering from the Northeastern University (東北大學) in September 2004. He was awarded the title of qualified senior engineer during his employment at Qingdao LuBi Cement Production Co., Ltd. In November 2000, and by the Professional Skills and Occupational Assessment Committee of BGRIMM Group (北京礦冶科技集團有限公司專業技術職務評審委員會) in December 2019.

Mr. Liu Zezheng (劉澤政)

Mr. Liu Zezheng (劉澤政), aged 42, is an independent non-executive Director. He is primarily responsible for supervising and providing independent judgment to our Board.

Mr. Liu has over 15 years of experience in the legal industry. From February 2008 to November 2011, Mr. Liu served as a lawyer at Beijing Guangsheng & Partners Law Offices* (北京市廣盛律師事務所). He then joined Beijing Qunke Law Offices* (北京群科律師事務所) and served as a lawyer until December 2018. Since January 2019, he has been serving as a lawyer of Beijing Qingshan Law Offices*(北京市青山律師事務所). Mr. Liu obtained the practicing certificate for lawyers issued by the Beijing Municipal Bureau of Justice* (北京市司法局) in July 2008.

Mr. Liu graduated from Inner Mongolia University (內蒙古大學), majoring in law in July 2004.

Ms. Zhao Jingran (趙婧冉)

Ms. Zhao Jingran (趙婧冉), aged 34, is an independent non-executive Director. She is primarily responsible for supervising and providing independent judgement to our Board.

Ms. Zhao has taken up various roles at The Hong Kong Polytechnic University since 2015. In particular, she has been serving as an assistant professor since July 2015 and a visiting lecturer at the Institute of Advanced Executive Education since July 2021. Ms. Zhao taught management accounting and has been teaching business analytics in accounting and finance and contemporary issues in accounting research since 2019. Ms. Zhao was awarded the 2020 JIAR Best Paper Award and has been awarded the Faculty Award for Outstanding Achievement (Teaching) in 2019/2020.

Ms. Zhao obtained her bachelor's degree in business administration from Georgia College & State University in May 2010. She also obtained a Ph.D. degree in accounting from Emory University in June 2015.

Senior Management

Mr. Wang Guilu (王貴路)

Mr. Wang Guilu (王貴路), aged 55, is a general manager and sales manager of our Company. Mr. Wang is responsible for the overall management of the sales and marketing activities of our Group.

Mr. Wang joined our Group in June 2006 with his latest position as general manager. He graduated from Hulan Normal College (呼蘭師範專科學校) in July 1988 and he completed a training course for chief executive officers at Tsinghua University Education Training Management Office (清華大學教育培訓管理處) in October 2012.

Mr. Gai Wenping (蓋文平)

Mr. Gai Wenping (蓋文平), aged 56, was an executive deputy general manager of our Company. He was responsible for the overall management of human resources and procurement affairs of our Group.

Mr. Gai joined our Group in June 2006 and was promoted to the position of deputy general manager in February 2016. Mr. Gai graduated from Jixi Coal Mine Mechanics Manufacturing and Technical Institute* (雞西煤礦機械製造技工學校) in senior riveting in September 2002.

During FY2022, Mr. Gai had resigned from our Group.

Mr. Ren Yu (任羽)

Mr. Ren Yu (任羽), aged 48, is a deputy general manager of our Company. He is responsible for the overall management of human resources, procurement affairs and project development of our Group.

He joined the Group in 2006 and was promoted to his current position in 2021. Mr. Ren graduated from the CPC Central Party School in Heilongjiang Province with a bachelor's degree in finance and accounting in July 2007.

Mr. Wu Enming (吳恩明)

Mr. Wu Enming (吳恩明), aged 53, is a deputy general manager of our Company. He is responsible for the overall management of the production of our Group.

Mr. Wu joined the Group in 2007 and he graduated with a bachelor's degree in mechanical maintenance from Jixi City Labor Bureau Technical School* (雞西市勞動局技工學校) in July 1993. In July 2006, he completed advanced level of fitter training at Jixi Mining Advanced Technical School* (雞西礦業高級技工學校).

Ms. Xu Xia (徐霞)

Ms. Xu Xia (徐霞), aged 50, is the finance director of our Company. She is responsible for the overall management of the financial and internal control matters of our Group.

Ms. Xu served as a financial manager at the financial department of Shenzhen Xinsanli Automatic Equipment Co., Ltd.* (深圳市三力自動化設備有限公司) from November 2005 to December 2014 and then served as a finance manager of Huizhou Chuangyingyuan Electronic Technology Co., Ltd.* (惠州市創盈源電子科技有限公司) from September 2015 to December 2020 before joining our Group in January 2021.

Ms. Xu graduated from Xiangtan University (湘潭大學) in June 1994 majoring in administrative management. She obtained the qualification as an intermediate accountant in May 2001 conferred by the MOF and obtained the certificate of accounting professional in June 2005 from the Shenzhen Finance Bureau (深圳市財政局).

Company Secretary

Ms. Mak Po Man Cherie (麥寶文)

Ms. Mak Po Man Cherie (麥寶文) has been the company secretary of our Company since 31 May 2021. Ms. Mak Po Man Cherie is the vice president of SWCS Corporate Services Group (Hong Kong) Limited. She has worked for various professional firms and listed companies in Hong Kong, with over 18 years of experience in the fields of auditing, accounting, corporate finance, compliance and company secretarial. Ms. Mak has been the vice president of SWCS Corporate Services Group (Hong Kong) Limited since October 2019 and was the assistant vice president from August 2018 to September 2019. Ms. Mak obtained a master of corporate governance degree from the Hong Kong Polytechnic University in 2017. She has been admitted as an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators in the United Kingdom) in 2017, a member of the Hong Kong Institute of Certified Public Accountants in 2003, and a fellow member of the Association of Chartered Certified Accountants in 2006.

CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the Shareholders on the corporate governance of the Company for the Reporting Period.

Corporate Purpose, Value, Strategy and Culture

We are committed to developing a positive, progressive and action-oriented culture to achieve our corporate purpose and value. We believe our culture enhance our staff sense of belonging and responsibility that enables the Group to deliver long-term sustainable growth and success and to become one of the representatives in the graphite industry in China.

Throughout the year of 2022, we continued to strengthen and focus on the following areas to achieve our corporate purpose and value: business expansion, customer satisfaction, operational safety and efficiency, environmental production, and positivity, through various initiatives set out in the Management Discussion and Analysis, Corporate Governance Report and Environmental, Social and Governance Report in this annual report.

We also have a rigorous and ongoing strategic planning process to identify and assess the opportunities and challenges that the Group might face and to develop a planned course of action for the Group to generate sustainable long-term value for Shareholders. Details of our strategic initiatives for fulfilling our purpose and achieving our value are set out in the Chairman's Statement.

Corporate Governance Practices

The Company strives to attain and maintain relatively high standards of corporate governance best suited to the needs and interests of the Company and its subsidiaries as it believes that effective corporate governance practices are fundamental to safeguard the interests of shareholders and other stakeholders and enhance the shareholder value.

The CG Code has been applicable to the Company with effect from the Listing Date, prior to when the CG Code was not applicable to the Company. From the Listing Date to the date of this annual report, the Company has complied with all applicable code provisions of the CG Code, save for code provision C.2.1 of Part 2 of the CG Code disclosed in the subsection headed "Chairman and Chief Executive Officer" below.

Board of Directors

The Board takes the responsibility to oversee all major matters of the Company, including but not limited to formulating and approving the overall strategies and business performance of the Company, monitoring the financial performance and internal control as well as overseeing the risk management system of the Company and monitoring the performance of senior executives.

The Board is also responsible for, among others, performing the corporate governance duties, including but not limited to developing and reviewing the Group's policies and practices on corporate governance and make recommendations, reviewing and monitoring the training and continuous professional development of the Directors and senior management, reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements, developing, reviewing and monitoring the code of conduct and compliance manual applicable to the Directors and employees and reviewing the Group's compliance with the CG Code and disclosure in the corporate governance report.

Each Directors would ensure that he/she would devote sufficient time and attention to the Group's affairs by accepting their respective appointments.

Board Composition

The composition of the Board as at the date of this annual report is as follows:

Executive Directors

Mr. Zhao Liang *(Chairman and Chief Executive Officer)*
Mr. Lei Wai Hoi *(Chief Financial Officer)*

Independent Non-Executive Directors

Mr. Chiu G Kiu Bernard
Mr. Shen Shifu
Mr. Liu Zezheng
Ms. Zhao Jingran

The biographical information of the Directors is set out in the section headed "Profile of Directors and Senior Management" on pages 27 to 31 of this annual report. There was no financial, business, family or other material relationship among the Directors during the Reporting Period.

Board Meetings and Directors' Attendance Records

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. The Directors make every effort to contribute to the formulation of policy, decision-making and the development of the Group's business.

All Directors should give the benefit of their skills, expertise and qualifications through regular attendance and active participation of meetings held by the Company, where constructive comments on the development of Company's strategy and policies can be exchanged. Prior to board meeting, directors should receive adequate information in a timely manner and are properly briefed on issues arising at board meetings, for which the management shall supply in sufficient details and in a complete and reliable manner. Directors have full access to require more information or make further inquiry on subject matters. The Chairman would approve meeting agenda, take into account matters proposed by other directors for inclusion in the agenda, encourage Directors with different views to voice concerns and the board decision fairly reflect board consensus, and facilitate contribution of non-executive directors and constructive relations between executive and non-executive directors. Board meetings are held with reasonable prior notice at least four times in a year. In the event a director has conflict of interest in a matter, physical board meeting is preferred over written resolution to deal with this matter.

Here below are details of all Directors' attendance at the Board meeting held during the Reporting Period and up to the date of this annual report:

	No. of Board meetings attended in person/ by proxy/convened	Attendance rate of Board meetings
Executive Directors		
Mr. Zhao Liang	4/0/4	100%
Mr. Lei Wai Hoi	4/0/4	100%
Independent non-executive Directors		
Mr. Chiu G Kiu Bernard*	4/0/4	100%
Mr. Shen Shifu*	4/0/4	100%
Mr. Liu Zezheng*	4/0/4	100%
Ms. Zhao Jingran*	4/0/4	100%

* appointed on 15 June 2022

No annual general meeting of the Company was held during the period from the Listing Date to the date of this annual report because the Company was listed on 18 July 2022 and therefore there is no attendance record of the Directors at general meeting.

Here below are details of all Directors' attendance at the Board committee meetings held during the Reporting Period and up to the date of this annual report:

	No. of Audit Committee Meeting attended in person/ by proxy/ convened	No. of Remuneration Committee Meeting attended in person/ by proxy/ convened	No. of Nomination Committee Meeting attended in person/ by proxy/ convened	No. of Compliance Committee Meeting attended in person/ by proxy/ convened
Executive Directors				
Mr. Zhao Liang	N/A	1/0/1	1/0/1	N/A
Mr. Lei Wai Hoi	N/A	N/A	N/A	1/0/1
Independent non-executive Directors				
Mr. Chiu G Kiu Bernard*	2/0/2	1/0/1	1/0/1	1/0/1
Mr. Shen Shifu*	2/0/2	1/0/1	1/0/1	N/A
Mr. Liu Zezheng*	2/0/2	1/0/1	1/0/1	1/0/1
Ms. Zhao Jingran*	2/0/2	1/0/1	1/0/1	N/A

* appointed on 15 June 2022

Records of board and committee meeting containing sufficient details of the matters considered and reached are kept by our secretary of the meeting and be made available for inspection.

Chairman and Chief Executive Officer

Pursuant to code provision C.2.1 of the CG Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from, the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual.

The roles of the chairman and chief executive of the Company have not been segregated as required by the code provision C.2.1 of Part 2 of CG Code. Mr. Zhao is the executive Director, chairman of the Board and the chief executive officer of the Company. With extensive experience in the graphite mining industry, Mr. Zhao is responsible for the overall management, decision-making and strategy planning of the Group and is instrumental to our growth and business expansion since our establishment. Since Mr. Zhao has held the key leadership position of our Group and has been deeply involved in the formulation of corporate strategies and management of the business and operations of the Group, so the Board considers that vesting the roles of chairman and the chief executive officer of the Company in the same person, Mr. Zhao, would be beneficial to the management of our Group.

In addition, the operation of the senior management and the Board, which are comprised of experienced individuals, effectively check and balance the power and authority of Mr. Zhao. The Board currently comprises two executive Directors (including Mr. Zhao) and four independent non-executive Directors and therefore has a fairly strong independent element in its composition.

Independent Non-Executive Directors

Since the Listing Date and up to the date of this annual report, the Board at all times met the requirements under Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Appointment and Re-election of Directors

Each of the executive Directors, Mr. Zhao and Mr. Lei, has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date, which may be terminated by not less than one month's notice in writing served by either the executive Director or the Company.

Each of the independent non-executive Directors, Mr. Chiu, Mr. Shen, Mr. Liu and Ms. Zhao, has entered into a letter of appointment with the Company for a term of three years commencing from 15 June 2022, which may be terminated by not less than three month's notice in writing served by either the independent non-executive Director or the Company.

Pursuant to Article 112 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the Shareholders in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election. Any Director appointed under this Article shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

Pursuant to Article 108(a) of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall be eligible for re-election.

Accordingly, in accordance with Article 112 of the Articles of Association, Mr. Lei Wai Hoi, Mr. Chiu G Kiu Bernard, Mr. Shen Shifu, Mr. Liu Zezheng and Ms. Zhao Jingran will retire from office at the AGM, and in accordance with Article 108(a) of the Articles of Association, Mr. Zhao Liang will retire from office at the AGM. The retiring Directors, being eligible, have offered themselves for re-election at the AGM.

It is noted that a separate resolution should be approved by shareholders for further appointment of any independent non-executive director who has served in the Company more than nine years, in that papers to shareholders accompanying that resolution should state why the Nomination Committee believes that the director is still independent and should be re-elected (including the factors considered, the process and discussion of the nomination committee) in arriving at such determination. Where all the independent non-executive directors of the Company have served more than nine years on the Board, the procedures under B.2.4. of the CG Code shall be followed.

Information including the process used to identify individual and reason for independence, skills and experience, time commitment and contribution to board diversity, as applicable, would be set out in circulars to shareholders when proposing a resolution to elect an individual as independent non-executive director of the Company.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company, and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations. Each Director must know their responsibility as a director and non-executive Director would have same duties of care and skill and fiduciary duties as executive Directors.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company. By doing so, independent views are input are available to the Directors, and such mechanism and implementation and efficiency would be reviewed by the Board annually.

The Directors shall disclose to the Company details of other offices held by them including, changes, the number and nature of offices held in public companies and other significant commitments. Such disclosures would be made promptly upon occurrence.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management. The Board makes decisions to develop and review the Group's policies and practices on corporate governance and to review and monitor training and of directors and senior management of our Group. Moreover, the Board sets directions to the delegated management in which prior Board approval should be obtained before making decisions and entering commitments for the Group. Delegation arrangements would be reviewed periodically.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

The Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills and to continue to keep updated with their responsibilities under relevant laws and regulations, the Listing Rules and other regulatory requirements as well as the Company's policies. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses. Records of training by Directors would be maintained by the Company.

Board Committees

Following committees have been established within the Board of Directors, namely, an audit committee, a remuneration committee, a nomination committee and a compliance committee. The committees operate in accordance with the terms of reference adopted by the Board.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 3 of this annual report.

Audit Committee

The Group have established an audit committee with written terms of reference (the "Audit Committee") in compliance with Rules 3.21 and 3.22 of the Listing Rules and the Paragraph D.3 of Part 2 of the CG Code. As at the date of this annual report, the Audit Committee comprises four members, namely Mr. Chiu G Kiu Bernard, Mr. Shen Shifu, Mr. Liu Zezheng and Ms. Zhao Jingran. Mr. Chiu G Kiu Bernard, the independent non-executive Director with appropriate accounting and financial management expertise, is the chairperson of the committee. The primary duties of the Audit Committee are to make recommendations to our Board on the appointment, re-appointment and removal of external auditors, approval of their terms and remuneration, raise questions on their resignation or dismissal, review of their engagement policy, independence and scope of audit, review the financial statements; provide material advice in respect of our financial reporting process; oversee our internal control and risk management systems and audit process; and provide advice and comments to our Board on matters related to corporate governance.

None of the committee members is a former partner of or has any financial interest in the Company's existing external auditors within two years before his appointment as a member of the Audit Committee.

Since the Listing Date and up to the date of this annual report, two Audit Committee meeting was held at which the Audit Committee reviewed and discussed the issues relating to the publication of the interim and final results of the Company and its subsidiaries for the relevant period, reviewed the risk management and internal control systems, the effectiveness of the issuer's internal audit function, as well as other related matters required under the GC Code. All members of the Audit Committee attended the meeting.

The financial statements of the Group for FY2022 have been reviewed by the Audit Committee.

Remuneration Committee

The Group have established a remuneration committee with written terms of reference (the "Remuneration Committee") in compliance with Rules 3.25 and 3.26 of the Listing Rules and the Paragraph E.1 of Part 2 of the CG Code. As at the date of this annual report, the Remuneration Committee comprises five members, namely Mr. Liu Zezheng, Mr. Zhao Liang, Mr. Chiu G Kiu Bernard, Mr. Shen Shifu and Ms. Zhao Jingran. Mr. Liu Zezheng, the independent non-executive Director, is the chairperson of the committee. The primary duties of the Remuneration Committee are to make recommendations to the Board regarding our policy and structure for the remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies, to make recommendations to the Board on the remuneration proposals and packages of our Directors and senior management and on the employee compensation and benefit arrangement and to review and approve matters relating to share schemes under Chapter 17 of the Listing Rules.

Since the Listing Date and up to the date of this annual report, one Remuneration Committee meeting was held at which the Remuneration Committee discussed and determined the policy for the remuneration packages of executive Directors and senior management, reviewed performance of executive Directors and matters relating to Directors' service terms and share schemes, as well as other related matters required under the GC Code. All members of the Remuneration Committee attended the meeting.

Nomination Committee

The Group have established a nomination committee with written terms of reference (the "Nomination Committee") in compliance with Rule 3.27A of the Listing Rules and the Paragraph B.3 of Part 2 of the CG Code. As at the date of this annual report, the Nomination Committee comprises five members, namely Mr. Zhao Liang, Mr. Chiu G Kiu Bernard, Mr. Shen Shifu, Mr. Liu Zezheng and Ms. Zhao Jingran. Mr. Zhao is the chairperson of the committee. The primary duties of the Nomination Committee are to make recommendations to review the structure, size and composition (including the skills, knowledge and experience) of our Board; identify suitable candidates qualified to become board members with recommendation to the Board; assess independence of independent non-executive Directors; and review and make recommendations to the Board on reappointment of Directors and the management of the Board succession. Nomination Committee would be provided with sufficient resources in carrying out its duties.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

Since the Listing Date and up to the date of this annual report, one Nomination Committee meeting was held at which the Nomination Committee discussed and reviewed the matters relating to the independence of the independent non-executive Directors, re-election of Directors, and the structure, size, selection and composition of the Board. All members of the Nomination Committee attended the meeting.

Compliance Committee

The Group have established a compliance committee with written terms of reference (the "Compliance Committee"). As at the date of this annual report, the Compliance Committee comprises three members, namely Mr. Liu Zezheng, Mr. Lei Wai Hoi and Mr. Chiu G Kiu Bernard. Mr. Liu is the chairperson of the committee. The primary duties of the Compliance Committee are to ensure compliance with regulatory requirements and matters as well as the adequacy and effectiveness of regulatory compliance procedures and system.

