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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)**

**(1) BUSINESS UPDATE;  
(2) DISCLOSEABLE TRANSACTION  
IN RELATION TO ACQUISITION OF FOREST LAND USE RIGHTS;  
AND  
(3) CHANGE IN USE OF PROCEEDS**

### **BACKGROUND**

References are made to (i) the sections headed “Business” and “Future Plans and Use of Proceeds” of the prospectus issued by the Company dated 30 June 2022 (the “**Prospectus**”) in relation to the listing of the shares of the Company on the Main Board of Stock Exchange; and (ii) the annual report of the Company for the year ended 31 December 2022 and the interim reports of the Company for the six months ended 30 June 2022 and 30 June 2023. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Prospectus.

### **BUSINESS UPDATE**

Pursuant to the “Business” section of the Prospectus, the Company’s target beneficiation capacity for constructing a new beneficiation plant was estimated at approximately 50,000 tonnes of flake graphite concentrate per year; and the Company’s target processing capacity for constructing a new processing plant was estimated at approximately 6,000 tonnes of spherical graphite per year. To strengthen the Company’s strategic layout and to increase the Company’s competitiveness in the graphite industry, the Company acquired the Forest Land for the purpose of increasing its graphite extraction volume, the construction of its new beneficiation plant, new processing plant and tailings pond, as stipulated in the Prospectus.

The Company has designed a new graphite extraction plan to increase the permitted graphite extraction volume at the Company's Beishan Mine to exceed 500,000 tonnes per year. As a result, it is the Company' plan that part of the Forest Land would be used for graphite mining and the storage of the expected increasing wasted rocks from the increasing extraction activities. With the increase of the above graphite mining capacity, the Beishan Mine can fully supply the unprocessed graphite for production to the Company's existing beneficiation plant and the new beneficiation plant stated in the Prospectus, and the Group would benefit from the production cost advantage in the long run.

The remaining part of the Forest Land shall serve as land reserve to secure the abundance and availability of land space proximate to the Beishan Mine for construction, development and expansion of the Company in the future.

Considering the recent and expected competition of the downstream electric vehicle market and the overall graphite industry in the PRC in the near future, the Company decided to adjust the Group's latest strategic focus from "production capacity oriented" to "production cost optimisation". Increasing the Company's maximum graphite extraction volume has been put as the business priority which enables the Group to benefit from cost advantage.

#### **ACQUISITION OF FOREST LAND USE RIGHTS**

The Board is pleased to announce that on 21 February 2024, Yixiang New Energy, an indirect wholly-owned subsidiary of the Company, obtained an official consent from the National Forestry and Grassland Administration\* (國家林業和草原局) in respect of the acquisition of the Forest Land Use Rights of the Forest Land situated at Heilongjiang, the PRC, for a consideration of RMB86,922,090 (the "**Forest Land Acquisition**"). The Company will apply to convert the purpose of the Forest Land from forest land to industrial use.

#### **CHANGE IN USE OF PROCEEDS**

After due and careful consideration and evaluation of the Group's operation and business strategy, the Directors had resolved to change the use of the remaining unutilised Net Proceeds in connection with the Listing in the amount of approximately RMB71.7 million to be used for the Forest Land Acquisition as forest land acquisition costs of the Company, which is expected to be fully utilised by the Company by the end of 2024.

#### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios under Rule 14.07 in respect of the Forest Land Acquisition exceed 5% but are less than 25%, the Forest Land Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the reporting and announcement requirements, but is exempted from the requirement of shareholders' approval, under Chapter 14 of the Listing Rules.

## **(1) BUSINESS UPDATE**

Pursuant to the “Business” section of the Prospectus, the Company’s target beneficiation capacity for constructing a new beneficiation plant was estimated at approximately 50,000 tonnes of flake graphite concentrate per year; and the Company’s target processing capacity for constructing a new processing plant was estimated at approximately 6,000 tonnes of spherical graphite per year. To strengthen the Company’s strategic layout and to increase the Company’s competitiveness in the graphite industry, the Company acquired the Forest Land for the purpose of increasing its graphite extraction volume, the construction of its new beneficiation plant, new processing plant and tailings pond, as stipulated in the Prospectus.

The Company has designed a new graphite extraction plan to increase the permitted graphite extraction volume at the Company’s Beishan Mine to exceed 500,000 tonnes per year. As a result, it is the Company’s plan that part of the Forest Land would be used for graphite mining and the storage of the expected increasing wasted rocks from the increasing extraction activities. With the increase of the above graphite mining capacity, the Beishan Mine can fully supply the unprocessed graphite for production to the Company’s existing beneficiation plant and the new beneficiation plant stated in the Prospectus, and the Group would benefit from the production cost advantage in the long run.

