SANERGY

SANERGY GROUP LIMITED
昇能集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 2459

2023
ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Peter Brendon Wyllie *(Chairman)*
(appointed with effect from 19 May 2023)
Mr. Hou Haolong
Mr. Yan Haiting
Dr. Wei-Ming Shen *(Chief Executive Officer)*
(resigned with effect from 31 March 2024 as an executive Director)
Mr. Adriaan Johannes Basson (retired on 19 May 2023)

Non-executive Director

Mr. Wang Ping

Independent Non-executive Directors

Ms. Chan Chore Man Germaine
Mr. Cheng Tai Kwan Sunny
Mr. Ngai Ming Tak Michael
Mr. Sun Qing (resigned on 12 April 2023)

COMPANY SECRETARY

Mr. Lau Che Yan Kenneth *(HKICPA, ICAEW, ACCA)*
Ms. Ip Cheuk Man Louisa (resigned on 13 September 2023)

AUTHORIZED REPRESENTATIVES

Mr. Hou Haolong
Mr. Wang Ping

AUDIT COMMITTEE

Mr. Cheng Tai Kwan Sunny *(Chairman)*
Mr. Ngai Ming Tak Michael
Ms. Chan Chore Man Germaine
Mr. Sun Qing (resigned on 12 April 2023)

NOMINATION COMMITTEE

Mr. Peter Brendon Wyllie
Mr. Cheng Tai Kwan Sunny
Ms. Chan Chore Man Germaine
Mr. Sun Qing (resigned on 12 April 2023)

REMUNERATION COMMITTEE

Mr. Cheng Tai Kwan Sunny *(Chairman)*
Mr. Ngai Ming Tak Michael
Mr. Peter Brendon Wyllie (appointed with effect from 31 March 2024)
Dr. Wei-Ming Shen (resigned with effect from 31 March 2024)
Mr. Sun Qing (resigned on 12 April 2023)

ESG COMMITTEE

Mr. Ngai Ming Tak Michael *(Chairman)*
Mr. Yan Haiting
Ms. Chan Chore Man Germaine
Mr. Sun Qing (resigned on 12 April 2023)

AUDITOR

Deloitte Touche Tohmatsu (appointed on 21 July 2023)
Certified Public Accountants
Registered Public Interest Entity Auditor

Ernst & Young (resigned on 31 July 2023)
Certified Public Accountants
Registered Public Interest Entity Auditor

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

3 East Industrial Road,
Hongzhou Industrial Park,
Huixian Industries Concentration Zone,
Xinxiang, Henan
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2602, 26th Floor
China Resources Building
26 Harbour Road, Wanchai

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Wells Fargo Bank, N.A.
Credit Suisse (Switzerland) Ltd.

STOCK CODE

2459

WEBSITE

www.sanergygroup.com

Corporate Profile

We are a global manufacturer of UHP graphite electrodes with a worldwide customer base in over 25 countries comprising major global EAF steel manufacturers in Americas, EMEA, APAC and the PRC that sell their products to the automotive, infrastructure, construction, appliance, machinery, equipment and transportation industries.

The dual carbon goals, namely carbon peaking before 2030 and carbon neutrality before 2050 have brought global momentum towards the transformation of our downstream industry of steel manufacturing by shifting from blast furnace steelmaking to EAF steel manufacturing. In recent years, blast furnace steelmaking predominates the steel production with around 70% in worldwide and even around 90% in the PRC. Using EAF is more environmental friendly in terms of pollutants emissions and energy consumptions and regarded as a core pillar of decarbonisation to complete "super-low-emission" renovations within the steel industry. With our commitments to offer high quality UHP graphite electrode which serves as a key industrial material to EAF steel manufacturers and our continuous efforts to strive for a cleaner production process to reduce emissions and wastes as well as energy consumption, we believe, together with our downstream customers, we would be able to contribute to a green and sustainable economy in the long run.

We have our production facilities in Italy and the PRC with annual effective production capacities of 46,000MT in aggregate, which enables us to flexibly meet the demand for graphite electrodes from our customers located in different parts of the world and provide them with support and technical services.

We have regional sales teams focusing on the markets of Americas, EMEA, APAC and the PRC to serve and support our customers in all different geographies. Our global reach through our strong sales and distribution network ensures that our products are readily available to our customers.

In view of the potential growth of the GAM market for lithium-ion batteries and to leverage on the first-mover advantage in Europe, in December 2023, the Group has embarked on a brownfield GAM project to build a European GAM production plant with an annual effective synthetic GAM production capacity of 20,000MT in Europe. Such a strategic decision to establish the Group's own GAM production facilities in Europe is in line with future market development trends.

Definitions

In this annual report, the following terms shall have the following meanings, except otherwise stated:

"2024 AGM"	the annual general meeting of the Company to be held at 10:30 a.m. on 16 May 2024 at Units 5906–5912, 59/F, The Center, 99 Queen's Road Central, Central Hong Kong
"APAC"	Asia-Pacific
"Articles"	the articles of association of the Company
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"CG Code"	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
"China" or "PRC"	the People's Republic of China, for the purpose of this annual report, excluding Hong Kong, Macau Special Administrative Region and Taiwan region
"Company"	Sanergy Group Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed on the Stock Exchange (stock code: 2459)
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Otautahi Capital Inc., Otautahi Holdings Limited, Otautahi Enterprises Trust Company Limited and Mr. Hou Haolong
"Director(s)"	the director(s) of the Company
"EAF"	electric arc furnace
"EMEA"	Europe, Middle East and Africa
"ESG Committee"	the environmental, social and governance committee of the Company
"EUR" or "Euro"	Euro, the lawful currency of the member states of the European Union
"FY2022"	the year ended 31 December 2022
"FY2023"	the year ended 31 December 2023

"GAM"	graphite anode materials
"Group" or "we"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Latest Practicable Date"	19 April 2024, being the latest practicable date prior to the publication of this annual report for ascertaining certain information contained herein
"Listing Date"	17 January 2023, being the date of listing of the Shares on the Main Board of the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules
"MT"	metric ton
"Nomination Committee"	the nomination committee of the Company
"Prospectus"	the prospectus of the Company dated 30 December 2022
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of nominal value of US$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"UHP graphite electrodes"	ultra high power graphite electrodes, a term used in the global graphite electrode market, which can generally withstand current densities greater than 25 ampere per square centimeter
"U.S."	the United States
"USD" or "US$"	United States dollars, the lawful currency of the United States

Chairman's Statement

Dear Shareholders,

2023 presented a number of challenges industry-wide and difficulties at a macro level that exceeds our expectation in 2022. The past year has been marked by the softness in the steelmaking industry and in turn our graphite electrodes market, characterized by a global economic uncertainties, moderating inflation, intensifying political tensions, higher interest rates and industry-wide headwinds. Despite these adverse conditions, our Group has exemplified unwavering determination, resilience, and a proactive approach to not only navigate through challenging times but also establish the foundations for new business opportunities.

The Group's revenue from the core graphite electrode business reached approximately US$72.3 million in FY2023, reflecting a decrease of around 37.4% compared to FY2022 which is mainly dragged down by the suppressed sales quantity. The revenue decline was observed across all geographical regions, aligning with the slowdown in worldwide crude steel production in 2023. Factors contributing to the decline included suppressed customer demand and de-stocking in the downstream supply chain. In response to this situation, we swiftly implemented a comprehensive strategy, focusing on preserving the Group's operating resources and minimize our inventory risk exposure. However, the reduced production volume and fixed overhead costs inevitably led to an increased average unit cost of sales. This, combined with a declined gross profit margin, inventory provision, and non-recurring expenses (mainly listing related expenses), ultimately resulted in a shift from profit to a loss for the Group in FY2023.

While there have been challenges and it would seem those challenges continue to exist in 2024, we as a group have taken this opportunity to invest in diversification with GAM investment as a natural expansion of our business. Through strategic investment and recruitment we are planning on being the first or at the very least amongst the first graphite anode producers in the European market thereby assisting to secure the future supply chain for EV production in Europe. In mid April 2024, our ground-breaking ceremony would take place in Italy for our anode production facility. Through our strategic investments, we are endeavoring to establish our technology for anode production of cutting edge in line with Chinese technology in this sphere. Our strategic investments are not limited to European GAM production, but also in research and development of silicon-based anode materials in China to enable us to be part of the next generation technology in GAM production. These investments will equip us with the resilience to come through the current challenges in the graphite electrode market.

The Group's financial resources, including cash reserves, cash flow, and liquidity positions, have played a vital role in supporting its operations amidst numerous challenges and headwinds in a global business landscape plagued by external shocks. In the upcoming year, we will implement our cost optimization measures while ensuring that our commitment to delivering exceptional customer service remains uncompromised. Considering the demanding business environment and the simultaneous development of our dual-core business strategy in graphite electrodes and graphite anode materials, we anticipate that overall operating expenses will be maintained at a certain level. We will prudently and consistently monitor our financial position to ensure the long-term sustainability of our business.

Our commitment to sustainability remains unwavering and the Group has encountered some delightful moments during the year, having the privilege of being awarded the prestigious "2023 ListCo Excellence Awards" by reputable local media channels and the "Best Listed Company at ESG Advancement Award" at the 13th Hong Kong International Financial Forum and Hong Kong International ESG List Annual Selection and Awards Ceremony in 2023. We will continue to prioritize environmental sustainability, social responsibility, and ethical governance in all our operations.

Finally, we are looking forward to stepping into a brighter and more prosperous in 2024 and 2025 and appreciate your journey alongside us.

Peter Brendon Wyllie
Chairman

21 March 2024

Financial Highlights

	For the year ended 31 December	
	2023	2022
	US$'000	US$'000
Operating results:		
Revenue	**72,292**	115,521
Gross profit	**841**	26,028
Gross profit %	**1.2%**	22.5%
(Loss) profit for the year attributable to owners of the Company	**(15,476)**	7,496
Net (Loss) profit %	**(21.4)%**	6.5%

GEOGRAPHICAL INFORMATION

(a) Revenue from external customers

	2023		2022	
	US$'000	**%**	US$'000	%
Americas	**19,326**	**26.7**	33,484	29.0
Europe, Middle East and Africa ("EMEA")	**38,319**	**53.0**	51,664	44.7
People's Republic of China (the "PRC")	**12,907**	**17.9**	27,871	24.1
Asia Pacific excluding the PRC	**1,740**	**2.4**	2,502	2.2
	72,292	**100**	115,521	100

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

(b) Non-current assets

	2023		2022	
	US$'000	**%**	US$'000	%
Americas	**78**	**0.1**	202	0.2
EMEA	**50,241**	**43.6**	50,739	48.4
PRC	**64,836**	**56.3**	52,168	49.8
Asia Pacific excluding the PRC	**36**	**–**	1,629	1.6
	115,191	**100**	104,738	100

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Management Discussion and Analysis

BUSINESS REVIEW

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

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

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

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

FUTURE PROSPECTS

Looking ahead to 2024, we anticipate that the global economy will continue to be subdued in the near term. This projection is based on the prevailing softness in the commercial landscape, as various industries grapple with constraints stemming from the ongoing global economic uncertainty. In spite of the preceding, the global context of carbon neutrality continues to be the Group's growth driver in the mid-to-long term. The Group remains optimistic about its future business outlook and continues to pursue its business plan with a view to better position itself for business opportunities once the industry picks up its momentum.

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

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

Going forward, the Group remains confident in its ability to navigate the current market conditions and is optimistic about the long-term outlook for the dual-core businesses. The Group will proactively and diligently execute its initiatives to provide a compelling value proposition to its customers and uphold the mission of driving the transformation of our downstream industries to be part of the sustainable value chain under the backdrop of dual carbon goals in the global market. The Group will continue to strive to monetise its business strategies and capitalise on industry tailwinds to deliver long term growth for the long-term interests of its stakeholders.

* *for identification purposes only*

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

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

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

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

Cost of Sales

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

Gross Profit and Gross Profit Margin

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

Administrative Expenses

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

Finance Costs

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

Listing Expenses

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

Loss for the Year

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

Adjusted net (loss) profit

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

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

Liquidity, Capital Resources and Capital Structure

During FY2023, the Group met its capital requirements principally with the following:

(i) cash generated from operations;

(ii) proceeds from bank and other borrowings; and

(iii) proceeds from the global offering of shares of the Company on the Stock Exchange on 17 January 2023.

Management Discussion and Analysis

Cash Flow

The net cash used in operating activities, the net cash used in investing activities and the net cash from financing activities in FY2023 amounted to US$6.1 million (2022: net cash from operating activities: US$5.4 million), US$15.0 million (2022: net cash used in investing activities: US$6.0 million) and US$38.4 million (2022: net cash used in financing activities: US$2.5 million), respectively.

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

As at 31 December 2023, the Group's cash and cash equivalents were approximately US$29.6 million (31 December 2022: US$11.7 million) and mainly denominated in US$, Euro, RMB and HK$.

The Group's total interest-bearing bank and other borrowings as at 31 December 2023 amounted to approximately US$38.7 million (31 December 2022: US$30.2 million), which were mainly denominated in US$, RMB, EUR and HK$. The interest-bearing bank borrowings were mainly used for working capital purposes and all of which are at commercial lending interest rates.

The Group manages its capital structure by maintaining a balance between equity and debts. As at 31 December 2023, the Group's total equity and liabilities amounted to approximately US$148.5 million and US$77.6 million, respectively (31 December 2022: US$132.9 million and US$72.9 million, respectively).

Gearing Ratio

The Group's gearing ratio, as calculated based on total debts divided by total equity, increased from approximately 22.7% as at 31 December 2022 to approximately 26.1% as at 31 December 2023. This was mainly attributable to the overall increase in the interest-bearing bank and other borrowings.

Foreign Exchange Exposure

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. At present, the Group does not intend to seek to hedge our exposure to foreign exchange fluctuations. However, the Group's management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future where appropriate.

Capital Expenditures

The Group's capital expenditures principally consisted of expenditures on additions to property, plant and equipment mainly including Taigu Assets (as set out in the announcement of the Company dated 6 July 2023) and upgrades of our production systems. For FY2023, the Group incurred capital expenditures of approximately US$13.6 million.

Contingent Liabilities

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

Pledge of Assets

As at 31 December 2023, certain of property, plant and equipment, trade receivables and industrial leasehold land with carrying amounts of approximately US$22.7 million, US$10.1 million and US$3.2 million, respectively (as at 31 December 2022: US$38.2 million, US$14.8 million and US$3.3 million, respectively) were pledged to third parties for interest-bearing bank and other borrowings granted to the Group.

Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Venture

Establishment of Joint Venture

On 16 May 2023, Huixian Municipal People's Government (輝縣市人民政府) (the "**Huixian Government**") and the Company entered into a joint venture agreement and a supplemental agreement thereto (the "**JV Agreement**"), pursuant to which the parties agreed to establish a joint venture company in the PRC with limited liability (the "**JV Company**").

Pursuant to the JV Agreements, the registered capital of the JV Company will be RMB100 million, which shall be contributed as to (i) 51% by Huixian City Construction Investment Co., Ltd.* (輝縣市建設投資有限公司), a company wholly-owned by the Huixian Government; (ii) 37% by Gosource Capital Limited ("**Gosource Capital**"), an indirect wholly-owned subsidiary of the Company; and (iii) 12% Henan Sangraf Carbon Technology Company Limited* (河南昇瑞炭材料科技有限公司) ("**Sangraf Henan**"), an indirect wholly-owned subsidiary of the Company. As at the date of this report, the JV Company was duly established under the PRC laws while its registered capital has not yet been paid up by the parties. Pursuant to the amendment of the PRC Company Law (to be effective on 1 July 2024), the registered capital of a limited liability company shall be fully paid within 5 years from the date of establishment. The parties to the JV Agreement are currently in further negotiation as to the timing and the method of contribution. The JV Company is a non-wholly owned subsidiary of the Company and thus its financial results were consolidated into the financial statements of the Group. Further details of the JV Agreements are set out in the announcement of the Company dated 16 May 2023 and the supplemental announcement of the Company dated 8 August 2023.

Acquisition of Taigu Assets

On 6 July 2023, Shengrui (Shanxi) New Materials Technology Co. Limited* (昇瑞(山西)新材料科技有限公司) (the "**Purchaser**"), an indirect wholly-owned subsidiary of the Company, entered into an agreement (the "**Asset Purchaser Agreement**") with Shanxi Taigu Mingxing Carbon Steel Company Limited * (山西太谷明興碳素瑪鋼有限公司)(the "**Vendor**") to acquire relevant buildings, production facilities, and intangible assets pertaining to graphite electrode products, etc (the "**Taigu Assets**") for a consideration of approximately RMB80.5 million, of which 50% had been settled as at the date of this report and the remaining balance shall be settled upon fulfilment of certain conditions including but not limited to obtaining the ownership certificates of the buildings within the Taigu Assets with the assistance of the Vendor (the "**Payment Condition**"). As at the date of this report, the Payment Condition is yet to be fulfilled and the Vendor attempted to seek rescission on the basis of force majeure which, as advised by the PRC legal advisers of the Company, is groundless given that the completion of the acquisition of the Taigu Assets had taken place in August 2023. The PRC legal advisers further advised that it is feasible and practicable for the Company to obtain the required certificates. As at the date of this report, the Company is utilizing the Taigu Assets in the ordinary course of business and the Company will continue to negotiate with the Vendor in an effort to obtain the required certificates following the required procedures. The Company will update the Shareholders and potential investors on the latest developments as and when appropriate.

* *for identification purposes only*

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

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

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

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

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

Significant Investments

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

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

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

* *for identification purposes only*

BOARD OF DIRECTORS

Executive Directors

Peter Brendon Wyllie ("Mr. Wyllie"), aged 56, joined the Group in January 2014 and was a Director of the Company from June 2018 to June 2020. He is the General Counsel of the Group and a director of Gosource (China) Limited* (高碩(中國)有限公司), Gosource Capital Limited, GoSource Group Limited, Grafworld International Inc., Grafworld Macau Commercial Offshore Limited (also known as "Grafworld Commercial Offshore De Macau Limitada"), Sanergy Asia Ltd, Sanergy Europe Inc, Sanergy Global Ltd, Sanergy Group (Hong Kong) Limited, Sanergy Holding International Inc, Sangraf Global Inc, Sangraf International (Hong Kong) Limited and Sanode International Co., Limited, all being wholly-owned subsidiaries of the Company. Mr. Wyllie is primarily responsible for overseeing, identifying, developing and directing the implementation of business strategies and legal advisory work.

Mr. Wyllie is a barrister and solicitor of the High Court of New Zealand. Prior to joining our Group, Mr. Wyllie was an equity partner at Helmore Ayers Lawyers in New Zealand, a boutique law firm specializing in asset structuring, commercial matters, acquisition and sales, corporate governance and private client work for local, national and international consumers, intermediaries and advisers. Mr. Wyllie was an advisor of the Family Trust Legal & Affairs Centre of King & Capital Law in Beijing, PRC from 2016.

Mr. Wyllie became a member of the International Tax Planning Association in November 2015, and a member of the Society of Trust and Estate Practitioners and a Registered Trust and Estate Practitioner in August 2007. He received a diploma in international trust management from the Society of Trust and Estate Practitioners in July 2007. He received a Master of Laws (Internet and Electronic Law) degree from Monash University in March 2003 and subsequently became admitted as a barrister and solicitor of the High Court of New Zealand in May 2003. Mr. Wyllie graduated from the University of Canterbury with a bachelor of laws degree in December 2001 and from the University of Otago with a bachelor of arts degree in December 1992.

Mr. Wyllie is a director of Otautahi Enterprises Trust Company Limited, one of the controlling Shareholders of the Company and the trustee of a discretionary family trust where Mr. Hou Haolong, one of the executive Directors and controlling Shareholders of the Company, is one of the beneficiaries.

Dr. Wei-Ming Shen ("Dr. Shen"), aged 70, joined the Group in October 2016. He was appointed as a Director in January 2020 and was re-designated as an executive Director on 11 June 2020. He is also (i) the chief executive officer of the Company and Sangraf International Inc., an indirect wholly-owned subsidiary of the Company; and (ii) a director of certain subsidiaries of the Company. Dr. Shen is primarily responsible for the overall management of business growth and improvement across various profitability metrics of the Group. Dr. Shen has resigned from the position of (i) an executive Director with effect from 31 March 2024; and (ii) the chief executive officer of the Company with effect from 1 May 2024, due to his retirement to reduce time commitments.

* *for identification purposes only*

Dr. Shen has over 38 years of experience in graphite technology, production, sales and business management. Prior to joining the Group, from July 1982 to January 2009, Dr. Shen worked at GrafTech International Holdings Inc, a company primarily engaged in the manufacturing of carbon and graphite products, with his last position as a business team member of the Engineering Solutions ("ES") division and the director of applications engineering in the ES division. From 2009 to 2014, Dr. Shen was the chief operating officer of Oregon Material Technology Group, a company primarily engaged in the graphite and silicon applications for PV industry. From May 2014 to May 2018, Dr. Shen served as an independent director of Sinosteel Advanced Materials (Zhejiang) Co., Ltd., a company primarily engaged in the manufacturing and sale of specialty graphite. He has been the president of C & Si Solutions, Inc., a company providing industry and management consultancy services, since May 2013.

Dr. Shen received a doctor of philosophy degree majoring in chemical engineering from the University of Wisconsin-Madison in May 1982. He also completed the Stanford Executive Program at the Graduate School of Business of Stanford University in 2005.

Mr. Yan Haiting (閆海亭) ("Mr. Yan"), aged 62, joined the Group in March 2018. He was appointed as a Director in January 2020 and was re-designated as an executive Director on 11 June 2020. He is also a director of certain subsidiaries of the Company and a member of the ESG Committee. Mr. Yan is primarily responsible for overseeing matters relating to corporate finance, mergers and acquisitions and bank financing of the Group.

Mr. Yan has extensive experience across both the banking and corporate finance sectors. Prior to joining the Group, Mr. Yan joined the Foreign Financial Institution Regulation Department of the People's Bank of China ("PBC") in April 1996 responsible for the financial affairs of Hong Kong, Macau and Taiwan. During his employment with PBC, he was seconded to The Hongkong and Shanghai Banking Corporation in the United Kingdom to learn about the corporate finance and asset management business. From January 2004 to August 2006, Mr. Yan served as the Vice Head and Head of the International Department of PBC. From September 2006 to March 2010, he was the chief representative (counselor) of PBC of Europe, responsible for the coordination and liaison with major economic institutions in Europe, policy research and submitting proposals to PBC and the State Council of China regarding the formulation of and decisions in economic and financial policies. During April 2010 to March 2014, Mr. Yan worked as the vice chairman, director and chief executive officer of Agricultural Bank of China (UK) Limited, responsible for business and market operations.

From April 2014 to December 2014, Mr. Yan served as a non-executive director of China First Capital Group Limited (stock code: 1269) ("China First Capital"). From 1 January 2015, Mr. Yan was re-designated as an executive director of China First Capital until he resigned in February 2018. In January 2020, he was also appointed as a non-executive director of Chong Kin Group Holdings Limited (stock code: 1609). He was redesignated as an independent non-executive director of Chong Kin Group Holdings Limited in January 2021 until June 2021.

Mr. Yan graduated from Henan University, the PRC in July 1988 with a bachelor of arts degree in English. In June 2001, he graduated with a master degree in economics from Renmin University of China, the PRC.

* *for identification purposes only*

Mr. Hou Haolong (侯皓瀧) ("Mr. Hou"), aged 46, joined the Group in February 2012 and was appointed as an executive Director on 29 March 2021. Mr. Hou is also a director of certain subsidiaries of the Company. He is the brother-in-law of Mr. Feng Jianguo, one of our senior management members. He is responsible for business infrastructure development, product innovation and business strategies of the Group.

Prior to joining the Group, from January 2003 to January 2013, Mr. Hou worked in Henan Sanli Carbon Products Co., Ltd.* (河南三力炭素制品有限公司) ("Henan Sanli") with his last position as general manager and was responsible for project implementation, including the production of large diameter UHP graphite electrode for EAF steel making.

Mr. Hou graduated with a bachelor of science in technology management in December 2000, and subsequently obtained a master of science in procurement and supply chain management from Golden Gate University in August 2002.

Non-executive Director

Mr. Wang Ping (王平) ("Mr. Wang"), aged 53, joined the Group in August 2019. He was appointed as a Director in October 2019 and re-designated as a non-executive Director on 11 June 2020. He is also a director of certain subsidiaries of the Company. Mr. Wang is primarily responsible for providing advice on business strategy development and financial planning.

Mr. Wang has over 20 years of experience in corporate finance, audit and accounting and financial management. From February 2004 to March 2007, Mr. Wang was employed by China Jishan Holdings Limited, a company listed on the main board of the Singapore Stock Exchange (stock code: J18), as its chief financial officer. From May 2007 to March 2010, Mr. Wang worked as the vice president of EV Capital Pte Ltd., a corporate finance advisory company engaging in corporate advisory services, and was responsible for providing advisory services in accounting and finance. From March 2012 to December 2015 and from March 2014 to December 2015, Mr. Wang served as the chief financial officer and executive director of China First Capital Group Limited (stock code: 1269).

Mr. Wang is currently an independent non-executive director of (i) China Hanking Holdings Limited (stock code: 3788) since February 2011; (ii) China Tianrui Group Cement Company Limited (stock code: 1252) since December 2012; (iii) Jia Yao Holdings Limited (stock code: 1626) since June 2014; (iv) Shenzhen Fuanna Bedding and Furnishing Co., Ltd, a company listed on the Shenzhen Stock Exchange (Stock Code: 002327.SZ) since October 2021; and (v) Chongyi Zhangyuan Tungsten Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002378.SZ) since May 2023.

Mr. Wang was admitted as a member of the Chinese Institute of Certified Public Accountants in December 1996 and a non-practicing member of the Shanghai Institute of Certified Public Accountants in September 2002. Mr. Wang graduated from Nanjing University, the PRC majoring in economics and management in December 1993 and obtained a master's degree in business administration from Sun Yat- Sen University, the PRC, in June 2004.

Independent Non-executive Directors

Mr. Cheng Tai Kwan Sunny (鄭大鈞) ("Mr. Cheng"), aged 52, was appointed as an independent non-executive Director on 19 December 2022. He is also the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. He is primarily responsible for providing independent advice to the Board.

Mr. Cheng has years of experience in management, financial reporting and management accounting. Mr. Cheng is an independent non-executive director of (i) Bojun Education Company Limited (stock code: 1758); and (ii) Hua Lien International (Holding) Company Limited (stock code: 969), since December 2017.

Mr. Cheng was a member of the Chinese People's Political Consultative Conference of Enping City, Guangdong Province from November 2011 to November 2016. Mr. Cheng was admitted as an associate and a fellow of The Association of Chartered Certified Accountants in July 1999 and July 2004, respectively. He was also admitted as a member of the Hong Kong Institute of Certified Public Accountants (previously known as Hong Kong Society of Accountants) in September 2001. In March 2018, Mr. Cheng became a member of CPA Australia.

Mr. Cheng received a bachelor of business administration in accounting from the Hong Kong University of Science and Technology in November 1996. In December 2006, Mr. Cheng received a master of science from The Chinese University of Hong Kong. Mr. Cheng was awarded the Master of Business Administration degree jointly by the Kellogg School of Management of Northwestern University and the School of Business and Management of the Hong Kong University of Science and Technology in December 2009. In November 2017, Mr. Cheng obtained the degree of Juris Doctor from The Chinese University of Hong Kong.

Mr. Ngai Ming Tak Michael (魏明德) ("Mr. Ngai"), aged 57, was appointed as an independent non-executive Director on 19 December 2022. He is also the chairman of the ESG Committee and a member of each of the Audit Committee and the Remuneration Committee. He is primarily responsible for providing independent advice to the Board.

Mr. Ngai is the chairman of The Red Group and the chairman of Asia GreenTech Fund. Mr. Ngai is also the president of Green Economy Development Limited (stock code: 1315). Mr. Ngai is an independent non-executive director of (i) True Partner Capital Holding Limited (stock code: 8657); (ii) China Longyuan Power Group Corporation Limited (stock code: 916); and (iii) CRRC Corporation Limited (stock code: 1766). Mr. Ngai is also an external director of China COSCO Shipping Corporation Limited.

Mr. Ngai is a member of the 12th, 13th and 14th National Committee of the Chinese People's Political Consultative Conference, the Chairman of the Hong Kong Finance Association, a Fellow Commoner of Clare Hall, University of Cambridge, a Council Member of The Hong Kong University of Science and Technology, a Court Member of Hong Kong Metropolitan University, Honorary Fellow of Lingnan University, Honorary Citizen of Harbin City, Heilongjiang Province.