Since the Listing Date and up to the date of this annual report, one Compliance Committee meeting was held at which the Compliance Committee discussed the regulatory matters. All members of the Compliance Committee attended the meeting.

Directors' and Employees' Securities Transactions

The Company has adopted the Model Code as its code of conduct for securities transactions by Directors. The Directors are reminded of their obligations under the required standard of dealings set out in the Model Code on a regular basis. Having made specific enquiries to all the Directors, all the Directors have confirmed that they have complied with the Model Code from the Listing Date up to the date of this annual report.

The Group's senior management and employees who, because of their offices in the Company are likely to possess inside information, have also been requested to comply with the Model Code for securities transactions. No incident of non-compliance with the Model Code by such employees was noted by the Company from the Listing Date up to the date of this annual report.

Mechanisms for the Board to obtain independent views and opinions

Pursuant to Code Provision B.1.4 of Part 2 of the CG Code, the Company should establish mechanisms to ensure independent views and input are available to the Board. The Board adopted a mechanism for obtaining independent views and opinions (the "Mechanism") on 29 December 2022, with the aim of ensuring the strong independence of the Board and improving the working efficiency and the independence of decision-making of the Board. The Board will review the implementation and effectiveness of the Mechanism annually. The Mechanism specifies that all Directors have the right to obtain sufficient resources provided by the Company to perform their duties, and Directors have the right to make a request to the Company for independent professional advice at the expense of the Company if they believe that the advice is relevant and necessary for performing their duties.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, qualification, skills, experience, knowledge, length of service and any other factors that the Board would consider relevant and applicable from time to time taking into account the Company's business model and specific needs.

As the main business of the Group is in the mining related industry, the proportion of male employees of the Group is relatively higher than that of female employees. However, when recruiting staff, the Group mainly considers factors such as the candidates' ability, experience and required remuneration packages, rather than their gender. During the Reporting Period, Ms. Zhao Jingran holds directorship and Ms. Xu Xia holds senior management position to achieve gender diversity in our top management level.

The Board will continue to adopt measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will continue to review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

As at the date of this annual report, the Board's composition can be summarised by the following main diversity perspectives:

	Number of Directors
By Gender	
Female	1
Male	5
By Age	
Below 40	2
40-49	3
50 or above	1
By Length of Service	
Less than 1 year	4
1-3 years	2

Our Directors also have a balanced mix of knowledge and skills and obtained degrees in various majors. We have four independent non-executive Directors with different industry backgrounds. Taking into account our existing business model and specific needs as well as the different backgrounds of our Directors, the composition of our Board satisfies the Board Diversity Policy.

As at 31 December 2022, male employees accounted for 79.1% and female employees accounted for 20.9% of all employees (including senior management) of the Group. To achieve gender diversity, we are committed to creating favorable conditions in our working environment to attract more women to join the Group, and thus increase the proportion of female employees (including senior management) by years, making us a gender-balanced company. The gender balance scheme includes hiring and promoting more women to hold senior management positions based on the qualifications, experience and skills required for those positions. In addition, we may face the issue of whether the supply of female personnel in the human resources market matches the academic qualifications, experience and skills required for positions within the Group. Despite these challenges, we are still moving towards gender balance.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the following factors for assessing the suitability and the potential contribution to the Board of a proposed candidate:

- whether the individual's educational background and qualification, skills and experience are relevant to the Company's business model and specific needs;
- individual's character and reputation for integrity;
- whether the individual would be able to devote sufficient time to the Board;
- (in respect of appointment and reappointment of independent non-executive Directors) Independence of the individual with reference to the independence criteria set out in Rule 3.13 of the Listing Rules;
- how the individual would be able to contribute to the diversity of the Board with reference to the factors set out in the Board Diversity Policy of the Company from time to time in force; and
- Board succession planning considerations.

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the period from the Listing Date to the date of this annual report, there was no change in the composition of the Board.

The Nomination Committee will review the Director Nomination Policy regularly to ensure its effectiveness. The Nomination Committee will also conduct annual review on the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs, comply with all applicable laws and regulations from time to time and maintain good corporate governance practice.

Corporate Governance Functions

The Board is responsible for determining corporate governance policy of the Company and performing the functions set out in the code provision A.2.1 of the CG Code including among others, reviewing policies and practices on corporate governance, monitoring the training and continuous professional development, reviewing policies and practices on regulatory requirements, developing conduct code and reviewing Company's compliance with CG Code and related disclosure.

The Board has reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. A Corporate Governance Policy setting out various corporate governance policies and procedures has been adopted by the Company, which applies to assist the Board and the top management to better perform their corporate governance duties to the Group and delegate the responsibilities to the Board committees.

Risk Management and Internal Control

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

In preparation for the Listing, the Group engaged an independent internal control consulting firm to perform an overall assessment on certain of our procedures, systems and internal controls. During the course of the internal control review, the consulting firm has provided some recommendations for our Group to enhance its internal control measures. The Group has incorporated those recommendations to our internal control policies.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Board oversees on an on-going basis the management of our Group in designing, maintaining, implementing and monitoring of the risk management and internal control system and; ensures that our Group establish and maintain appropriate and effective systems. The Group has the features in the risk governance structure that is based on the "3 lines of defence" model comprised of day-today operational management and control, risk and compliance oversight, and independent assurance.

The Group adopts a control and risk self-assessment methodology system, and continuously assesses and manages its risk profile on a regular basis. Risks that are relevant to the Group's business are identified, assessed and ranked according to their likelihood, financial consequence and reputational impact on the Group. The system uses risk indicators and red flags to monitor the priority risks identified. As a process used to review the effectiveness of the risk management and internal control system, risk owners are required to submit risk alerts with risk mitigation plan promptly and regular risk reports are presented to the Board and Audit Committee for ongoing review and monitoring. The quality of managements on-going monitoring of risks and of internal control system is considered satisfactory. Action plans were formulated and implemented during the Reporting Period to address the areas of concern effectively. The internal audit team has risk management and internal control reviews covering operational, financial and compliance controls of the Group. The Group's internal audit function reports directly to the Audit Committee. It carries out independent reviews of key business processes and controls in accordance with its annual audit plan approved by the Audit Committee. The head of internal audit meets the Audit Committee at least once a year to report the key findings and recommendations for improvement of audit issues and enable it to assess control of the Company and the effectiveness of risk management.

The Board, through the Audit Committee, had conducted annual review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2022. Heads of key business units and functional departments are required to confirm the effectiveness of the risk management and internal control system of their responsible areas during the Reporting Period. The Board has received a confirmation from the management board on the effectiveness of the systems and no significant areas of concern have been identified and considered the systems and the Company's processes for financial reporting and Listing Rules compliance effective and adequate. During the annual review, the Audit Committee has also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's internal audit, accounting and financial reporting function is in place.

The Company has adopted a whistleblowing policy to facilitate employees of our Group and other stakeholders who deal with our Group to raise, in confidence, concerns about possible improprieties in the practices and procedures, including financial reporting, internal control and other matters with the audit committee. It enables employees and stakeholders to report matters that may constitute (i) non-compliance to laws or regulations; (ii) malpractice, impropriety or fraud relating to internal controls, accounting, auditing and financial matter; (iii) endangerment of the health and safety of an individual; (iv) damage caused to the environment; (v) improper conduct or unethical behaviour likely to prejudice the standing of the Company; and (vi) deliberate concealment of any of the above.

The Company has developed the information & communication policy which provides a general guide to the Company's Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited. Under the information & communication policy, the Company's Communication Team comprising executive directors and members of senior management have the overall delegated authority to decide whether the information reported is inside information and require disclosure and refer the subject matter to the Board for decision. Measures are in place to preserve the confidentiality of inside information and to ensure that its recipients recognise their obligations to maintain confidentiality. In communicating with external parties, only designated officers are authorised to respond to enquiries in allocated areas of issues. Briefing session is held regularly for officers to facilitate their understanding and compliance with the information & communication policy.

The Company has engaged an external professional firm which assists the Board and the Audit Committee in their review of the adequacy and effectiveness of the risk management and internal control systems. The Company has established its internal audit function to examine key issues in relation to the accounting practices and all material controls.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period.

The Board has conducted its annual review of the effectiveness of the Group's risk management and internal control systems. The annual review also covered the financial reporting, internal audit function and staff qualifications, experiences and relevant resources. The Board considered that, for the Reporting Period, the risk management and internal control system and procedures of our Group were reasonably effective and adequate, and that no material deficiencies had been identified.

Competing Interests

Our Group did not have any business dealings with companies associated with or controlled by our Controlling Shareholders and there was no overlapping of business between our Group and our Controlling Shareholders.

None of our Controlling Shareholders, our Directors or their respective close associates has interests in any business, apart from the business operated by members of our Group, that competes, or is likely to compete, directly or indirectly, with the business of our Group, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

Directors' Responsibility in respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the Reporting Period. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, announcements relating to disclosure of inside information and other disclosures required under the Listing Rules and other statutory and regulatory requirements. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 85 to 90 in this annual report.

There is no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of external auditors.

Auditors' Remuneration

An analysis of the remuneration paid/payable to the external auditors of the Company, PricewaterhouseCoopers, in respect of audit services and non-audit services for the Reporting Period is set out below:

Service Category	Fees Paid/ Payable (RMB'000)
Audit services	1,260
Non-audit services	
— As reporting accountant in relation to the Global Offering of the Group	2,218
— Interim review	540
	4,018

Annual Remuneration Payable to the Members of Senior Management

The annual remuneration of the members of the senior management except the Directors by band for the Reporting Period is as follows:

Band	Number of senior management
Nil – RMB1,000,000	5

Further details of the Directors' remuneration and the five highest paid employees required to be disclosed under Appendix 16 of the Listing Rules are set out in note 8 to the consolidated financial statements.

Company Secretary

Ms. Mak Po Man Cherie has been the company secretary of our Company since 31 May 2021. Ms. Mak is currently the vice president of SWCS Corporate Services Group (Hong Kong) Limited, a corporate service provider. The primary corporate contact person at the Company is Mr. Lei Wai Hoi, an executive Director and the Chief Financial Officer of the Company. Please refer to the section headed "Profile of Directors and Senior Management" in this annual report for her biographical information. Ms. Mak has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

Our company secretary is responsible advising the Board on governance matters and facilitating induction and professional development of directors, and reporting to the Chairman. Access to advice and services of company secretary regarding board procedures and rules and regulations are available to Directors.

Shareholders' Rights

The Company engages with its Shareholders through various communication channels.

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the website of the Company and the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the voting rights, on a one vote per share basis, of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company, specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s).

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

Any Shareholder who wishes to put forward proposals at a general meeting of the Company shall submit such proposals to the Board in writing for the Board's consideration either via mail to the Company's principal place of business in Hong Kong or via email not less than 15 business days prior to the date of the general meeting. The mail address and email address are set out in the subsection headed "Contact Details" below.

For Company's annual general meeting, the Chairman should attend, together with the chairmen of the audit, remuneration, nomination and other committee, who would be available to answer questions raised by shareholders. Procedures for conducting a poll would be explained. External auditors are also invited to attend for audit related matters. For general meetings, the Company would not bundle resolutions unless they are interdependent, or with valid reasons.

Putting Forward Enquiries to the Board

For enquiries about shareholdings, share registration and related matters, Shareholders shall direct their enquiries to the Company's Hong Kong branch share registrar and the contact details are set out as follows:

Tricor Investor Services Limited

Address:	17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong
Email:	is-enquiries@hk.tricorglobal.com
Telephone:	(852) 2980 1333
Fax:	(852) 2810 8185

For any other enquiries to be brought to the attention of the Board, Shareholders shall send their written enquiries to the Company either via mail to the Company's principal office in Hong Kong or via email. The mail address and email address are set out in the subsection headed "Contact Details" below.

Contact Details

Shareholders can send their proposals and enquiries as mentioned above to the Company as follows:

Address:	Unit 12, 23/F, Seapower Tower, Concordia Plaza, No.1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong. (For the attention of the Board of Directors)
Email:	info@chinagraphite.com.hk

For the avoidance of doubt, Shareholder(s) must deposit and send the duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

The Company will not normally deal with verbal or anonymous enquiries.

Communication with Shareholders and Investors

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has adopted the Shareholders' Communication Policy, which sets out the Company's use of a number of mechanisms to provide effective and efficient communication to Shareholders, among which, (i) the share registrar of the Company serves the Shareholders in respect of their shareholding and related matters; (ii) corporate communications such as annual reports, interim reports and circulars are provided in both English and Chinese versions and are available on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.chinagraphite.com.hk; and (iii) general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management. At the annual general meeting, the Chairman of the Board, the chairman of Board committees, or, in their absence, other members of each committee will also answer questions from Shareholders.

The Shareholders' Communication Policy is regularly reviewed to ensure its effectiveness. During the year ended 31 December 2022, the Board has reviewed the implementation and effectiveness of the Shareholders' Communication Policy. The Board believes that the diversified shareholders' communication channels provide Shareholders and investors with effective access to information about the Group, and that Shareholders can contact the Board directly and express their opinions on their own initiative through the procedures of making enquiries to the Board as mentioned in the section headed "Putting Forward Enquiries to the Board"and "Contact Details" under "Shareholders' Rights" in this Corporate Governance Report. The Board, therefore, endorses the effectiveness of the Shareholders' Communication Policy.

Change in Constitutional Documents

The Company has adopted an amended and restated Memorandum and Articles of Association by a special resolution passed on 18 July 2022 and which became effective on the Listing Date. An up-to-date version of the Company's Memorandum and Articles of Association is also available on the Company's website and the Stock Exchange's website. The Company has also adopted a revised terms of reference of Remuneration Committee on 28 December 2022 which is made available on the Company's website and the Stock Exchange's website. Save as disclosed above, there was no change in the constitutional documents of the Company during the Reporting Period and up to the date of this annual report.

Dividend Policy

The Company has adopted a Dividend Policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

The Board shall review the Dividend Policy as and when necessary.

Declaration and payment of any dividends would require the recommendation of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to the Shareholders' approval, but no dividend shall be declared in excess of the amount recommended by the Board. A decision to declare or to pay any dividend in the future, and the amount of any dividend, depend on a number of factors, including the actual and expected results of operations, financial condition, the payment of cash dividends by our subsidiaries to us, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions of the Company, and other factors which our Board deems to be relevant. There is no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

REPORT OF THE DIRECTORS

The Board is pleased to present their annual report together with the audited consolidated financial statements for the Reporting Period.

Registered Office

The Company is a company incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands and has its registered office at 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands.

Principal Activities

The principal activities of our Group are engaged in the manufacturing and sale of graphite products. The principal activities of its major subsidiaries are detailed in note 29 to the consolidated financial statements.

Business Review

The business review of our Group for the Reporting Period is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 7 to 10 and pages 11 to 26 of this annual report, respectively.

Principal Risks and Uncertainties

The business operations of our Group are subject to certain risks and uncertainties. We believe that the following are some of the major risks that may have a material adverse effect on us:

— Our current business operation depends on the stable supply of unprocessed graphite from our suppliers and also our Beishan Mine;

— Fluctuations in the market prices of, and the supply and demand for, graphite related products and our products could materially and adversely affect our business, financial condition and results of operations;

— Our business operations are exposed to mining risk, environmental and social risks and workplace safety and occupational health risks and hazards associated with our operations;

— We are subject to credit risk in collecting the trade and bills receivables due from the customers;

— We rely on a limited number of customers for a substantial portion of our revenue; and

— Failure to obtain, retain and renew governmental approvals, permits and licenses required for our operations could materially and adversely affect our business, financial condition and results of operations.

Relationships with Stakeholders

Our Group understands that it is important to maintain a good relationship with our stakeholders including customers, suppliers, employees and shareholders to achieve its long-term goals. Accordingly, our management have maintained a solid communication channel and shared business updates with them when appropriate. This communication provides valuable feedback for our business and assists us to understand stakeholders' needs and assess the best way to leverage our resources and expertise to contribute to future business and community development.

Major customers and suppliers

For the Reporting Period, our major customers were primarily suppliers of anode material for lithium-ion batteries, industrial manufacturers and retailers of heat-resistant materials. Our five largest customers accounted for approximately 62.5% of our Group's total revenue for FY2022 (2021: 55.7%). Sales to the largest customer group accounted for approximately 21.7% of our Group's total revenue for FY2022 (2021: 20.4%). The Group had already established long term and stable relationship with the five largest customers. Whilst it is considered as an advantage to have the stable customer base, our Group aims to continue to broaden our customer base and product range which may eventually reduce any concentration and counter-party risk arising from our customers in future.

For the Reporting Period, our major suppliers included suppliers of utilities such as electricity and suppliers of unprocessed graphite. For FY2022, purchases from our top five suppliers accounted for approximately 42.1% of our total purchases (2021: 57.0%), and purchases from our top supplier accounted for approximately 20.7% of our total purchases (2021: 27.5%). The Group had also already established long term and stable relationship with these five largest suppliers. We will review our supplier list from time to time and assess whether there is need to broaden our supplier list and enhance its composition.

None of the Directors of the Company, or any of his close associates or Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers or suppliers during the Reporting Period.

Employees

The Group focuses on the talents of the employees. The Group strives to create a good workplace that the employees are motivated to work in. The employees are treated fairly with respect and we reward performing staff by providing competitive remuneration packages and implementing an effective performance appraisal system with appropriate incentives. We maintained good relationship with the employees during the Reporting Period.

Shareholders

The Group will endeavour to maximize the return to the Shareholders of the Company. We will focus on our core business and achieve sustainable profit growth and rewarding the Shareholders with dividend after considering the business development needs and financial health of the Group.

Compliance with the Relevant Laws and Regulations

As far as the Board and management are aware, our Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by our Group.

Changes to Directors' Information

Since the Listing Date and up to the date of this annual report, there had been no change to the information of the Directors which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' Emolument

Details of the emoluments of the Directors and five highest paid individuals for the Reporting Period are set out in note 8 to the consolidated financial statements in this annual report. No other inducement payment nor any compensation for loss of office were paid to any of our Directors and there was no arrangement under which a director waived or agreed to waive any emoluments during the Reporting Period.

Environmental and Social Sustainability

It is the Group's corporate and social responsibility to promote a sustainable and eco-friendly environment. In this respect, the Group strive to minimize its environmental impact by reducing our energy consumption and protect the environment by taking certain initiatives during our mine exploration, beneficiating and processing activities. The Group is also subject to various environmental protection laws and regulations. For more details, please refer to our Environmental, Social and Governance Report on pages 62 to 84 of this annual report.

Consolidated Financial Statements

The financial performance of our Group for the year ended 31 December 2022 and the financial position of our Group as at that date are set out in the consolidated financial statements from pages 91 to 93 of this annual report.

Analysis on Financial Performance

An analysis of the Group's performance during the Reporting Period is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" from pages 7 to 10 and from pages 11 to 26 of this annual report, respectively.

Dividends

The Directors have recommended the payment of final dividend for FY2022 of HK1.6 cents per Share payable to Shareholders whose names appear on the register of members of the Company on 15 May 2023, totalling HK$25,600,000 based on the number of issued Shares as at the date of this annual report (2021: Nil).

