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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

The board (the “**Board**”) of directors (the “**Directors**”) of China Graphite Group Limited (the “**Company**”) is pleased to announce the interim condensed consolidated results of the Company and its subsidiaries for the six months ended June 30, 2022. This announcement, containing the full text of the 2022 interim report of the Company, complies with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcement of interim results. Printed version of the 2022 interim report of the Company will be dispatched to the shareholders of the Company in due course.

The Company’s 2022 interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company’s website at www.chinagraphite.com.hk.

By Order of the Board

China Graphite Group Limited

Zhao Liang

Chairman, executive Director and chief executive officer

Heilongjiang, the PRC, August 29, 2022

As at the date of this announcement, the Board comprises Mr. Zhao Liang (chairman and chief executive director) and Mr. Lei Wai Hoi as executive Directors; Mr. Chiu G Kiu Bernard, Mr. Shen Shifu, Mr. Liu Zezheng and Ms. Zhao Jingran as independent non-executive Directors.

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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

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COMPANY WEBSITE

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PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor
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Central, Hong Kong

COMPLIANCE ADVISER

Lego Corporate Finance Limited
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LEGAL ADVISER

Tian Yuan Law Firm LLP
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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
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

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

STOCK CODE

2237

FINANCIAL HIGHLIGHTS

- The overall business maintained a growth momentum. Revenue amounted to approximately RMB93.6 million for the six months ended June 30, 2022 compared to approximately RMB82.5 million for the corresponding period in 2021, up by approximately 13.5% period-on-period;
- Revenue from the sale of spherical graphite and its by-products amounted to approximately RMB61.3 million for the six months ended June 30, 2022 compared to approximately RMB48.1 million for the corresponding period in 2021, up by approximately 27.4% period-on-period;
- Adjusted net profit after tax excluding the non-recurring listing expense of approximately RMB8.5 million (June 30, 2021: approximately RMB4.0 million) and government grant of approximately RMB0.1 million (June 30, 2021: approximately RMB6.1 million) amounted to approximately RMB21.6 million for the six months ended June 30, 2022 compared to approximately RMB18.0 million for the corresponding period in 2021, up by approximately 20.0% period-on-period. Adjusted net profit margin increased to approximately 23.1% for the six months ended June 30, 2022 from approximately 21.8% for the corresponding period in 2021;
- Cash and cash equivalents increased to approximately RMB65.9 million as at June 30, 2022 from approximately RMB33.9 million as at December 31, 2021; and
- It is believed that with the increasing production of graphite products and increasing extraction of unprocessed graphite ore from our Beishan Mine in the second half of 2022, we will maintain a positive momentum in our business growth.

DEFINITIONS

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

“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
“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 interim report refer to code provisions in the CG Code that came into effect on January 1, 2022
“China” or “PRC”	the People’s Republic of China, but for the purpose of this interim 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 August 3, 2020, the Shares of which are listed on the Stock Exchange (stock code: 2237)
“Director(s)”	the director(s) of our Company
“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

“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date, July 18, 2022, on which dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“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 the controlling shareholder 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 June 30, 2022
“Reporting Period”	for the six months ended June 30, 2022
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) Ordinance
“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 June 21, 2022, the principal terms of which are summarized in “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix VI to this prospectus
“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 June 26, 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 April 20, 2011 and is the Company’s indirect wholly-owned subsidiary
“%”	per cent

The English names of PRC entities referred to in this interim 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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of China Graphite Group Limited

(incorporated in the Cayman Islands with limited liability)



羅兵咸永道

INTRODUCTION

We have reviewed the interim financial information set out on pages 9 to 41, which comprises the interim condensed consolidated statement of financial position of China Graphite Group Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) as at 30 June 2022 and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



羅兵咸永道

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

OTHER MATTER

The comparative information for the interim condensed consolidated statement of financial position is based on the audited financial statements as at 31 December 2021. The comparative information for the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated statement of cash flows and related explanatory notes, for the six months ended 30 June 2021 has not been audited or reviewed.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2022

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	6	93,552	82,513
Cost of sales	8	(52,290)	(47,069)
Gross profit		41,262	35,444
Other income	7	123	6,089
Selling and distribution expenses	8	(3,271)	(3,856)
General and administrative expenses	8	(15,062)	(8,791)
Research and development expenses	8	(4,509)	(2,882)
(Provision for)/reversal of impairment of financial assets	17	(481)	444
Operating profit		18,062	26,448
Finance income	9	76	14
Finance costs	9	(304)	(442)
Finance costs, net		(228)	(428)
Profit before income tax		17,834	26,020
Income tax expense	10	(4,585)	(5,873)
Profit and total comprehensive income for the period		13,249	20,147
Profit and total comprehensive income attributable to owner of the Company		13,249	20,147
Earnings per share for profit attributable to owner of the Company			
— Basic and diluted	11	RMB1.10 cents	RMB1.68 cents

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Notes	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment	13	105,524	87,908
Right-of-use assets	14	9,406	9,933
Mining rights	15	24,776	25,905
Other intangible assets		58	35
Deferred income tax assets		614	271
Prepayments	18	8,923	1,038
		149,301	125,090
Current assets			
Inventories	16	28,291	18,874
Trade and bills receivables	17	101,312	148,645
Deposits, prepayments and other receivables	18	11,218	7,533
Cash and cash equivalents	19	65,922	33,934
		206,743	208,986
Total assets		356,044	334,076
Equity			
Capital and reserves attributable to owner of the Company			
Share capital (Note)	23(a)	–	–
Share premium	23(b)	158,693	158,693
Other reserves	23(b)	(142,295)	(142,469)
Retained earnings	23(b)	198,849	185,774
Total equity		215,247	201,998

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

	<i>Notes</i>	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Lease liabilities	14	108	383
Provision for reclamation and mine closure		2,486	2,427
Deferred income tax liabilities		1,526	1,838
		4,120	4,648
Current liabilities			
Trade payables	20	16,588	18,608
Accruals and other payables	21	29,269	18,498
Amount due to a related party	24(a)	73,127	73,127
Borrowings	22	10,000	10,000
Contract liabilities	6(f)	1,856	5,310
Lease liabilities	14	1,011	1,143
Current tax liabilities		4,826	744
		136,677	127,430
Total liabilities		140,797	132,078
Total equity and liabilities		356,044	334,076

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Share capital	Share premium	Statutory reserve	Other reserves	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2022 (Unaudited)						
Balance at 1 January 2022	–	158,693	5,263	(147,732)	185,774	201,998
Comprehensive income						
Profit for the period	–	–	–	–	13,249	13,249
Total comprehensive income	–	–	–	–	13,249	13,249
Transaction with owner						
Appropriation to other reserve	–	–	–	174	(174)	–
	–	–	–	174	(174)	–
Balance at 30 June 2022	–	158,693	5,263	(147,558)	198,849	215,247
Six months ended 30 June 2021 (Unaudited)						
Balance at 1 January 2021	–	158,693	4,780	(148,249)	133,449	148,673
Comprehensive income						
Profit for the period	–	–	–	–	20,147	20,147
Total comprehensive income	–	–	–	–	20,147	20,147
Transaction with owner						
Appropriation to other reserve	–	–	–	236	(236)	–
	–	–	–	236	(236)	–
Balance at 30 June 2021	–	158,693	4,780	(148,013)	153,360	168,820