Mr. Ngai graduated from University of Cambridge.

Ms. Chan Chore Man Germaine (陳楚雯) ("Ms. Chan"), aged 45, was appointed as an independent non-executive Director on 19 December 2022. She is a member of each of the Audit Committee, the Nomination Committee and the ESG Committee. She is primarily responsible for providing independent advice to the Board.

Ms. Chan has over 19 years of professional experience in accounting and corporate finance ranging from financial advisory to IPOs. Ms. Chan is a director of Innovax Capital Limited, a wholly-owned subsidiary of Innovax Holdings Limited (stock code: 2680). From July 2010 to June 2021, she served as the chief financial officer and company secretary of Shirble Department Store Holdings (China) Limited (stock code: 312).

Ms. Chan has been admitted as a member of the Hong Kong Institute of Certified Public Accountants since January 2006. She has a representative license by the Securities and Futures Commission of Hong Kong to carry on Type 1 (Dealing in Securities) activities and Type 6 (Advising on Corporate Finance) activities.

Ms. Chan received a bachelor's degree in business administration (accounting) from the Hong Kong University of Science and Technology in November 2002.

SENIOR MANAGEMENT

Mr. Feng Jianguo (馮建國) ("Mr. Feng"), aged 58, joined the Group in March 2016 and is the chief technology officer. He is the brother-in-law of Mr. Hou Haolong, one of the executive Directors. Mr. Feng is primarily responsible for overseeing project implementation and providing technical support.

Prior to joining the Group, from May 1997 to March 2016, Mr. Feng worked in Henan Sanli with his last position as a deputy general manager of production technology and the head of technology, responsible for the construction of UHP graphite electrode project.

Mr. Feng completed a course in chemical engineering and machinery from Zhengzhou Institute of Technology* (鄭州工學院) in July 1987. Mr. Feng obtained a certificate issued by Human Resources and Social Security Department of Henan Province, the PRC to certify his qualification as a senior engineer in chemical engineering in March 2016. He was admitted as a member of the Carbon Materials Sub-Technical Committee of the National Steel Standardization Technical Committee* (全國鋼標準化技術委員會炭素材料分技術委員會) in March 2020.

Mr. Lam Lok Fung (林洛鋒) ("Mr. Lam"), aged 36, joined the Group in June 2023 and is the chief financial officer of the Group. Mr. Lam is primarily responsible for overseeing the financial management of the Group. He has over 10 years of experience in corporate finance, financial management, accounting and audit assurance. Mr. Lam previously served as a vice president at the investment banking department of Alliance Capital Partners Limited, where he had handled cases related to financial advisory, compliance advisory and IPOs for PRC and Hong Kong companies. Mr. Lam was also a senior manager at Deloitte Touche Tohmatsu, managing the audit and listing of several Hong Kong public companies.

Mr. Lam has been admitted as a member of the Hong Kong Institute of Certified Public Accountants since January 2014. He also obtained a master's degree of Laws in Corporate and Financial Law from The University of Hong Kong in November 2019.

* *for identification purposes only*

Directors' Report

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for FY2023.

DIRECTORS

The Directors during FY2023 and up to the date of this report were:

Executive Directors

Mr. Peter Brendon Wyllie *(Chairman)* (appointed with effect from 19 May 2023)
Mr. Hou Haolong
Mr. Yan Haiting
Dr. Wei-Ming Shen *(Chief Executive Officer) (Note)* (resigned with effect from 31 March 2024 as an executive Director)
Mr. Adriaan Johannes Basson (retired on 19 May 2023)

Non-executive Director

Mr. Wang Ping

Independent Non-executive Directors

Ms. Chan Chore Man Germaine
Mr. Cheng Tai Kwan Sunny
Mr. Ngai Ming Tak Michael
Mr. Sun Qing (resigned on 12 April 2023)

Note: Dr. Wei-Ming Shen has tendered his resignation as the chief executive officer of the Company ("CEO") with effect from 1 May 2024.

In accordance with article 84(1) of the Articles, Mr. Hou Hao Long, Mr. Cheng Tai Kwan Sunny and Mr. Ngai Ming Tak Michael shall retire by rotation at the 2024 AGM and they, being eligible, will offer themselves for re-election.

None of the Directors proposed for re-election at the 2024 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation

The Company has received an annual confirmation from each of the independent non-executive Directors as regards their independence to the Company, and considers them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 15 to 19 of this annual report.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of graphite electrodes. The activities of the Company's principal subsidiaries are set out in note 37 to the consolidated financial statements.

An analysis of the Group's performance for FY2023 by operating segment is set out in note 5 to the consolidated financial statements.

RESULTS, DIVIDENDS AND DIVIDEND POLICY

The results of the Group for FY2023 are set out on pages 50 to 115 of this annual report.

No final dividend in respect of FY2023 (FY2022: US$Nil) was recommended by the Board.

The Group does not have a pre-determined dividend-payment ratio. The payment and the amount of any dividends will be at the discretion of the Directors and will depend upon the Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which the Directors deem relevant. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future. Any future declarations and payments of dividends will be at the discretion of the Directors and may require the approval of the Shareholders.

The payment of dividend by the Company is also subject to any restrictions under the applicable laws and regulations, including the laws of the Cayman Islands and the memorandum and articles of association of the Company.

BUSINESS REVIEW

A review of the Group's business during FY2023, which includes a discussion of the principal risks and uncertainties facing by the Group, an analysis of the Group's performance using financial key performance indicators, particulars of important events affecting the Group during FY2023 and up to the date of this report, and an indication of likely future developments in the Group's business, are provided in sections headed "Chairman's Statement" on page 6 and "Management Discussion and Analysis" on pages 8 to 14 of this annual report, and the notes to the consolidated financial statements.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognizes the importance of compliance with the requirements of relevant laws and regulations. During FY2023, as far as the Board and management are aware of, there was no material breach or non-compliance with any applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

ENVIRONMENTAL POLICIES

The Group is committed to building an environmental-friendly corporation and pays close attention to environmental protection laws and regulations to ensure the environmental policies are in line with domestic and international standards. All the factories are operated in strict compliance with the relevant environmental regulations and rules.

KEY RELATIONSHIPS

The Group recognizes the importance of maintaining a good relationship with its employees, customers and suppliers so as to maintain sustainable development in the long term. During the FY2023, there were no material and significant disputes between the Group and its employees, customers and suppliers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For details of the environmental related activities performed in 2023, please refer Company's 2023 Environmental, Social and Governance Report (the "ESG Report") published by the Company separately at the same time as the publication of this annual report on websites of the Company and the Stock Exchange.

The ESG Report will not be provided in printed form. For Shareholders who wish to receive a printed version of the ESG Report, please send your request in writing to the principal place of business of the Company in Hong Kong at Room 2602, 26th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during FY2023 are set out in note 15 to the consolidated financial statements.

SHARES MOVEMENT IN THE YEAR

Details of movements in the share capital of the Company in FY2023 are set out in note 28 to the consolidated financial statements.

DONATIONS

During FY2023, the Group donated RMB18,000 to different charitable organizations to support the development of local communities.

RESERVES

Details of the movements in the reserves of the Group and the Company during FY2023 are set out in the consolidated statement of changes in equity and note 29 to the consolidated financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2023, the Company's reserves available for distribution to shareholders of the Company were US$27,760,000, representing share premium of US$28,812,000, accumulated losses of US$952,000 and other debit reserve of US$100,000.

Under the Companies Law of the Cayman Islands, the share premium of the Company may be distributed subject to the provision of the Articles and provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five years is set out on page 116 of this annual report. The summary does not form part of the audited consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles and the Companies Law of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during FY2023 are set out in note 33 to the consolidated financial statements. Each of the related party transactions during FY2023 disclosed in note 33 to the consolidated financial statements was either a connected transaction or continuing connected transaction but is fully exempted and not subject to any of the disclosure requirements under Chapter 14A of the Listing Rules.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in note 33 to the consolidated financial statements, no transactions, arrangements or contracts of significance, to which the Company, its parent company, its subsidiaries or its fellow subsidiaries, was a party and in which a Director at any time during FY2023 or an entity connected with a Director at any time during FY2023 had any material interest, whether directly or indirectly, was entered into or subsisted at the end of FY2023 or at any time during FY2023.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Scheme", at no time during FY2023 was the Company, its holding company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in, or debt securities including debentures of, the Company or any other body corporate.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during FY2023, other than service contracts with the Directors and other persons engaged in the full-time employment of the Company.

CONTRACT WITH CONTROLLING SHAREHOLDER

No contract of significance, as well as contract of significance for the provision of services has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of its subsidiaries during FY2023.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, the Directors, secretary and other officers of the Company shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain in the execution of their duty. The Company has taken out and maintained directors' and officers' liability insurance since the Listing Date, which provides appropriate cover for certain legal actions (if any) brought against its Directors and officers.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at the 31 December 2023, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity and nature of interest	Number of shares	Percentage of interest (Note 1)
Mr. Hou Haolong	Founder of a discretionary trust (Note 2)	730,000,000	72.28%

Notes:

1. Based on 1,010,000,000 shares of the Company in issue as at 31 December 2023.

2. The shares were held by Otautahi Capital Inc. which is owned as to 100% by Otautahi Holdings Limited. Otautahi Holdings Limited is in turn wholly-owned by Otautahi Enterprises Trust Company Limited. Otautahi Enterprises Trust Company Limited is the trustee of the Otautahi Enterprises Trust, which is a discretionary trust established by Otautahi Enterprises Trust Company Limited as the trustee and Mr. Hou Haolong is one of the beneficiaries. Accordingly, Mr. Hou Haolong is deemed to be interested in the Shares held by Otautahi Capital Inc. under the SFO.

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions deemed or taken under the relevant provisions of the SFO), or which were required to be entered in the register referred to therein under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

To the best of Directors' knowledge, as of the 31 December 2023, the following persons (not being the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares as recorded in the register required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO which were kept by the Company pursuant to section 336 of the SFO:

Name of shareholders	Capacity and nature of interest	Number of shares	Percentage of interest (Note 1)
Otautahi Capital Inc. (Note 2)	Beneficial owner	730,000,000	72.28%
Otautahi Holdings Limited (Note 2)	Interest in controlled corporations	730,000,000	72.28%
Otautahi Enterprises Trust Company Limited (Note 2)	Trustee	730,000,000	72.28%

Notes:

1. Based on 1,010,000,000 shares of the Company in issue as at 31 December 2023.

2. The Shares were held by Otautahi Capital Inc. which is wholly-owned by Otautahi Holdings Limited. Otautahi Holdings Limited is wholly-owned by Otautahi Enterprises Trust Company Limited. Otautahi Enterprises Trust Company Limited is the trustee of Otautahi Enterprises Trust, which is a discretionary trust established by Otautahi Enterprises Trust Company Limited as the trustee and Mr. Hou Haolong is one of the beneficiaries of Otautahi Enterprises Trust. Accordingly, they are deemed to be interested in the Shares held by Otautahi Capital under the SFO.

Save as disclosed above, the Directors are not aware that there is any party (who were not Directors or chief executive of the Company) who, as at 31 December 2023, had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During FY2023, none of the Directors and directors of the Company's subsidiaries or their respective associates had any interests in any businesses, apart from the Group's business, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

SHARE OPTION SCHEME

On 19 December 2022, a share option scheme (the "Share Option Scheme") of the Company was approved and adopted by the then shareholders of the Company. No option under the Share Option Scheme has been granted since its adoption. At the beginning and the end of the FY2023, the number of options available for grant under the scheme mandate limit under the Share Option Scheme was 100,000,000.

The details of the Share Option Scheme are as follows:

1. **Purpose**

   The purpose of the Share Option Scheme is to give the Eligible Participants (as defined in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of an Employee Participant (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. **Who may join**

   The Board may, at its absolute discretion, offer options ("Options") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to any of the Employee Participant, the Related Entity Participant or the Service Provider (collectively, the "Eligible Participants") below:

   (a) any director or employee of the Company or any of its subsidiaries, including persons who are granted Options as an inducement to enter into employment contracts with the Company or any of its subsidiaries ("Employee Participants");

   (b) a director or employee of a holding company, a subsidiary of the holding company or an associated company of the Company ("Related Entity Participants"); and

   (c) any person who provides services to our Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long-term growth of our Group, including (i) a supplier of goods or services to any member of our Group; (ii) a customer of any member of our Group; (iii) a business or joint venture partner, franchisee, contractor, agent or representative in the sports product industry of any member of our Group; (iv) a person or entity (as an independent contractor, consultant, advisor or otherwise) that provides support or any advisory, consultancy, professional or other services to any member of our Group (including support or services in relation to design , research, development, marketing, in novation upgrading , strategic or commercial planning on corporate image, investor relations, product quality control, regulations and policies); and (v) an associate of any of the foregoing persons ("Service Providers"). For the avoidance of doubt, Service Provider may not include placing agents or financial advisers providing advisory services for fundraising, mergers or acquisitions, as well as professional service providers (such as auditors or valuers) who provide assurance or are required to perform their services with impartiality and objectivity.

3. **Maximum number of Shares**

The total number of Shares available for issue under the Share Option Scheme and any other schemes of the Company is 100,000,000 Shares, representing 9.9% of the Shares in issue as at the date of this annual report.

4. **Maximum entitlement of each participants**

No Option may be granted to any person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of any relevant class of the Company's issued share capital from time to time (the "1% Individual Limit"). Any further grant of Share Options in excess of the 1% Individual Limit is subject to shareholders' approval in a general meeting with such grantee and his/her associates abstaining from voting.

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive director of the Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the relevant class of securities in issue, such further grant of Options is subject to shareholders' approval in a general meeting with such grantee and his/her associates and all core connected persons (as defined in the Listing Rules) of the Company abstaining from voting.

5. **Offer and grant of Options**

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Participant as the Board may in its absolute discretion select to subscribe at the exercise price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. **Amount payable for Options and offer period**

An offer of the grant of an Option shall remain open for acceptance by the Eligible Participant concerned for a period of 28 days from the grant date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme or after the Share Option Scheme has been terminated. An Option shall be deemed to have been granted and accepted by the Eligible Participant and to have taken effect when the duplicate grant letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of the Company of US$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Participant, being a date no later than 28 days after the offer date.