Subject to the approval of Shareholders at the AGM to be held on 5 May 2023, the final dividend will be paid on or about 13 June 2023.

Closure of Register of Members

Entitlement to attend and vote at the annual general meeting

The register of members of the Company will be closed from Tuesday, 2 May 2023 to Friday, 5 May 2023, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM, during which period no share transfers will be registered. To be eligible to attend and vote at the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 28 April 2023.

Entitlement to the proposed final dividend

The register of members of the Company will be closed from Friday, 12 May 2023 to Monday, 15 May 2023, both days inclusive, in order to determine the Shareholders' entitlement to the proposed final dividend, during which period no share transfers will be registered. In order to qualify for the proposed final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 11 May 2023.

Share Capital and Reserve

Details of the movements in share capital of the Company during the Reporting Period are set out in note 26 to the consolidated financial statements.

Immediately after completion of the Loan Consideration Capitalisation, Capitalisation Issue and Global Offering and up to the date of this annual report, the issued share capital of the Company increased to HK$1,600,000 divided into 1,600,000,000 shares of HK$0.001 each.

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in the consolidated statement of changes in equity on page 94 of this annual report and note 33 to the consolidated financial statements respectively.

Shares and Debentures Issued

The Company did not have any shares, debt, debenture, convertible, securities, options, warrants or similar rights issued or granted for FY2022.

Equity-Linked Agreements

No equity-linked agreement was entered into by our Group during the Reporting Period or subsisted at the end of the Reporting Period.

Distributable Reserves

As at 31 December 2022, the Company's reserve available for distribution to Shareholders amounted to approximately RMB252.5 million (2021: approximately RMB185.8 million).

Financial Summary

A summary of the results and the assets and liabilities of the Group for the last four financial years is set out on page 160 of the annual report.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during FY2022 are set out in note 13 to the consolidated financial statements. Our properties situated at No. 15 Residential Group, Yanjun Farm, Luobei Country, Hegang City, Heilongjiang Province, the PRC* (中國黑龍江省鶴崗市蘿北縣延軍農場第十五居民組) was valued at approximately RMB40.8 million as at 30 April 2022, as disclosed in the Prospectus. Additional depreciation of approximately RMB0.9 million would be charged against the consolidated statement of comprehensive income in this annual report had these properties stated at valuation as at 30 April 2022. No single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets as at 31 December 2022.

Purchase, Sale, Redemption or Cancellation of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's or its subsidiaries' redeemable or listed securities during the Reporting Period.

Borrowings

Details of the borrowings of the Group as at 31 December 2022 are set out in note 24 to the consolidated financial statements.

Loan and Guarantee

During FY2022, the Group had made certain loans from the banks and arranged the guarantee for these loans. Details of the guarantees are set out in note 24 to the consolidated financial statements.

Sufficiency of Public Float

As at the date of this annual report and based on the information publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules.

Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to the existing Shareholders.

Tax Relief and Exemption

The Directors are not aware of any tax relief or exemption available to the Shareholders by reason of their holding of the Company's securities.

Directors

The Directors during the Reporting Period and up to the date of this annual report were:

Executive Directors

Mr. Zhao Liang *(Chairman and Chief Executive Officer)*
Mr. Lei Wai Hoi *(Chief Financial Officer)*

Independent non-executive Directors

Mr. Chiu G Kiu Bernard (appointed in June 2022)
Mr. Shen Shifu (appointed in June 2022)
Mr. Liu Zezheng (appointed in June 2022)
Ms. Zhao Jingran (appointed in June 2022)

Accordingly, in accordance with Article 112 of the Articles of Association, Mr. Lei Wai Hoi, Mr. Chiu G Kiu Bernard, Mr. Shen Shifu, Mr. Liu Zezheng and Ms. Zhao Jingran will retire from office at the AGM, and in accordance with Article 108(a) of the Articles of Association, Mr. Zhao Liang will retire from office at the AGM. The retiring Directors, being eligible, have offered themselves for re-election at the AGM.

Directors' Service Contracts and Letters of Appointment

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date, which may be terminated by not less than one month's notice in writing served by either the executive Director or the Company. Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from 15 June 2022, which may be terminated by not less than three months' notice in writing served by either the independent non-executive Director or the Company.

Save as disclosed above, none of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

No contract of significance in relation to our Group's transactions, arrangement or contract to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Reporting Period or at any time during the Reporting Period.

Contracts with Controlling Shareholders

No contract of significance was entered into between the Company or any of its subsidiaries and the controlling Shareholders of the Company or any of its subsidiaries during the Reporting Period or subsisted at the end of the Reporting Period and up to the date of this annual report, and no contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder of the Company or any of its subsidiaries was entered into during the Reporting Period or subsisted at the end of the Reporting Period and up to the date of this annual report.

Biographical Details of Directors and Senior Management

Brief biographical details of the Directors and senior management are set out on pages 27 to 31 of this annual report.

Permitted Indemnity Provision

The Articles of Association provides that every Director may be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a director in defending any proceedings whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. The Company had arranged appropriate directors' liability insurance coverage for the Directors as at the date of this annual report.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2022, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or as recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director/chief executive of the Company	Capacity/Nature of interest	Number of Shares held(1)	Approximate percentage of issued share capital(2)
Mr. Zhao	Interested in controlled corporation(3)	1,200,000,000 (Long Position)	75.0%

Notes:

(1) All interest stated are in long positions.

(2) The calculation is based on the total number of 1,600,000,000 Shares in issue as at 31 December 2022.

(3) As at 31 December 2022, Sandy Mining Limited ("Sandy Mining"), which beneficially owned 75.0% of the issued Shares, was wholly-owned by Mr. Zhao. Under the SFO, Mr. Zhao is deemed to be interested in the 1,200,000,000 Shares held by Sandy Mining.

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executives of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they were taken or deemed to have under such provisions of the SFO); or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Interests and Short Positions of The Substantial Shareholders and Other Persons in Shares and Underlying Shares

To the best knowledge and information of the Directors after having made all reasonable enquiries, as at 31 December 2022, the following persons (other than the Directors and chief executives of the Company) had interests in 5% or more of the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO or which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder/other person of the Company	Nature of interest	Number of Shares held(1)	Approximate percentage of issued share capital(2)
Sandy Mining	Beneficial owner	1,200,000,000 (Long Position)	75.0%

Notes:

(1) All interest stated are long positions.

(2) The calculation is based on the total number of 1,600,000,000 Shares in issue as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, the Directors and chief executives of the Company were not aware of any other persons (other than the Directors and chief executives of the Company) who had interests in 5% or more of the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO or which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Share Option Scheme

On 21 June 2022, the Company conditionally adopted the Share Option Scheme and the principal terms of which are set out below:

(a) Purpose

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to grant options to eligible participants (as defined in paragraph (b) below) as incentives or rewards for their contribution to our Group. The Share Option Scheme will provide the eligible participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

(i) motivate the eligible participants to optimize their performance efficiency for the benefit of our Group; and

(ii) attract and retain or otherwise maintain an on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) Eligible participants

Eligible participants mean (i) any full-time or part-time employees of our Company, any of its subsidiaries or any entity in which any member of the Group holds any equity interest ("Invested Entity"); (ii) any non-executive director (including independent non-executive directors) of our Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of any member of the Group or any Invested Entity; (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity and (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangements to the development and growth of the Group.

(c) Maximum number of Shares

The total number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date, being 160,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rule 17.02 from time to time, the Board may:

(i) renew this limit at any time to 10% of our Shares in issue as at the date of the approval by our Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board. The circular sent by our Company to our Shareholders shall contain a generic description of the specified eligible participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified eligible participants with an explanation as to how the options serve such purpose, and/or other information required under the Listing Rules.

Notwithstanding any other provisions of the Scheme, the maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of our Shares in issue from time to time.

(d) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue as at the date of grant.

(e) Price of Shares

The exercise price in respect of any particular option shall be a price determined by the Board and stated in the offer letter, and shall not be less than the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, which must be a business day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the offer; and (iii) the nominal value of a Share prevailing on the date of the offer.

(f) Time of exercise of option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time commencing the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

Options may be granted on such terms and conditions in relation to their vesting exercise or otherwise (such as by linking their exercise to achievement of performance targets by the grantee or the attainment or performance of milestones by the Company, subsidiaries of the Company, the Invested Entities, the grantee or any group of eligible participant) the amount, if any, payable on application or acceptance of the option or award and the period within which payments or calls must or may be made or loans for such purposes must be repaid.

Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period commencing on the Listing Date and ending on the tenth anniversary of the Listing Date (both dates inclusive), after which no further options shall be offered but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Share Option Scheme.

Since the adoption of the Share Option Scheme, no option has been granted under the Share Option Scheme. Therefore, no option was exercised or cancelled or has lapsed during the Reporting Period and up to the date of this annual report and there was no outstanding option as at 31 December 2022 and as at the date of this annual report.

(g) Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the eligible participants and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the eligible participants, together with a remittance in favor of our Company of HK$1 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the paragraph headed "Share Option Scheme" above, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the directors and/or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Emolument Policy and Directors' Remuneration

In compliance with Rule 3.25 of the Listing Rules and the CG code, our Company has established the Remuneration Committee to formulate remuneration policies. Directors and senior management members who receive remuneration from our Company are paid in forms of salaries, allowances, discretionary bonuses and other benefits in kind. The remuneration of our Directors and senior management members is determined with reference to their experience, duties and performance and the salaries of comparable companies. Details of the emoluments of the Directors and five highest paid individuals for the Reporting Period are set out in note 8 to the consolidated financial statements in this annual report. The Company has put in place share option scheme as an incentive scheme in the long-term.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

Connected and Related Party Transactions

The Group had not entered into any connected transaction or continued connected transactions during the Reporting Period and up to the date of this annual report, which is required to be disclosed under Chapter 14A of the Listing Rules.

To the best knowledge of the Directors, save as disclosed under note 27 to the consolidated financial statements, there was no other related party transaction during the Reporting Period and the related party transaction disclosed herein do not fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

Corporate Governance

In the opinion of the Directors, save for the deviation from the code provision C.2.1 disclosed in the subsection headed "Chairman and Chief Executive Officer" in the Corporate Governance Report of this annual report, the Company has complied with all applicable code provisions set out in the CG Code throughout the period from the Listing Date up to the date of this annual report.

The corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 32 to 49 of this annual report.

Retirement Scheme

The Group operates the following retirement schemes for its employees:

(1) a "five social insurance and one housing fund" retirement pension scheme in accordance with the Retirement Policy of the PRC for its PRC employees;

(2) a defined scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate.

The assets of the above schemes are held separately from those of the Group in independently administered funds.

The Group's contributions as an employer are implemented in accordance with the Retirement Policy of the PRC and the Hong Kong MPF Ordinance.

Auditor

The consolidated financial statements for the Reporting Period have been audited by PricewaterhouseCoopers, who shall retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM of the Company.

Continuing Disclosure Obligations Pursuant to the Listing Rules

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

Subsequent Events

There were no significant events occurred after 31 December 2022 and up to the date of this annual report.

On behalf of the Board
Zhao Liang
Chairman and Executive Director

Heilongjiang, the PRC, 23 March 2023

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Introduction

This Environmental, Social and Governance Report ("ESG Report") is issued by our Group in accordance with the Environmental, Social and Governance Reporting Guide (the "Guide") in Appendix 27 to the Listing Rules. This ESG report covers the Group's ESG policies, initiatives and performance from 1 January 2022 to 31 December 2022 relating to the operation of our Beishan Mine, production and sales of flake graphite concentrate and spherical graphite. The scope of this ESG Report mainly covers our operations in PRC and our office in Hong Kong. The entities subject to reporting are determined by considering their ESG significance as well as influence to the Group's operations, and they shall collectively constitute a fair picture of the Group's overall ESG performance.

Reporting Principles

The reporting principles of materiality, quantitative, balance, and consistency have been strictly applied in determining and compiling the content of the ESG Report in order to maintain high quality disclosure.

Materiality	Sufficiently important and pertinent information as identified and determined by the Group and being relevant to the Group's stakeholders is covered in this ESG Report. In prioritising the identified ESG issues, materiality assessment is conducted which is disclosed in the section of Materiality Assessment of this ESG Report.
Quantitative	To facilitate objective evaluation of our ESG performance and management effectiveness, quantitative information is provided, with standards, targets, methodologies, assumptions and calculation tools disclosed where appropriate.
Balance	Information is disclosed as objectively as possible to provide stakeholders with an unbiased picture of our overall ESG performance.
Consistency	We ensure consistency of the reporting standards, data collection and calculation methods adopted and provide figures over the reporting years to allow meaningful comparison.

ESG Governance

The Board, in the performance of its ESG governance responsibilities, has the collective and overall responsibility of: (i) overseeing the formulation and reporting of the ESG strategies, target and internal control measures and related issues; (ii) assessing and determining ESG-related risks, and (iii) holding meetings to discuss the ESG governance matters of the Group when necessary. For day-to-day ESG governance, the Board authorizes the senior management to organize and coordinate the ESG work of each subsidiary to ensure that its strategic decisions are implemented. The Board is committed to maintaining good communications with our senior management and making timely decisions on important ESG issues, supported by regular reporting of annual ESG updates by senior management, in order to gain a timely understanding of the ESG performance of the Group's business. The Board understands that the establishment of ESG targets aids in the Group's ESG governance. Therefore, the Board sets ESG targets related to the Group's business where appropriate, and reviews progress made toward improving the Group's ESG performance by keeping track of the ESG KPI on a regular basis, in the environmental and social aspects, which are vital and closely related to the graphite processing business of the Group. The Board will, if deemed necessary, engage independent third parties to evaluate the Group's ESG risks and review existing strategies, targets and internal control measures.

The Group identifies and manages ESG risks in order to achieve its business objectives and ensure its stable development. We adopt a risk management system under a top-down risk management structure. The Board has the overall responsibility of maintaining sound ESG risk management and internal control systems within the Group. Through exercising oversight on the Group's management and active and conducive communication with management personnels and employees who are involved in the day-to-day operation of the Group's business, the Board is able to identify material ESG risks in the aspects of emissions of wastage, consumption of resources, impact on natural resources and climate change, as well as other social aspects pertaining to our Group. As part of this, the Board is responsible for identifying and assessing the Group's significant ESG risks, determining related risk levels, and formulating counter measures for which management is implemented by relevant departments and business units. The Board and the Compliance Committee are additionally responsible for reviewing and monitoring the effectiveness of the Group's ESG risk management and internal control systems, and for ensuring that the Group has taken reasonable measures to manage significant risks. The Group believes that ESG risks have gradually becoming an important factor in its business, and has taken the approach to incorporate ESG risks into its routine risk management process as a means of enhancing its overall risk evaluation, prioritizing and management and control capabilities.

Stakeholder Engagement

Our approach to stakeholder engagement is that we ensure a good understanding of the views and expectations that help define our present and future sustainability strategies. Particularly, we have engaged with the stakeholders that are directly impacted by our Group's operations, including investors, customers, employees, suppliers, local community, and regulatory bodies. We continue to maintain ongoing communication with our key stakeholders to understand their concerns and interests towards our operations and sustainability performances. Feedback collected through the stakeholder engagement exercises has provided valuable insights to our strategic development, and also has contributed to the preparation of this ESG Report. With the outbreak of COVID-19 pandemic, the Group also adopts various e-channels, such as online meetings, for communication with various stakeholders. Other communication channels with stakeholders include annual general meetings, financial reports, announcements, supplier visits, customer feedbacks, employee surveys, etc.

Materiality Assessment

A materiality assessment is conducted in the Reporting Period to reassess the existing ESG topics and identify potential areas that would have a significant environmental and social impact on and are material to our business and the stakeholders' interests. Material ESG issues of the Group covered in this ESG Report are as follows:

Aspects	Material ESG Issues
A. Environmental	
A1. Emissions	• Air and Greenhouse Gases Emissions • Waste Management
A2. Use of Resources	• Energy Consumption and Efficiency • Water Management • Packaging Materials

Aspects	Material ESG Issues
A3. Environment and Natural Resources	• Environmental and Natural Resources Management
A4. Climate Change	• Climate Change Management
B. Social	
B1. Employment	• Employment and Labour Practice
B2. Health and Safety	• Occupational Health and Safety
B3. Development and Training	• Development and Training
B4. Labour Standards	• Labour Standards
B5. Supply Chain Management	• Supply Chain Monitoring
B6. Product Responsibility	• Product Responsibility
B7. Anti-corruption	• Prevention Corruption
B8. Community Investment	• Community Engagement

Compliance with Laws and Regulations

Compliance with applicable laws, rules and regulations with regard to environmental and social aspects are of paramount importance and we understand the risk of non-compliance that can be detrimental to the Group. The Group has implemented systems and allocated staff resources to ensure ongoing legal compliance. The Group's operations are mainly carried out in PRC. Accordingly, the Group's establishment and operations shall comply with all laws and regulations applicable in PRC.

Environmental

The Group believes that a sound environmental management policy is essential to achieving sustainable development. Our Group has always been committed to minimizing the environmental impact of its routine operations. Save as disclosed in "Non-Compliance Incidents" in the Prospectus, our Group has complied with the environmental laws and regulations that significantly relate to our Group's operations during the Reporting Period.

Our operations are subject to various PRC environmental protection laws and regulations, as well as local environmental protection regulations promulgated by local authorities on environmental protection. These laws and regulations govern a broad range of environmental protection matters, including but not limited to mining control, land rehabilitation, dust emissions, noise emissions, discharge of wastewater and pollutants. To ensure on-going compliance with the relevant environmental protection laws and regulations in the PRC, we have implemented or will implement certain measures, including but not limited to (i) conducting training on topics relating to environmental protection laws and regulations and safety production; and (ii) nominating our chairman and executive Director to lead our environmental protection team which will be responsible for updating our management and ensuring our compliance with the latest regulatory compliance. Our senior management continuously monitors our environmental policies to ensure compliance with the national legal and regulatory requirements. We also provide regular training to our management and employees to enhance their awareness of our environmental policies. During the Reporting Period, we did not encounter any material claims, administrative actions or penalties by the relevant PRC authorities in relation to environmental issues.

Air and Greenhouse Gases (“GHG”) Emissions

Air Emissions

Our mining, beneficiation and processing activities will result in dust and exhaust air emission. To reduce such emission, the Group have implemented dust and exhaust air management measures and policies for our production activities including wet drilling, watering of roads and stockpiles, greening on site and using dust remover for the process of grinding, screening and drying. Fumes from the boiler during the graphite drying process are treated by a cyclone dust collector for resale.

Dust arising from our production station will be collected and properly treated by our wind and dust suppression facilities before discharge. Potential volatile organic compound (“VOCs”) will be treated by our VOCs treatment facilities before discharged.

The main sources of noise are from the operation of rock drill, explosion, pump, crane, crusher, ball mill, dryer, loader and vehicles. Measures including selection of low noise equipment, use of vibration damping facilities, time and speed limit on transportations, greening and optimizing the layout, has been put in place by our Group.

Every year, the Group contracted a qualified environmental institution to measure the dust pollutants and noise level nearby our factories. Following table sets out our air pollutants emissions and noise level and the statutory permitted level during FY2022.

Category	Pollutant emissions/ noise level	Statutory permitted level
Dust pollutant	0.167 – 0.383 mg/m^3	1.0 mg/m^3
Daytime noise level	52.7 – 57.7 dB(A)	60 dB(A)
Nighttime noise level	43.4 – 49.7 dB(A)	50 dB(A)

The Group is working to ensure our dust pollutant and noise level are within the statutory permitted level.