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flow from operating activities		
Cash generated from operations	68,598	48,339
Income tax paid	(1,158)	(4,536)
Net cash generated from operating activities	67,440	43,803
Cash flows from investing activities		
Purchase of property, plant and equipment	(33,999)	(14,465)
Purchase of land use rights	(82)	(2,731)
Purchase of intangible assets	(27)	–
Interest received	76	14
Net cash used in investing activities	(34,032)	(17,182)
Cash flows from financing activities		
Proceeds from bank and other borrowings	–	3,000
Repayments of bank and other borrowings	–	(7,500)
Interest paid	(245)	(385)
Repayments of principal elements of lease liabilities	(407)	(712)
Payment of listing expenses	(768)	(938)
Advances from related parties	–	1,351
Repayments to related parties	–	(6,032)
Acquisition of non-controlling interests pursuant to reorganisation	–	(4,941)
Net cash used in financing activities	(1,420)	(16,157)
Net increase in cash and cash equivalents	31,988	10,464
Cash and cash equivalents at the beginning of the period	33,934	10,007
Cash and cash equivalents at end of the period	65,922	20,471

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 (“**Mr. Zhao**”).

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.

This interim condensed consolidated financial information is presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (RMB’000), unless otherwise stated, and was approved for issue by the Board of Directors on 29 August 2022.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PRESENTATION

This interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). This interim condensed consolidated financial information does not include all the notes of the type normally included in the annual financial report, accordingly, it should be read in conjunction with the accountant’s report (“**Accountant’s Report**”) set out in Appendix I to the prospectus of the Company dated 30 June 2022 (the “**Prospectus**”), which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”), and any public announcements made by the Company during the period.

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those described in the Accountant’s Report set out in Appendix I to the Prospectus, except for the adoption of new and amended standards as set out below.

(i) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The adoption of these standards did not have any significant financial impact to the interim condensed consolidated financial information.

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

(ii) 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 HKAS 1	Classification of Liabilities as Current or Non-Current	1 January 2023
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts	1 January 2023
Amendments to 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 2023
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
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 standard, amendments to existing standards and interpretation.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing this interim condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty are consistent with those used in the Accountant's Report.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial information as set out in the Accountant's Report.

There have been no changes in the risk management policies since 31 December 2021.

5.2 Fair value estimation

The carrying values less loss allowance for trade and bills receivables, deposits, other receivables 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.

5.3 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 owner to procure adequate financial resources from the owner. There have been no changes in the capital risk management policies since 31 December 2021.

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

The capital structure of the Group consists of shareholder's equity and total borrowings. Capital is managed so as to maximise the return to shareholder 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 amounts due to related parties as shown in the statement of financial position and excluding lease liabilities) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the interim condensed consolidated statement of financial position plus net debt.

The debt-to-capital ratios as at 30 June 2022 and 31 December 2021 were as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Total borrowings		
— Borrowings	10,000	10,000
— Amount due to a related party	73,127	73,127
Less: Cash and cash equivalents	(65,922)	(33,934)
Net debt	17,205	49,193
Total equity	215,247	201,998
Total capital	232,452	251,191
Debt-to-capital ratio	7.4%	19.6%

6 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, finance costs, net, amortisation of land-use rights 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 land-use rights 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.

- (a) The segment information provided to the executive directors for the reportable segments for the six months ended 30 June 2022 is as follows:

	Sale of flake graphite concentrate RMB'000 (Unaudited)	Sale of spherical graphite and its by products, and unprocessed marble RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue	53,539	62,869	116,408
Inter-segment revenue	(22,856)	–	(22,856)
Revenue from external customers	30,683	62,869	93,552
Segment results	18,624	11,575	30,199
Elimination of inter-segment profit			(1,317)
Unallocated amounts:			
Other income			123
Depreciation of right-of-use assets			(32)
Corporate expenses			(2,405)
Listing expenses			(8,506)
Finance costs, net			(228)
Profit before income tax			17,834
Income tax expense			(4,585)
Profit for the period			13,249
Depreciation of property, plant and equipment	(3,625)	(2,246)	(5,871)
Depreciation of right-of-use assets	(136)	(441)	(577)
Amortisation of mining rights	–	(1,129)	(1,129)
Provision for impairment of financial assets	(410)	(71)	(481)
Capital expenditures	16,605	7,140	23,745

- (b) Reportable segment assets and liabilities are reconciled to total assets and total liabilities of the Group as at 30 June 2022 as follows:

	Sale of flake graphite concentrate RMB'000 (Unaudited)	Sale of spherical graphite and its by products, and unprocessed marble RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Assets			
Reportable segment assets	143,937	204,871	348,808
Inter-segment elimination			(3,009)
Unallocated assets			10,245
Total assets per interim condensed consolidated statement of financial position			356,044
Liabilities			
Reportable segment liabilities	17,624	22,392	40,016
Unallocated liabilities			100,781
Total liabilities per interim condensed consolidated statement of financial position			140,797

- (c) The segment information provided to the executive directors for the reportable segments for the six months ended 30 June 2021 is as follows:

	Sale of flake graphite concentrate RMB'000 (Unaudited)	Sale of spherical graphite and its by products, and unprocessed marble RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue	47,053	52,672	99,725
Inter-segment revenue	(14,184)	(3,028)	(17,212)
Revenue from external customers	32,869	49,644	82,513
Segment results	16,013	7,897	23,910
Elimination of inter-segment loss			2,559
Unallocated amounts:			
Other income			6,089
Depreciation of right-of-use assets			(32)
Corporate expenses			(2,029)
Listing expenses			(4,049)
Finance costs, net			(428)
Profit before income tax			26,020
Income tax expense			(5,873)
Profit for the period			20,147
Depreciation of property, plant and equipment	(2,003)	(2,348)	(4,351)
Depreciation of right-of-use assets	(107)	(300)	(407)
Amortisation of mining rights	–	(608)	(608)
Reversal of/(provision for) impairment of financial assets	445	(1)	444
Capital expenditures	6,672	3,599	10,271

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

(e) Other segment information

The Group is domiciled in the People's Republic of China ("PRC"). All of its revenue from external customers are from customers located in the PRC.

Revenue from 2 customers individually contributed over 10% of the Group's revenue during the six months ended 30 June 2022 and 2021. The revenue from the customer during the periods are as follows:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Customer A	33,007	30,470
Customer B	20,052	12,354

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.