7. **Vesting Period**

The exercise of any Option may be subject to a vesting period to be determined by the Board in its absolute discretion. In any event, the vesting period for an Option under the Share Option Scheme shall not be less than 12 months, except that the Options granted to Employee Participants may be less than 12 months under the following specific circumstances.

(a) grants of "make-whole" Options to new joiners to replace the share options they forfeited when leaving the previous employers;

(b) grants of Options to an Employee Participant whose employment is terminated due to death or disability or uncontrollable event. In those circumstances, the vesting of an Option may accelerate;

(c) grants of Options with performance-based vesting conditions in lieu of time-based vesting criteria;

(d) grants of Options made in batches during a year for administrative and compliance reasons;

(e) grants of Options with a mixed or accelerated vesting schedule such as where the Options may vest evenly over a period of 12 months; and

(f) grants of Options with a total vesting and holding period of more than 12 months.

8. **Exercise price**

The exercise price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the exercise price shall not be less than whichever is the higher of:

(a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the grant date; and

(b) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Business Days (as defined in the Listing Rules) immediately preceding the grant date.

9. **Life of Share Option Scheme**

The Share Option Scheme shall be valid and effective for a period of 10 years from 19 December 2022, i.e. until 18 December 2032, after which no further options pursuant to the Share Option Scheme may be granted.

EQUITY-LINKED AGREEMENTS

The Company did not enter into, and as of 31 December 2023 did not have, any equity-linked agreements which would or might result in the issue of Shares by the Company, or require the Company to enter into any agreements which would or might result in the issue of Shares by the Company, during FY2023.

EVENTS AFTER THE REPORTING PERIOD

Save as otherwise disclosed in this report, there are no significant events affecting the Group after FY2023 and up to the date of this report.

USE OF PROCEEDS FROM THE LISTING

The Company's shares have been listed on the Main Board of the Stock Exchange since the Listing Date. The net proceeds from the global offering after deducting the underwriting fees and commissions and related expenses were approximately HK$186.7 million. The Group has utilized and will continue to utilize the net proceeds from the global offering according to the purposes set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus. The intended application of the net proceeds as stated in the Prospectus and the actual utilization of the net proceeds from the global offering as at 31 December 2023 are as follows:

	Purpose	**Percentage of total amount**	**Net proceeds** HK$ million	**Utilized up to 31 December 2023** HK$ million	**Unutilized up to 31 December 2023** HK$ million	**Expected timeline of full utilization of the balance** (Note)
1	Pay for the purchase price of the Taigu Assets (as defined in the Prospectus)	34.8%	65.0	(44.2)	20.8	first half of 2025
2	Upgrade of the Group's production systems on the Italian Factory (as defined in the Prospectus), the PRC Factory (as defined in the Prospectus) and the Sanli Assets (as defined in the Prospectus)	55.2%	103.0	(28.8)	74.2	first half of 2025
3	Working capital and general corporate purposes	10.0%	18.7	(18.7)	–	–

Note: The expected dates of utilization of the net proceeds for the above purposes have been adjusted with the latest progress of the projects.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 31 December 2023.

MAJOR CUSTOMERS AND SUPPLIERS

During FY2023, sales to the Group's five largest customers accounted for approximately 48.7% of the total sales and the sales to the largest customer included therein amounted to approximately 17.4%. Purchases from the Group's five largest suppliers accounted for approximately 61.9% of the total purchases of the Group for FY2023 and the purchases from the largest supplier included therein amounted to approximately 19.0%.

None of the Directors or their close associates (as defined in the Listing Rules) or the Shareholders who, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company has any interest in any of the five largest customers or the five largest suppliers of the Group.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 10 May 2024 (Friday) to 16 May 2024 (Thursday) (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for attending and voting at the 2024 AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 9 May 2024 (Thursday).

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 31 December 2023, the Group employed 211 staff (31 December 2022: 220 staff). The staff costs (including directors' remuneration) for FY2023 amounted to approximately US$14.4 million (FY2022: US$9.6 million). The remuneration policies of the Group are determined based on market trends, future plans, and the performance of individuals. In addition, the Group also provides other staff benefit such as mandatory provident fund, state-managed social welfare scheme and share option scheme.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the Company's retirement and employee benefits scheme are set out in note 3 to the consolidated financial statements on page 66 of this annual report.

CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on principles and code provisions as set out in the CG Code. Since the Shares were listed on the Main Board of the Stock Exchange on 17 January 2023, the CG Code was not applicable to the Company prior to the Listing Date. The Company has complied with the code provisions as set out in the CG Code. It is worth noting that the roles of chairman and chief executive officer should be separate and performed by different individuals pursuant to Code C.2.1 of the Code Provisions. During FY2023, Dr. Wei-Ming Shen resigned as the chairman of the Board with effect from 19 May 2023 and following his resignation, Mr. Peter Brendon Wyllie, an executive Director at the time, was appointed as the chairman of the Board. Such change of chairman of the Board is in line with the requirement under the Code C.2.1 of the code provisions and demonstrated a clear division of responsibilities between the management of the Board and the day-to-day management of the Company's business to ensure a balance of power and authority.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report contained in this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as its code of conduct regarding Directors' securities transactions. Since the Shares were listed on the Main Board of the Stock Exchange on 17 January 2023, the Model Code was not applicable to the Company prior to the Listing Date. After making specific enquiries to all the Directors, each of them has confirmed that they have complied with the Model Code throughout the period from the Listing Date up to 31 December 2023.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has taken out and maintained appropriate insurance cover for its Directors and officers in respect of potential liabilities that they might incur in the course of performing their duties.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the Latest Practicable Date, the Company has maintained sufficient public float as prescribed under the Listing Rules.

AUDIT COMMITTEE

The Company has established the Audit Committee on 16 December 2022 with written terms of reference in compliance with the CG Code.

As at the date of this report, the Audit Committee consisted of the following members, all being independent non-executive Directors:

Mr. Cheng Tai Kwan Sunny *(Chairman)*
Ms. Chan Chore Man Germaine
Mr. Ngai Ming Tak Michael

The primary responsibilities of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Company's financial controls, internal control and risk management systems, to review and monitor the effectiveness of the audit process, making recommendations to the board on the appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors, reviewing the interim and annual reports and accounts of the Group and to perform other duties and responsibilities as assigned by the Board. The Audit Committee has reviewed and discussed the annual results and the consolidated financial statements of the Company for FY2023.

CHANGE OF AUDITORS

Ernst & Young has resigned as the auditors of the Company upon the request of the Company with effect from 31 July 2023 as the Company and Ernst & Young were unable to reach a consensus in respect of the audit fees for the year ended 31 December 2023. Deloitte Touche Tohmatsu ("Deloitte") has been appointed as the auditors of the Company with effect from 31 July 2023 to fill the casual vacancy following the resignation of Ernst & Young as the auditors of the Company and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

AUDITORS

The consolidated financial statements of the Company for FY2023 have been audited by Deloitte, who will retire and, being eligible, offer themselves for re-appointment as the auditors of the Company at the 2024 AGM.

On behalf of the Board
Peter Brendon Wyllie
Chairman

Hong Kong, 21 March 2024

The Board and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders of the Company and to enhance corporate value and accountability. Each Directors would ensure that he/she would devote sufficient time and attention to the Group's affairs by accepting their respective appointments.

CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance practices are based on principles and code provisions as set out in the CG Code. Since the Shares were listed on the Main Board of the Stock Exchange on 17 January 2023, the CG Code was not applicable to the Company prior to the Listing Date. The Company has complied with the code provisions as set out in the CG Code. It is worth noting that the roles of chairman and chief executive officer should be separate and performed by different individuals pursuant to Code C.2.1 of the Code Provisions. During FY2023, Dr. Wei-Ming Shen resigned as the chairman of the Board with effect from 19 May 2023 and following his resignation, Mr. Peter Brendon Wyllie, an executive Director at the time, was appointed as the chairman of the Board. Such change of chairman of the Board is in line with the requirement under the Code C.2.1 of the Code Provisions and demonstrated a clear division of responsibilities between the management of the Board and the day-to-day management of the Company's business to ensure a balance of power and authority.

RESPONSIBILITIES OF THE BOARD

The Board is responsible for leadership and control of the Group and collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies; authorizing the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control and risk management systems; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2023, the Board had eight Directors, consisting of four executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors

Mr. Peter Brendon Wyllie *(Chairman)*
Mr. Hou Haolong
Dr. Wei-Ming Shen *(Chief Executive Officer) (Note)* (resigned as an executive Director with effect from 31 March 2024)
Mr. Yan Haiting

Non-executive Director

Mr. Wang Ping

Independent Non-Executive Directors

Ms. Chan Chore Man Germaine
Mr. Cheng Tai Kwan Sunny
Mr. Ngai Ming Tak Michael

Note: Dr. Wei-Ming Shen has tendered his resignation as the CEO with effect from 1 May 2024.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors is set out on pages 15 to 19 in this annual report under the section headed "Directors and Senior Management Profile".

A list of Directors and their roles and functions is also available on the websites of the Stock Exchange and the Company. During the reporting period, the Board had reviewed the implementation and effectiveness of the mechanisms ensuring independent views and input available to the Board.

Independent Non-Executive Directors

Since the Listing Date to the date of this annual report, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all independent non-executive Directors are independent.

Term of Appointment of Non-executive Directors

All non-executive Directors (including independent non-executive Directors) are appointed for a specific term.

Mr. Wang Ping, being a non-executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant service agreement). Each of the independent non-executive Directors (Ms. Chan Chore Man Germaine, Mr. Cheng Tai Kwan Sunny and Mr. Ngai Ming Tak Michael) has entered into a letter of appointment with the Company for an initial term of one year commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant letter of appointment).

The Articles provide that subject to the manner of retirement by rotation of Directors as from time to time prescribed by the Listing Rules, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation and that every Director shall be subject to retirement by rotation at least once every three years.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance functions such as (i) developing and reviewing the Company's policies, practices on corporate governance and making recommendations to the board; (ii) reviewing and monitoring the training and continuous professional development of directors and senior management; (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements and reviewing Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and (iv) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors.

The Board held meetings from time to time whenever necessary. At least 14 days' notice of regular Board meetings will be given to all Directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers will be sent to all Directors at least 3 days before the date of a Board meeting in order to allow sufficient time for the Directors to review the documents.

Minutes of each Board meeting are circulated to all Directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary of the Company with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Company reviews the insurance coverage from time to time to ensure adequate coverage. There is a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses in order to assist them to discharge their duties to the Company.

CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly updated and apprised of the amendments to or updates on the relevant laws, rules, regulations and guidelines, particularly the effects of such new or amended laws, rules, regulations and guidelines on directors specifically, and the Company and the Group generally.

On an ongoing basis, Directors are encouraged to keep up-to-date on all matters relevant to the Group and to attend briefings, seminars and relevant training courses as appropriate. The Directors are requested to provide the Company with their respective training record pursuant to the requirement of the CG Code on continuous professional development.

During FY2023, all Directors (including Mr. Peter Brendon Wyllie, Dr. Wei-Ming Shen, Mr. Adriaan Johannes Basson, Mr. Yan Haiting, Mr. Hou Haolong, Mr. Wang Ping, Mr. Cheng Tai Kwan Sunny, Mr. Ngai Ming Tak Michael, Ms. Chan Chore Man Germaine and Mr. Sun Qing), during their respective term of office as Directors, participated in appropriate continuous professional development activities by way of attending training sessions and reading materials relevant to the Company's business, directors' duties and responsibilities and corporate governance.

ATTENDANCE AT MEETINGS

During FY2023, a total of 9 Board meetings and 1 general meeting (being the annual general meeting held on 19 May 2023, the "2023 AGM") were held. The record of attendance of the Directors at Board meetings and the 2023 AGM held during FY2023 is set out below:

	Board meetings	2023 AGM
Executive Directors		
Mr. Peter Brendon Wyllie *(Chairman)* (appointed on 19 May 2023)	6/7	N/A
Dr. Wei-Ming Shen	6/9	1/1
Mr. Yan Haiting	7/9	1/1
Mr. Hou Haolong	9/9	1/1
Mr. Adriaan Johannes Basson (retired on 19 May 2023)	1/1	0/1
Non-executive Director		
Mr. Wang Ping	8/9	1/1
Independent Non-executive Directors		
Mr. Cheng Tai Kwan Sunny	7/9	1/1
Mr. Ngai Ming Tak Michael	5/9	1/1
Ms. Chan Chore Man Germaine	7/9	1/1
Mr. Sun Qing (resigned on 12 April 2023)	1/1	N/A

BOARD COMMITTEES

Remuneration Committee

The Remuneration Committee currently comprises one executive Director, namely Mr. Peter Brendon Wyllie and two independent non-executive Directors, namely Mr. Cheng Tai Kwan Sunny and Mr. Ngai Ming Tak Michael. Mr. Cheng Tai Kwan Sunny is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include reviewing and making recommendations on the terms of remuneration packages of Directors and senior management and considering the grant of options under the share option scheme of the Company (the model described in code provision E.1.2(c)(ii) of the CG Code was adopted).

One (1) meeting of the Remuneration Committee was held during FY2023. The attendance of each member of the Remuneration Committee is set out as follows:

Members of the Remuneration Committee	Number of meetings held and attended
Mr. Cheng Tai Kwan Sunny *(Chairman)* (appointed as the chairman with effect from 12 April 2023)	N/A
Dr. Wei-Ming Shen (resigned with effect from 31 March 2024)	1/1
Mr. Ngai Ming Tak	1/1
Mr. Sun Qing (ceased to be the chairman with effect from 12 April 2023)	1/1
Mr. Peter Brendon Wyllie (appointed with effect from 31 March 2024)	N/A

The works performed by the Remuneration Committee during FY2023 include the following:

- reviewed and determined the policy for the remuneration of Directors and senior management;
- assessed performance of Directors and senior management; and
- reviewed and recommended the remuneration package of the Directors and senior management to the Board (including those newly appointed during FY2023).

Pursuant to code provision of E.1.5 of the CG Code, details of the annual remuneration of the members of the senior management by band for FY2023 is as follows:

	Number of employees
HK$500,001 to HK$1,000,000	1
HK$4,000,001 to HK$4,500,000	2

Details of the remuneration of each Director for FY2023 are set out in note 10 to the financial statements.