GHG Emissions

The major source of our emissions is the direct GHG emission generated from the diesel oil used by our production vehicles such as the excavators, dump trucks, loaders and drilling machines and the indirect GHG emissions generated from our purchased electricity used in our production plants.

The breakdown of our GHG emissions is as follows:

Indicator	Total emissions (calculated in tonnes CO_2e)
For the year ended 31 December 2021	
Direct GHG emissions (Scope 1) — Diesel oil	2,856
Indirect GHG emissions (Scope 2) — Purchased electricity	31,138
Total GHG emissions (Scope 1 and Scope 2)	33,994
For the year ended 31 December 2022	
Direct GHG emissions (Scope 1) — Diesel oil	3,656
Indirect GHG emissions (Scope 2) — Purchased electricity	38,666
Total GHG emissions (Scope 1 and Scope 2)	42,322

Compared to FY2021, higher amount of gross GHG emission was produced for FY2022 which was attributable to the increase production of our graphite products.

In support for the Paris Agreement goal of limiting global warming, the Group aims to control our GHG emission in the future. Measures such as selection of energy-saving equipment, regular maintenance of the production facilities ensuring their efficient consumption of energy, switching off the machineries and lights when they are not in use have been implemented by the Group.

The Group is committed to ensuring the air and green gases emission level fall within the statutory permitted level.

Waste Management

There are hazardous wastes and non-hazardous wastes.

Hazardous wastes

Hazardous materials are corrosive, reactive, explosive, toxic, flammable and potentially biologically infectious, which poses a potential risk to human and/or environmental health. During the Reporting Period, no hazardous wastes were generated at the mine site and our production plants.

Non-hazardous wastes

Non-hazardous wastes composed of wastes rocks were generated from our mining activities. The waste rock would be discharged to the waste rock dump with the governmental approval which is nearby to our mine site and sold periodically for use as construction material. Certain waste rock would be used to maintain our tailings storage facility of the beneficiation plant. In the long run, apart from selling these wastes rocks, they would be used in the construction of our new beneficiation plant and for the land rehabilitation purpose.

Tailings will also be produced in our beneficiation operations. The tailings generated by our production plant will be first discharged to a tailing storage facility on site or stored temporarily at the secondary tailing storage facility, which is nearby to the current tailing storage facility. These tailings will be used for brick making and underground filling of the stope.

The Group is aware of the importance of responsible tailings management, and will continue to improve relevant standards to reduce risks. The Company has created and continuously improved projects design, safety and environmental management plans, to ensure that the relevant risks to the community, environment and operations caused by tailings can be minimized. In FY2022, the Company continued to strengthen the risk prevention and control of tailing storage facilities, and comprehensively improved the ability of safety risk management and control of tailings storage. The Company completed the formulation of tailings storage safety risk control plan, and carried out investigations and control actions on continuous tailings storage potential risks in accordance with the applicable laws and regulations. The Company had also entrusted certain quality inspection institutions with corresponding qualifications to carry out a comprehensive quality inspection of the drainage structures of the tailing storage facilities.

The Group managed these wastes in accordance with the applicable laws and standards. Save as disclosed in "Non-Compliance Incidents" in the Prospectus, the Group did not have significant breach of the applicable laws and standards in relation to the wastes and tailings management.

The table below sets out the details of the waste production by us:

Category	Waste production (units)
For the year ended 31 December 2021	
Waste rock (M^3)	355,000
Tailing wastes (M^3)	345,000
— Used in underground filling (M^3)	N/A
For the year ended 31 December 2022	
Waste rock (M^3)	692,000
Tailing wastes (M^3)	480,000
— Used in underground filling (M^3)	422,000

Increase of the waste rocks and tailings generated in FY2022 was mainly due to the increase of extraction activities of our Beishan Mine for the increase production of the graphite ore and the production of graphite products respectively. In FY2022, approximately 422,000 M^3 of the tailings were used in the underground filling of the stope nearby.

Targets are set to limit the increase of total emissions and waste level by not more than 20% in the subsequent year, while considering the future expansion of our business.

Energy Consumption and Efficiency

We consume electricity, fuel and water during our daily operations of our Beishan Mine, beneficiation and processing plants. We believe reducing resource consumption is beneficial to the environmental protection. We aim to strictly comply with relevant provisions of the Law of the People's Republic of China on Conserving Energy, the Water Law of the People's Republic of China, and the Regulation on the Administration of Water Sourcing Permission and Levy of Water Resource Fees and formulates relevant plans targeting the reduction of electricity, fuel and water consumption in mining, beneficiating, processing as well as office activities. We have implemented the following measures which are applicable to both our Group and our third-party service providers: (a) adjusting the temperature of office air-conditioning according to real-time weather; (b) encourage the staff to leave curtains open to make full use of natural light and reduce the use of electricity; (c) encourage employees to take public transport instead of driving to/from work; (d) regular maintenance and adjustment to engines to keep vehicles machineries operating at the proper condition to reduce fuel consumption; (e) conduct regular maintenance of pipelines and taps and inspect any possible leakage; and (f) establish a comprehensive water resource management and control system focusing on tap water used during daily office work and groundwater used for dust prevention and cooling during stone cutting.

The breakdown of our energy consumption is as follows:

Type of energy	Energy consumption (unit)
For the year ended 31 December 2021	
Purchased electricity (kilowatt)	51,037,000
Diesel (litre)	1,093,000
For the year ended 31 December 2022	
Purchased electricity (kilowatt)	63,376,000
Diesel (litre)	1,399,000

The Group endeavor to control the energy consumption during our production and target to improve our working efficiency. We will analyze the energy consumption periodically and will investigate when inefficiency was identified. Compared to FY2021, more electricity and diesel were consumed for FY2022 which was attributable to more production activities carried out during the Reporting Period.

In FY2022, both of our operating subsidiaries, Yixiang Graphite and Yixiang New Energy had completed the energy saving review procedures as required under the "Energy Saving Review Measure for Fixed Asset Investment Projects* (固定資產投資專案節能審查辦法).

Water Management

As mentioned above, the Group strictly comply the laws and regulation in PRC relating to water and have formulated relevant plans reducing the consumption of water.

The nearest surface water body to our Beishan Mine and the production plant is the Yadan River and its tributary, which is a water source of our Beishan Mine and production plant. The potential negative impact of our Beishan Mine on surface water and groundwater is mainly due to the arbitrary discharge of untreated production and domestic wastewater. In addition, mining activities may also cause changes in groundwater levels. The main wastewater pollution sources during our production include mine water, beneficiating and processing wastewater, return water from tailings storage facility, waste rock leachate, wastewater from maintenance workshop, industrial site rainwater, domestic sewage, etc. The Group had already established proper mining and production design which will prevent the above problems and we have also set up proper facilities to handle the above issues.

The Group have implemented a sustainable water supply management plan to minimize the impact on natural systems through the management of water use, avoid the depletion of aquifers, and reduce the impact on other water users. The Group have also identified alternative water sources if the development affects the surrounding community's access to water. The Group have also established settling pond collecting the mine water and reused it for dust suppression. In our beneficiation and processing plant, all production wastewater would be discharged to the tailing storage facility for future reuse. Surface drains were properly installed around the open pit and adequate stormwater diversion facilities have established at the plant to separate surface runoff from contaminated areas and clean areas. The Group also assess the quality of the surface water and groundwater within the area (including upstream and downstream areas, especially Yadan River and its tributary) annually and will investigate if there is any decline in the water quality. During the Reporting Period, no substantial sewage was produced as waste water generated from the mining, beneficiation and processing activities were collected at the settling pond and tailings storage facilities, where the water was recycled and reused in mining and production processes.

In our production, the Group did not have problems in seeking appropriate water resources. The existing supply of water resources could satisfy the Group's needs in the aspects of volume and quality. Most of our water used in the mining, beneficiation and processing activities were recycled water and they will be refilled by the underground water to minimize the consumption of water. The Group did not have significant consumption on the tap water.

Packaging Materials

We use the jumbo bulk bags as the packing materials of our main products including flake graphite concentrate, spherical graphite and its by-products. Following are the breakdown of jumbo bags used during the Reporting Period:

Package materials	Consumption (unit)
For the year ended 31 December 2021	
Jumbo bulk bags (piece)	51,769
For the year ended 31 December 2022	
Jumbo bulk bags (piece)	61,920

Increase of the use of the jumbo bulk bags in FY2022 was due to the increase of sales of our graphite products compared to FY2021.

Targets are set to limit the increase of total electricity and package materials level by not more than 20% in the subsequent year, while considering the future expansion of our business. The Group did not have significant breach of the applicable laws and standards in relation to electricity, water and package materials consumption.

Environmental and Natural Resources Management

The Group pursues the best practice in relation to the environment and natural resources and places emphasis on the impact of its operations on the environment and natural resources. The Group also incorporates the concept of environmental protection into its internal management and daily operation to achieve the goal of environmental sustainability. The main emissions produced and main resources used in the daily operation of the Group and our measures to reduce such emissions and resources consumptions are described in the section "Air and Greenhouse Gases Emissions", "Waste Management", "Energy Consumption and Efficiency", "Water Management" and "Packaging Materials" above. The Group places a high priority on environmental impacts and the depletion of natural resources and aims to identify and mitigate these impacts by integrating sustainability into all the Group's activities.

The Group conducts assessments of potential environmental impacts to understand how well footprints are identified, measured and managed at that level. During the Reporting Period, the Group had conducted assessment on air pollution emissions, noise pollutions and water pollutions and will ensure they comply to the statutory permitted level.

Apart from the above, the Group had also performed an environmental impact assessment. The landform and topography in the mining area are commonly modified by open pit mining, rock dumping, haul roads, office buildings and dormitories, and other facilities, which may result in impacts to or loss of flora and fauna habitat. If effective measures are not taken to manage and rehabilitate the disturbed areas, the surrounding land can become polluted and the land use function will be changed, causing an increase in land desertification, water loss and soil erosion. Environmental impact assessments indicated that the area of our Beishan Mine is dominated by man-made forest, natural secondary forest and shrubs, and that there are no rare and endangered species identified within such area. The main vegetation in such area is pine, birch, oak, yellow pineapple, low shrubs and weeds in the understorey. The main animals in such area are sika deer, horse deer, black bear, wild boar, roe deer, fox, small house mouse, frogs, snakes and sparrows. The Group insisted striking a balance between mining development and ecology. During the Reporting Period, we did not note any significant impact on the environment caused by our mining activities.

Under the relevant PRC laws and regulations, we are required to undertake measures to restore a mine site to its original state within a prescribed time frame if our mining activities result in damage to arable land, grassland or forestry land. The rehabilitated land must satisfy rehabilitation standards in accordance with the relevant law from time to time, and cannot be used unless it has been examined and approved by the relevant PRC land authorities. Failure to comply with this requirement or failure to restore the mine site to its original state within the prescribed timeframe will result in the imposition of fines on our Company, rehabilitation fees and/or rejection of applications for land use rights or rejection of applications for new mining license or renewal, alteration or cancellation of mining license by the local bureau of land and resources.

Land rehabilitation generally involves: (i) removal of building structures, equipment and machinery, and other physical remnants of mining; (ii) restoration of land features in disturbed areas and dump sites; (iii) contouring, covering and revegetation of disturbed areas. While this site closure planning process is not specified in the PRC national requirements for mine closure, the implementation of this process for a PRC mining project will facilitate achieving compliance with these PRC national legislative requirements and demonstrate conformance to internationally recognized industry management practice. To confine with the internationally recognized industry practice for managing site closure, there is being put in place a geological environment protection and rehabilitation plan which sets out our proposed site closure and rehabilitation measures, including but not limited to: (i) greening; (ii) stockpiling topsoil for reuse in rehabilitation; and (iii) rehabilitation monitoring of the area of geological disaster, land disturbance, water environment, soil and new plants. The plan describes the proposed treatment measures, schedule, monitoring, cost estimation, etc. A rehabilitation plan by the qualified institution had been prepared and as at 31 December 2022, we had made a provision of approximately RMB2.5 million for mine closure and rehabilitation of affected environment based on the progress of extraction in our Beishan Mine. A mine geological environment treatment and restoration fund account had also been set up by the Group with approximately RMB0.3 million land reclamation fees. We are of the view that our proposed approach to land rehabilitation is generally in line with the relevant recognized PRC industry practices.

Climate Change Management

Responding to the increasing global focus on climate change, we have identified certain climate change risks which could adversely affect our business, results of operation and financial condition through studying governmental policies and benchmarking our practices against industry peers. The potential climate change risks can be categorized into transition risk and physical risks. In regard to transition risks, in particular the evolving environmental and climate regulatory requirements that could increase our environmental protection and compliance expenses, we intend to carry out further environmental and climate due diligence to ensure our business comply with the requirements. Furthermore, we intend to set climate change as an important topic and to communicate with our shareholders and relevant stakeholders during the course of low-carbon economy transformation. We also plan to acquire more environmental friendly appliances, equipment and machinery in line with the evolving environmental and climate standards. In regard to physical risks, such as the increase of extreme weather events which may disrupt our mining, beneficiation and processing operations, damage our facility and machinery or affect our supply chain, we are committed to continuing the enhancement of our practices of disaster drills to mitigate potential losses.

Social

Employment and Labour Practice

The Group believes that its staff members are fundamental to enterprise, and it strives to create a safe and healthy working environment to attract talents. The Group also attaches great importance to upholding employees' rights and interests.

Our Group has established rules and procedures of recruitment, job promotion, compensation, benefits, rest periods, dismissal, etc., to protect our employees' rights. Our Directors confirm that our Group also constantly reviews and improves its policies to ensure that employees' rights are upheld. During recruitment and job promotion, our Group follows the principle of "selection on merit", taking into account the performance, work experience and capability of the applicant or employee. Our Group advocates a diverse and equal workforce culture by ensuring that applicants and employees are not discriminated against on the basis of gender, age, race, family status or physical disability. The Group strictly prohibits any forms of unfair or unreasonable dismissal, and sets out the terms of dismissal of employees. Our Group determines employees' compensation packages on the basis of work performance and the market standard of remuneration. Our Group also provides employee benefits where applicable, such as overtime payment and holiday working allowances. Employees are entitled to statutory holidays, annual leave, sick leave and maternity leave. Unpaid leave, paternity leave, marriage leave and casual leave are provided depending on individual circumstances.

As at 31 December 2022, the Group had 196 workers (including the full-time employees and the workers from the crowdsourcing service provider) in PRC and Hong Kong (2021: 178 workers). Our employee profile was as follows:

	Number of Employees
By Gender	
Male	155
Female	41
By Age	
Below 30	21
30–49	110
50 or above	65
By Employment Type	
Senior Management Level	6
Management Level	25
General Level	165
By Position Type	
Full-time employee	141
Labour from crowdsourcing service provider	55
By Geographical Region	
PRC	194
Hong Kong	2

Employee Turnover Rate	Percentage
By Gender	
Male	48.5%
Female	39.7%
By Age	
Below 30	55.3%
30–49	42.1%
50 or above	50.8%
By Geographical Region	
PRC	47.1%
Hong Kong	Nil%

Note:

Employee Turnover Rate per category = Number of employees in the category leaving employment during the Reporting Period/(Number of employees in the category as at year-end + Number of employees in the category leaving employment during the Reporting Period). The calculation method is in accordance with Appendix 3: Reporting Guidance on Social KPIs published by the Stock Exchange.

During the Reporting Period, we are not aware of any case of material non-compliance with laws and regulations relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, discrimination, and other matters of benefits and welfare in both PRC and Hong Kong.

Occupational Health and Safety

The PRC government imposes significant regulatory requirements on graphite mines with respect to employee safety. We regard occupational health and safety as one of our most important responsibilities. We have implemented a number of measures to ensure compliance with the stringent regulatory requirements which we are subject to. Our Directors confirm that our safety procedures are in line with the PRC industry standard practices and PRC safety regulations.

A department responsible for occupational health and safety had been set up and periodic inspections and assessment of our safety standards would be carried out in order to ensure that our entire mining operation is in compliance with the applicable PRC laws and regulations. During the Reporting Period, various internal inspections covering electricity usage safety, fire safety, facility and equipment safety, maintenance and welding safety, tailing storage safety, mining vehicles, crane and chemicals safety had been conducted.

In addition to the safety systems, we also organize and conduct training sessions for employees on accident prevention and management. First-aid kits are provided in all workplaces. The Group has established arrangements to minimize potential accidents when employees travel to or from their workplaces. The Group have passed all periodic and other safety inspections by the relevant authorities.

During the Reporting Period, our Group had no accidents, claims or complaints which materially and adversely affected our operation and the Group's work-related fatality rate was nil (2021, 2020 and 2019: nil) and loss of the working days on our operation due to work injury was nil (2021: nil).

Our Group has responded to the COVID-19 pandemic with a range of measures to safeguard the health of our employees. Employees were encouraged to telecommute during the pandemic's most severe period to reduce the risk of cross-infection, and were regularly provided with masks and hand sanitizers. Hand sanitizers are also made available in our offices, and employees are reminded of the need for preventative personal hygiene.

Development and Training

Our Group believes that retaining talent and promoting teamwork are key to its long-term development, and is committed to enhancing the professional knowledge and skills of its employees. Our Group regularly participates in training seminars on topics such as financing, compliance, corruption prevention and job safety. Our Group provides the employees with orientation training, including an introduction to corporate culture and on-the-job training, which enable them to quickly integrate into our Group and adapt to their jobs. Further on-the-job training, health and safety training, in-house experience sharing and other activities are arranged for employees to broaden their professional horizons. To encourage development, our Group conducts employee assessments at the end of each year. Depending on their performance and responsibilities, our Group provides employees with promotion and training opportunities.

The breakdown of employees trained and average training hours completed per employee by gender and employment type during the Reporting Period are as follows:

Workers Trained	Percentage
By Gender	
Male	82.5%
Female	17.5%
By Type	
Senior Management Level	3.3%
Management Level	13.1%
General Level	83.6%

Average Training Hours Completed per workers	Hours
By Gender	
Male	60.5
Female	39.5
By Employment Type	
Senior Management Level	64.0
Management Level	69.1
General Level	53.9

Remark: Percentage of employees trained by category = Employees in the category who took part in training/Employees who took part in training. Average training hours for employees by category = Total number of training hours for employees in the category/Number of employees in the category. The calculation method is in accordance with Appendix 3: Reporting Guidance on Social KPIs published by the Stock Exchange.

Labour Standard

As for preventing child labour or forced labour, the Group mainly implemented Labor Law of the People's Republic of China, the Employment Contract Law of the People's Republic of China and other relevant laws and regulations. The Group strictly complied with relevant laws and regulations including Labor Law of the People's Republic of China and the Employment Contract Law of the People's Republic of China. Across all companies under the Group, internal human resources units were set up to manage employees in a professional manner when such employees were recruited and employed, so as to eliminate situations such as child labors and forced labors in the Group. The Group strictly complied with and should take immediate actions in accordance with relevant laws and regulations including Labor Law of the People's Republic of China and the Employment Contract Law of the People's Republic of China when discovering violations.