(f) Assets and liabilities related to contracts with customers

The Group has recognised RMB1,856,000 and RMB5,310,000 receipts in advance from customers for the sale of graphite products as contract liabilities as at 30 June 2022 and 31 December 2021. For the six months ended 30 June 2022 and 2021, RMB3,616,000 and RMB9,470,000 of revenue recognised, respectively, relates to carried-forward contract liabilities.

7 OTHER INCOME

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Government grants <i>(Note)</i>	102	6,075
Others	21	14
	123	6,089

Note: The amount mainly represents the Group's entitlement to corporate income tax refund and other government grants. For the six months ended 30 June 2022 and 2021, there is no unfulfilled conditions attached to the government grants.

8 EXPENSES BY NATURE

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Raw materials used		
— in production	31,668	14,311
— for research and development	332	577
Changes in inventories of finished goods and work in progress	(4,819)	8,587
Blasting expense	324	673
Subcontracting and processing charges	1,237	6,497
Reversal of impairment of inventories	—	(28)
Transportation fees	1,894	3,522
Auditor's remuneration	540	—
Depreciation of property, plant and equipment	5,871	4,351
Depreciation of right-of-use assets (Note 14)	609	439
Amortisation of mining rights	1,129	608
Amortisation of other intangible assets	4	17
Employee benefit expenses (including directors' emoluments)	8,319	6,306
Outsourcing charges	2,420	1,217
Short-term operating lease rentals in respect of office premises and machineries	184	147
Utilities expenses	11,692	8,407
Professional fees	1,011	557
Repair and maintenance expense	946	146
Listing expenses	8,506	4,049
Exchange losses/(gains)	64	(10)
Resource tax and other miscellaneous tax	1,328	750
Others	1,873	1,475
Total cost of sales, selling and distribution expenses, general and administrative expenses and research and development expenses	75,132	62,598

9 FINANCE COSTS, NET

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Finance income		
Interest income	76	14
Finance costs		
Interest expenses on borrowings	(245)	(316)
Interest expenses on bills arrangement	–	(69)
Interest elements of provision for reclamation and mine closure	(59)	(57)
	(304)	(442)
Finance costs, net	(228)	(428)

10 INCOME TAX EXPENSE

PRC Corporate Income Tax has been provided for at the rate of 25% for the six months ended 30 June 2021 and 2022 on the estimated assessable profit for the year. In accordance with the Income Tax Law of the PRC, the Group's major operating subsidiary, Heilongjiang Baoquanling Agricultural Reclamation Yixiang New Energy Materials Co., Ltd. ("**Yixiang New Energy**"), is subject to a tax rate of 15% for the six months ended 30 June 2022 and 2021, and Heilongjiang Baoquanling Agricultural Reclamation Yixiang Graphite Co., Ltd. ("**Yixiang Graphite**") is subject to a tax rate of 15% for the six months ended 30 June 2022 as they are eligible for the tax concession granted by the PRC government as a high-tech enterprise in the periods specified.

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 six months ended 30 June 2021 and 2022 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 period at the rates of taxation prevailing in the regions/countries in which the Group operates.

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax		
— PRC corporate income tax	4,428	4,862
— Under-provision in prior years <i>(Note)</i>	812	–
Deferred income tax	(655)	1,011
Income tax expense	4,585	5,873

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 six months ended 30 June 2022.

11 EARNINGS PER SHARE

(a) Basic

In determining the weighted average number of ordinary shares in issue during the six months ended 30 June 2022 and 2021, the capitalisation issue (Note 23(a)(i)) was deemed to be issued on 1 January 2021 as if the capitalisation has occurred by then.

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue (in thousand)	1,200,000	1,200,000
Group's profit attributable to the owner of the Company (RMB'000)	13,249	20,147
Basic earnings per share (RMB cents)	1.10	1.68

(b) Diluted

The Company did not have any potential dilutive shares outstanding during the six months ended 30 June 2022 and 2021. Accordingly, the diluted earnings per share is the same as the basic earnings per share.

12 DIVIDENDS

No dividend has been paid or declared by the Company for the six months ended 30 June 2022 and 2021.

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 31 December 2021 (Audited)							
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
Six months ended 30 June 2022 (Unaudited)							
Opening net book amount	2,171	34,066	15,474	33,452	2,155	590	87,908
Additions	5,657	13,672	-	2,202	2,038	94	23,663
Transfers	(3,485)	-	1,142	2,343	-	-	-
Depreciation	-	(2,576)	(220)	(2,073)	(1,033)	(145)	(6,047)
Closing net book amount	4,343	45,162	16,396	35,924	3,160	539	105,524
As at 30 June 2022 (Unaudited)							
Cost	4,343	67,087	17,085	75,708	8,259	2,870	175,352
Accumulated depreciation	-	(21,925)	(689)	(39,784)	(5,099)	(2,331)	(69,828)
Net book amount	4,343	45,162	16,396	35,924	3,160	539	105,524

Depreciation expense has been recorded as below.

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Cost of sales	4,892	3,766
General and administrative expenses	718	449
Research and development expenses	261	136
	5,871	4,351
Capitalised as mining structures	176	366
	6,047	4,717

No assets were pledged for security as at 30 June 2022 and 31 December 2021.

14 LEASES

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

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

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Right-of-use assets		
Land use rights	5,534	5,703
Properties	1,465	1,525
Equipment	2,407	2,705
	9,406	9,933
Lease liabilities		
Current	1,011	1,143
Non-current	108	383
	1,119	1,526

Additions to the right-of-use assets for the six months ended 30 June 2022 and 2021 were RMB82,000 and RMB3,232,000, respectively.

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Depreciation charge of right-of-use assets		
Land-use rights	251	223
Properties	60	60
Equipment	298	156
	609	439
Expense relating to short-term leases (included in cost of sales and selling and distribution expenses)	184	147

The total cash outflow for leases during the six months ended 30 June 2022 and 2021 were RMB673,000 and RMB3,590,000, 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

	Total RMB'000
As at 31 December 2021 (Audited)	
Gross carrying amount	29,663
Accumulated amortisation	(3,758)
Net carrying amount	25,905
Six months ended 30 June 2022 (Unaudited)	
Opening net carrying amount	25,905
Amortisation	(1,129)
Closing net carrying amount	24,776
As at 30 June 2022 (Unaudited)	
Gross carrying amount	29,663
Accumulated amortisation	(4,887)
Net carrying amount	24,776

16 INVENTORIES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Raw materials	11,418	6,820
Work in progress	1,774	5,739
Finished goods	15,099	6,315
Provision for inventories	28,291 –	18,874 –
Total	28,291	18,874

The cost of inventories recognised as expenses and included in cost of sales in the interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2022 and 2021 were RMB26,849,000 and RMB22,870,000, respectively.

