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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)

DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF EQUITY INTEREST AND LAND RIGHT

THE EQUITY ACQUISITION

As at the date of this announcement, the Target Company was owned as to 40% by Party A and as to 60% by Party B, respectively. Party A is the Company's indirect wholly-owned subsidiary. Party A, Party B and the Target Company agreed to enter into a Tri-Party Agreement that Party B would withdraw from all the involvement in the Target Company and to have Party A to own 100% equity interest in the Target Company. Pursuant to the terms and conditions of the Tri-Party Agreement, Party B is no longer responsible to bear and contribute in the registered capital of the Target Company by reducing the registered capital of the Target Company from RMB20,000,000 to RMB8,000,000 whereas Party A has injected and contributed in the amount of RMB8,000,000 as a total registered capital of the Target Company. Party A shall become the 100% equity owner of the Target Company as a result of the above capital reduction. Completion of the aforesaid transaction would result in a deemed acquisition of the Target Company by Party A and the Company, as Party B shall cease to be a shareholder and Party A shall become the only shareholder in the Target Company.

Upon Completion, the Target Company will become a wholly-owned subsidiary of Party A and an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial results of the Company.

THE LAND RIGHT ACQUISITION

On 26 May 2023, the Target Company entered into the Land Use Rights Transfer Agreement, pursuant to which the Target Company agreed to acquire and Weihai Wendeng District Natural Resources Bureau* (威海市文登區自然資源局) agreed to assign the land use rights (the "**Land Right**") of the Land. The permitted land use for the Land is industrial use and the term of the Land Right is 50 years.

The consideration payable by the Target Company for the acquisition of the Land Right shall be RMB55,888,422. As of the date of this announcement, the Target Company had paid a total of RMB27,944,211, being approximately 50% of the total consideration for the Land Right. The remaining sum for the consideration shall be payable on or before 25 May 2024.

Upon Completion, the Company will solely invest in the Land Right Acquisition. The financial commitment related to the Land Right Acquisition payable by the Company is approximately RMB27,944,211. It is currently expected that the funding required for the Land Right Acquisition will be settled using the internal resources of the Company and/or bank financing.

LISTING RULES IMPLICATIONS

Although the applicable percentage ratios under Rule 14.07 of the Listing Rules for the total consideration for the Equity Acquisition is less than 5%, in order to provide a full and frank disclosure, the Company has aggregated the percentage ratios under Rule 14.07 of the Listing Rules for both the Equity Acquisition and the Land Right Acquisition. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules exceed 5% but are less than 25%, this announcement is made on the basis that the entering into of the Equity Acquisition and the Land Right Acquisition in aggregate constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements, but is exempted from the requirement of shareholders' approval, pursuant to Chapter 14 of Listing Rules.

THE EQUITY ACQUISITION

Date

15 February 2024

Parties

- (1) Party A
- (2) Party B
- (3) Target Company

Subject matter

As at the date of this announcement, the Target Company was owned as to 40% by Party A and as to 60% by Party B, respectively. Party A is the Company's indirect wholly-owned subsidiary. Party A, Party B and the Target Company agreed to enter into a Tri-Party Agreement that Party B would withdraw from all the involvement in the Target Company and to have Party A to own 100% equity interest in the Target Company. Pursuant to the terms and conditions of the Tri-Party Agreement, Party B is no longer responsible to bear and contribute in the registered capital of the Target Company by reducing the registered capital of the Target Company from RMB20,000,000 to RMB8,000,000 whereas Party A has

injected and contributed in the amount of RMB8,000,000 as a total registered capital of the Target Company. Party A shall become the 100% equity owner of the Target Company as a result of the above capital reduction. Party B agrees to share 60% of the accumulated net loss of approximately RMB769,800 incurred by the Target Company for the year ended 31 December 2023 and the one month ended 31 January 2024, which shall be payable by Party B to the Target Company by the end of March 2024. Completion of the aforesaid transaction would result in a deemed acquisition of the Target Company by Party A and the Company, as Party B shall cease to be a shareholder and Party A shall become the only shareholder in the Target Company.