Supply Chain Monitoring

Our Group's supply chain primarily includes unprocessed graphite suppliers and utilities provider. Our Group prescribes transparent procurement procedures for selecting suitable suppliers in a fair, impartial and open manner. Our Group's procedures ensure fair competition when procuring, including objective selection criteria. These procedures protect the interests of both our Group and the supplier. Our Group's procurement considerations including but not limited to product or service quality, pricing and delivery time, aim to reduce procurement risk and enhance procurement efficiency. Our Group has measures to ensure that the products and services provided meet its standards. Our Group also monitors the environmental and social performance of its suppliers to ensure that its requirements are met, and to reduce the environmental and social risks caused by procurement. In the selection of suppliers, the Company has been strictly controlling the environmental, social and governance practice of suppliers, giving priority to environmentally friendly products and services.

In FY2022, most of our major suppliers were located in Heilongjiang Province, the PRC.

Products Responsibility

Our Group is committed to upholding and enhancing the quality of its products for its customers and strictly in line with the Product Quality Law of the People's Republic of China and all relevant laws and regulations in respect of the health and safety, advertisement, label and privacy matters and remedies of products and services. Our Group regularly conducts inspection on its machinery and equipment employed in its mining, beneficiation and processing operations to ensure that they are safe and in good working order and our products are not defective as a result. During the Reporting Period, there are no breaches of the relevant laws and rules.

Our Group has also established procedures for managing product defects. During the Reporting Period, there are no products sold subject to recalls for safety and health reasons and we have not received any complaints regarding material product defects. If customer complaints arise during the sales process, we will actively respond to customer issues and resolve them at the first instance. Our Group has procedures in place to assign senior personnel to deal and handle the transport logistics with customer, in the event that our products need to be recalled.

In order to enhance our product qualities, we also devoted ourselves in research and development activities. As at 31 December 2022, the Group had registered 91 patents and during the year, our operating subsidiaries, Yixiang Graphite and Yixiang New Energy were listed on High-quality Development of Technologically Advanced Small and Medium-sized Enterprises of the Heilongjiang Province* (黑龍江省專精特新中小企業).

During the Reporting Period, the Group had not infringe any third party trademark or intellectual property rights.

The Group has obtained ISO 9001 quality management system certification and is committed to providing quality and reliable products and services to our customers.

Our Group regards customer privacy as a matter of prime importance, and provides employees with guidance to prevent them from disclosing customer information. If any leak of customer information is found, our Group will rectify it promptly and administer punishment to responsible employees corresponding to the severity of the incident. Employees will also be held legally responsible in certain serious breach of our privacy policies. During the Reporting Period, there are no issue relating to the customer privacy in our Group.

Corruption Prevention

The Group strives to be ethical in its business operations, and does not tolerate any form of corruption, such as bribery, extortion, fraud or money laundering. The Group strictly complied with the Company Law of the People's Republic of China, the Law of the People's Republic of China on Anti-money Laundering, the Anti-Unfair Competition Law of the People's Republic of China, the Interim Provisions on Banning Commercial Bribery and other relevant laws and regulations on prevention of bribery, extortion, fraud and money laundering.

There exist effective measures throughout our Group including risk management and internal control policies to prevent any form of corruption. Such measures also provide our employees with clear guidance and training in dealing with receiving gifts and donation, conflict of interests, etc. Furthermore, our Group further strengthens the awareness of the Directors and the existing staff and new recruits by conducting periodic anti-corruption training.

Compliance Committee to monitor and oversee the compliance-related issues of our Group was also established. Any corruption related cases of the Group are required to report to the committee for further investigation and actions where appropriate.

All employees are required to maintain proper standards of business conduct and to comply with all applicable laws and regulations. To support such, we have established procedures for reporting matters of serious concern that may affect our operation and reputation, encouraging our employees to report their concerns at the earliest practical stage, so that our Group can take appropriate and timely actions. Upon the receipt of a whistleblowing report, our senior management and Compliance Committee will review the matter to assess what action should be taken. This may involve an internal inquiry or a more formal investigation. Our Group will make every effort to keep the whistleblower's identity confidential unless it becomes necessary to disclose the whistleblower's identity in accordance with applicable laws and regulations. Employees who are found to have committed corruption will be discharged from their duties and required to indemnify the losses caused. If their acts are found to be in violation of any regulatory requirement, the employee will be held accountable for his/her judicial responsibility.

During the Reporting Period, the Group complies all the applicable laws and regulations regarding bribery, extortion, fraud and money laundering and did not have any legal cases regarding corrupt practices brought against the Group or our employees.

Community Engagement

Our Group appreciates the importance of giving back to the community and fulfilling its corporate social responsibilities. When developing its business, our Group inherently considers its potential for making a positive impact on the community. Our Group is constantly striving to understand the impact of its business on the communities in which it operates, and explores opportunities to contribute to them with a view of improving lives and enhancing our Group's brand image.

The Group mainly participates in and supports the development of public welfare undertakings, such as, education, health, culture and sport events in the communities where our employees work and in the towns where our enterprises are located, by means of public welfare donations by our time participation and contribution of resources. During the Reporting Period, certain donations have been made to the academic institution where our operating subsidiaries operated.

Appendix 27 Environmental, Social and Governance Reporting Guide Content Index

Reporting Guide Requirements	Description	Relevant Section
Overall Approach	The Board has overall responsibility for an issuer's ESG strategy and reporting.	ESG Governance
Governance Structure	(a) A disclosure of the board's oversight of ESG issues; (b) The board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); (c) How the Board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.	ESG Governance
Reporting Principles	(a) Materiality (b) Quantitative (c) Consistency (d) Balance	Reporting Principles
Reporting Boundary	A narrative explaining the reporting boundaries of the ESG report, and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change.	Introduction

Reporting Guide Requirements	Description	Relevant Section
A1 Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issue relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental
KPI A1.1	The types of emissions and respective emissions data.	Air and Greenhouse Gases Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Air and Greenhouse Gases Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Waste Management
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Waste Management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Air and Greenhouse Gases Emissions
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Waste Management

Reporting Guide Requirements	Description	Relevant Section
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Energy Consumption and Efficiency, Water Management and Packaging Materials
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total kilowatt and intensity (e.g. per unit of production volume, per facility).	Energy Consumption and Efficiency
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Water Management
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Energy Consumption and Efficiency
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Water Management
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging Materials
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impacts on the environment and natural resources.	Environmental and Natural Resources Management
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental and Natural Resources Management
A4 Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change Management
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change Management

Reporting Guide Requirements	Description	Relevant Section
B1 Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practice
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Employment and Labour Practice
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment and Labour Practice
B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health and Safety Practice
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Occupational Health and Safety Practice
KPI B2.2	Lost days due to work injury.	Occupational Health and Safety Practice
KPI B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Occupational Health and Safety Practice

Reporting Guide Requirements	Description	Relevant Section
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training
B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Monitoring
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Monitoring
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Monitoring
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Monitoring

Reporting Guide Requirements	Description	Relevant Section
KPI B5.4	Description of practices used to promote environmental preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Monitoring
B6 Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Products Responsibility
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Products Responsibility
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Products Responsibility
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Products Responsibility
KPI B6.4	Description of quality assurance process and recall procedures.	Products Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Products Responsibility

Reporting Guide Requirements	Description	Relevant Section
B7 Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Corruption Prevention
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Corruption Prevention
KPI B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Corruption Prevention
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Corruption Prevention
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Engagement
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Community Engagement
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Engagement

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

To the Shareholders of China Graphite Group Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of China Graphite Group Limited (the "**Company**") and its subsidiaries (the "**Group**"), which are set out on pages 91 to 159, comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter identified in our audit is related to impairment assessment of trade receivables.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of trade receivables	
Refer to Note 3.1(b), Note 4.1 and Note 18 to the consolidated financial statements. As at 31 December 2022, the Group had gross trade receivables of RMB95,252,000 and provision for impairment losses on trade receivables of RMB6,704,000. Provision is made for lifetime expected credit losses on trade receivables. Management applied judgement in assessing the expected credit losses. To measure the expected credit losses, management considered that full provision would be made for trade receivable balances with known financial difficulties. While for the remaining trade receivable balances, they have been grouped based on shared credit risk characteristics, and the expected credit loss rates are determined based on historical credit losses experienced over the past 3 years and adjusted to reflect forward-looking information including macroeconomic factors, such as consumer price index, producer price index and retail sales growth, affecting the ability of the customers to settle the receivables.	Our procedures in relation to management's assessment of the expected credit losses for trade receivables included the following: We understood, evaluated and validated the key controls, on a sample basis, over credit assessment procedures performed by management, including the periodic review of aged receivables, and management's estimation of the expected credit losses allowance for trade receivables. We also assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors. We evaluated the outcome of prior period assessment of impairment of trade receivables to assess the effectiveness of management's estimation process.

Key Audit Matters *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
We focused on this area due to the magnitude of the trade receivables and the estimation and judgement involved in determining the expected credit losses for the trade receivables subject to high degree of estimation uncertainty.	We obtained management's assessment of the expected credit losses for trade receivables, tested the accuracy of the aging profile of trade receivables by checking to the underlying invoices on a sample basis and tested the accuracy of trade receivables settlement by checking to the underlying settlement records on a sample basis. For trade receivables with known financial difficulties, we challenged and assessed the appropriateness of management's assessment based on supporting documents such as correspondence with the customers, customers' responses to collection activities and relevant public search results relating to the financial circumstances of these customers. For the remaining trade receivables, we challenged and assessed the appropriateness of management's assessment including the credit risk characteristics based on the customers' historical settlement pattern over the past 3 years with reference to the historical settlement records of customers and the business operation of customers, and performed market research regarding the relevant current and forward-looking information including macroeconomic factors, such as consumer price index, producer price index and retail sales growth, affecting the ability of the customers to settle the receivables. We tested the mathematical accuracy of the calculation of expected credit loss rates and the calculation of the provision for impairment losses. Based on the procedures performed, we considered that the judgement and estimates adopted by management in determining the expected credit losses of the trade receivables were supportable by the evidence obtained.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
(Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

(Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Hin Gay, Gabriel.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Year ended 31 December 2022 RMB'000	 2021 RMB'000
Revenue	5	**273,595**	198,365
Cost of sales	7	**(137,698)**	(105,322)
Gross profit		**135,897**	93,043
Other income and other gains	6	**5,006**	8,033
Selling and distribution expenses	7	**(7,555)**	(10,138)
General and administrative expenses	7	**(25,812)**	(19,738)
Research and development expenses	7	**(11,518)**	(8,118)
Provision for impairment of financial assets	18	**(1,585)**	(1,463)
Operating profit		**94,433**	61,619
Finance income	9	**130**	54
Finance costs	9	**(615)**	(834)
Finance costs, net		**(485)**	(780)
Profit before income tax		**93,948**	60,839
Income tax expense	10	**(14,966)**	(7,514)
Profit and total comprehensive income for the year		**78,982**	53,325
Profit and total comprehensive income attributable to owners of the Company		**78,982**	53,325
Earnings per share for profit attributable to owners of the Company			
— Basic	11	**RMB5.71 cents**	RMB4.44 cents
— Diluted	11	**RMB5.70 cents**	RMB4.44 cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Notes	As at 31 December 2022 RMB'000	2021 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	13	**123,017**	87,908
Right-of-use assets	14	**7,048**	9,933
Mining rights	15	**24,063**	25,905
Other intangible assets		**156**	35
Deferred income tax assets	25	**1,156**	271
Prepayments	19	**16,345**	1,038
		171,785	125,090
Current assets			
Inventories	17	**19,042**	18,874
Trade and bills receivables	18	**202,105**	148,645
Deposits, prepayments and other receivables	19	**1,098**	7,533
Short-term bank deposit	20	**26,537**	–
Cash and cash equivalents	21	**110,182**	33,934
		358,964	208,986
Total assets		**530,749**	334,076
Equity			
Equity attributable to owners of the Company			
Share capital	26(a)	**1,375**	–*
Share premium	26(b)	**326,853**	158,693
Other reserves	26(b)	**(130,226)**	(142,469)
Retained earnings	26(b)	**252,513**	185,774
Total equity		**450,515**	201,998

Note*: Share capital of the Company was less than RMB1,000 and rounded as nil.

	Notes	As at 31 December 2022 RMB'000	 2021 RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities	14	**170**	383
Provision for reclamation and mine closure		**2,546**	2,427
Deferred income tax liabilities	25	**1,245**	1,838
		3,961	4,648
Current liabilities			
Trade payables	22	**27,239**	18,608
Accruals and other payables	23	**24,852**	18,498
Amount due to a related party	27	**–**	73,127
Borrowings	24	**10,000**	10,000
Contract liabilities	5(f)	**2,199**	5,310
Lease liabilities	14	**1,262**	1,143
Current tax liabilities		**10,721**	744
		76,273	127,430
Total liabilities		**80,234**	132,078
Total equity and liabilities		**530,749**	334,076

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 91 to 159 were approved by the Board of Directors on 23 March 2023 and were signed on its behalf.

Zhao Liang
Director

Lei Wai Hoi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2021	–	158,693	4,780	(148,249)	133,449	148,673
Comprehensive income						
Profit for the year	–	–	–	–	53,325	53,325
Total comprehensive income	–	–	–	–	53,325	53,325
Transactions with owner						
Appropriation to statutory reserve	–	–	483	–	(483)	–
Appropriation to other reserve	–	–	–	517	(517)	–
	–	–	483	517	(1,000)	–
Balance at 31 December 2021 and 1 January 2022	**–**	**158,693**	**5,263**	**(147,732)**	**185,774**	**201,998**
Comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**78,982**	**78,982**
Total comprehensive income	**–**	**–**	**–**	**–**	**78,982**	**78,982**
Transactions with owners						
Shares issued pursuant to the capitalisation issue	**1,031**	**72,096**	**–**	**–**	**–**	**73,127**
Shares issued under the global offering	**344**	**111,333**	**–**	**–**	**–**	**111,677**
Share issuance costs	**–**	**(15,269)**	**–**	**–**	**–**	**(15,269)**
Appropriation to statutory reserve	**–**	**–**	**9,930**	**–**	**(9,930)**	**–**
Appropriation to other reserve	**–**	**–**	**–**	**2,313**	**(2,313)**	**–**
	1,375	**168,160**	**9,930**	**2,313**	**(12,243)**	**169,535**
Balance at 31 December 2022	**1,375**	**326,853**	**15,193**	**(145,419)**	**252,513**	**450,515**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

		Year ended 31 December	
	Notes	**2022** **RMB'000**	2021 RMB'000
Cash flow from operating activities			
Cash generated from operations	28(a)	**83,802**	84,255
Income tax paid		**(6,467)**	(8,557)
Net cash generated from operating activities		**77,335**	75,698
Cash flows from investing activities			
Purchase of property, plant and equipment		**(63,114)**	(26,487)
Purchase of land use rights		**–**	(2,731)
Purchase of intangible assets		**(139)**	–
Proceeds from disposal of property, plant and equipment	28(b)	**108**	42
Placement of short-term bank deposit		**(25,782)**	–
Interest received		**130**	54
Net cash used in investing activities		**(88,797)**	(29,122)
Cash flows from financing activities			
Proceeds from bank borrowings	28(c)	**–**	3,000
Repayments of bank borrowings	28(c)	**–**	(11,500)
Interest paid	28(c)	**(496)**	(721)
Repayments of principal elements of lease liabilities		**(650)**	(1,120)
Proceeds from the listing		**111,677**	–
Payments of listing expenses		**(24,586)**	(2,686)
Advances from related parties	28(c)	**–**	1,351
Repayments to related parties	28(c)	**–**	(6,032)
Acquisition of non-controlling interests pursuant to reorganisation of the Group	28(c)	**–**	(4,941)
Net cash generated from/(used in) financing activities		**85,945**	(22,649)
Net increase in cash and cash equivalents		**74,483**	23,927
Cash and cash equivalents at the beginning of the year		**33,934**	10,007
Effects of exchange rate changes on cash and cash equivalents		**1,765**	–
Cash and cash equivalents at end of the year	21	**110,182**	33,934

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 General information

China Graphite Group Limited (the "**Company**") was incorporated in the Cayman Islands on 3 August 2020 as an exempted company with limited liability under the Companies Act (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 71 Fort Street, PO Box 500, George Town, Grand Cayman, KY1-1106, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in the manufacturing and sale of graphite products. The ultimate holding company of the Company is Sandy Mining Limited. The ultimate controlling party of the Group is Mr. Zhao Liang.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 18 July 2022.

The consolidated financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000), unless otherwise stated.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622 ("**HKCO**"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group

The following new and amended standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2022:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 37	Onerous Contracts — Costs of Fulfilling a Contract
Annual Improvements to HKFRSs 2018–2020 Cycle	Amendments to HKFRS 1, HKFRS 9, HKFRS 16 and HKAS 41
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New and amended standards and interpretation which are not yet effective

The following are new and amended standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2022 and have not been early adopted by the Group.

		Effective for accounting periods beginning on or after
Amendments to HKAS1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts	1 January 2023
Amendments to HKAS 1	Classification of Liabilities as Current or Non-Current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The Group will adopt the above new and amended standards and interpretation as and when they become effective. Management has performed preliminary assessment and does not anticipate any significant impact on the Group's financial position and results of operations upon adopting these new and amended standards and interpretation.

2 Summary of significant accounting policies *(Continued)*

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2 Summary of significant accounting policies *(Continued)*

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity.

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors of the Company that make strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated statement of comprehensive income, within finance costs. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other income and other gains, net.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

2 Summary of significant accounting policies *(Continued)*

2.6 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income presented are translated at average exchange rates (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owner of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("**CIP**"), are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain plant and machines, the shorter lease term as follows:

Plant and buildings	20 years
Machinery and equipment	3–10 years
Motor vehicles	4–5 years
Furniture and fixtures	3–5 years

Depreciation on mining structures is provided to write off the cost of the mining structures using the units of production method based on the total proved and probable reserves of the mine as the depletion base.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

CIP is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the CIP is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of CIP until it is completed and ready for its intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

2 Summary of significant accounting policies *(Continued)*

2.8 Intangible assets

Mining rights

Mining rights are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised on the units of production method based on the total proven and probable reserves of the mine.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised using the straight-line method over the expected useful life of respective intangible asset ranged from 2 to 20 years.

2.9 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.10 Financial assets

(a) Classification

The Group classifies its financial assets as those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 Summary of significant accounting policies *(Continued)*

2.10 Financial assets *(Continued)*

(c) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other income and other gains" together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss.

(d) Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future assets and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 Summary of significant accounting policies *(Continued)*

2.13 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 90 days and therefore all classified as current.

Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

2.14 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Short-term bank deposits

Short-term bank deposits include bank deposits with original maturities over three months.

2.16 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

2 Summary of significant accounting policies *(Continued)*

2.18 Borrowings *(Continued)*

Borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred.

2.19 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of significant accounting policies *(Continued)*

2.19 Current and deferred income tax *(Continued)*

Deferred income tax *(Continued)*

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.20 Employee benefits

(a) Short-term obligations

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled within twelve months after the end of the annual reporting period in which the employees render the related service. Short-term employee benefits are recognised in the year when the employees render the related service.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the consolidated statement of financial position date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Post-employment obligations

The Group operates various pension schemes.