Reversal of impairment of inventories of RMB28,000 arising from an increase in net realisable value for the six months ended 30 June 2021 was included in cost of sales in the interim condensed consolidated statement of comprehensive income. There was no reversal of or provision for impairment of inventories for the six months ended 30 June 2022.

17 TRADE AND BILLS RECEIVABLES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade receivables	62,431	55,539
Bills receivables	44,481	98,225
Trade and bills receivables	106,912	153,764
Less: loss allowance	(5,600)	(5,119)
Total	101,312	148,645

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

The ageing analysis of the third-party trade receivables, based on invoice date, are as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Up to 90 days	50,279	36,622
91–180 days	2,280	11,247
181–270 days	1,703	2,442
271–365 days	2,357	2
Over 1 year	5,812	5,226
	62,431	55,539

Movements in the loss allowance of trade receivables are as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
At the beginning of the period/year	(5,119)	(3,656)
Provision for impairment of trade receivables	(481)	(1,463)
	(5,600)	(5,119)

The creation and release of provision for impaired receivables have been included in the interim condensed 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 30 June 2022 and 31 December 2021, the ageing analysis of the bills receivables, based on the bills receiving date, are as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Up to 90 days	29,439	56,116
91–180 days	13,341	39,752
181–270 days	1,201	2,257
271–365 days	500	100
	44,481	98,225

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 30 June 2022 and 31 December 2021, bills receivables and the corresponding trade and payables of RMB14,192,000 and RMB16,404,000 continue to be recognised in the Group's interim condensed consolidated financial information 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.

18 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Deposits	20	20
Prepaid listing expenses	–	905
Deferred listing expenses	7,328	4,679
Prepayments for property, plant and equipment	8,303	162
Prepayments for raw materials	3,333	1,848
Other prepayments	620	876
Other receivables	537	81
	20,141	8,571
Less: non-current portion	(8,923)	(1,038)
Current portion	11,218	7,533

The carrying amounts of deposits, prepayments and other receivables approximate their fair values and are denominated in the following currencies:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
RMB	15,038	5,457
Hong Kong dollars ("HK\$")	4,905	3,088
United States dollars ("US\$")	198	26
	20,141	8,571

19 CASH AND CASH EQUIVALENTS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Cash at banks	65,920	33,930
Cash on hand	2	4
	65,922	33,934
Maximum exposure to credit risk	65,920	33,930

The Group's cash and cash equivalents and bank deposits are denominated in RMB.

As at 30 June 2022 and 31 December 2021, cash and cash equivalents of approximately RMB65,920,000 and RMB33,930,000 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 30 June 2022 and 31 December 2021, cash and cash equivalents of approximately RMB595,000 and RMB594,000 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 fund readily available to meet its cash commitments.

20 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 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Up to 90 days	7,802	13,596
91–180 days	8,734	3,385
181–365 days	49	1,589
Over 1 year	3	38
	16,588	18,608

The carrying amounts of trade payables are denominated in RMB and approximate their fair values.

21 ACCRUALS AND OTHER PAYABLES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Accrued staff expense	2,415	1,633
Accrued construction cost	5,780	8,151
Other tax payable	7,109	2,846
Accrued listing expenses	10,139	3,204
Others	3,826	2,664
	29,269	18,498

The carrying amounts of accruals and other payables approximate their fair values and are denominated in the following currencies:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
RMB	17,976	16,400
HK\$	11,083	2,050
US\$	210	48
	29,269	18,498

22 BORROWINGS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
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 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Within 1 year	10,000	10,000

The weighted effective interest rates were follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Bank borrowings		
— Bank loans	4.70%	4.85%

As at 30 June 2022 and 31 December 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 30 June 2022 and 2021.

The carrying amounts of bank and other borrowings are denominated in RMB. The Group had no unused facilities as at 30 June 2022 and 2021.

On 3 August 2021, the Group has obtained another bank facility, 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. As of the date of this report, such bank facility has been expired.

23 SHARE CAPITAL AND RESERVES**(a) Share capital**

	Number of shares	HK\$'000
Authorised share capital		
At 31 December 2021 and 1 January 2022 (Audited)	380,000,000	380
Changes	1,620,000,000	1,620
At 30 June 2022 (Unaudited)	2,000,000,000	2,000

	Number of share	RMB'000
Issued and fully paid share capital		
At 30 June 2021 (Unaudited) and 1 January 2022 (Audited)	–	–
Initial share issued upon incorporation	1	–*
At 30 June 2022 (Unaudited)	1	–*

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 of par value of HK\$0.001 each to HK\$2,000,000 divided into 2,000,000,000 shares of par value HK\$0.001 each by the creation of 1,620,000,000 additional shares of par value of HK\$0.001 each.

(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, by way of capitalisation of approximately HK\$1,200,000 (equivalent to approximately RMB1,031,000) 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 RMB111,671,000) raised as a result of the completion of the global offering.

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
Six months ended 30 June 2022 (Unaudited)						
Balance at 1 January 2022	158,693	5,263	(148,670)	938	185,774	201,998
Comprehensive income						
Profit for the period	-	-	-	-	13,249	13,249
Total comprehensive income	-	-	-	-	13,249	13,249
Transaction with owner						
Appropriation to other reserve	-	-	-	174	(174)	-
	-	-	-	174	(174)	-
Balance at 30 June 2022	158,693	5,263	(148,670)	1,112	198,849	215,247
Six months ended 30 June 2021 (Unaudited)						
Balance at 1 January 2021	158,693	4,780	(148,670)	421	133,449	148,673
Comprehensive income						
Profit for the period	-	-	-	-	20,147	20,147
Total comprehensive income	-	-	-	-	20,147	20,147
Transaction with owner						
Appropriation to other reserve	-	-	-	236	(236)	-
	-	-	-	236	(236)	-
Balance at 30 June 2021	158,693	4,780	(148,670)	657	153,360	168,820

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 completed on 30 December 2020.

- (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 on 30 December 2020, and contributed surplus after the completion of such 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.

24 RELATED PARTY TRANSACTIONS

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 Track Record Period:

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

(a) Balance with a related party

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Non-trade balance		
Amount due to the shareholder		
— Mr. Zhao Liang	73,127	73,127

(b) Transactions with related parties

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Employee benefit expenses received as employees of the Group		
— Mr. Zhao Changshan	360	360
— Mr. Zhao Changhai	68	63
— Ms. Zhang Yuqin	360	360
— Ms. Sun Yao	378	378

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:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Wages, salaries, bonuses and allowances	1,611	928
Pension costs — defined contribution plans	7	8
	1,618	936

25 COMMITMENTS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Commitments for the — Purchase of machinery and equipment	2,630	—

26 CONTINGENCIES

The Group did not have any material contingent liabilities as at 30 June 2022 and 31 December 2021.