Nomination Committee

The Nomination Committee currently comprises one executive Director namely Mr. Peter Brendon Wyllie and two independent non-executive Directors, namely Mr. Cheng Tai Kwan Sunny and Ms. Chan Chore Man Germaine. Mr. Peter Brendon Wyllie is the chairman of the Nomination Committee. The Nomination Committee is mainly responsible for (i) making recommendations to the Board on the appointment of Directors and the management of the Board succession; (ii) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the board to complement the issuer's corporate strategy; (iii) identifying individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; and (iv) assessing the independence of independent non-executive Directors. The Nomination Committee can reasonably ensure that only candidates with capability and relevant experience will be appointed as future Directors.

For the appointment and nomination of new Director during FY2023, the Nomination Committee considered the candidate(s) on merit against objective criteria and with due regards to the benefits of diversity on the Board and take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the relevant industry and/or other professional areas.

One (1) meeting of the Nomination Committee was held during FY2023. The attendance of each member of the Nomination Committee is set out as follows:

Members of the Nomination Committee	Number of meetings held and attended
Mr. Peter Brendon Wyllie *(Chairman)* (appointed with effect from 19 May 2023)	N/A
Mr. Cheng Tai Kwan Sunny	1/1
Ms. Chan Chore Man Germaine	1/1
Dr. Wei-Ming Shen (ceased to be the chairman and a member with effect from 19 May 2023)	1/1

The works performed by the Nomination Committee during FY2023 include the following:

- reviewed the structure, size and composition of the Board;
- accessed the independence of independent non-executive Directors; and
- considered and recommended the nomination of Mr. Peter Brendon Wyllie as an executive Director and the chairman of the Board, based on the procedures and the process and criteria set out above.

Board Diversity Policy

The Board has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity of the Board and the Board will review the implementation and effectiveness of the Board Diversity Policy on an annual basis. The Company recognizes that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into consideration its own business model and specific needs from time to time in determining the optimum composition of the Board.

The Company take opportunities to promote gender diversity at all levels, including but not limited to our Board and the senior management levels. Currently, there is one female on the Board of Directors.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

1. The Company should comply with the requirements on board composition in the Listing Rules from time to time.

2. The number of independent non-executive Directors should be not less than three and one-third of the Board.

3. At least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise.

4. The Board should have at least one member of a different gender in order to achieve gender diversity at Board level.

The Nomination Committee is of the view that the Company has achieved these measurable objectives under the Board Diversity Policy.

Gender Diversity

The main business of the Group is manufacturing operation. Traditionally, the manufacturing industry has been short of female talents. As at 31 December 2023, the gender ratio in the total workforce of the Group (including senior management) was approximately 7:1 (male:female). Nevertheless, the Company targets to avoid a single gender senior workforce and will timely review the gender diversity of the senior workforce in accordance with the business development of the Group.

Audit Committee

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Cheng Tai Kwan Sunny, Mr. Ngai Ming Tak Michael and Ms. Chan Chore Man Germaine. Mr. Cheng Tai Kwan Sunny is the chairman of the Audit Committee. The primary duties of the Audit Committee are (i) to assist the Board in providing an independent view of the effectiveness of the Company's financial controls, internal control and risk management systems; (ii) to review and monitor the effectiveness of the audit process; (iii) to make recommendations to the board on the appointment, reappointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors; (iv) to review the interim and annual reports and accounts of the Group; and (v) to perform other duties and responsibilities as assigned by the Board.

Three (3) meetings of the Audit Committee were held during FY2023. The attendance of each member of the Audit Committee is set out as follows:

Members of the Audit Committee	Number of meetings held and attended
Mr. Cheng Tai Kwan Sunny *(Chairman)*	3/3
Mr. Ngai Ming Tak Michael	3/3
Ms. Chan Chore Man Germaine	3/3
Mr. Sun Qing (resigned with effect from 12 April 2023)	1/1

The works performed by the Audit Committee during FY2023 include the following:

- reviewed the annual report and the annual results announcement of the Company for FY2022;
- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2023;
- reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function and the Company's performance and reporting in the aspect of environmental, social and governance;
- reviewed the risk management and internal control systems of the Group;
- reviewed the effectiveness of the Company's internal audit function;
- met and discussed with the auditors of the Company in respect of the annual results of the Company for FY2022 and interim results of the Company for the six months ended 30 June 2023; and
- considered the change of auditors.

Auditor's Remuneration

The financial statements of the Group for FY2023 have been audited by the Company's auditors, Deloitte Touche Tohmatsu. The remuneration paid/payable to the auditors during FY2023 is set out as follows:

	Fee paid/payable US$'000
Audit services	256
Non-audit services	26
	282

The non-audit services are for the remuneration paid to the Company's auditors for the interim review of the financial results of the Group for the period ended 30 June 2023. The auditor's fee paid to Ernst & Young in FY2023 approximately amounted to US$10,200.

ESG COMMITTEE

The ESG Committee was established on 16 December 2022 and as at the date of this report comprises Mr. Ngai Ming Tak Michael (Chairman), Mr. Yan Haiting and Ms. Chan Chore Man Germaine.

The ESG Committee is mainly responsible for supporting the Board to formulate the ESG policy and strategies, conducting materiality assessment of environmental-related, climate-related, social-related risks, assessing the performance of the ESG strategies, and continuously monitoring ESG progress, implementation of measures to address the Group's ESG-related risks and responsibilities and updating the policy and strategies every year.

The ESG Committee will work with the senior management to conduct a material assessment to identify and prioritize material ESG issues. Materiality assessment provides a guide or blueprint for the Group's ESG strategy.

The ESG Committee will work with an external consultant to establish risk management and internal control systems, such as ESG policies and programs to manage and mitigate ESG risks. Climate-related performance metrics and targets will be set to assist the Board in evaluating the effectiveness of its ESG strategy and measures.

One (1) meeting of the ESG Committee was held during FY2023. The attendance of each member of the ESG Committee is set out as follows:

Members of the ESG Committee	Number of meetings held and attended
Mr. Ngai Ming Tak Michael *(Chairman)*	1/1
Mr. Yan Haiting	1/1
Ms. Chan Chore Man Germaine (appointed as a member with effect from 12 April 2023)	1/1
Mr. Sun Qing (ceased to be the chairman with effect from 12 April 2023)	N/A

The works performed by the ESG Committee during FY2023 include the following:

- met and discussed with the ESG consultant of the Company in respect of the Environmental, Social and Governance Report of the Company for FY2022 and its findings; and

- reviewed the Environmental, Social and Governance Report of the Company for FY2022.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix C3 to the Listing Rules as its code of conduct regarding Directors' securities transactions. Since the shares were listed on the Main Board of the Stock Exchange on 17 January 2023, the Model Code was not applicable to the Company prior to the Listing Date. After making specific enquiries to all the Directors, each of them has confirmed that they have complied with the Model Code throughout the period from the Listing Date up to 31 December 2023.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for FY2023.

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 46 to 49.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROLS

Responsibility of the Board

The Board acknowledges its responsibility to ensure the establishment, maintaining and review of the appropriateness and effectiveness of the Group's risk management and internal control systems, where management is responsible for the design, implementation and monitoring of these systems to manage risks.

Sound and effective risk management and internal control systems are in place to achieve the Group's strategic objectives as well as to safeguard shareholder investments and the Company assets. Such systems are designed to manage rather than eliminate the risk of failure to achieve strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Our Risk Management and Internal Control Framework

The Board has the overall responsibility of the risk management and internal control systems of the Group. With the support from the Audit Committee, the Board monitors the Group's risk exposure, oversees the actions of management and monitors the overall effectiveness of the risk management and internal control systems on an annual and on going basis. Management is responsible for setting an appropriate tone from the top, performing risk assessments, and owning the design, implementation and maintenance of internal controls. Policies and procedures form the basis and set forth the control standards required for functioning of the Group's business entities. These policies and procedures covered various aspects, including operations, finance & accounting, human resources, regulatory & compliance, delegation of authority, etc. The Group has not established an internal audit department and the Board is of the view that given the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professional firms to perform the internal audit function for the Group in order to meet its needs.

The Group has engaged a professional consulting firm which initiated and facilitated the management to perform an annual enterprise-wide risk assessment to evaluate the nature and extent of the risks (including environmental, social and governance ("ESG") risks). During the risk assessment process, the Group has identified several key risks that may impact the Group's strategic objectives, as a result of the changes in the business and external environment. These risks have been prioritized according to the likelihood of their occurrence and the significance of their impact on the business of the Group. An update to the risk assessment report has been submitted to the Board for oversight and monitoring of the risks. Meanwhile, risk management measures and mitigating controls have been developed to manage these risks to an acceptable level.

The Board has also engaged an external professional consultant to review the effectiveness of the Company's internal audit function for FY2023 and material controls, including financial, operational and compliance controls at entity and operational levels. The Audit Committee and the Board have discussed and reviewed the relevant results of the review. The Board had conducted annual review of the effectiveness of the risk management. The Group will continuously enhance its internal control systems and risk management according to findings therein and recommendations made to the Group.

Based on the risk management and internal control systems established and maintained by the Group, the review of the effectiveness of risk management and internal control systems performed by the management, the Board is of the view that the Group has maintained sound, effective and adequate risk management and internal control system during FY2023.

Procedures and Controls over Handling and Dissemination of Inside Information

The Company is aware of its obligation under relevant sections of the Securities and Futures Ordinance and Listing Rules. An Inside Information Disclosure Policy has been established to lay down practical guidelines on definition and the scope of inside information; disclosure and management framework; exemptions for disclosure; receiving, reporting and disclosing of inside information; confidentiality and records of such information. Also, staff who have access to inside information are required to follow the Inside Information Disclosure Policy to keep the unpublished inside information strictly confidential.

The payment of dividend by the Company is also subject to any restrictions under the applicable laws and regulations, including the laws of the Cayman Islands and the memorandum and articles of association of the Company.

COMPANY SECRETARY

Ms. Ip Cheuk Man Louisa ("Ms. Ip") resigned as a joint company secretary of the Company with effect from 13 September 2023. Following Ms. Ip's resignation, the then other joint company secretary of the Company, Mr. Lau Che Yan Kenneth ("Mr. Lau") has been acting as the sole company secretary of the Company. For FY2023, Ms. Ip and Mr. Lau has participated in relevant professional trainings for no less than 15 hours to comply with rule 3.29 of the Listing Rule.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company recognizes the importance of Shareholders' privacy and will not disclose Shareholders' information without their consent, unless required by law to do so.

The Company maintains various communication channels with its shareholders. The Company's annual general meeting provides a good opportunity for shareholders to exchange views with the Board. Members of the Board and the external auditor will attend the annual general meeting to answer shareholders' questions.

In order to promote effective communication, the Company maintains a website (www.sanergygroup.com) which includes past and present information relating to the Group and its businesses.

Aside from raising questions at general meetings, all enquiries, suggestions or views to the Company are welcomed and can be sent to the Company through the Company's Investor Relations via the following methods (i) by email at ir@sanergygroup.com; (ii) by facsimile to (852) 2891 9822, or by post to the Company's registered office at 2602, 26/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The Company regards communications with its investors as being vital. The Company continues to enhance investor relations. Designated members of the Board and senior management of the Company are given the specific responsibilities to maintain regular contact with institutional investors, potential investors, financial analysts and fund managers. In FY2023, plant visits and meetings were held to help them better understand the Group's operations and developments. Press releases were issued as appropriate to provide with the most updated business development of the Group to the public.

The Board reviewed the investor engagement and communication activities to date and was satisfied with the effectiveness of the shareholders communication policy in place.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting of the Company ("EGM")

Pursuant to Article 58 of the Articles, shareholders of the Company holding at the date of deposit of requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the joint company secretaries of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/herself (themselves) may convene a physical meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting forward proposals at general meetings

There are no provisions allowing shareholders to move new resolutions at general meetings under the Companies Law of the Cayman Islands or the Company's Articles of Association. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures as set out in the preceding paragraph.

As regards proposing a person for election as a Director, please refer to the procedures available on the website of the Company.

Putting forward enquiries to the Board

For putting forward any enquiries to the Board, shareholders may send written enquires to the Company addressing to the any of the company secretary by mail at Room 2602, 26th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong or by email at ir@sanergygroup.com.

Constitutional documents

On 19 December 2022, the Company adopted the Articles which become effective on the Listing Date. There had been no changes in the Articles since the Listing Date. The Articles have been published on the website of Hong Kong Stock Exchange at https://www.hkexnews.hk and the website of the Company at http://www.sanergygroup.com.