The remaining part of the Forest Land shall serve as land reserve to secure the abundance and availability of land space proximate to the Beishan Mine for construction, development and expansion of the Company in the future. After the Forest Land Acquisition, the Company shall proceed to apply to convert the purpose of the Forest Land from forest land to industrial use, apply for the land use construction approval and commence the construction of the foregoing accordingly. As the construction of the new beneficiation plant can be commenced after the Company converts the usage purpose of the Forest Land, the timeline to commence construction of the new beneficiation plant shall be rescheduled to the third quarter of 2024, and is expected to be completed by the end of 2025. Meanwhile, the Company is in the process of preparing the application to the applicable governmental authority for the permission to extract below the licensed limit of 150ml ASL at the applicable area of the Forest Land, in order to increase the graphite mining capacity to exceed 500,000 tonnes per year.

Considering the recent and expected competition of the downstream electric vehicle market and the overall graphite industry in the PRC in the near future, the Company decided to adjust the Group’s latest strategic focus from “production capacity oriented” to “production cost optimisation”. Increasing the Company’s maximum graphite extraction volume has been put as the business priority which enables the Group to benefit from cost advantage, and the Board is optimistic towards the graphite industry with the above strategic focus and direction.

## (2) ACQUISITION OF FOREST LAND USE RIGHTS

The Board is pleased to announce that on 21 February 2024, Yixiang New Energy, an indirect wholly-owned subsidiary of the Company, obtained an official consent from the National Forestry and Grassland Administration\* (國家林業和草原局) in respect of the acquisition of the Forest Land Use Rights of the Forest Land situated at Heilongjiang, the PRC for a consideration of RMB86,922,090. Details of the Forest Land Acquisition are set out below:

Date of obtaining the consent for the Forest Land Use Rights	:	21 February 2024
Parties	:	(1) National Forestry and Grassland Administration* (國家林業和草原局) (as the transferor); and  (2) 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) (as the transferee)
Location of the Forest Land	:	the forest land situated at the intersection of the southern lower hill of Khingan Mountains and Sanjiang Plain, Luobei County, Hegang City, Heilongjiang Province, the PRC
Total site area of the Forest Land	:	1,496,539 m <sup>2</sup>
Consideration	:	RMB86,922,090
Term	:	Initial term of two (2) years for the Company to convert the purpose of the Forest Land from forest land to industrial use, of which Yixiang New Energy can apply to renew prior to the expiry of the two (2) years

After the Forest Land Acquisition, there will be further costs to be incurred by the Company for converting the purpose of the Forest Land from forest to industrial use, and other related expenses. As the Company is in the process of ascertaining such amount with governmental authority, further announcement(s) in relation to any other material developments and costs to be incurred in connection with the Forest Land Acquisition will be made to comply with the Listing Rules as and when appropriate.

## **BASIS FOR DETERMINING THE CONSIDERATION**

The consideration was determined in accordance with the relevant PRC laws and regulations, including but not limited to, the “Notice of the State Forestry Administration of the Ministry of Finance on adjustment of forest vegetation restoration fee standard guide with respect to the economical and intensive use of forest land, Finance and Taxation (2015) No. 122”\* (財政部國家林業局關於調整森林植被恢復費徵收標準引導節約集約利用林地的通知，財稅[2015]122號) (“**Forest Fee Guide**”) which was issued by Heilongjiang Provincial Forestry Department\* (黑龍江省林業廳) and Heilongjiang Provincial Department of Finance\* (黑龍江省財政廳) on 7 January 2016. The Group considered the consideration for the Forest Land Use Rights was fair and reasonable after taking into account, among other things, (i) the calculation guide and measures set out in the Forest Fee Guide; and (ii) the location and development potential of the Forest Land. The Group intends to finance the consideration by internal resources and external financing. As of the date of this announcement, the Company has an unutilized banking facility of approximately RMB83 million.

## **REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Company is principally engaged in the provision of production and sales of flake graphite concentrate and spherical graphite. Taking into account the aforementioned business update of the Company, the Directors have been active in seeking opportunities and suitable land parcel for construction of a new beneficiation plant and processing plant to increase its production and sales of graphite product, as well as building a tailings pond nearby in order to reduce transportation costs for disposal of waste rocks and tailing. Considering the latest strategic focus adopted by the Company to minimise its production costs in the long term, the Company is also active in identifying opportunities to expand its graphite extraction capacity in order to lower the Company’s production costs with the abundance of graphite resources to fully supply unprocessed graphite for production for the Company’s existing and new beneficiation plants, thereby creating upstream and downstream synergies that reduce costs while securing a continuous and stable supply of quality graphite. By doing so, the Company can further strengthen its competitive advantages and expand its business, broaden its revenue base while reducing costs, and enhance its profitability to generate better returns to its shareholders. The Forest Land Acquisition represents a unique business opportunity for the Company to implement its new strategic focus and direction and leverage its resources in expanding its base and network, as well as increasing its brand influence and business competitiveness in the graphite market in the PRC, considering the fierce competitions among the graphite industry players in recent years and the near future.