27 SUBSEQUENT EVENTS

Save as disclosed above and elsewhere in the interim condensed consolidated financial information, there are no important events affecting the Company and its subsidiaries since 30 June 2022 and up to the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

After years of development, we were successfully listed on the Main Board of the Stock Exchange on 18 July 2022. The Listing of the Company is not only one of the important milestones of the Group, but also paves the way for our future development.

The Group is engaged in the production and sales of flake graphite concentrate and spherical graphite in the PRC. Our origins trace back to 2006 when we began the operations with Yixiang Graphite in the beneficiation and sale of flake graphite concentrate and the Group expanded with Yixiang New Energy in the processing and sale of spherical graphite in 2012.

The Group's product, flake graphite concentrate, is mainly used as heat resistant material as well as to be manufactured into spherical graphite and used as anode materials in lithium-ion batteries for electronic devices and NEVs. As by-products of processing our spherical graphite, we also sell micro graphite powder and high purity graphite powder.

In 2019, the Group obtained the mining rights to our Beishan Mine as an ancillary to our Group's core operations. Since then, the unprocessed graphite in our Beishan Mine has been extracted only for our Group's own use, in order to supplement our procurement of unprocessed graphite from third-party suppliers. With the rich graphite resources in our Beishan Mine, it allows us to benefit from a secure and stable source of unprocessed graphite and to benefit from the synergies of a vertical integration such as better control of our raw materials, stable supply and more effective cost structure. Starting from 2020, we also sold unprocessed marble as a by-product of our extraction operations in our Beishan Mine.

Driven by the strong demand from our customers of the graphite products, the total revenue of the Group increased to approximately RMB93.6 million for the Reporting Period compared to approximately RMB82.5 million for the corresponding period in 2021, representing an increase of approximately 13.5%. The sale of spherical graphite and its by-products increased to approximately RMB61.3 million for the Reporting Period compared to approximately RMB48.1 million for the corresponding period in 2021, representing an increase of approximately 27.4%. With the growing popularity of NEVs and the electronic devices which use lithium-ion batteries, the Directors believe revenue from the spherical graphite would be the driving force for the continuous growth of our business. As at the date of this interim report, with the increasing demand from our customers, we will further expand our current processing capacity to approximately 8,000 tonnes of spherical graphite per year by the end of year 2022 by utilizing the fund generated from our operations. The sale of flake graphite concentrate decreased to approximately RMB30.7 million for the Reporting Period compared to approximately RMB32.9 million for the corresponding period in 2021, representing a decrease of approximately 6.7%. Due to the seasonal shutdown period (i.e. the months of January to March, due to severe cold weather), the production of the flake graphite concentrate were limited in the Reporting Period and as certain portion of the flake graphite concentrate were manufactured into spherical graphite, the quantity of flake graphite concentrate available for sale decreased, leading to the decrease of its revenue during the Reporting Period. The sale of unprocessed marble was approximately RMB1.5 million for the Reporting Period compared to approximately RMB1.6 million for the corresponding period in 2021.

Our gross profit increased to approximately RMB41.3 million for the Reporting Period (corresponding gross profit margin: approximately 44.1%) from approximately RMB35.4 million for the corresponding period in 2021 (corresponding gross profit margin: approximately 43.0%), representing an increase of approximately 16.7%. Increase of the gross profit was led by the sharp increase in sales of the spherical graphite and its by-products. Slight increase in the gross profit margin was due to the decrease in subcontracting activities conducted by the third-party service providers for purification processing service during the Reporting Period compared to the corresponding period in 2021. During the Reporting Period, most of the extraction activities were conducted to remove the waste rocks and unprocessed marble in our Beishan Mine, leading to a significant decrease in extraction of unprocessed graphite ore. The production of our graphite products in the Reporting Period were primarily relied on the procurement of the unprocessed graphite ore from the third-party suppliers, leading to an increase in raw materials cost used in production. With the expected increase in extraction of unprocessed graphite ore from our Beishan Mine in the second half of 2022, our reliance on the procurement of the unprocessed graphite ore from the third-party suppliers would be reduced.

Excluding the non-recurring listing expenses of approximately RMB8.5 million (June 30, 2021: approximately RMB4.0 million) and government grant of approximately RMB0.1 million (June 30, 2021: approximately RMB6.1 million), adjusted net profit after tax increased to approximately RMB21.6 million for the Reporting Period from approximately RMB18.0 million for the corresponding period in 2021, representing an increase of approximately 20.0%. Increase of the adjusted net profit after tax was mainly attributable to the sharp increase in sales of the spherical graphite and its by-products during the Reporting Period.

PROSPECTS

During the Reporting Period, the COVID-19 pandemic continuously recurred in PRC, the international environment became more complex and the downward pressure on China's macro economy had been enhanced. Nevertheless, with the resilience of China's economic development and the policy of setting the "dual carbon" goals, the Directors believe the Group will continuously benefit from China's development and favor from the above policy.

We will benefit from the rapid growth of the NEVs market in China. The incentive policy such as the "Notice on Further Improving the Policy for the Promotion and Application of Financial Subsidy for New Energy Vehicles*" (關於進一步完善新能源汽車推廣應用財政補貼政策的 通知) issued by the Ministry of Finance, Ministry of Industry and Information Technology, Ministry of Science and Technology and National Development and Reform Commission in December 2020 will further promote the production of NEVs as well as the demand for lithium-ion batteries. Graphite is the core materials of NEV batteries and the substitution of graphite by other minerals is currently low due to its unique chemical and physical properties. The booming development of the NEVs market in China undoubtedly will drive the market growth of the graphite products.

We will benefit from the policies adopted by the provincial government. According to the "Heilongjiang Provincial Government Work Report*"《黑龍江省政府工作報告》, it is proposed to continue to promote the construction of industrial projects and promote the construction of graphite production and processing bases in Jixi City and Hegang City, as well as to improve the technological innovation ability and level of graphite industry. The favorable government policies and rich graphite resources in Heilongjiang Province would further drive the expansion and booming development of the graphite industry in Heilongjiang Province.

We will also benefit from the high demand from refractories manufacturing. Although the graphite industry has made considerable progress in other new application fields in recent years, the traditional industries such as the metallurgical and steelmaking industries will still maintain a fundamental position in economic development. Since one of the main usages of natural graphite is to produce refractory materials to be used in the above industries, the prosperity of those industries secures the future demand of graphite.

In order to capture the above opportunities, the Group will implement the business strategies mentioned in the Prospectus to further expand our production capacities. With the increasing demand of our graphite products, the Group will also plan to further expand the current production capacity of our beneficiation and processing plant to the greatest extent possible by utilizing the fund generated from our operations.

With the favorable government policies, rapid growth of the NEVs market, the robust demand from the traditional industries, our business strategies as well as our competitive strengths especially the abundant resources and reserves of our Beishan Mine, the Directors are optimistic to the growth of our business and we believe we would provide returns to our Shareholders.