Deloitte. 德勤

To the shareholders of Sanergy Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sanergy Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 115, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KEY AUDIT MATTER (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of land and buildings and plant and machinery	
We identified valuation of land and buildings and plant and machinery as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant estimates associated with the determination of the fair value of the Group's land and buildings and plant and machinery. As disclosed in notes 4(a) and 15 to the consolidated financial statements, the Group had property, plant and equipment of US$100,053,000, of which US$33,037,000 relating to freehold land and buildings and US$66,833,000 relating to plant and machinery, were carried at revalued amounts. During the year, revaluation loss of US$2,458,000 and US$1,025,000 were recognized in asset revaluation reserve and profit or loss respectively. The fair value of the land and buildings and plant and machinery was supported by valuations conducted by independent external valuers. Details of the valuation techniques and key inputs used in the valuations are disclosed in note 15 to the consolidated financial statements. The valuation of land and buildings and plant and machinery are dependent on certain key inputs including adjusted market price per square meter and replacement cost. Changes to the key inputs may result in changes in the fair value of the Group's land and buildings and plant and machinery.	Our procedures in relation to the management's valuation of land and buildings and plant and machinery included: • Evaluating the competence, capabilities and objectivity of the independent external valuers; • Understanding the valuers' valuation techniques, assumptions and key inputs adopted in the valuation; and • Assessing the reasonableness of valuation techniques, assumptions and key inputs used in the valuation, on a selection basis, including the market price per square meter and replacement cost by comparing it to market evidence with the assistance of our internal specialists.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2023.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

OTHER INFORMATION (CONTINUED)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Keung To Wai, David.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 March 2024

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	NOTES	2023 US$'000	2022 US$'000
REVENUE	6	**72,292**	115,521
Cost of sales		**(71,451)**	(89,493)
Gross profit		**841**	26,028
Other income	6	**691**	358
Other gains and losses	8	**(128)**	(1,070)
Selling expenses		**(2,781)**	(2,942)
Administrative expenses		**(12,081)**	(9,118)
Other expenses		**(250)**	(244)
Share of result of an associate		**(265)**	–
Finance costs	9	**(3,653)**	(2,626)
Listing expenses		**(1,655)**	(1,198)
Discretionary listing bonus expenses		**(3,045)**	–
(LOSS) PROFIT BEFORE TAX	7	**(22,326)**	9,188
Income tax credit (expense)	12	**6,850**	(1,692)
(LOSS) PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(15,476)**	7,496
(LOSS) EARNINGS PER SHARE			
— Basic and diluted	14	**US$(1.6) cents**	US$0.9 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2023

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

Consolidated Statement of Financial Position

At 31 December 2023

	NOTES	2023 US$'000	2022 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**100,053**	93,131
Right-of-use assets	16	**7,156**	8,109
Intangible assets	17	**713**	913
Prepayments and deposits	21	**652**	2,737
Interest in an associate	18	**6,651**	–
Deferred tax assets	26	**3,413**	2,147
		118,638	107,037
CURRENT ASSETS			
Inventories	19	**57,024**	58,605
Trade receivables	20	**12,950**	21,046
Prepayments, deposits and other receivables	21	**6,282**	7,511
Financial asset at fair value through profit or loss	18	**1,540**	–
Cash and cash equivalents	22	**29,620**	11,652
		107,416	98,814
CURRENT LIABILITIES			
Trade payables	23	**7,200**	12,314
Other payables and accruals	24	**15,745**	10,804
Interest-bearing bank and other borrowings	25	**34,699**	16,611
Lease liabilities	16	**240**	562
Income tax payable		**4,687**	5,232
		62,571	45,523
NET CURRENT ASSETS		**44,845**	53,291

Consolidated Statement of Financial Position

At 31 December 2023

	NOTES	2023 US$'000	2022 US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**163,483**	160,328
NON-CURRENT LIABILITIES			
Other payables and accruals	24	**1,288**	2,412
Interest-bearing bank and other borrowings	25	**3,964**	13,618
Lease liabilities	16	**911**	1,178
Deferred tax liabilities	26	**8,827**	10,203
		14,990	27,411
NET ASSETS		**148,493**	132,917
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital	28	**10,100**	110
Reserves		**138,393**	132,807
TOTAL EQUITY		**148,493**	132,917

The consolidated financial statements on pages 50 to 115 were approved and authorized for issue by the Board of Directors on 21 March 2024 and are signed on its behalf by:

Hou Haolong	**Yan Haiting**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Attributable to owners of the Company								
	Issued capital US$'000	Share premium* US$'000	Other reserve* US$'000	Capital reserve* US$'000	Statutory reserve* US$'000	Asset revaluation reserve* US$'000	Exchange fluctuation reserve* US$'000	Retained profits* US$'000	Total US$'000
At 1 January 2022	110	7,300	–	(4,684)	1,240	36,530	705	93,788	134,989
Profit for the year	–	–	–	–	–	–	–	7,496	7,496
Other comprehensive (expense) income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	(9,895)	–	(9,895)
Revaluation loss on property, plant and equipment	–	–	–	–	–	(1,314)	–	–	(1,314)
Income tax effect on revaluation on property, plant and equipment	–	–	–	–	–	1,641	–	–	1,641
Total comprehensive income (expense) for the year	–	–	–	–	–	327	(9,895)	7,496	(2,072)
Appropriation to statutory reserve	–	–	–	–	17	–	–	(17)	–
Release of asset revaluation reserve	–	–	–	–	–	(1,700)	–	1,700	–
At 31 December 2022	110	7,300	–	(4,684)	1,257	35,157	(9,190)	102,967	132,917
At 1 January 2023	110	7,300	–	(4,684)	1,257	35,157	(9,190)	102,967	132,917
Loss for the year	–	–	–	–	–	–	–	(15,476)	(15,476)
Other comprehensive income (expense) for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	–	1,806	–	1,806
Revaluation loss on property, plant and equipment	–	–	–	–	–	(2,458)	–	–	(2,458)
Income tax effect on revaluation on property, plant and equipment	–	–	–	–	–	302	–	–	302
Total comprehensive (expense) income for the year	–	–	–	–	–	(2,156)	1,806	(15,476)	(15,826)
Capitalisation issue of 816,600,000 ordinary shares	8,166	(8,166)	–	–	–	–	–	–	–
Issue of 172,400,000 ordinary shares	1,724	33,640	–	–	–	–	–	–	35,364
Transaction costs attributable to issue of shares	–	(3,962)	–	–	–	–	–	–	(3,962)
Issue of 10,000,000 ordinary shares	100	–	(100)	–	–	–	–	–	–
Release of asset revaluation reserve	–	–	–	–	–	(1,666)	–	1,666	–
At 31 December 2023	10,100	28,812	(100)	(4,684)	1,257	31,335	(7,384)	89,157	148,493

* These reserve accounts comprise the consolidated reserves of US$138,393,000 (2022: US$132,807,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	2023 US$'000	2022 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) profit before tax	**(22,326)**	9,188
Adjustments for:		
Bank interest income	**(389)**	(23)
Sublease interest income	**(1)**	(2)
Share of result of an associate	**265**	–
Finance costs	**3,653**	2,626
Depreciation of property, plant and equipment	**4,075**	3,660
Depreciation of right-of-use assets	**796**	811
Amortization of intangible assets	**279**	279
Impairment loss of trade receivables, net of reversal	**59**	211
Revaluation loss on property, plant and equipment, net	**1,025**	712
Loss on disposal of property, plant and equipment	**1**	–
Write-down of inventories	**3,291**	–
Loss (gain) on modification of loans	**82**	(155)
Gain on deemed disposal of an associate	**(1,019)**	–
Gain on fair value changes of financial asset at fair value through profit or loss	**(1,540)**	–
Gain on early termination of lease	**(7)**	–
Operating cash flows before movements in working capital	**(11,756)**	17,307
Increase in inventories	**(1,147)**	(1,739)
Decrease (increase) in trade receivables	**7,805**	(342)
Decrease in prepayments, deposits and other receivables	**2,262**	1,064
Decrease in trade payables	**(5,182)**	(6,088)
Increase (decrease) in other payables and accruals	**296**	(378)
Cash (used in) generated from operations	**(7,722)**	9,824
Interest received	**390**	25
Interest paid	**(2,292)**	(1,505)
Interest element in lease payments	**(128)**	(93)
Income taxes refunded (paid)	**3,663**	(2,849)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(6,089)**	5,402
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(9,267)**	(3,133)
Upfront payments for right-of-use assets	**–**	(382)
Additions to intangible assets	**(80)**	(17)
Proceeds from sublease	**27**	29
Acquisition of a subsidiary	**–**	(2,459)
Acquisition of investment in an associate	**(5,709)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(15,029)**	(5,962)

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	2023 US$'000	2022 US$'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares	**35,364**	–
Transaction costs attributable to issue of shares	**(2,830)**	(1,132)
New borrowings	**33,344**	9,805
Repayment of borrowings	**(26,917)**	(7,913)
Repayment of a loan from a related company	**–**	(2,356)
Repayment of principal portion of lease payments	**(517)**	(859)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**38,444**	(2,455)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**17,326**	(3,015)
EFFECT OF FOREIGN EXCHANGE RATE CHANGE, net	**642**	(419)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**11,652**	15,086
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**29,620**	11,652

1. GENERAL INFORMATION

Sanergy Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 26 June 2018. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 2602, 26/F, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 January 2023 (the "Listing Date").

The consolidated financial statements are presented in United States dollars ("US$"), which is also the functional currency of the Company.

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing and sale of graphite electrodes. In the opinion of the directors, Otautahi Enterprises Trust Company Limited, a company incorporated in New Zealand on 9 January 2014, is the ultimate holding company of the Company. There has been no significant change in the Group's principal activities during the year ended 31 December 2023.

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

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

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual periods beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform-Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

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

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

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

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

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

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

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

Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined
2 Effective for annual periods beginning on or after 1 January 2024
3 Effective for annual periods beginning on or after 1 January 2025

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKFRSs in issue but not yet effective (Continued)

The directors of the Company anticipate that the application of the amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

3.1 Basis of preparation of consolidated financial statements

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

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

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

3.2 Material accounting policy information

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or fair value less subsequent accumulated depreciation and subsequent impairment losses, if any. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred.

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

3.2 Material accounting policy information (Continued)

Property, plant and equipment and depreciation (Continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount at the end of the reporting period. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On retirement or disposal of a revalued asset, the relevant portion of the asset revaluation reserve realized in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life, except for freehold land which is not depreciated. The principal economic useful lives used for this purpose are as follows:

Buildings	33 years
Plant and machinery	20 years
Leasehold improvements	Over the lease terms
Furniture, fixtures and office equipment	5–8 years
Motor vehicles	4 years

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the statement of profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

3.2 Material accounting policy information (Continued)

Leases (Continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Non-industrial buildings	1 to 5 years
Industrial leasehold land, industrial buildings, plant, machinery and equipment	3 to 42 years
Motor vehicles	1 to 4 years

(b) Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments).

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are presented separately in the consolidated statement of financial position.

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

3.2 Material accounting policy information (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 *Revenue from Contracts with Customers* in accordance with the policies set out for "Revenue recognition' below.

In order for a financial asset to be classified and measured at amortized cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss ("FVTPL").

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortized cost as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

3.2 Material accounting policy information (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at amortized cost.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and interest-bearing bank and other borrowings.

Subsequent measurement of financial liabilities at amortized cost (loans and borrowing)

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortized cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled, or expires.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

3.2 Material accounting policy information (Continued)

Investments in associates (Continued)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate.

An investment in associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs necessary to be incurred to completion and disposal. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss and in other comprehensive income.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

3.2 Material accounting policy information (Continued)

Income tax (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition (other than in a business combination) of liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

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

3.2 Material accounting policy information (Continued)

Pension scheme

The Group operates a defined contribution retirement benefit scheme in Hong Kong for those employees who are eligible and have elected to participate in the scheme. Contributions are made based on a percentage of the participating employees' basic salaries. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

The employees of the Group's subsidiary which operates in the USA participate in a defined contribution plan and a life insurance plan which require contributions to be made to a third-party trustee managed fund.

The Group's subsidiary which operates in Macau makes monthly contributions to the social security fund managed by the relevant authority of the local government, which underwrites the retirement obligations of the employees. The subsidiary has no obligation for payment of retirement benefits beyond the monthly contributions.

The contributions to the above schemes are charged to the statement of profit or loss as they become payable in accordance with the rules of such schemes.

Foreign currencies

These financial statements are presented in US$, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(a) Estimation of fair value of land and buildings and plant and equipment

In the absence of current prices in an active market for similar property, plant and equipment, the Group considers information from a variety of sources, including:

(i) current prices in an active market for property, plant and equipment of a different nature, condition or location, adjusted to reflect those differences;

(ii) recent prices of similar property, plant and equipment on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices;

(iii) an estimation of the new replacement cost of the assets from which deductions are then made to allow for physical deterioration and all forms of obsolescence and optimization.

The aggregate carrying amount of land and buildings and plant and equipment at 31 December 2023 was US$99,870,000 (2022: US$92,911,000). Further details, including the key assumptions used for the fair value measurement and sensitivity analysis, are given in note 15.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

(b) Deferred tax assets

Deferred tax assets are recognized for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and the deductible temporary differences can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 26.

(c) Provision for inventories to net realizable value

Inventories are stated at the lower of cost and net realizable value. The assessment of the net realizable value involves management's judgement and estimates, based on management's expectations for future sales net of estimated cost necessary for the sales. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the inventories and any provision will be written down or written back in the period in which such estimate has been changed. The carrying amount of inventories as at 31 December 2023 was US$57,024,000 (2022: US$58,605,000). The provision for inventories to net realizable value as at 31 December 2023 amounted to US$3,366,000 (2022: US$75,000).

5. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sale of graphite electrodes. Information reported to the Group's management for the purpose of resource allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

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

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

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information (Continued)

(b) Non-current assets

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

The non-current asset information above is based on the locations the assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue from customers individually contributing over 10% to the total revenue of the Group during the year is as follows:

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

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

6. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

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

6. REVENUE AND OTHER INCOME (CONTINUED)

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

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

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

(b) Performance obligation for contracts with customers and revenue recognition policies

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

The performance obligation of the sale of graphite electrodes is satisfied upon delivery of the products and payment is generally due within 30 to 60 days from delivery, except for new customers, where payment in advance is normally required. As a practical expedient in HKFRS 15 Revenue from Contracts with Customers, the amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed in the notes to the financial statements because all the remaining performance obligations in relation to the sale of graphite electrodes are part of the contracts that have an original expected duration of one year or less.

An analysis of other income is as follows:

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

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

7. (LOSS) PROFIT BEFORE TAX

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

\# The amount in current year included the discretionary listing bonus expenses of US$3,045,000.

\## There are no unfulfilled conditions or contingencies relating to these subsidies.

* Included in cost of sales on the consolidated statement of profit or loss.

** Certain depreciation charge for property, plant and equipment and right-of-use assets of US$4,540,000 and US$3,762,000 for the year ended 31 December 2023 and 2022, respectively, are included in cost of sales on the consolidated statement of profit or loss.

^ Included in administrative expenses on the consolidated statements of profit or loss.

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

8. OTHER GAINS OR LOSSES

	2023 US$'000	2022 US$'000
(Loss) gain on modification of loans	**(82)**	155
Revaluation loss on property, plant and equipment, net	**(1,025)**	(712)
Loss on disposal of property, plant and equipment	**(1)**	–
Gain on early termination of lease	**7**	–
Gain from changes in fair value of financial asset at FVTPL (note 18)	**1,540**	–
Gain on deemed disposal of an associate	**1,019**	–
Net (loss) gain from sale of other carbon products	**(731)**	21
Foreign exchange differences, net	**(855)**	(534)
	(128)	(1,070)

9. FINANCE COSTS

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

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The emoluments paid or payable to the directors and chief executive of the Company (including emoluments for services as employees/directors of the entities comprising the Group prior to becoming the directors of the Company) during the year are as follows:

	2023 US$'000	2022 US$'000
Fees	**91**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,681**	841
Discretionary listing bonus	**1,778**	–
Commission fees	**–**	8
Pension scheme contributions	**49**	27
	3,508	876
	3,599	876

(a) Independent non-executive directors

There were no fees paid nor other emoluments payable to the independent non-executive directors during the year ended 31 December 2022.