In light of the above, the Board considered that the terms of the Forest Land Acquisition are entered into in accordance with relevant PRC laws and regulations, under normal commercial terms, are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## INFORMATION OF THE PARTIES

Yixiang New Energy 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.

National Forestry and Grassland Administration\* (國家林業和草原局), an administration established by the national government of the PRC, is responsible for, among others, the administration of planning, protecting and developing forests and grassland in the PRC. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, National Forestry and Grassland Administration\* (國家林業和草原局) and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

### (3) CHANGE IN USE OF PROCEEDS

#### BACKGROUND

As disclosed in the Prospectus, the Company intended to apply the Net Proceeds in the following manner:

- (a) approximately 32.4% of the Net Proceeds, or RMB23.2 million for land acquisition costs;
- (b) approximately 31.6% of the Net Proceeds, or RMB22.7 million for construction costs; and
- (c) approximately 36.0% of the Net Proceeds, or RMB25.8 million for purchasing and installing machinery and equipment.

The net proceeds from the Listing, after deducting the listing expenses, amounted to approximately RMB71.7 million (the “**Net Proceeds**”). As at the date of this announcement, the Net Proceeds have not been utilized and were placed as deposits with licensed banks in the PRC.

## CHANGE IN USE OF PROCEEDS

After due and careful consideration of the recent business environment, the prospective development and change of strategic focus and direction of the Group, the Board has reviewed and resolved to adjust the use of the unutilised Net Proceeds for the Forest Land Acquisition.

Following such changes and taking into account of the utilisation status of the Net Proceeds as at the date of this announcement, the revised use of the unutilised Net Proceeds will be as follows:

<b>Business purposes as stated in the Prospectus</b>	<b>Net Proceeds <i>RMB million</i></b>	<b>Utilised amount of Net Proceeds up to the date of this announcement <i>RMB million</i></b>	<b>Unutilised Net Proceeds up to the date of this announcement <i>RMB million</i></b>	<b>Revised allocation of the unutilised Net Proceeds <i>RMB million</i></b>
Land acquisition costs	23.2	Nil	23.2	71.7
Construction costs	22.7	Nil	22.7	Nil
Purchasing and installing machinery and equipment	25.8	Nil	25.8	Nil
<b>Total</b>	<b>71.7</b>	<b>Nil</b>	<b>71.7</b>	<b>71.7</b>

## REASONS FOR THE CHANGE IN USE OF PROCEEDS

The reason for change in the Use of Proceeds is due to the Company's change of its strategic focus and direction from "production capacity oriented" to "production costs optimisation", in that the Company plans to increase the graphite extraction volume to exceed 500,000 tonnes per year, through which the Company can fully supply unprocessed graphite to satisfy the need of its own production, maintain better control on its production costs and achieve the objective of "cost optimising" in the long term. On the other hand, the Company shall continue with the construction of the new beneficiation plant and new processing plant with its internal resources so that it can maintain its momentum to solidify its graphite production capacity.

The Directors are of the view that the revised allocation in the use of the unutilised Net Proceeds would not materially affect the business of the Group as a whole and will allow the Company to deploy its financial resources more effectively, to achieve the business development and latest objectives of the Group and to prepare itself for increasing competition in the graphite industry in the years to come. Based on the above, the Directors consider that the change in use of the Net Proceeds is in the best interests of the Company and its shareholders as a whole.

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the Forest Land Acquisition exceed 5% but are less than 25%, the Forest Land Acquisition constitutes a discloseable transaction of the Company and is therefore subject to the report and announcement requirements, but is exempted from the requirement of shareholders' approval, under Chapter 14 of the Listing Rules.

**Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company. The Company will make further announcement if and when there is any material development on the matter or otherwise as required by the Listing Rules.**

## DEFINITIONS

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

“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)
“connected person(s)”	has the meaning as ascribed to it under the Listing Rules
“Forest Land”	the forest land situated at the intersection of the southern lower hill of Khingan Mountains and Sanjiang Plain, Luobei County, Hegang City, Heilongjiang Province, the PRC
“Forest Land Acquisition”	the acquisition of the Forest Land Use Rights of the Forest Land
“Forest Land Use Rights”	the usage rights on the Forest Land
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“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
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“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
“Yixiang New Energy”	Heilongjiang Baoquanling Farmland Yixiang New Energy Materials Company Limited* (黑龍江省寶泉嶺農墾溢祥新能源材料有限公司), a company established under the laws of the PRC with limited liability on 20 April 2011 and is the Company’s indirect wholly-owned subsidiary
“%”	per cent

\* For identification purpose only

By order of the Board  
**China Graphite Group Limited**  
**Zhao Liang**  
*Chairman, executive Director and chief executive officer*

Hong Kong, 1 March 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.*