The Group participates in a mandatory provident fund scheme and another defined contribution plan for its staff in Hong Kong. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2 Summary of significant accounting policies *(Continued)*

2.20 Employee benefits *(Continued)*

(b) Post-employment obligations *(Continued)*

The Group also participated in a central pension scheme operated by the local municipal government in Mainland China. Contributions are made by the Group on a monthly basis to the retirement plan based on a percentage of the relevant income of the relevant employees. The Group has no further obligations for the actual payment of pensions beyond its contributions.

Contributions made are recognised as employee benefits expenses when they are due and are not reduced by contribution forfeited by those relevant employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(c) Bonus plan

The Group recognises a liability and an expense for bonuses, based on performance and takes into consideration the profit attributable to the Company's shareholders. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Share-based payments

Share-based compensation benefits are provided to employees and non-executive director via the share option scheme. The fair value of options granted under the share option scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

— including any market performance conditions (e.g. the entity's share price)

— excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and

— including the impact of any non-vesting conditions (e.g. the requirement for employees to save or hold shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 Summary of significant accounting policies *(Continued)*

2.21 Provisions *(Continued)*

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Provisions for reclamation and mine closure

Provisions for the Group's obligations for reclamation and mine closure are based on estimates of required expenditure at the mines in accordance with the rules and regulations in the People's Republic of China. The obligation generally arises when the asset is installed or the ground environment is disturbed at the mining operation's location. The Group estimates its liabilities for reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The present value of the estimated cost is recognised in cost of sales in the period of relevant ground environment being disturbed.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sales of goods in the ordinary course of the Group's activities.

If contracts involve the sale of multiple elements, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenue is recognised when or as the control of the good is transferred to the customer.

Depending on the terms of the contract and the laws that apply to the contract, control of the good may be transferred over time or at a point in time.

Control of the good is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods. Specific criteria where revenue is recognised are described below.

2 Summary of significant accounting policies *(Continued)*

2.23 Revenue recognition *(Continued)*

Sales and distribution of goods

The Group manufactures and sells graphite products. Sales are recognised when control of the products has transferred to its customer, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract, net of value-added tax, rebates and returns. Revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. No element of financing is deemed present as the sales are made on cash or with a credit term of not more than 90 days. A receivable (financial asset) is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before payment is due.

2.24 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Contracts may contain both lease and non-lease components.

Assets and liabilities arising from leases are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

— fixed payments (including in-substance fixed payments), less any lease incentives receivable;

— variable lease payments that are based on an index or a rate;

— amounts expected to be payable by the lessee under residual value guarantees;

— the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

— payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

2 Summary of significant accounting policies *(Continued)*

2.24 Leases *(Continued)*

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

2.25 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.26 Interest income

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in profit or loss as part of other income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2 Summary of significant accounting policies *(Continued)*

2.27 Research and development expenses

Costs associated with the enhancement of production process are recognised as an expense as incurred. Only development costs that are directly attributable to the design and testing of identifiable and unique production process controlled by the Group are recognised as intangible assets where the capitalisation criteria stated under HKAS 38 are met.

Research expenditure and development expenditure that do not meet the capitalisation criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2.28 Related parties

For the purpose of these consolidated financial statements, related party includes a person and entity as defined below:

(1) A person or a close member of that person's family is related to the Company if that person:

- (i) has control or joint control of the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(2) An entity is related to the company if any of the following conditions applies:

- (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) both entities are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the reporting entity is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) the entity is controlled or jointly controlled by a person identified in (1).
- (vii) a person identified in (l)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2 Summary of significant accounting policies *(Continued)*

2.29 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares,

- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.30 Dividend distribution

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks factors: foreign exchange risk, credit risk, liquidity risk, cash flow and fair value interest rate risk. The Company's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Group's financial performance.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Foreign exchange risk

The Group operates in the People's Republic of China ("**the PRC**") with most of the transactions denominated in RMB. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. The Group is exposed to foreign exchange risk with respect to the Hong Kong dollar ("**HK$**").

At 31 December 2022, if HK$ had strengthened/weakened by 5% against the RMB with all other variables held constant, profit before income tax for the year then ended would have been approximately RMB4,168,000 (2021: RMB52,000) higher/lower, mainly as a result of the foreign exchange difference on translation of HK$ denominated short-term bank deposit and cash and cash equivalents.

The exposure to foreign exchange risk is not material to the Group.

(b) Credit risk

The Group is exposed to credit risk in relation to its trade and bills receivables, deposits, other receivables, short-term bank deposit and cash and cash equivalents. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

(i) Impairment allowance policies for trade and bills receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables.

For bills receivables, bills are issued by counterparties at reputable banks and finance institutions and the credit risk is considered to be low. Those counterparties do not have defaults in the past. Therefore, expected credit loss rate is assessed to be close to zero and no provision was made as at each of the end of reporting period.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. A default on a financial asset is when the counterparty fails to make contractual payments within 365 days of when they fall due.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(i) Impairment allowance policies for trade and bills receivables (Continued)

The expected loss rates are based on the payment profiles of customers and the corresponding historical credit losses experienced over the past 3 years. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors, such as consumer price index, producer price index and retail sales growth, affecting the ability of the customers to settle the receivables. The Group has maintained a defined credit policy with tightened risk profile and applied prudent policies to manage its credit risk with its trade receivables that includes an ageing analysis of trade receivables, is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables.

Trade receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Impairment losses on trade receivables are presented as "provision for impairment of financial assets". Subsequent recoveries of amounts previously written off are credited against the same line item.

The following table presents the gross carrying amount and the lifetime expected credit loss in respect of individually assessed trade receivables as at 31 December 2022 and 2021:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Gross carrying amount	**4,294**	4,338
Lifetime expected credit loss	**(4,294)**	(4,338)
Net carrying amount	**–**	–

The following table presents the gross carrying amount and provision for impairment loss in respect of collectively assessed trade receivables by invoice date as at 31 December 2022 and 2021:

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(i) Impairment allowance policies for trade and bills receivables (Continued)

Sale of flake graphite concentrate

	Expected credit loss rate	Gross carrying amount — trade receivables RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
As at 31 December 2022				
Up to 90 days	**2.6%**	**34,322**	**(876)**	**33,446**
91–180 days	**7.7%**	**3,576**	**(275)**	**3,301**
181–270 days	**16.6%**	**1,203**	**(200)**	**1,003**
271–365 days	**28.5%**	**397**	**(113)**	**284**
Over 1 year	**73.8%**	**1,238**	**(914)**	**324**
		40,736	**(2,378)**	**38,358**
As at 31 December 2021				
Up to 90 days	1.3%	9,289	(118)	9,171
91–180 days	3.4%	6,844	(233)	6,611
181–270 days	8.0%	2,344	(188)	2,156
271–365 days	14.8%	2	–	2
Over 1 year	27.3%	888	(242)	646
		19,367	(781)	18,586

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(i) *Impairment allowance policies for trade and bills receivables* (Continued)

Sale of spherical graphite and its by-products, and unprocessed marble

	Expected credit loss rate	Gross carrying amount — trade receivables RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
As at 31 December 2022				
Up to 90 days	**0.1%**	**49,656**	**(28)**	**49,628**
91–180 days	**0.4%**	**476**	**(2)**	**474**
181–270 days	**2.2%**	**90**	**(2)**	**88**
		50,222	**(32)**	**50,190**
As at 31 December 2021				
Up to 90 days	0.0%	27,333	–	27,333
91–180 days	0.0%	4,403	–	4,403
181–270 days	0.1%	98	–	98
		31,834	–	31,834

(ii) *Other financial assets at amortised cost*

The Group applies a general approach on other financial assets at amortised cost.

The credit risk on cash and cash equivalents and short-term bank deposit are limited because cash are placed in banks with sound credit ratings.

For deposits and other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability with no significant credit risk identified.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

The liquidity of the Group is adequately managed and monitored by maintaining sufficient cash balance to meet its financial commitments. Accordingly, the directors are of the opinion that the Group does not have significant liquidity risk.

The contractual maturity for the Group's financial liabilities at the date of statement of financial position is as follows. The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on contractual undiscounted cash flows and the earliest date the Group can be required to pay. Balances due within 12 months equal their carrying balances (including both interest and principal) as the impact of discounting is not significant.

	On demand/ less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
31 December 2022					
Trade payables	**27,239**	**–**	**–**	**–**	**27,239**
Accruals and other payables	**13,171**	**–**	**–**	**–**	**13,171**
Borrowings	**10,182**	**–**	**–**	**–**	**10,182**
Lease liabilities	**1,321**	**173**	**–**	**–**	**1,494**
	51,913	**173**	**–**	**–**	**52,086**
31 December 2021					
Trade payables	18,608	–	–	–	18,608
Accruals and other payables	14,019	–	–	–	14,019
Amount due to a related party	73,127	–	–	–	73,127
Borrowings	10,220	–	–	–	10,220
Lease liabilities	1,217	413	–	–	1,630
	117,191	413	–	–	117,604

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(d) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing assets and liabilities, including cash and cash equivalents, short-term bank deposit and bank borrowings.

The Group is exposed to fair value interest rate risk arising from assets and liabilities bear interest at fixed rates. At 31 December 2022, the Group's fair value interest rate risk arising from its fixed rate short-term deposit and bank borrowings is not material.

Cash flow interest rate risk is the risk that changes in market interest rates will impact cash flows arising from variable rate financial instruments. The Group's assets and liabilities which bear variable interest rates mainly include bank balances classified under cash and cash equivalents. At 31 December 2022, if interest rates on interest-bearing cash and cash equivalents had been 100 basis points higher/lower with all other variables held constant, profit before income tax for the year then ended would have been approximately RMB1,102,000 (2021: RMB339,000) higher/lower due to higher/lower interest income on variable rate bank deposits.

3.2 Fair value estimation

The carrying values less loss allowance for trade and bills receivables, deposits, other receivables, short-term bank deposit and cash and cash equivalents, and trade payables, accruals and other payables, amount due to a related party and borrowings are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments, unless the effect of discounting is insignificant.

3.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the owners to procure adequate financial resumes from the owners. The Group's overall strategy remains consistent during the years ended 31 December 2022 and 2021.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends proposed or paid to the owners or issue new shares.

The capital structure of the Group consists of shareholders' equity and total borrowings. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business. The Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including borrowings and amount due to a related party as shown in the consolidated statement of financial position and excluding lease liabilities) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt.

3 Financial risk management *(Continued)*

3.3 Capital risk management *(Continued)*

The debt-to-capital ratios during the years ended 31 December 2022 and 2021 were as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Total borrowings		
— Borrowings	**10,000**	10,000
— Amount due to a related party	**–**	73,127
Less: Cash and cash equivalents	**(110,182)**	(33,934)
Net debt	**(100,182)**	49,193
Total equity	**450,515**	201,998
Total capital	**350,333**	251,191
Debt-to-capital ratio	**N/A**	19.6%

4 Critical accounting estimates and judgments

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group's management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 Impairment of trade receivables

The loss allowances for trade receivables are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

4 Critical accounting estimates and judgments *(Continued)*

4.2 Amortisation of mining rights and depreciation of mining structures

Mining rights and mining structures are amortised and depreciated over the estimated total proven and probable reserves of the mines using units of production method. The Group assesses on an annual basis the estimated reserve of the mine. However, the remaining license period of the mining rights held by the Group is shorter than the estimated useful lives of the mine estimated by the Group. Management is of the opinion that the Group is able to renew the license of the mining rights from the relevant authority continuously and at minimal charges. If the expectation differs from the original estimate, such differences will impact the amortisation charged in the period in which such estimate is changed.

Engineering estimates of the Group's mine reserves involved subjective judgments by engineers in developing such information and reserves are estimated in accordance with national standards set by relevant PRC authorities. Estimates of proven and probable reserves involved subjective judgments and assumptions are required for a range of geological, technical and economic factors, so the proven and probable reserves are only approximate values. The recent production and technology documents shall be considered for the estimates of proven and probable reserves which will be updated regularly, the inherent inaccuracy of technical estimating exists. If the past estimates change significantly, the amortisation and depreciation shall be adjusted during future periods.

4.3 Obligation for reclamation and mine closure

The estimation of the liabilities for final reclamation and mine closure involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including development plan of the mines, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of reclamation and mine closure works to be performed. Determination of the effect of these factors involves judgments from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation will be recognised at the appropriate discount rate.

5 Revenue and segment information

The Group operates as two segments. The two operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operation Decision-Maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors that make strategic decisions.

The CODM considered the nature of the Group's business and determined that the Group has two reportable operating segments as follows:

— Sale of flake graphite concentrate

— Sale of spherical graphite and its by-products, and unprocessed marble

The accounting policies of the reportable segments are the same as the Group's accounting policies. Performance is measured based on segment results that is used by the CODM for the purposes of resources allocation and assessment of segment performance. Income tax expense is not allocated to reportable segments. The Group derived revenue from the sales of goods at a point in time.

The revenue, profit or loss, assets and liabilities of the Group are allocated based on the operations of the segments.

Reportable segment results is profit before income tax, excluding unallocated other income and other gains, finance costs, net, depreciation of right-of-use assets that are used by all segments and other corporate expenses (mainly including staff costs, professional fees, listing expense and other general administrative expenses) of the head office.

Reportable segment assets exclude unallocated deferred income tax assets, cash and cash equivalents and other corporate assets (mainly including right-of-use assets that are used by all segments).

Reportable segment liabilities exclude unallocated deferred income tax liabilities, current tax liabilities, bank borrowings, amount due to a related party and other corporate liabilities (mainly including accrued charges of the head office).

There are no unsatisfied nor partially unsatisfied performance obligation that has an original expected duration of one year or more.

5 Revenue and segment information *(Continued)*

(a) The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2022 is as follows:

	Sale of flake graphite concentrate RMB'000	Sale of spherical graphite and its by-products, and unprocessed marble RMB'000	Total RMB'000
Segment revenue	202,170	148,385	350,555
Intersegment revenue	(63,826)	(13,134)	(76,960)
Revenue from external customers	138,344	135,251	273,595
Segment results	91,732	15,790	107,522
Elimination of inter-segment profit			(777)
Unallocated amounts:			
Other income and other gains			5,006
Depreciation of right-of-use assets			(176)
Corporate expenses			(7,502)
Listing expenses			(9,640)
Finance costs, net			(485)
Profit before income tax			93,948
Income tax expense			(14,966)
Profit for the year			78,982
Depreciation of property, plant and equipment	(10,988)	(5,565)	(16,553)
Depreciation of right-of-use assets	(273)	(287)	(560)
Amortisation of mining rights	–	(1,842)	(1,842)
Provision for impairment of financial assets	(1,511)	(74)	(1,585)
Capital expenditures	19,516	33,390	52,906

5 Revenue and segment information *(Continued)*

(b) Reportable segment assets and liabilities are reconciled to total assets and total liabilities of the Group as at 31 December 2022 as follows:

	Sale of flake graphite concentrate RMB'000	Sale of spherical graphite and its by-products, and unprocessed marble RMB'000	Total RMB'000
Assets			
Reportable segment assets	209,785	234,750	444,535
Intersegment elimination			(2,468)
Unallocated assets			88,682
Total assets per consolidated statement of financial position			530,749
Liabilities			
Reportable segment liabilities	26,900	26,619	53,519
Unallocated liabilities			26,715
Total liabilities per consolidated statement of financial position			80,234

5 Revenue and segment information *(Continued)*

(c) The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2021 is as follows:

	Sale of flake graphite concentrate RMB'000	Sale of spherical graphite and its by-products, and unprocessed marble RMB'000	Total RMB'000
Segment revenue	128,747	108,074	236,821
Intersegment revenue	(31,075)	(7,381)	(38,456)
Revenue from external customers	97,672	100,693	198,365
Segment results	44,414	18,245	62,659
Elimination of inter-segment loss			3,204
Unallocated amounts:			
Other income and other gains			8,033
Depreciation of right-of-use assets			(63)
Corporate expenses			(5,333)
Listing expenses			(6,881)
Finance costs, net			(780)
Profit before income tax			60,839
Income tax expense			(7,514)
Profit for the year			53,325
Depreciation of property, plant and equipment	(5,503)	(5,390)	(10,893)
Depreciation of right-of-use assets	(258)	(586)	(844)
Amortisation of mining rights	–	(1,108)	(1,108)
Provision for impairment of financial assets	(1,460)	(3)	(1,463)
Capital expenditures	19,286	11,393	30,679

5 Revenue and segment information *(Continued)*

(d) Reportable segment assets and liabilities are reconciled to total assets and total liabilities of the Group as at 31 December 2021 as follows:

	Sale of flake graphite concentrate RMB'000	Sale of spherical graphite and its by-products, and unprocessed marble RMB'000	Total RMB'000
Assets			
Reportable segment assets	153,907	172,591	326,498
Intersegment elimination			(1,691)
Unallocated assets			9,269
Total assets per consolidated statement of financial position			334,076
Liabilities			
Reportable segment liabilities	31,751	10,738	42,489
Unallocated liabilities			89,589
Total liabilities per consolidated statement of financial position			132,078

(e) Other segment information

The Group is domiciled in the PRC. All of its revenue from external customers are from customers located in the PRC.

Revenue from 3 and 2 customers individually contributed over 10% of the Group's revenue during the years ended 31 December 2022 and 2021. The revenue from the customer during the years are as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Customer A	**59,345**	40,523
Customer B	**50,295**	N/A*
Customer C	**45,708**	39,956

* Revenue from the customer is less than 10% of the total revenue of the Group for the year.

All of the Group's activities are carried out in the PRC and all of the Group's assets and liabilities are substantially located in the PRC. Accordingly, no analysis by geographical basis is presented.

5 Revenue and segment information *(Continued)*

(f) Assets and liabilities related to contracts with customers

The Group has recognised RMB2,199,000 and RMB5,310,000 receipts in advance from customers for the sale of graphite products as contract liabilities as at 31 December 2022 and 2021. For the years ended 31 December 2022 and 2021, RMB4,966,000 and RMB9,758,000 of revenue recognised, respectively, relates to carried-forward contract liabilities.

6 Other income and other gains

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Other income		
Government grants (Note)	**4,816**	7,858
Others	**101**	163
Other gains		
Gains on disposal of property, plant and equipment	**89**	12
	5,006	8,033

Note: The amount mainly represents the Group's entitlement to corporate income tax refund and other government grants. For the years ended 31 December 2022 and 2021, there is no unfulfilled conditions attached to the government grants.

7 Expenses by nature

	Year ended 31 December	
	2022 **RMB'000**	2021 RMB'000
Raw materials used		
— in production	**54,901**	38,987
— for research and development	**3,412**	2,703
Changes in inventories of finished goods and work in progress	**1,213**	12,979
Blasting expense	**4,114**	1,560
Subcontracting and processing charges	**1,361**	6,497
Provision for/(reversal of) impairment of inventories	**183**	(306)
Transportation fees	**4,462**	7,905
Auditor's remuneration	**1,800**	50
Depreciation of property, plant and equipment (Note 13)	**16,553**	10,893
Depreciation of right-of-use assets (Note 14)	**736**	907
Amortisation of mining rights (Note 15)	**1,842**	1,108
Amortisation of other intangible assets	**18**	20
Employee benefit expenses (including directors' emoluments) (Note 8)	**19,745**	13,938
Outsourcing charges	**8,020**	4,711
Short-term operating lease rentals in respect of office premises and machineries (Note 14)	**3,820**	760
Utilities expenses	**40,433**	26,270
Professional fees	**2,675**	2,007
Repair and maintenance expense	**2,732**	862
Listing expenses	**9,640**	6,881
Exchange (gains)/losses, net	**(2,377)**	76
Resource tax and other miscellaneous tax	**3,821**	1,936
Others	**3,479**	2,572
Total cost of sales, selling and distribution expenses, general and administrative expenses and research and development expenses	**182,583**	143,316

8 Employee benefit expenses

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Wages, salaries, bonuses and allowances	**18,460**	12,838
Pension costs — defined contribution plans	**1,332**	888
Other employee benefits	**972**	631
	20,764	14,357
Capitalised as property, plant and equipment	**(1,019)**	(419)
	19,745	13,938

On 21 June 2022, the Company conditionally adopted the share option scheme which is a share incentive scheme established to grant options to eligible participants as incentives or rewards for their contribution to the Group. The share option scheme will provide the eligible participants an opportunity to have a personal stake in the Company with the view to motivate the eligible participants to optimize their performance efficiency for the benefit of the Group and attract and retain or otherwise maintain an on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. During the year ended 31 December 2022, no option was granted, exercised, cancelled or lapsed.