Mr. Cheng Tai Kwan Sunny, Mr. Sun Qing, Mr. Ngai Ming Tak and Ms. Chan Chore Man Germaine, independent non-executive directors, were appointed on 19 December 2022 for an initial fixed term of one year commencing from 17 January 2023 (the "Listing Date").

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, a non-executive director, independent non-executive directors and the chief executive

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Discretionary bonus US$'000	Commission fees US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
2023						
Executive directors:						
Peter Brendon Wyllie (Note i)	–	192	55	–	2	250
Adriaan Johannes Basson (Note ii)	–	98	–	–	11	109
Hou Haolong*	–	615	738	–	2	1,354
Yan Haiting	–	210	274	–	2	486
Non-executive director:						
Wang Ping	–	108	174	–	2	284
Independent non-executive directors:						
Cheng Tai Kwan Sunny	25	–	–	–	–	25
Sun Qing (Note iii)	5	–	–	–	–	5
Ngai Ming Tak	36	–	–	–	–	36
Chan Chore Man Germaine	25	–	–	–	–	25
Chief executive and executive director:						
Wei-Ming Shen	–	458	537	–	30	1,025
	91	1,681	1,778	–	49	3,599

10. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

(b) Executive directors, a non-executive director, independent non-executive directors and the chief executive (Continued)

	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Commission fees US$'000	Discretionary bonus US$'000	Pension scheme contributions US$'000	Total remuneration US$'000
2022						
Executive directors:						
Adriaan Johannes Basson	–	105	8	–	11	124
Hou Haolong*	–	228	–	–	2	230
Yan Haiting	–	169	–	–	3	172
Non-executive director:						
Wang Ping	–	108	–	–	2	110
Chief executive and executive director:						
Wei-Ming Shen	–	231	–	–	9	240
	–	841	8	–	27	876

* Mr. Hou Haolong is also the controlling shareholder of the Company (the "Controlling Shareholder").

Notes:

(i) Mr. Peter Brendon Wylie was appointed as an executive director of the Company on 19 May 2023.

(ii) Mr. Adriaan Johannes Basson retired as an executive director of the Company on 19 May 2023.

(iii) Mr. Sun Qing resigned as an independent non-executive director on 12 April 2023.

There is no arrangement under which a director waived or agreed to waive any remuneration during both years.

No other retirement benefits were paid to directors in respect of their respective services in connection with the management of the affairs of the Company or its subsidiaries undertaking.

The executive directors' emoluments shown above were for their services in connection with the management affairs of the Group. The non-executive director's emoluments shown above was for their services as directors of the Company and its subsidiaries. The independent non-executive directors' emoluments above were for their services as directors of the Company. Certain executive directors of the Company are entitled to discretionary listing bonus which are determined based on the remuneration approved by the remuneration committee for the year ended 31 December 2023.

During the year, no remuneration was paid by the Group to any director of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company waived any remuneration during the year.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included two directors (2022: two directors), details of whose remuneration are set out in note 10 above. Details of the remuneration for the year of the remaining three (2022: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2023 **US$'000**	2022 US$'000
Salaries, allowances and benefits in kind	**671**	566
Performance related bonuses	**821**	116
Pension scheme contributions	**141**	44
	1,633	726

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands which is presented in Hong Kong Dollar ("HK$") is as follows:

	Number of employees	
	2023	2022
HK$1,500,001 to HK$2,000,000	**–**	2
HK$2,500,001 to HK$3,000,000	**–**	1
HK$4,000,001 to HK$4,500,000	**3**	–
	3	3

12. INCOME TAX (CREDIT) EXPENSE

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 (2022: HK$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

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

12. INCOME TAX (CREDIT) EXPENSE (CONTINUED)

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on 27 March 2020 in the US. Under the CARES Act, the companies incorporated in the US can carry back net operating loss incurred (if any), in the calendar year ended 31 December 2018, 2019 and 2020 to previous five financial years that has taxable profit for tax refund. As such, the subsidiary of the Company in the US was eligible to carry back approximately US$21,952,000 net operating loss incurred in the year ended 31 December 2020 which give rise to approximately US$4,610,000 tax refund in current year.

Pursuant to the Enterprise Income Tax Law of the PRC and the respective regulations, the subsidiaries which operate in Mainland China are normally subject to enterprise income tax at the rate of 25% (2022: 25%), except for one subsidiary of the Group which enjoys preferential enterprise income tax at a rate of 15%, on the taxable income generated during both years.

Pursuant to the Italian tax laws and the respective regulations, the subsidiary which operates in Italy is subject to corporate income tax and regional tax on productive activities at a rate of 24.0% and 3.9% (2022: 24.0% and 3.9%), respectively, on the taxable income for both years.

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

	2023 US$'000	2022 US$'000
Current — Hong Kong		
Charge for the year	**9**	6
Current — elsewhere*		
Credit for the year	**(4,217)**	(275)
Deferred tax (note 26)	**(2,642)**	1,961
Income tax (credit) expense for the year	**(6,850)**	1,692

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

	2023		2022	
	US$'000	**%**	US$'000	%
(Loss) profit before tax	**(22,326)**		9,188	
Tax at the statutory rates	**(3,176)**	**14.2**	1,985	21.6
Income not subject to tax	**(795)**	**3.6**	(758)	(8.2)
Expenses not deductible for tax	**459**	**(2.0)**	178	1.9
Tax effect of CARES Act	**(3,377)**	**15.1**	–	–
Others	**39**	**(0.2)**	287	3.1
Total tax (credit) expense at the Group's effective tax rate	**(6,850)**	**30.7**	1,692	18.4

13. DIVIDENDS

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

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

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

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

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

The calculation of the basic (loss) earnings per share amounts is based on the (loss) profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares used for the purpose of calculating basic loss per share and diluted loss per share for the years ended 31 December 2023 and basic earnings per share for the year ended 31 December 2022 has been retrospectively adjusted for the effects of the issue of shares in connection with the capitalization issue which was completed on the Listing Date.

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

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

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

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture fixtures and office equipment US$'000	Motor vehicles US$'000	Total US$'000
At 1 January 2023:						
Cost or valuation	32,442	60,469	227	189	128	93,455
Accumulated depreciation	–	–	(152)	(76)	(96)	(324)
Net carrying amount	32,442	60,469	75	113	32	93,131
At 1 January 2023, net of accumulated depreciation	32,442	60,469	75	113	32	93,131
Additions	2,914	10,649	10	4	–	13,577
Depreciation provided during the year	(710)	(3,317)	(11)	(25)	(12)	(4,075)
Revaluation loss charged to asset revaluation reserve	(1,686)	(772)	–	–	–	(2,458)
Revaluation loss charged to profit or loss, net (note 8)	(124)	(901)	–	–	–	(1,025)
Disposal	–	–	–	(1)	–	(1)
Exchange realignment	201	705	(2)	–	–	904
At 31 December 2023, net of accumulated depreciation	33,037	66,833	72	91	20	100,053
At 31 December 2023						
Cost or valuation	33,037	66,833	235	190	101	100,396
Accumulated depreciation	–	–	(163)	(99)	(81)	(343)
Net carrying amount	33,037	66,833	72	91	20	100,053

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Freehold land and buildings US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture fixtures and office equipment US$'000	Motor vehicles US$'000	Total US$'000
At 1 January 2022:						
Cost or valuation	36,642	63,091	437	163	130	100,463
Accumulated depreciation	–	–	(345)	(55)	(72)	(472)
Net carrying amount	36,642	63,091	92	108	58	99,991
At 1 January 2022, net of accumulated depreciation	36,642	63,091	92	108	58	99,991
Additions	386	5,530	79	30	–	6,025
Depreciation provided during the year	(661)	(2,856)	(94)	(23)	(26)	(3,660)
Revaluation loss charged to asset revaluation reserve	(938)	(376)	–	–	–	(1,314)
Revaluation loss charged to profit or loss, net (note 8)	(276)	(436)	–	–	–	(712)
Exchange realignment	(2,711)	(4,484)	(2)	(2)	–	(7,199)
At 31 December 2022, net of accumulated depreciation	32,442	60,469	75	113	32	93,131
At 31 December 2022						
Cost or valuation	32,442	60,469	227	189	128	93,455
Accumulated depreciation	–	–	(152)	(76)	(96)	(324)
Net carrying amount	32,442	60,469	75	113	32	93,131

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) Detail of property, plant and equipment pledged are set out in note 25.

(b) Below is a summary of the valuation of industrial land and buildings and plant and machinery:

Nature and location	Independent professionally qualified valuer	Revalued balance
Industrial land and buildings in Italy	2023: Kroll (HK) Limited 2022: Kroll (HK) Limited	2023: US$13,652,000 2022: US$13,900,000
Industrial plant and machinery in Italy	2023: Kroll (HK) Limited 2022: Kroll (HK) Limited	2023: US$34,254,000 2022: US$33,494,000
Industrial buildings in Shanxi*	2023: Asia Pacific Consulting and Appraisal Limited	2023: US$2,379,000 2022: Not applicable
Industrial buildings in other regions of the PRC*	2023: CAREA Assets Appraisal Co., Ltd 2022: CAREA Assets Appraisal Co., Ltd	2023: US$17,006,000 2022: US$18,542,000
Industrial plant and machinery in Shanxi	2023: Asia Pacific Consulting and Appraisal Limited	2023: US$8,140,000 2022: Not applicable
Industrial plant and machinery in other regions of the PRC	2023: CAREA Assets Appraisal Co., Ltd 2022: CAREA Assets Appraisal Co., Ltd	2023: US$24,439,000 2022: US$26,975,000

* In the opinion of the directors, the Group is entitled to lawfully and validly occupy and use certain of the industrial buildings in the PRC for its daily operations, notwithstanding the fact that the related building ownership certificates have not been obtained.

Each year, the Group's management decides to appoint which external valuers to be responsible for the external valuations of the Group's land and buildings and plant and machinery. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuers on the valuation assumptions and valuation results at least once a year when the valuations are performed for interim and annual financial reporting.

The loss on revaluation of US$2,458,000 (2022: loss of US$1,314,000) has been recognized in other comprehensive income in the asset revaluation reserve.

The net loss on revaluation totalling US$1,025,000 (2022: US$712,000) has been charged to profit or loss.

Had these land and buildings and plant and machinery been carried at historical cost less accumulated depreciation, the carrying amount of the Group's land and buildings would have been approximately US$16,552,000 (2022: US$14,978,000) and the carrying amount of the Group's plant and machinery would have been approximately US$44,591,000 (2022: US$34,474,000).

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: *(Continued)*

(c) Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's land and buildings and plant and machinery:

	Fair value measurement as at 31 December 2023 using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Recurring fair value measurement for:				
Freehold land and buildings	–	–	33,037	33,037
Plant and machinery	–	–	66,833	66,833
	–	–	99,870	99,870

	Fair value measurement as at 31 December 2022 using			
	Quoted prices in active markets (Level 1) US$'000	Significant observable inputs (Level 2) US$'000	Significant unobservable inputs (Level 3) US$'000	Total US$'000
Recurring fair value measurement for:				
Freehold land and buildings	–	–	32,442	32,442
Plant and machinery	–	–	60,469	60,469
	–	–	92,911	92,911

During the years ended 31 December 2023 and 2022, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: *(Continued)*

(d) Reconciliation of fair value measurements categorized within Level 3 of the fair value hierarchy:

	Freehold land and buildings US$'000	Plant and machinery US$'000
Carrying amount at 1 January 2022	36,642	63,091
Additions	386	5,530
Depreciation recognized in profit or loss	(661)	(2,856)
Revaluation loss recognized in other comprehensive income	(938)	(376)
Revaluation loss recognized in profit or loss, net	(276)	(436)
Exchange realignment	(2,711)	(4,484)
Carrying amount at 31 December 2022 and 1 January 2023	**32,442**	**60,469**
Additions	**2,914**	**10,649**
Depreciation recognized in profit or loss	**(710)**	**(3,317)**
Revaluation loss recognized in other comprehensive income	**(1,686)**	**(772)**
Revaluation loss recognized in profit or loss, net	**(124)**	**(901)**
Exchange realignment	**201**	**705**
Carrying amount at 31 December 2023	**33,037**	**66,833**

(e) Below is a summary of the valuation techniques used and the key inputs to the valuation of land and buildings and plant and machinery:

	Valuation techniques	Key inputs	Range of key inputs	Effect on fair value for increase of inputs
Freehold industrial land in Italy	Market approach	Adjusted market price per square meter	2023: Euro1 to 15 per square meter 2022: Euro1 to 15 per square meter	Increase
Buildings, plant and machinery in Italy	Depreciated replacement cost ("DRC") approach	Replacement cost per square meter	2023: Euro323 to 1,238 per square meter 2022: Euro368 to 1,276 per square meter	Increase
		Replacement cost	2023: Euro100 to 16,951,000 2022: Euro110 to 15,794,000	Increase
Buildings, plant and machinery in the PRC	DRC approach	Replacement cost per square meter	2023: RMB149 to 5,015 per square meter 2022: RMB158 to 5,315 per square meter	Increase
		Replacement cost	2023: RMB110 to 49,285,000	Increase
			2022: RMB90 to 50,172,000	Increase

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes: *(Continued)*

(e) *(Continued)*

Under the market approach, the freehold industrial land is valued on the market basis assuming sale in its existing state with the benefit of vacant possession and by reference to comparable sales evidence available in the relevant markets. Comparison is based on prices realized in actual transactions or asking prices of comparable properties. Appropriate adjustments are then made to account for the differences between such properties in terms of location, size and other relevant factors.

A significant increase/(decrease) in the adjusted market price per square meter would result in a significant increase/(decrease) in the fair value of the freehold industrial land.

Under the DRC approach, the valuation of the fair value of the buildings, plant and machinery is determined based on their existing use which is the cost to reproduce or replace in a new condition the assets appraised in accordance with the current construction costs for similar assets in the locality, with allowance for accrued depreciation as evidenced by all forms of obsolescence and optimization.

The DRC approach is used for the valuation of the buildings, plant and machinery due to the lack of comparable determining an active market for the assets being valued and the lack of recent sales transactions of these specialized assets.

The highest and best use of the buildings, plant and machinery at the measurement date is the most reliable indication for valuing the assets in the absence of a known market based on comparable sales. The Group has determined that this indication is the value of the existing use.

A significant increase/(decrease) in the replacement cost of the buildings, plant and machinery in isolation would result in a significant increase/(decrease) in the fair value of such property, plant and equipment.