EXPLORATION, DEVELOPMENT AND MINING PRODUCTION ACTIVITIES

During the Reporting Period, 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. During the Reporting Period, we were 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 capitalized amount) incurred for the Reporting Period and the corresponding period in 2021:

	For the six months ended June 30,	
	2022 (RMB'000)	2021 (RMB'000)
Depreciation	1,416	894
Blasting services	2,591	974
Fuel costs	1,697	868
Employees salaries and benefits	1,128	593
Machinery expenses	1,474	242
Amortization of mining rights	1,129	608
Raw materials	745	443
Repairs and maintenance	21	29
Others	147	163
Total	10,348	4,814
Portion capitalized	8,715	2,114
Portion accounted for as cost of sales for the extraction of graphite	137	1,921
Portion accounted for as cost of sales for the extraction of marble	1,496	779
Total	10,348	4,814

During the Reporting Period, significant extraction works to remove the waste rocks and unprocessed marble between the 225-255 meters above sea level had been conducted and approximately 1,118,000 tonnes of materials including approximately 1,112,000 tonnes of unprocessed marble and wastes rocks and approximately 6,000 tonnes of unprocessed graphite ore were extracted compared to approximately 804,000 tonnes of materials extracted in the corresponding period of 2021. In order to support the increasing extracting activities in the Reporting Period, we purchased additional set of drilling machine and excavator amounting to approximately RMB2.0 million in total. 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 RMB7.8 million in total.

Extraction cost

The extraction cost consisted of primarily depreciation of the mining equipment, blasting services expenses, fuel cost of the mining equipment and employees salaries and benefits. Significant increase in the extracting costs to approximately RMB10.3 million for the Reporting Period from approximately RMB4.8 million for the corresponding period in 2021 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 leasing of the mining equipment.

FINANCIAL REVIEW

REVENUE

During the Reporting Period, 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 periods indicated:

	For the six months ended June 30,			
	2022		2021	
	(RMB'000)	(%)	(RMB'000)	(%)
Sale of spherical graphite and its by-products	61,346	65.6	48,065	58.3
Sale of flake graphite concentrate	30,683	32.8	32,869	39.8
Sale of unprocessed marble	1,523	1.6	1,579	1.9
Total	93,552	100.0	82,513	100.0

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

The sale of the spherical graphite generated represented approximately 58.3% and 65.6% of the total revenue for the six months ended June 30, 2021 and 2022, respectively. The Group have been selling spherical graphite since September 2012, all of which 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, the sales volume and the average selling prices of the spherical graphite and its by-products during the Reporting Period.

For the six months ended June 30,

	2022			2021		
	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	33,007	2,081	15,861	30,470	1,726	17,654
SG-9	20,036	1,244	16,106	12,364	886	13,955
Other models	15	1	15,000	1,848	167	11,066
Subtotal	53,058	3,326		44,682	2,779	
Micro graphite and High-purity graphite powder	8,288	3,745	2,213	3,383	3,596	941
Total	61,346	7,071		48,065	6,375	

The revenue generated from the sales of spherical graphite and by-products increased to approximately RMB61.3 million for the Reporting Period compared to approximately RMB48.1 million for the corresponding period in 2021, representing an increase of approximately 27.4%. The increase in revenue generated from spherical graphite during the Reporting Period was primarily due to the increase in the sales volume of model SG-10 and SG-9 spherical graphite and the increase in the average selling price of model SG-9 spherical graphite and micro graphite and high-purity graphite powder during the Reporting Period. We are of the view that such increase in average selling price was resulted from the market shortage and recovery of the market prices of the graphite products after the outbreak of COVID-19.

Revenue generated from the sale of flake graphite concentrate

The sale of the flake graphite concentrate accounted for approximately 39.8% and 32.8% of the total revenue for the six months ended June 30, 2021 and 2022, respectively. The Group have been selling flake graphite concentrate since the business was founded in 2006, with a focus on those with a carbon content between 94% and 96.8%. For the six months ended June 30, 2021 and 2022, sales from the flake graphite concentrate, mainly included types, "194" (indicating a carbon content of 94% or from 94% to less than 95%), "195" (indicating a carbon content of 95% or from 95% to less than 96%) and "196" (indicating a carbon content of 96% or from 96% to 96.8%). The following table summarizes the revenue generated by, the sales volume and the average selling prices of our flake graphite concentrate during the six months ended June 30, 2021 and 2022:

	2022			2021		
	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)	Revenue (RMB'000)	Sales volume (Tonnes)	Average selling price (RMB/tonne)
194	11,760	3,023	3,890	12,135	4,647	2,611
195	5,769	1,382	4,174	17,556	6,639	2,644
196	469	100	4,690	1,318	489	2,695
Others ⁽¹⁾	12,685	4,030	3,148	1,860	918	2,026
Total	30,683	8,535		32,869	12,693	

Note:

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

The revenue generated from the sale of flake graphite concentrate decreased to approximately RMB30.7 million for the Reporting Period compared to approximately RMB32.9 million for the corresponding period in 2021, representing a decrease of approximately 6.7%. Despite the increase in the average selling price of the flake graphite concentrate during the Reporting Period, decrease in its revenue was mainly attributable to the decrease in the sales volume during the Reporting Period. The production of the flake graphite concentrate was limited in the Reporting Period due to the seasonal shutdown period (i.e. the months of January to March, due to severe cold weather) and as certain portion of the flake graphite concentrate were manufactured into spherical graphite, the quantity of flake graphite concentrate available for sale decreased during the Reporting Period.

Revenue generated from the sales of unprocessed marble

For the Reporting Period, the revenue generated from the sales of unprocessed marble amounted to approximately RMB1.5 million as compared to approximately RMB1.6 million for the corresponding period in 2021. No significant changes were noted and demand for our unprocessed marble was constant during 2022 and 2021.

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 RMB52.3 million for the Reporting Period compared to approximately RMB47.1 million for the corresponding period in 2021, representing an increase of 11.0%. Such increase was mainly due to the increase of raw materials and consumables, electricity fees and depreciation by approximately RMB4.3 million, RMB3.2 million and RMB2.9 million as an increase of production of the graphite products and increase of depreciation arising from the addition of production machineries and enhancement work for the tailing storage in 2021 and 2022, offset by the decrease of subcontractor fees by approximately RMB5.3 million with decrease of subcontracting services engaged for the purification process of our spherical graphite.