Further information of the Target Company is disclosed in the section headed “Information on the Target Company” in this announcement.

After Completion, the Target Company would be owned as to 100% by the Company and the Target Company will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the financial results of the Company.

The Board consider that the terms of the Equity Acquisition under the Tri-Party Agreement are fair and reasonable and on normal commercial terms and are in the interests of the Company and its shareholders as a whole.

Completion

Completion of the Equity Acquisition under the Tri-Party Agreement shall take place on or before 31 May 2024 (“**Completion Date**”).

THE LAND RIGHT ACQUISITION

On 26 May 2023, the Target Company entered into the Land Use Rights Transfer Agreement, pursuant to which the Target Company agreed to acquire and Weihai Wendeng District Natural Resources Bureau* (威海市文登區自然資源局) agreed to assign the Land Right of the Land. The permitted land use for the Land is industrial use and the term of the Land Right is 50 years.

The consideration payable by the Target Company for the acquisition of the Land Right shall be RMB55,888,422. The consideration for the acquisition of the Land Right was made reference to the comparable sales transactions as available in the relevant market. As of the date of this announcement, the Target Company had paid a total of RMB27,944,211, being approximately 50% of the total consideration for the Land Right. The remaining sum for the consideration shall be payable on or before 25 May 2024.

Prior to the Equity Acquisition, the Target Company was not a subsidiary of the Company. Upon Completion, the Target Company will become an indirect wholly-owned subsidiary of the Company and its results will be consolidated with the Company’s results. After the Completion Date, the Company will solely invest in the Land Right Acquisition. The financial commitment related to the Land Right Acquisition payable by the Company is approximately RMB27,944,211. It is currently expected that the funding required for the Land Right Acquisition will be settled using the internal resources of the Company and/or bank financing.

INFORMATION ON THE PARTIES

The Company

The Company is an exempted company incorporated under the laws of the Cayman Islands with limited liability on 3 August 2020, the shares of which are listed on the Stock Exchange (stock code: 2237).

Party A

Party A is a company with limited liability incorporated in the PRC, and is engaged in the production and sales of spherical graphite in the PRC and is the Company's indirect wholly-owned subsidiary.

Party B

Party B is a company with limited liability incorporated in the PRC, and is engaged in the manufacturing and sales of the graphite products. To the best of the Directors' knowledge, information and belief, after making all reasonable enquiries, Party B and its ultimate beneficial owner are an Independent Third Parties.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company incorporated in the PRC with limited liability and is engaged in research, manufacturing and sales of the new materials and graphite products. As at the date of this announcement, the Target Company is owned as to 60% by Party B and 40% by Party A. As at the date of this announcement, the Target Company had paid 50% of the consideration for acquisition of the Land Right of the Land.

Set out below is the unaudited financial information of the Target Company for the two years ended 31 December 2023 extracted from the unaudited financial statements of the Target Company, and the unaudited financial information of the Target Company for the one month ended 31 January 2024:

	For the year ended		For the one
	31 December		month ended
	2022	2023	31 January
	(unaudited)	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net profit/(loss) before tax	Nil	(1,161)	(122)
Net profit/(loss) after tax	Nil	(1,161)	(122)

	As at 31 December		As at
	2022	2023	31 January
	(unaudited)	(unaudited)	2024 (unaudited)
Net assets	Nil	6,839	6,717

The assets of the Target Company mainly included the prepayment for the Land Right of approximately RMB27.9 million. The liabilities of the Target Company mainly included the loan of approximately RMB23.6 million, owed to Party A which advanced the loan to the Target Company to support its prepayment for the Land Right. The loan is interest-bearing at 5.0% per annum, secured by the Land Right and repayable by the end of July 2026.

Upon Completion, the Target Company will become a wholly-owned subsidiary of Party A and indirect wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the accounts of the Company.

REASONS AND BENEFITS OF THE ACQUISITION

The Company is principally engaged in the provision of production and sales of flake graphite concentrate and spherical graphite. The Company's flake graphite concentrate is 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 of the Company's spherical graphite, it also produces and sells micro graphite powder and high purity graphite powder.