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include 2 directors for the years ended 31 December 2022 and 2021, whose emoluments are reflected in the analysis presented in Note (b) below. The emoluments payable to the remaining 3 individuals for the years ended 31 December 2022 and 2021 are as follows:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**2,196**	2,196

	Number of individuals Year ended 31 December	
	2022	2021
Emoluments bands		
HK$1 to HK$1,000,000	**3**	3

8 Employee benefit expenses *(Continued)*

(b) Directors' and chief executive's emoluments

The remuneration of every director and the chief executive for the year ended 31 December 2022 is set out below:

Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowance and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Executive Directors							
Zhao Liang	–	1,220	2,000	–	–	–	3,220
Lei Wai Hoi (Note (i))	–	978	–	–	15	–	993
Independent Non-Executive Directors							
Chiu G Kiu Bernard (Note (ii))	83	–	–	–	–	–	83
Shen Shifu (Note (ii))	83	–	–	–	–	–	83
Liu Zezheng (Note (ii))	83	–	–	–	–	–	83
Zhao Jingran (Note (ii))	83	–	–	–	–	–	83
Total	332	2,198	2,000	–	15	–	4,545

8 Employee benefit expenses *(Continued)*

(b) Directors' and chief executive's emoluments *(Continued)*

The remuneration of every director and the chief executive for the year ended 31 December 2021 is set out below:

Name	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowance and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking RMB'000	Total RMB'000
Executive Directors							
Zhao Liang	–	840	–	–	–	–	840
Lei Wai Hoi (Note (i))	–	622	–	–	12	–	634
Total	–	1,462	–	–	12	–	1,474

Notes:

(i) Appointed as an executive director on 31 May 2021.

(ii) Appointed as an independent non-executive director on 15 July 2022.

8 Employee benefit expenses *(Continued)*

(c) Pension costs — defined contribution retirement plans

The Group provides a mandatory provident fund scheme (the "**MPF Scheme**") for its staff in Hong Kong under the requirement of the Hong Kong Mandatory Provident Fund Scheme Ordinance ("**MPF Scheme Ordinance**"). Under the current MPF scheme, the Group's contributions are calculated at 5% of the employees' relevant income as defined in the MPF Scheme Ordinance up to a maximum of HK$1,500 per employee per month. The assets of the MPF scheme are held separately from those of the Group in independently administered funds.

As stipulated by the rules and regulations in PRC, the Group contributes to state-sponsored retirement plan for its employees in PRC. The employees contribute up to 8% of their basic salaries, while the Group contributes to retirement plans approximately at 16% to 20% of the basic salaries of its employees in PRC and has no further obligations for the actual payment of pensions or post retirement benefits. The state-sponsored retirement plan are responsible for the entire pensions obligations payable to retired employees.

During the years ended 31 December 2022 and 2021, the Group has no forfeited contributions that were able to be utilised by the Group to reduce its contributions.

(d) Directors' retirement benefits and termination benefits

None of the directors received or will receive any retirement benefits and termination benefits during the year ended 31 December 2022 (2021: same).

(e) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2022, the Group did not pay any consideration to any third parties for making available directors, services (2021: same).

(f) Information about loans, quasi-loans and other dealings in favor of the directors, controlled bodies corporate by and connected entities with such directors

There were no loans, quasi-loans and other dealing arrangements in favor of directors, controlled bodies corporate by and connected entities with such directors during the year ended 31 December 2022 (2021: same).

9 Finance costs, net

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Finance income		
Interest income	**130**	54
Finance costs		
Interest expenses on borrowings	**(484)**	(652)
Interest expenses on bills arrangement	**–**	(69)
Interest elements of lease liabilities	**(12)**	–
Interest elements of provision for reclamation and mine closure	**(119)**	(113)
Finance costs, net	**(485)**	(780)

10 Income tax expense

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008 (the "**CIT Law**"), companies in the PRC are subject to income tax of 25% unless preferential rate is applicable. The Group's major operating subsidiary, Heilongjiang Baoquanling Agricultural Reclamation Yixiang New Energy Materials Co., Ltd. ("**Yixiang New Energy**") and Heilongjiang Baoquanling Agricultural Reclamation Yixiang Graphite Co., Ltd. ("**Yixiang Graphite**") are subject to a tax rate of 15% for the years ended 31 December 2022 and 2021 as they are eligible for the tax concession granted by the PRC government as a high-tech enterprise.

According to the Corporate Income Tax Law of the PRC, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profit earned after 1 January 2008. The Group did not recognise deferred income tax liabilities in respect of temporary differences relating to the withholding tax on the unremitted profits of subsidiaries that would be payable on the distribution of these retained profits. The Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future. Therefore, the related temporary difference will not be reversed and will not be taxable in the foreseeable future.

No Hong Kong profits tax has been provided for the years ended 31 December 2022 and 2021 since there was no tax assessable profit generated from Hong Kong. Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the regions/countries in which the Group operates.

10 Income tax expense *(Continued)*

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	Year ended 31 December	
	2022 **RMB'000**	2021 RMB'000
Current income tax		
— PRC corporate income tax	**15,632**	6,630
— Under-provision in prior years (Note)	**812**	–
Deferred income tax		
— Changes in temporary differences	**(1,478)**	1,133
— Impact of change in tax rate	**–**	(249)
Income tax expense	**14,966**	7,514

Note: The amount mainly represents the reversal of tax credits claimed during the years ended 31 December 2021, 2020 and 2019, in which such tax credits was disallowed by the PRC tax authority upon reassessment during the year ended 31 December 2022.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the domestic tax rate applicable to the profit or loss before income tax expense of the entities in the respective countries as follows:

	Year ended 31 December	
	2022 **RMB'000**	2021 RMB'000
Profit before income tax	**93,948**	60,839
Tax calculated at domestic tax rates applicable to the profit or loss in respective operations	**13,897**	9,004
Expenses not deductible for tax purposes	**2,166**	592
Income not subject to tax	**(102)**	–
Remeasurement of deferred tax — change in tax rate	**–**	(249)
Research and development tax credit	**(1,810)**	(1,939)
Under-provision in prior years	**812**	–
Tax losses for which no deferred tax asset has been recognised	**3**	106
Income tax expense	**14,966**	7,514

The weighted average applicable tax rate was 16% and 12% for the years ended 31 December 2022 and 2021, respectively.

11 Earnings per share

(a) Basic

In determining the weighted average number of ordinary shares in issue during the years ended 31 December 2022 and 2021, the capitalisation issue (Note 26(a)(i)) was deemed to be issued on 1 January 2021 as if the capitalisation has occurred by then.

	Year ended 31 December	
	2022	2021
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (in thousand)	**1,383,014**	1,200,000
Group's profit attributable to the owners of the Company (RMB'000)	**78,982**	53,325
Basic earnings per share (RMB cents)	**5.71**	4.44

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. For the year ended 31 December 2022, the Company has one category of potentially dilutive ordinary shares, over-allotment option. For the over-allotment option, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period). The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the over-allotment option. There was no such over-allotment option for the year ended 31 December 2021.

For the years ended 31 December 2022 and 2021, the calculation of diluted earnings per share was based on the profit attributable to the owners of the Company and the adjusted weighted average number of ordinary shares outstanding assuming the conversion of all potentially dilutive ordinary shares, which was calculated as follows:

11 Earnings per share *(Continued)*

(b) Diluted *(Continued)*

	Year ended 31 December	
	2022	2021
Group's profit attributable to the owners of the Company (RMB'000)	**78,982**	53,325
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (in thousand)	**1,383,014**	1,200,000
Adjustment for calculation of diluted earnings per share: Over-allotment option (in thousand)	**2,401**	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share (in thousand)	**1,385,415**	1,200,000
Diluted earnings per share (RMB cents)	**5.70**	4.44

12 Dividends

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Final proposed dividend of HK1.60 cents (equivalent to RMB1.40 cents) (2021: Nil) per ordinary share	**22,400**	–

On 23 March 2023, the directors of the Company proposed a final dividend for the year ended 31 December 2022 of HK1.60 cents (equivalent to RMB1.40 cents) per ordinary share totalling approximately HK$25,600,000 (equivalent to RMB22,400,000). The proposed dividend has not been reflected as dividend payable in the consolidated financial statements for the year ended 31 December 2022, but will be reflected as dividend distribution for the year ending 31 December 2023.

13 Property, plant and equipment

	Construction in progress RMB'000	Plant and buildings RMB'000	Mining structures RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Total RMB'000
As at 1 January 2021							
Cost	–	44,053	11,584	60,086	6,017	2,670	124,410
Accumulated depreciation	–	(14,588)	(215)	(33,098)	(2,771)	(1,874)	(52,546)
Net book amount	–	29,465	11,369	26,988	3,246	796	71,864
Year ended 31 December 2021							
Opening net book amount	–	29,465	11,369	26,988	3,246	796	71,864
Additions	13,021	7,873	856	5,220	371	106	27,447
Transfers	(10,850)	1,491	3,504	5,855	–	–	–
Disposals	–	–	–	–	(30)	–	(30)
Depreciation	–	(4,763)	(255)	(4,611)	(1,432)	(312)	(11,373)
Closing net book amount	2,171	34,066	15,474	33,452	2,155	590	87,908
As at 31 December 2021							
Cost	2,171	53,417	15,944	71,161	6,220	2,776	151,689
Accumulated depreciation	–	(19,351)	(470)	(37,709)	(4,065)	(2,186)	(63,781)
Net book amount	2,171	34,066	15,474	33,452	2,155	590	87,908
Year ended 31 December 2022							
Opening net book amount	**2,171**	**34,066**	**15,474**	**33,452**	**2,155**	**590**	**87,908**
Additions (Note)	**29,587**	**14,297**	**–**	**7,052**	**1,535**	**294**	**52,765**
Transfers	**(24,645)**	**–**	**8,948**	**15,317**	**–**	**380**	**–**
Disposals	**–**	**–**	**–**	**–**	**(19)**	**–**	**(19)**
Depreciation	**–**	**(9,057)**	**(853)**	**(5,676)**	**(1,740)**	**(311)**	**(17,637)**
Closing net book amount	**7,113**	**39,306**	**23,569**	**50,145**	**1,931**	**953**	**123,017**
As at 31 December 2022							
Cost	**7,113**	**67,714**	**24,892**	**93,530**	**7,736**	**3,450**	**204,435**
Accumulated depreciation	**–**	**(28,408)**	**(1,323)**	**(43,385)**	**(5,805)**	**(2,497)**	**(81,418)**
Net book amount	**7,113**	**39,306**	**23,569**	**50,145**	**1,931**	**953**	**123,017**

Note:

During the year ended 31 December 2022, right-of-use assets amounting to RMB2,705,000 were transferred to property, plant and equipment upon the Group obtained the ownership of machineries after the expiry of the lease.

13 Property, plant and equipment *(Continued)*

Depreciation expense has been recorded as below for the years ended 31 December 2022 and 2021.

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Cost of sales	**14,796**	9,477
General and administrative expenses	**1,392**	1,092
Research and development expenses	**365**	324
	16,553	10,893
Capitalised as mining structures	**1,084**	480
	17,637	11,373

No assets were pledged for security as at 31 December 2022 and 2021.

14 Leases

This note provides information for leases where the Group is a lessee.

(i) Amounts recognised in the consolidated statement of financial position

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Right-of-use assets		
Land use rights	**5,200**	5,703
Properties	**1,848**	1,525
Equipment	**–**	2,705
	7,048	9,933
Lease liabilities		
Current	**1,262**	1,143
Non-current	**170**	383
	1,432	1,526

Additions to the right-of-use assets for the years ended 31 December 2022 and 2021 were RMB543,000 and RMB3,232,000, respectively.

14 Leases *(Continued)*

(ii) Amounts recognised in the consolidated statement of comprehensive income

	Year ended 31 December	
	2022 **RMB'000**	2021 RMB'000
Depreciation charge of right-of-use assets		
Land-use rights	**503**	474
Properties	**233**	120
Equipment	**–**	313
	736	907
Interest expense (included in finance costs)	**12**	–
Expense relating to short-term leases (included in cost of sales and selling and distribution expenses)	**3,820**	760

The total cash outflow for leases during the years ended 31 December 2022 and 2021 were RMB4,482,000 and RMB4,611,000, respectively.

(iii) The Group's leasing activities

The Group leases offices, a warehouse and equipment. Rental contracts are typically made for fixed periods of 1 to 20 years. The Group held land-use rights which cover a period of 30 to 50 years. Payments associated with lease terms of 1 year or less are recognised on a straight-line basis as an expense in profit or loss.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

There is no extension option or termination option included in the leases of office and equipment of the Company.

15 Mining rights

	As at 31 December	
	2022 **RMB'000**	2021 RMB'000
Opening net carrying amount	**25,905**	27,013
Amortisation	**(1,842)**	(1,108)
Closing net carrying amount	**24,063**	25,905
Gross carrying amount	**29,663**	29,663
Accumulated amortisation	**(5,600)**	(3,758)
Net carrying amount	**24,063**	25,905

16 Financial instruments by category

The Group's financial instruments include the following:

	As at 31 December	
	2022 **RMB'000**	2021 RMB'000
Financial assets at amortised cost		
Trade and bills receivables	**202,105**	148,645
Deposits and other receivables	**217**	101
Short-term bank deposit	**26,537**	–
Cash and cash equivalents	**110,182**	33,934
	339,041	182,680

	As at 31 December	
	2022 **RMB'000**	2021 RMB'000
Financial liabilities at amortised cost		
Trade payables	**27,239**	18,608
Accruals and other payables	**13,171**	14,019
Amount due to a related party	**–**	73,127
Borrowings	**10,000**	10,000
Lease liabilities	**1,432**	1,526
	51,842	117,280

17 Inventories

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Raw materials	**8,384**	6,820
Work in progress	**1,512**	5,739
Finished goods	**9,329**	6,315
	19,225	18,874
Provision for inventories	**(183)**	–
Total	**19,042**	18,874

The cost of inventories recognised as expenses and included in cost of sales in the consolidated statement of comprehensive income for the years ended 31 December 2022 and 2021 were RMB56,297,000 and RMB51,660,000, respectively.

Provision for impairment of inventories amounted to RMB183,000 (2021: reversal of impairment of inventories amounted to RMB306,000) arising from a decrease (2021: increase) in net realisable value was included in cost of sales in the consolidated statement of comprehensive income.

18 Trade and bills receivables

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade receivables	**95,252**	55,539
Bills receivables	**113,557**	98,225
Trade and bills receivables	**208,809**	153,764
Less: loss allowance	**(6,704)**	(5,119)
Total	**202,105**	148,645

The Group's credit terms granted to third-party customers mainly range from 30 to 90 days.

18 Trade and bills receivables *(Continued)*

As at 31 December 2022 and 2021, the ageing analysis of the third-party trade receivables, based on invoice date, are as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Up to 90 days	**83,978**	36,622
91–180 days	**4,052**	11,247
181–270 days	**1,293**	2,442
271–365 days	**397**	2
Over 1 year	**5,532**	5,226
	95,252	55,539

Movements in the loss allowance of trade receivables are as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
At the beginning of the year	**5,119**	3,656
Provision for impairment of trade receivables	**1,585**	1,463
	6,704	5,119

The creation and release of provision for impaired receivables have been included in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. The maximum exposure to credit risk at the reporting date is the carrying values of trade and bills receivables disclosed above. The Group did not hold any collateral as security.

The Group's bills receivables generally have maturity period of 6 to 12 months. As at 31 December 2022 and 2021, the ageing analysis of the bills receivables, based on the bills receiving date, are as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Up to 90 days	**49,622**	56,116
91–180 days	**62,585**	39,752
181–270 days	**1,250**	2,257
271–365 days	**100**	100
	113,557	98,225

18 Trade and bills receivables *(Continued)*

The Group endorsed certain of its bills receivables with full recourse to the creditors. In the event of default by the debtors, the Group is obliged to pay the creditors the amount in default. The Group is therefore exposed to the risks of credit losses and late payment in respect of its endorsed bills receivables.

The endorsement transactions do not meet the requirements for derecognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the endorsed bills receivables. As at 31 December 2022 and 2021, bills receivables and the corresponding trade and other payables of RMB15,256,000 and RMB16,404,000 continue to be recognised in the Group's consolidated financial statements although they have been legally transferred to the creditors. The proceeds of the endorsement transactions are included in trade and other payables until the related bills receivables are collected or the Group settles any losses suffered by the creditors. As these bills receivables have been legally transferred to the creditors, the Group does not have the authority to determine the disposition of the bills receivables.

The carrying amounts of trade and bills receivables are denominated in RMB.

19 Deposits, prepayments and other receivables

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Deposits	**111**	20
Prepaid listing expenses	**–**	905
Deferred listing expenses	**–**	4,679
Prepayments for property, plant and equipment	**8,518**	162
Prepayments for raw materials	**972**	1,848
Prepayments for leased land	**7,736**	876
Other receivables	**106**	81
	17,443	8,571
Less: non-current portion	**(16,345)**	(1,038)
Current portion	**1,098**	7,533

As at 31 December 2022 and 2021, the carrying amounts of deposits, prepayments and other receivables approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
RMB	**17,352**	5,457
HK$	**91**	3,088
United Stated dollars ("**US$**")	**–**	26
	17,443	8,571

20 Short-term bank deposit

As at 31 December 2022, short-term bank deposit of HK$30,000,000 (equivalent to approximately RMB26,537,000) is denominated in HK$ with original maturity of 180 days. The effective interest rate of such bank deposit is 2.80% per annum. The Group had no short-term bank deposit as at 31 December 2021.

21 Cash and cash equivalents

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Cash at banks	**110,179**	33,930
Cash on hand	**3**	4
	110,182	33,934
Maximum exposure to credit risk	**110,179**	33,930

As at 31 December 2022 and 2021, the Group's cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
RMB	**51,684**	33,934
HK$	**58,498**	–
	110,182	33,934

As at 31 December 2022 and 2021, cash and cash equivalents of approximately RMB51,681,000 and RMB33,930,000, respectively, of the Group were denominated in RMB and deposited with banks in the PRC. The conversion of the RMB denominated balance into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31 December 2022 and 2021, cash and cash equivalents of approximately RMB596,000 and RMB594,000, respectively, were deposited with a bank in the PRC for mine and land reclamation purpose. The withdrawal of funds from the account is subject to the approval of the local authority. The approval procedures are administrative and the Group expected it would take a short period of time to make the funds readily available to meet its cash commitments.