GROSS PROFIT AND GROSS PROFIT MARGIN

For the six months ended June 30, 2021 and 2022, the Group's gross profit amounted to approximately RMB35.4 million and RMB41.3 million, representing a gross profit margin of approximately 43.0% and 44.1%, respectively. The following table summarizes the gross profit and gross profit margin breakdown by business segment for the six months ended June 30, 2021 and 2022:

	For the six months ended June 30,			
	2022		2021	
	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)
Sale of spherical graphite and its by-products	25,882	42.2	17,319	36.0
Sale of flake graphite concentrate	15,354	50.0	17,566	53.4
Sale of unprocessed marble	26	1.7	559	35.4
Gross profit/gross profit margin	41,262	44.1	35,444	43.0

Gross profit and gross profit margin from the sales of spherical graphite and its by-products increased to approximately RMB25.9 million and 42.2% for the Reporting Period from approximately RMB17.3 million and 36.0% for the corresponding period in 2021. 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 of this segment was mainly due to the increase of average selling price of model SG-9 spherical graphite and micro graphite powder and the decrease of subcontractor fee for the purification process of our spherical graphite during the Reporting Period.

Gross profit and gross profit margin from the sales of flake graphite concentrate decreased to approximately RMB15.4 million and 50.0% for the Reporting Period from approximately RMB17.6 million and 53.4% for the corresponding period in 2021. Decrease of the gross profit was in line with the decrease of sales of flake graphite concentrate. During the Reporting Period, most of the extraction activities were conducted to remove the waste rocks and unprocessed marble in our Beishan Mine, leading to a significant decrease of extraction of unprocessed graphite ore. The production of our graphite products in the Reporting Period were primarily relied on the procurement of the unprocessed graphite ore from the third-party suppliers, leading to an increase of raw materials cost used in production and decrease of the gross profit margin during the Reporting Period compared to the corresponding period in 2021.

Decrease of the gross profit and gross profit margin from the sales of unprocessed marble was mainly due to the increase of the extraction cost incurred during the Reporting Period.

OTHER INCOME

Our other income consisted of primarily government grants. They decreased to approximately RMB0.1 million for the Reporting Period compared to approximately RMB6.1 million for the corresponding period in 2021. Such decrease was due to the decrease of government grants recognised by approximately RMB6.0 million during the Reporting Period.

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 RMB3.3 million for the Reporting Period compared to approximately RMB3.9 million for corresponding period in 2021, representing a decrease of approximately 15.4%. Despite the increase in sales, decrease in the selling and distribution expenses was mainly due to decrease in transportation fees incurred during the Reporting Period as those costs 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 RMB15.1 million for the Reporting Period compared to approximately RMB8.8 million for corresponding period in 2021, representing an increase of approximately 71.6%, mainly due to increase of listing expenses of approximately RMB4.5 million, professional fee and auditor's remuneration of approximately RMB1.0 million and labour cost of approximately RMB0.4 million in line with our progress in Listing and 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 RMB4.5 million for the Reporting Period compared to approximately RMB2.9 million for corresponding period in 2021, representing an increase of approximately 55.2%, due to our continuous efforts to strengthen our research and development activities to improve our production methods and develop new products.

FINANCE COSTS, NET

Our finance costs, net, consisted of primarily interest income and interest expenses from bank borrowings. They decreased to approximately RMB0.2 million for the Reporting Period compared to approximately RMB0.4 million for the corresponding period in 2021 mainly due to decrease of the interest expenses as a result of decrease in average borrowings during the Reporting Period.

INCOME TAX EXPENSE

Under the relevant rules and regulations of the Cayman Islands, the Group are not subject to any income tax in the Cayman Islands. No Hong Kong profits tax has been provided for periods ended June 30, 2021 and 2022 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 period at the rates of taxation prevailing in the regions/countries in which our Group operates. PRC Corporate Income Tax has been provided for at the rate of 25% for the six months ended June 30, 2021 and 2022 on the estimated assessable profit for the year. In accordance with the Income Tax Law of the PRC, the Group's major operating subsidiary, Yixiang New Energy, is subject to a tax rate of 15% for the six months ended June 30, 2022 and 2021, and Yixiang Graphite is subject to a tax rate of 15% for the six months ended June 30, 2022 as they are eligible for the tax concession granted by the PRC government as a high-tech enterprise in the periods specified. According to the Enterprise Income Tax Law of the PRC, starting from January 1, 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 January 1, 2008.

We recorded an effective tax rate at 22.6% in 2021 and 25.7% in 2022. Increase in effective tax rate was due to the increment of the listing expenses recognized during the Reporting Period which is non-deductible for tax purpose.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed on the Stock Exchange since July 18, 2022. Based on 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 would be applied in manners described under the section headed “Future Plans and Use of Proceeds” to the Prospectus.

The Shares were only listed on July 18, 2022. The Group is in the process of applying for the land for the construction of the new beneficiation plant and as at the date of this interim report, the net proceeds have not been utilized.

CAPITAL STRUCTURE

As at June 30, 2022, the capital structure of the Group consists of net debt, which includes borrowings, amount due to a related party and lease liabilities disclosed in notes 22, 24 and 14 to the interim condensed consolidated financial information, respectively, net of cash and cash equivalents, and capital and reserves attributable to owner of the Company, mainly comprising reserves disclosed in note 23 to the interim condensed consolidated financial information above.

LIQUIDITY AND FINANCIAL RESOURCES

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 operating activities.

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

	For the six months ended June 30,	
	2022 (RMB'000)	2021 (RMB'000)
Net cash generated from operating activities	67,440	43,803
Net cash used in investing activities	(34,032)	(17,182)
Net cash used in financing activities	(1,420)	(16,157)
Net increase in cash and cash equivalents	31,988	10,464
Cash and cash equivalents at the beginning of the period	33,934	10,007
Cash and cash equivalents at end of the period	65,922	20,471

Net cash generated from operating activities

We had net cash from operating activities of approximately RMB67.4 million, mainly as a result of (i) profit before taxation of approximately RMB17.8 million; (ii) adjusted mainly by depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of mining rights of approximately RMB7.6 million in total, decrease in trade and bills receivables of approximately RMB46.9 million, increase in accruals and other payables of approximately RMB11.3 million ; and (iii) offset by changes in certain working capital items that negatively affected operating cash flow, mainly due to the increase in deposits, prepayments and other receivables, increase in inventories, decrease in trade payables and decrease in contract liabilities of approximately RMB15.7 million in total.

Net cash used in investing activities

We had net cash used in investing activities of approximately RMB34.0 million, which primarily consists of the enhancement work for our tailing storage, purchases of property, plant and equipment for our beneficiation and processing plant.

Net cash used in financing activities

We had net cash used in financing activities of approximately RMB1.4 million, which primarily consists of payment of listing expenses, repayments of lease liabilities and the finance costs.

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

	For the six months ended June 30,	
	2022	2021
Adjusted net profit margin	23.1%	21.8%
	As at June 30, 2022	
	As at December 31, 2021	
Current ratio (times)	1.5	1.6
Gearing ratio	7.4%	19.6%

Adjusted net profit margin equals to profit for the period (excluding the non-recurring listing expenses and government grants) divided by revenue for the period, multiplied by 100%. Increase of the adjusted net profit margin was attributable to the increase of average selling prices of the flake graphite concentrate, model SG-9 spherical graphite and the micro graphite and high-purity graphite powder.