Taking into account the above and the current conditions of the graphite market in the PRC, the Directors have always been proactive in seeking opportunities to solidify the business of the Company. As the Board considered that the Land can be utilized for the construction of purification facilities and the production of the anode materials used in the lithium-ion batteries, the Company can leverage on the Land to enhance the development of its graphite production and sales business. By doing so, the Company can further strengthen and expand its business, broaden its revenue base and enhance its profitability to bring better returns to its shareholders. The Acquisition represents a unique business opportunity for the Company to leverage its resources in expanding its base and network, as well as increasing its brand influence in the market in PRC.

In light of the above, the Board considered that the terms of the Acquisition are entered into on normal commercial terms in the ordinary course of the Company, and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

Although the applicable percentage ratios under Rule 14.07 of the Listing Rules for the total consideration for the Equity Acquisition is less than 5%, in order to provide a full and frank disclosure, the Company has aggregated the percentage ratios under Rule 14.07 of the Listing Rules for both the Equity Acquisition and the Land Right Acquisition. As one or more of the applicable percentage ratios under Rule 14.07 of the Listing Rules exceed 5% but are less than 25%, this announcement is made on the basis that the entering into of the

Equity Acquisition and the Land Right Acquisition in aggregate constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements, but is exempted from the requirement of shareholders' approval, pursuant to Chapter 14 of Listing Rules.

As the Acquisition may or may not proceed, shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company.

DEFINITIONS

In this announcement, the following expressions have the following meanings, unless the context requires otherwise:

“Acquisition”	the Equity Acquisition and the Land Right Acquisition
“Board”	the board of Directors
“Company”	China Graphite Group Limited (中国石墨集团有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 3 August 2020, the shares of which are listed on the Stock Exchange (stock code: 2237)
“Completion”	completion of the Equity Acquisition
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Equity Acquisition”	the deemed acquisition of 60% equity interest in the Target Company by the Company pursuant to the terms and conditions of the Tri-Party Agreement
“Independent Third Party(ies)”	a person, or in the case of a company, the company or its ultimate beneficial owner(s), who is independent of and not connected with the Company and its subsidiaries, and their respective connected persons, ultimate beneficial owner(s) or associates
“Land”	approximately 185,061 square meters of land in north of Yangguang Road and east of Longhai East Road, Nanhai New District, Weihai, Shandong, the PRC
“Land Right Acquisition”	the acquisition of the Land Right of the Land
“Land Use Rights Transfer Agreement”	the Land Use Rights Transfer Agreement* (國家建設用地使用權出讓合約) dated 26 March 2023 between the Target Company and the Weihai Wendeng District Natural Resources Bureau* (威海市文登區自然資源局)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Party A”	Heilongjiang Baoquanling Farmland Yixiang New Energy Materials Company Limited* (黑龍江省寶泉嶺農墾溢祥新能源材料有限公司), a company established under the laws of the PRC with limited liability on 20 April 2011 and is the Company’s indirect wholly-owned subsidiary
“Party B”	Shandong Weihao New Energy Materials Co., Ltd.* (山東威灝新能源材料有限公司), a company incorporated in the PRC with limited liability which is ultimately and wholly owned by Zhang Baisong (張柏松), an Independent Third Party
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning as ascribed to it under the Listing Rules
“Target Company”	Shandong Ruisheng Carbon Material Technology Co., Ltd.* (山東芮昇碳材料科技有限公司), a company established under the laws of the PRC with limited liability and owned as to 60% by Party B and 40% by Party A as at the date of this announcement
“Tri-Party Agreement”	the Tri-Party Agreement dated 15 February 2024 and entered into between Party A, Party B and the Target Company with respect to the Equity Acquisition
“%”	Per cent

* For identification purpose only

By order of the Board
China Graphite Group Limited
Zhao Liang

Chairman, executive Director and chief executive officer

Hong Kong, 15 February 2024

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