22 Trade payables

Trade payables at the end of each reporting period comprise amounts outstanding to contract creditors and suppliers. The credit period taken for trade purchase is generally 0 to 180 days. The ageing analysis of the trade payables, based on invoice date, are as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Up to 90 days	**23,303**	13,596
91–180 days	**3,674**	3,385
181–365 days	**200**	1,589
Over 1 year	**62**	38
	27,239	18,608

As at 31 December 2022 and 2021, the carrying amounts of trade payables are denominated in RMB and approximate their fair values.

23 Accruals and other payables

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Accrued staff expense	**3,857**	1,633
Accrued construction cost	**9,703**	8,151
Other tax payable	**7,824**	2,846
Accrued listing expenses	**915**	3,204
Others	**2,553**	2,664
	24,852	18,498

As at 31 December 2022 and 2021, the carrying amounts of accruals and other payables approximate their fair values and are denominated in the following currencies:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
RMB	**23,084**	16,400
HK$	**1,768**	2,050
US$	**–**	48
	24,852	18,498

24 Borrowings

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Bank borrowings		
— Bank loans	**10,000**	10,000

The Group's bank borrowings are repayable based on the scheduled repayment dates as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Within 1 year	**10,000**	10,000

The weighted effective interest rates as at 31 December 2022 and 2021 were follows:

	As at 31 December	
	2022	2021
Bank borrowings		
— Bank loans	**4.70%**	4.85%

As at 31 December 2022 and 2021, bank loans of RMB10,000,000 were secured by the guarantee provided by an independent third party.

There were no financial covenants attached to the Group's borrowings facilities as at 31 December 2022 and 2021.

The carrying amounts of bank and other borrowings are denominated in RMB. The Group had no unused facilities as at 31 December 2022.

As at 31 December 2021, the Group had another bank facility which was obtained on 3 August 2021, pursuant to which a facility of RMB20,000,000 was granted to the Group for 1 year from the date of the facility letter, with terms and conditions being negotiated and agreed with the bank from time to time upon drawdown. No draw down was made by the Group. Such bank facility expired on 2 August 2022.

25 Deferred income tax

As at 31 December 2022 and 2021, deferred income tax is calculated in full on temporary differences under the liability method using a principal tax rate of 16.5% for Hong Kong and 15% for the PRC.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2022 **RMB'000**	2021 RMB'000
Deferred income tax assets	**1,156**	271
Deferred income tax liabilities	**(1,245)**	(1,838)
	(89)	(1,567)

The analysis of deferred tax assets and liabilities without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

	As at 31 December	
	2022 **RMB'000**	2021 RMB'000
Deferred income tax assets (to be recovered within 12 months)	**760**	421
Deferred income tax assets (to be recovered after more than 12 months)	**1,005**	767
Deferred income tax liabilities (to be settled after more than 12 months)	**(1,854)**	(2,755)
Total	**(89)**	(1,567)

25 Deferred income tax *(Continued)*

The movement in gross deferred income tax assets and liabilities during the years ended 31 December 2022 and 2021, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	Provision for impairment of trade receivables RMB'000	**Unrealised profits** RMB'000	**Others** RMB'000	**Total** RMB'000
At 1 January 2021	909	779	417	2,105
Charged to the consolidated statement of comprehensive income	(142)	(508)	(267)	(917)
At 31 December 2021 and 1 January 2022	**767**	**271**	**150**	**1,188**
Credited to the consolidated statement of comprehensive income	**238**	**100**	**239**	**577**
At 31 December 2022	**1,005**	**371**	**389**	**1,765**

Deferred income tax liabilities

	Accelerated tax depreciation RMB'000
At 1 January 2021	2,788
Credited to the consolidated statement of comprehensive income	(33)
At 31 December 2021 and 1 January 2022	**2,755**
Credited to the consolidated statement of comprehensive income	**(901)**
At 31 December 2022	**1,854**

As at 31 December 2022, the Group's subsidiaries in the PRC has unremitted earnings of RMB272,576,000 (2021: RMB194,206,000). The Group did not recognise deferred income tax liabilities in respect of temporary differences relating to the withholding tax on the unremitted profits of subsidiaries that would be payable on the distribution of these retained profits, as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future. Therefore, the related temporary difference will not be reversed and will not be taxable in the foreseeable future.

26 Share capital and reserves

(a) Share capital

	Number of shares	HK$'000
Authorised share capital		
At 1 January 2021, 31 December 2021 and 1 January 2022	380,000,000	380
Changes	1,620,000,000	1,620
At 31 December 2022	2,000,000,000	2,000

	Number of shares	HK$'000	RMB'000
Issued and fully paid share capital			
At 1 January 2021, 31 December 2021 and 1 January 2022	–	–	–
Initial share issued upon incorporation	1	–*	–*
Shares issued pursuant to the loan consideration capitalisation	1	–*	–*
Shares issued pursuant to the capitalisation (Note (i))	1,199,999,998	1,200	1,031
Shares issued under the global offering (Note (ii))	400,000,000	400	344
At 31 December 2022	1,600,000,000	1,600	1,375

Note*: Less than RMB1,000 and rounded as nil.

The Company was incorporated on 3 August 2020 with an authorised share capital of HK$380,000, divided into 380,000,000 shares of HK$0.001 each.

Pursuant to the written resolutions of the shareholder dated 21 June 2022, the authorised share capital of the Company was increased from HK$380,000 divided into 380,000,000 shares at par value of HK$0.001 each to HK$2,000,000 divided into 2,000,000,000 shares at par value HK$0.001 each by the creation of 1,620,000,000 additional shares at par value of HK$0.001 each.

26 Share capital and reserves *(Continued)*

(a) Share capital *(Continued)*

(i) Capitalisation issue

On 18 July 2022, the capitalisation issue pursuant to the shareholder's written resolution dated 21 June 2022 and conditional on the share premium account of the Company being credited as a result of issue of new shares pursuant to the proposed offering of the shares was effective. The Company issued additional 1,199,999,998 shares and settled the amount due to Mr. Zhao Liang amounting to approximately RMB73,127,000 (Note 27(a)), by way of capitalisation of approximately HK$1,200,000 (equivalent to approximately RMB1,031,000) crediting to the Company's share capital account and an amount of approximately HK$83,929,000 (equivalent to RMB72,096,000) standing to the credit of the Company's share premium account.

(ii) Global offering

On 18 July 2022, the Company issued 400,000,000 ordinary shares at a price of HK$0.325 per share with the total gross amount of HK$130,000,000 (equivalent to approximately RMB111,677,000 in which approximately RMB344,000 and RMB111,333,000 credited to the Company's share capital and share premium account, respectively) raised as a result of the completion of the global offering. Share issuance costs, including share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs that are directly attributable to the global offering, were incurred, by way of capitalisation of approximately RMB15,269,000 (Note26(b)) to the Company's share premium account.

Number of total issued shares of the Company was increased to 1,600,000,000 shares upon completion of the capitalisation issue and the global offering.

(b) Reserves

	Share premium (Note (i)) RMB'000	Statutory reserve (Note (ii)) RMB'000	Capital reserve (Note (iii)) RMB'000	Other reserve (Note (iv)) RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2021	158,693	4,780	(148,670)	421	133,449	148,673
Comprehensive income						
Profit for the year	–	–	–	–	53,325	53,325
Total comprehensive income	–	–	–	–	53,325	53,325
Transactions with owners						
Appropriation to statutory reserve	–	483	–	–	(483)	–
Appropriation to other reserve	–	–	–	517	(517)	–
	–	483	–	517	(1,000)	–
At 31 December 2021	158,693	5,263	(148,670)	938	185,774	201,998

26 Share capital and reserves *(Continued)*

(b) Reserves *(Continued)*

	Share premium (Note (i)) RMB'000	Statutory reserve (Note (ii)) RMB'000	Capital reserve (Note (iii)) RMB'000	Other reserve (Note (iv)) RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2022	158,693	5,263	(148,670)	938	185,774	201,998
Comprehensive income						
Profit for the year	–	–	–	–	78,982	78,982
Total comprehensive income	–	–	–	–	78,982	78,982
Transactions with owners						
Shares issued pursuant to the capitalisation issue	72,096	–	–	–	–	72,096
Shares issued under the global offering	111,333	–	–	–	–	111,333
Share issuance costs (Note (v))	(15,269)	–	–	–	–	(15,269)
Appropriation to statutory reserve	–	9,930	–	–	(9,930)	–
Appropriation to other reserve	–	–	–	2,313	(2,313)	–
	168,160	9,930	–	2,313	(12,243)	168,160
At 31 December 2022	326,853	15,193	(148,670)	3,251	252,513	449,140

Notes:

(i) Share premium represents the difference between the net asset value of the subsidiaries and the nominal value of Company's shares issued in exchange for the acquisition of Yixiang Graphite and Yixiang New Energy pursuant to the reorganisation of the Group completed on 28 December 2020 (the "**Reorganisation**"), and the excess of proceeds over the par value arising from the capitalisation issue and the global offering on 18 July 2022, net of share issuance costs.

(ii) In accordance with the relevant laws and regulations of the PRC, the PRC subsidiaries are required to appropriate 10% of its profit after tax, prepared in accordance with the accounting regulation in the PRC, to the statutory reserve fund until the statutory reserve balance reaches 50% of the registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

(iii) Capital reserve represents the combined share capital of the subsidiaries comprising the Group before the completion of the Reorganisation, and contributed surplus after the completion of Reorganisation.

(iv) Pursuant to the relevant PRC regulations, the Group is required to transfer safety fund at fixed rates based on the production volume, to a specific reserve account. The fund could be utilised when expenses or capital expenditures on safety measures are incurred. The amount of safety fund utilised would be transferred from the specific reserve account to retained earnings.

(v) Share issuance costs mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs that are directly attributable to the global offering on 18 July 2022.

27 Related party transactions

(a) Balances with related parties

Parties are considered to be related to the Group if the party has the ability, directly or indirectly, to exercise significant influence over the Group in making financial and operating decisions. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities that are controlled or jointly controlled by a person who is a related party of the Group. Parties are also considered to be related if they are subject to common control.

The directors are of the view that the following individuals were related parties that had transactions or balances with the Group during the years ended 31 December 2022 and 2021:

Name	Relationship with the Group
Mr. Zhao Liang	Shareholder and executive director
Mr. Zhao Changshan	Former shareholder and close family member of Mr. Zhao Liang
Mr. Zhao Changhai	Close family member of Mr. Zhao Liang
Ms. Zhang Yuqin	Close family member of Mr. Zhao Liang
Ms. Sun Yao	Close family member of Mr. Zhao Liang

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Non-trade balances		
Amount due to a shareholder		
— Mr. Zhao Liang	–	73,127

The amount due to Mr. Zhao Liang amounted to RMB73,127,000 as at 31 December 2021 was settled by way of capitalisation, and took place immediately prior to the global offering on the listing date (Note 26(a)(i)).

27 Related party transactions *(Continued)*

(b) Transactions with related parties

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Employee benefit expenses received as employees of the Group		
Mr. Zhao Changshan	**720**	720
Mr. Zhao Changhai	**161**	129
Ms. Zhang Yuqin	**720**	720
Ms. Sun Yao	**756**	756

Terms of employment are determined and agreed between the relevant parties.

(c) Key management personnel compensation

Key management includes directors and the senior management of the Group. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Wages, salaries, bonuses and allowances	**5,765**	2,448
Pension costs — defined contribution plans	**15**	12
	5,780	2,460

28 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit before income tax to cash generated from operations:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Cash flows from operating activities		
Profit before income tax	**93,948**	60,839
Adjustments for:		
Depreciation of property, plant and equipment	**16,553**	10,893
Depreciation of right-of-use assets	**736**	907
Amortisation of mining rights	**1,842**	1,108
Amortisation of other intangible assets	**18**	20
Gains on disposal of property, plant and equipment	**(89)**	(12)
Exchange gains	**(2,476)**	–
Provision for impairment of financial assets	**1,585**	1,463
Provision for/(reversal of) impairment of inventories	**183**	(306)
Finance costs	**615**	834
Finance income	**(130)**	(54)
Operating profit before working capital changes	**112,785**	75,692
Changes in working capital		
Trade and bills receivables	**(55,045)**	10,755
Deposits, prepayments and other receivables	**1,237**	(1,156)
Inventories	**(351)**	7,424
Trade payables	**8,631**	(2,357)
Accruals and other payables	**19,656**	(1,655)
Contract liabilities	**(3,111)**	(4,448)
Net cash generated from operations	**83,802**	84,255

(b) In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Net book amount	**19**	30
Gains on disposal of property, plant and equipment	**89**	12
Proceeds from disposal of property, plant and equipment	**108**	42

28 Notes to the consolidated statement of cash flows *(Continued)*

(c) The reconciliation of liabilities arising from financing activities

	Borrowings RMB'000	Amount due to a related party RMB'000	Leases liabilities RMB'000	Total RMB'000
At 1 January 2021	18,500	82,749	2,145	103,394
Proceeds from bank borrowings	3,000	–	–	3,000
Repayments of bank borrowings	(11,500)	–	–	(11,500)
Advances from related parties	–	1,351	–	1,351
Repayments to related parties	–	(6,032)	–	(6,032)
Acquisition of non-controlling interests pursuant to Reorganisation	–	(4,941)	–	(4,941)
Repayments of principal elements of lease liabilities	–	–	(1,120)	(1,120)
Interest paid	(721)	–	–	(721)
Non-cash items				
Interest expense	721	–	–	721
Addition — leases	–	–	501	501
At 31 December 2021 and 1 January 2022	**10,000**	**73,127**	**1,526**	**84,653**
Repayments of principal elements of lease liabilities	**–**	**–**	**(650)**	**(650)**
Interest paid	**(484)**	**–**	**(12)**	**(496)**
Non-cash items				
Interest expense	**484**	**–**	**12**	**496**
Addition — leases	**–**	**–**	**543**	**543**
Exchange difference	**–**	**–**	**13**	**13**
Shares issued pursuant to the capitalisation issue (Note 26(a)(i))	**–**	**(73,127)**	**–**	**(73,127)**
At 31 December 2022	**10,000**	**–**	**1,432**	**11,432**

Major non-cash transaction:

During the year ended 31 December 2022, right-of-use assets amounting to RMB2,705,000 were transferred to property, plant and equipment upon the Group obtained the ownership of machineries after the expiry of the lease.

29 Subsidiaries

The following is a list of principal subsidiaries as at 31 December 2022 and 2021:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued and paid up/registered capital	Ownership interest held by the group	
				2022	2021
Directly held:					
Noah Energy Limited	The British Virgin Islands, limited liability	Investment holding in Hong Kong	US$50,000 (50,000 ordinary shares)	**100%**	100%
Indirectly held:					
China Graphite Holdings Group (HK) Limited	Hong Kong, limited liability	Investment holding in Hong Kong	HK$10,000 (10,000 ordinary shares)	**100%**	100%
Beijing Yixiang Olefinic Carbon Technology Co., Ltd.*	The PRC, limited liability	Investment holding in the PRC	Registered capital of RMB10,000,000	**100%**	100%
Heilongjiang Baoquanling Agricultural Reclamation Yixiang Graphite Co., Ltd.*	The PRC, limited liability	Manufacturing and sale of graphite products in the PRC	Registered capital of RMB5,263,158	**100%**	100%
Heilongjiang Baoquanling Agricultural Reclamation Yixiang New Energy Materials Co., Ltd.*	The PRC, limited liability	Manufacturing and sale of graphite products in the PRC	Registered capital of RMB5,263,158	**100%**	100%

* English translation is for identification purpose only. The English names of the group companies incorporated in the PRC represent the best effort by the management of the Group in translating its Chinese name as they do not have official English names.

30 Commitments

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Commitments for the		
— Purchase of machinery and equipment	**523**	–

31 Contingencies

The Group did not have any material contingent liabilities as at 31 December 2022 and 2021.

32 Subsequent events

Save as disclosed above, there are no important subsequent events affecting the Company and its subsidiaries since 31 December 2022 and up to the date of this report.

33 Statement of financial position and reserve movement of the Company

(a) Statement of financial position of the Company

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Assets		
Non-current assets		
Right-of-use assets	**443**	–
Investment in a subsidiary	**159,038**	159,038
Deposit	**91**	–
	159,572	159,038
Current assets		
Prepaid listing expenses	**–**	5,584
Amounts due from subsidiaries	**66,610**	–
Short-term bank deposit	**26,537**	–
Cash and cash equivalents	**58,498**	–
	151,645	5,584
Total assets	**311,217**	164,622
Equity		
Equity attributable to owners of the Company		
Share capital	**1,375**	–*
Share premium (Note (b))	**326,853**	158,693
Other reserves (Note (b))	**(29,709)**	(15,655)
Total equity	**298,519**	143,038

Note*: Less than RMB1,000 and rounded as nil.

33 Statement of financial position and reserve movement of the Company *(Continued)*

(a) Statement of financial position of the Company *(Continued)*

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Liabilities		
Non-current liability		
Lease liabilities	**170**	–
Current liabilities		
Accrued expenses	**4,088**	3,879
Amounts due to subsidiaries	**8,161**	12,371
Amount due to a shareholder	**–**	5,334
Lease liabilities	**279**	–
	12,528	21,584
Total liabilities	**12,698**	21,584
Total equity and liabilities	**311,217**	164,622

Signed on behalf of the Board of Directors on 23 March 2023 by

………………………………..
Zhao Liang
Director

………………………………..
Lei Wai Hoi
Director

33 Statement of financial position and reserve movement of the Company *(Continued)*

(b) Reserve movement of the Company

	Share premium RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2021	158,693	(8,011)	150,682
Comprehensive loss			
Loss for the year	–	(7,644)	(7,644)
Total comprehensive loss	–	(7,644)	(7,644)
Balance at 31 December 2021	158,693	(15,655)	143,038
Balance at 1 January 2022	158,693	(15,655)	143,038
Comprehensive loss			
Loss for the year	–	(14,054)	(14,054)
Total comprehensive loss	–	(14,054)	(14,054)
Transactions with owners			
Shares issued pursuant to the capitalisation issue	72,096	–	72,096
Shares issued under the global offering	111,333	–	111,333
Share issuance costs	(15,269)	–	(15,269)
	168,160	–	168,160
Balance at 31 December 2022	326,853	(29,709)	297,144

FINANCIAL SUMMARY

Consolidated Results

	Year ended 31 December			
	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**273,595**	198,365	168,749	123,736
Gross Profit	**135,897**	93,043	83,247	59,427
Profit before income tax	**93,948**	60,839	48,445	31,723
Income tax expense	**(14,966)**	(7,514)	(10,586)	(7,174)
Profit for the year	**78,982**	53,325	37,859	24,549

Consolidated Assets and Liabilities

	As at 31 December			
	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Total non-current assets	**171,785**	125,090	107,563	92,515
Total current assets	**358,964**	208,986	201,428	151,096
Total assets	**530,749**	334,076	308,991	243,611
Liabilities				
Total non-current liabilities	**3,961**	4,648	4,752	4,886
Total current liabilities	**76,273**	127,430	155,566	127,934
Total liabilities	**80,234**	132,078	160,318	132,820
Net assets	**450,515**	201,998	148,673	110,791
Equity	**450,515**	201,998	148,673	110,791