Current ratio equals to total current assets divided by total current liabilities as at the period/year end date. It remains stable as at the two period/year end dates.

Gearing ratio equals to net debt divided by total capital as at the period/year end date. Net debt is calculated as total borrowings (including borrowings and amount due to a related party as shown in the interim condensed consolidated statement of financial position and excluding lease liabilities) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the interim condensed consolidated statement of financial position plus net debt. Decrease of the gearing ratio was mainly due to increase of the cash and cash equivalent as a result of our acceleration of the receipt from our customers.

TREASURY POLICY

The Directors will continue to follow a prudent policy in managing the Group's cash balances and maintain a strong and healthy liquidity to fund the working capital requirements and business expansion.

CHARGE OVER THE GROUP'S ASSETS

As at December 31, 2021 and June 30, 2022, there were no charges or pledges of assets in the Group.

CONTINGENT LIABILITIES

As at December 31, 2021 and June 30, 2022, 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.

FINANCIAL RISKS

The Group is exposed to certain financial risks including interest rate risk, credit risk and liquidity risk.

Interest Rate Risk

The interest rate risk arises from bank and other borrowings. Most of the Group's assets and liabilities are either interest-free or subject to interest at fixed rates which expose us to fair value interest rate risk. As at December 31, 2021 and June 30, 2022, the Group's borrowings at several rates were denominated in RMB. We believe that our exposure to fair value interest rate risk as at December 31, 2021 and June 30, 2022 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. We are not exposed to significant cash flow interest rate risk as most of our assets and liabilities is either interest-free or subject to interest at fixed rates.

As such, we currently do not have hedging policy on interest rate risk.

Credit Risk

As at December 31, 2021 and June 30, 2022, the Group's maximum exposure to credit risk which will cause a financial loss due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognized financial assets as stated in the interim condensed consolidated statement of financial position. In order to minimize the credit risk, we generally provide a credit period of not more than three months to the customers. The sales team is responsible for management of the customer database, which contains information such as credit period determination and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at the beginning and end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that our credit risk is significantly reduced.

Liquidity Risk

In the management of the liquidity risk, the Group monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As at June 30, 2022, the Directors are of the opinion that we do not have significant liquidity risk.

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 do not have significant exposure to foreign exchange rate fluctuations. As such, we currently do not have a foreign currency hedging policy.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company since its Listing Date until the date of this interim report.

EMPLOYEES AND REMUNERATION POLICIES

As at June 30, 2022, the Group had a total of 211 workers (December 31, 2021: 178) of which 136 were full-time employees (December 31, 2021: 112) and the remaining 75 workers were sourced from the crowdsourcing service provider (December 31, 2021: 66). For the full-time employees, all of which were based in the PRC for both periods ended June 30, 2021 and 2022. Increase of the total workers during the Reporting Period 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.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

We understand the importance of maintaining a good relationship with our suppliers, customers, social communities and governments to meet our objectives and long-term goals. During the Reporting Period, there was no material or significant dispute between us and our suppliers, customers and/or stakeholders.

CAPITAL COMMITMENTS

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

	As at June 30, 2022 RMB'000	As at December 31, 2021 RMB'000
Commitments for the:		
— Purchase of machinery and equipment	2,630	—

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the Reporting Period (for the corresponding period in 2021: nil).

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On July 18, 2022, we were successfully listed on the Main Board of the Stock Exchange.

Save as disclosed above, as at the date of this interim report, the Group did not have any significant event after the Reporting Period.

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 interim 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 the Reporting Period. Apart from those disclosed in this interim 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 interim report.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted pursuant to a resolution passed by the Company's then sole Shareholder on June 21, 2022. No share option was granted, lapsed, exercised or cancelled by the Company under the Share Option Scheme since the Listing Date to the date of this interim report and there was no outstanding share option as at the date of this interim report.

DIRECTORS' INTEREST IN CONTRACT

As at June 30, 2022, none of the directors of the Company had any material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, its subsidiaries or any of its fellow subsidiaries was a party during the Reporting Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Listing Date, 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	Interest in controlled corporation ⁽³⁾	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 the Listing Date.
- (3) As at the Listing Date, 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 the Listing Date, 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 the Listing Date, 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 the Listing Date.

Save as disclosed above, as at the Listing Date, 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.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

Saved as disclosed in the section headed “Business — Non-Compliance Incidents” to the Prospectus, as far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on our business and operation. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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 interim 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.

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 checks and balances 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.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. All Directors have confirmed that they have complied with the required standard of dealings and code of conduct regarding securities dealings by Directors as set out in the Model Code throughout the period from the Listing Date to the date of this interim report.

BOARD COMMITTEE

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.

Audit Committee

The Group have established an audit committee with written terms of reference 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. The audit committee consists of 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; 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 comment to our Board on matters related to corporate governance.

Remuneration Committee

The Group have established a remuneration committee with written terms of reference 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. The remuneration committee consists of five members, four independent non-executive Directors and one executive Director namely, Mr. Liu Zezheng, Mr. Zhao, Mr. Shen Shifu, Mr. Chiu G Kiu Bernard and Ms. Zhao Jingran. Mr. Liu Zezheng 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, and to make recommendations to the Board on the remuneration packages of our Directors and senior management and on the employee benefit arrangement.

Nomination Committee

The Group have established a nomination committee with written terms of reference in compliance with Rule 3.27A of the Listing Rules and the Paragraph B.3 of Part 2 of the CG Code. The nomination committee consists of five members, four independent non-executive Directors and one executive Director namely, Mr. Zhao, 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; and review and make recommendations to the Board on appointment of Directors and the management of the Board succession.

Compliance Committee

The Group have established a compliance committee with written terms of reference. The compliance committee consists of three members, two independent non-executive Directors and one executive Director namely, Mr. Liu Zezheng, Mr. Chiu G Kiu Bernard and Mr. Lei Wai Hoi. Mr. Liu is the chairperson of the committee. The primary duties of the compliance committee are to ensure compliance with regulatory matters as well as the adequacy and effectiveness of regulatory compliance procedures and system.

REVIEW OF THE INTERIM RESULTS

The audit committee of the Company (the “**Audit Committee**”) has reviewed with management the accounting policies adopted by the Group and discussed auditing, risk management and internal control system, and financial reporting matters.

The interim results of the Group for the six months ended June 30, 2022 and this interim report have been reviewed by the Audit Committee. The interim condensed consolidated financial information as of and for the six months ended June 30, 2022 has been reviewed by PricewaterhouseCoopers in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants.

By Order of the Board

China Graphite Group Limited

Zhao Liang

Chairman, executive Director and chief executive officer

Heilongjiang, the PRC, August 29, 2022

This interim report is prepared in English language and translated into Chinese. In the event of any inconsistencies between the Chinese and the English version, the latter shall prevail.