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of non-industrial buildings, industrial leasehold land, industrial buildings, plant, machinery and equipment, and motor vehicles used in its operations. Leases of non-industrial buildings have lease terms of 1 to 5 years (2022: 1 to 5 years), and those of industrial leasehold land, industrial buildings, plant, machinery and equipment have lease terms of 3 to 42 years (2022: 3 to 42 years), and those of motor vehicles generally have lease terms of 1 to 4 years (2022: 1 to 4 years). Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are no lease contracts that include extension and termination options and variable lease payments.

16. LEASES (CONTINUED)

The Group as a lessee (Continued)

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Non-industrial buildings US$'000	Industrial leasehold land US$'000	Industrial buildings, plant, machinery and equipment US$'000	Motor vehicles US$'000	Total US$'000
As at 1 January 2022	418	6,666	201	36	7,321
Additions	608	–	1,541	5	2,154
Depreciation charge (note 7)	(546)	(160)	(85)	(20)	(811)
Early termination	–	–	(1)	–	(1)
Exchange realignment	–	(558)	6	(2)	(554)
As at 31 December 2022 and 1 January 2023	**480**	**5,948**	**1,662**	**19**	**8,109**
Additions	**7**	**–**	**–**	**75**	**82**
Depreciation charge (note 7)	**(259)**	**(152)**	**(361)**	**(24)**	**(796)**
Early termination	**(194)**	**–**	**–**	**–**	**(194)**
Exchange realignment	**–**	**(99)**	**52**	**2**	**(45)**
As at 31 December 2023	**34**	**5,697**	**1,353**	**72**	**7,156**

At 31 December 2023, certain of the industrial leasehold land with a net carrying amount of approximately US$3,186,000 (2022: US$3,323,000) was pledged to a third party to secure an interest-bearing borrowing granted to the Group (note 25(b)).

16. LEASES (CONTINUED)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2023 US$'000	2022 US$'000
Carrying amount at 1 January	**1,740**	791
New leases	**82**	1,772
Early termination	**(201)**	(1)
Accretion of interest recognized during the year (note 9)	**128**	93
Payments	**(645)**	(952)
Exchange realignment	**47**	37
Carrying amount as at 31 December	**1,151**	1,740
Analyzed into:		
Current portion	**240**	562
Non-current portion	**911**	1,178
	1,151	1,740

The carrying amounts of lease liabilities are repayable:

	2023 US$'000	2022 US$'000
Within one year or on demand	**240**	562
In the second year	**210**	340
In the third to fifth years, inclusive	**598**	546
After five years	**103**	292
	1,151	1,740

The maturity analysis of lease liabilities is disclosed in note 36.

16. LEASES (CONTINUED)

The Group as a lessee (Continued)

(c) The amounts recognized in profit or loss in relation to leases are as follows:

	2023 US$'000	2022 US$'000
Sublease interest income	**(1)**	(2)
Interest on lease liabilities (note 9)	**128**	93
Depreciation charge of right-of-use assets (note 7)	**796**	811
Gain on early termination of lease	**(7)**	–
Expense relating to short-term leases and leases of low-value assets (note 7)	**88**	16
	1,004	918

(d) The total cash outflow for leases is disclosed in note 30(c).

The Group as a lessor

The Group has also subleased an office building it leased in 2018. The Group has classified the sublease as a finance lease because the sublease is for the whole of the remaining term of the head lease.

The maturity analysis of lease receivables and the undiscounted leases payments receivable by the Group in future periods are as follows:

	2023 US$'000	2022 US$'000
Within one year	**–**	27
Total undiscounted lease payments receivable and net investment in a lease (note 21)	**–**	27

17. INTANGIBLE ASSETS

	Computer software US$'000	Patents US$'000	Total US$'000
Cost at 1 January 2023, net of accumulated amortization	**279**	**634**	**913**
Additions	**80**	**–**	**80**
Amortization provided during the year	**(109)**	**(170)**	**(279)**
Exchange realignment	**10**	**(11)**	**(1)**
At 31 December 2023	**260**	**453**	**713**
At 31 December 2023:			
Cost	**649**	**1,331**	**1,980**
Accumulated amortization	**(389)**	**(878)**	**(1,267)**
Net carrying amount	**260**	**453**	**713**
At 1 January 2022			
Cost	563	1,479	2,042
Accumulated amortization	(176)	(598)	(774)
Net carrying amount	387	881	1,268
Cost at 1 January 2022, net of accumulated amortization	387	881	1,268
Additions	17	–	17
Amortization provided during the year	(100)	(179)	(279)
Exchange realignment	(25)	(68)	(93)
At 31 December 2022	279	634	913
At 31 December 2022:			
Cost	547	1,354	1,901
Accumulated amortization	(268)	(720)	(988)
Net carrying amount	279	634	913

The intangible assets are amortized on a straight-line basis over the following period:

Computer software	5 years
Patents	94 months

18. INTEREST IN AN ASSOCIATE

	2023 US$'000	2022 US$'000
Cost of investment — unlisted	**6,913**	–
Share of results and other comprehensive expense	**(265)**	–
Exchange difference arising on translation	**3**	–
	6,651	–

Details of the Group's associate at the end of the reporting period are as follows:

Name of entity	Form of entity	Place of incorporation/ registration	Principal place of operation	Proportion of ownership interest held by the Group		Proportion of voting power held by the Group		Principal activity
				2023	2022	**2023**	2022	
Hubei Hairong Technology Co., Ltd ("Hubei Hairong")	Incorporated	The PRC	The PRC	**28.3%* (Note)**	–	**25% (Note)**	–	Manufacturing and trading of graphite anode materials

* Rounded to one decimal point for disclosure purpose.

Note:

In May 2023, the Group has entered into an investment agreement ("Investment Agreement") with third parties to inject a total of RMB40,000,000 (equivalent to approximately US$5,709,000) into Hubei Hairong. The Group is entitled to appoint one out of three directors of Hubei Hairong, which represented 33.3% of voting right, the Group is considered to have significant influence over Hubei Hairong.

Pursuant to the Investment Agreement, the Group has a share acquisition option to purchase 51% of a Hong Kong incorporated investment holding company holding 52.5% equity interest of Hubei Hairong, the exercise of the option is subjected to terms and conditions including, but not limited to certain amount of additional fundings to be raised by Hubei Hairong which is not yet met as at 31 December 2023. The option is classified as financial asset at FVTPL and recognized a gain from changes in fair value of financial asset at FVTPL amounted to US$1,540,000 during the year ended 31 December 2023.

In November 2023, a third party injected additional capital into Hubei Hairong, pursuant to an investment agreement entered between the third party and Hubei Hairong. After the capital injection, the Group holds 28.3% of total equity interest of Hubei Hairong and is entitled to appoint one out of four directors, which represented 25% of voting right. Huibei Hairong remains as an associate of the Group upon the completion of the transaction.

18. INTEREST IN AN ASSOCIATE (CONTINUED)

Summarized financial information of Hubei Hairong

The summarized financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

	31 December 2023 US$'000
Current assets	8,084
Non-current assets	5,220
Current liabilities	(2,447)
Non-current liabilities	(288)

	18 May 2023 to 31 December 2023 US$'000
Revenue	1,151
Loss and total comprehensive expense for the year	(994)

Reconciliation of the above summarized financial information to the carrying amount of the interest in the associate recognized in the consolidated financial statements:

	31 December 2023 US$'000
Net assets of the associate	10,569
Proportion of the Group's ownership interest in the associate	28.3%
The Group's share of net assets of the associate	2,989
Goodwill arising from acquisition	3,662
Carrying amount of the Group's interest in the associate	6,651

19. INVENTORIES

	2023 US$'000	2022 US$'000
Raw materials	**3,794**	7,471
Work in progress	**38,975**	34,054
Finished goods	**17,621**	17,155
	60,390	58,680
Provision	**(3,366)**	(75)
	57,024	58,605

20. TRADE RECEIVABLES

	2023 US$'000	2022 US$'000
Trade receivables measured at amortized cost	**13,046**	16,955
Impairment losses	**(319)**	(260)
	12,727	16,695
Trade receivables measured at FVTPL	**223**	4,351
	12,950	21,046

As at 1 January 2022, trade receivables from contracts with customers amounted to US$18,968,000.

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally within 30 to 60 days from delivery. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

At the end of the reporting period, the Group has certain concentrations of credit risk as 26% (2022: 21%) and 71% (2022: 66%) of the Group's trade receivables from the Group's largest and the five largest customers, respectively.

Certain trade receivable balances are classified and measured at FVTPL as these trade receivables are held within a business model with the objective to sell the financial assets on a non-recourse basis under a trade receivable factoring arrangement with a bank. The balances were derecognized as the Group has transferred substantially all the risks and rewards of ownership of these receivables to the bank.

20. TRADE RECEIVABLES (CONTINUED)

As part of its normal business, the Group also entered into a trade receivable factoring arrangement and transferred certain trade receivables to a bank with recourse. The carrying amount of the assets that the Group continued to recognize as at 31 December 2023 was US$131,000 (2022: US$617,000) and that of the associated liabilities as at 31 December 2023 was US$124,000 (2022: US$506,000) (note 25(a)).

At 31 December 2023, certain trade receivables of approximately US$10,063,000 (2022: US$14,843,000) were pledged to third parties to secure interest-bearing borrowings granted to the Group (note 25(b)).

An aging analysis of the trade receivables as at the end of the reporting period, based on the past due date and net of loss allowance, is as follows:

	2023 US$'000	2022 US$'000
Not past due	**7,524**	18,242
Within 1 month	**2,060**	2,483
1 to 3 months	**1,026**	321
Over 3 months	**2,340**	–
	12,950	21,046

At 31 December 2023, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of approximately US$5,426,000 (2022: US$2,804,000) which is past due at the end of the reporting period. Of the past due balances, US$2,340,000 (2022: US$Nil) has been past due over 90 days and is not considered as in default because the trade receivables are of good credit quality and those debtors do not have any default payment history. The Group holds collateral with these balances.

The movement in the loss allowance for impairment of trade receivables are as follows:

	2023 Lifetime ECL (net credit-impaired) US$'000	2022 Lifetime ECL (net credit-impaired) US$'000
At beginning of year	**260**	136
Impairment losses	**59**	215
Reversal	**–**	(4)
Amount written off as uncollectible	**–**	(79)
Exchange realignment	**–**	(8)
At the end of the year	**319**	260

An impairment analysis is performed at each reporting date by considering the probability of default of the counterparty based on a provision matrix calculated with reference to its historical credit loss experience. The Group also takes into account forward-looking information to reflect the debtors' probability of default under the current and future economic conditions, as appropriate. The expected credit loss rates were assessed to be insignificant and accordingly, minimal loss allowance was provided for upon the assessment of expected credit losses. As at 31 December 2023, the expected credit loss rates ranged from 0.2% to 5.8% (2022: 0.1% to 3.0%).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023	2022
	US$'000	US$'000
Prepayments	**2,423**	4,369
Deposits and other receivables	**1,396**	3,539
VAT recoverable	**3,105**	1,737
Net investment in a lease (note 16)	**–**	27
Due from the intermediate holding company	**–**	549
Due from the immediate holding company	**–**	17
Due from a related parties (note):		
Rental deposit	**10**	10
	6,934	10,248
Less: Non-current portion of prepayments and deposits	**(652)**	(2,737)
	6,282	7,511

Note: Details of all related party transactions are disclosed in note 33.

The carrying amounts of deposits and other receivables approximated to their fair value as at 31 December 2023 and 2022. Their recoverability was assessed with reference to the credit status of the debtors, and the expected credit losses as at 31 December 2023 and 2022 were considered immaterial.

22. CASH AND CASH EQUIVALENTS

	2023	2022
	US$'000	US$'000
Cash and cash equivalents	**29,620**	11,652

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to US$1,877,000 (2022: US$543,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE PAYABLES

	2023 US$'000	2022 US$'000
Trade payables	**7,200**	12,314

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

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

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

24. OTHER PAYABLES AND ACCRUALS

	2023 US$'000	2022 US$'000
Other payables	**13,217**	9,121
Accruals	**2,681**	2,372
Contract liabilities	**519**	1,107
Due to a shareholder (note)	**616**	616
	17,033	13,216
Less: Non-current portion of other payables and accruals	**(1,288)**	(2,412)
	15,745	10,804

Note: The balances were non-trade related, unsecured, non-interest-bearing and repayable on demand.

As at 1 January 2022, contract liabilities amounted to US$191,000.

25. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2023 Maturity	2023 US$'000	2022 Maturity	2022 US$'000
Current					
Interest-bearing bank borrowings — secured	(a)	**2024**	**124**	2023	506
Interest-bearing bank borrowings — unsecured		**2024 or on demand**	**25,888**	2023 or on demand	7,508
Interest-bearing other borrowings — secured	(b)	**2024**	**8,687**	2023	8,597
			34,699		16,611
Non-current					
Interest-bearing bank borrowings — unsecured		**2025–2026**	**3,605**	2024–2026	5,175
Interest-bearing other borrowings — secured	(b)	**2025**	**359**	2024	8,443
			3,964		13,618
			38,663		30,229

25. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Bank borrowings

	2023 US$'000	2022 US$'000
Analyzed into:		
Within one year or on demand	**26,012**	8,014
In the second year	**1,883**	1,754
In the third to fifth years, inclusive	**1,722**	3,421
	29,617	13,189

Other borrowings

	2023 US$'000	2022 US$'000
Analysed into:		
Within one year or on demand	**8,687**	8,597
In the second year	**359**	8,443
	9,046	17,040

Notes:

(a) The loans were secured by trade receivables of US$124,000 as at 31 December 2023 (2022: US$617,000).

(b) Pursuant to financing arrangements entered into between the Group and three independent third parties, the Group obtained interest-bearing borrowings amounting to approximately US$9,046,000 (2022: approximately US$17,040,000). Details and the carrying amounts of each of these loans are as follows:

(i) US$4,899,000 (2022: US$9,755,000) of which was secured by 100% shares of certain subsidiaries of the Group and certain property, plant and equipment and trade receivables with carrying amounts of US$Nil (2022: US$13,900,000) and US$3,468,000 (2022: US$7,644,000) respectively.

(ii) US$3,279,000 (2022: US$7,285,000), of which was secured by certain property, plant and equipment, trade receivables and industrial leasehold land with carrying amounts of US$21,455,000 (2022: US$24,295,000), US$6,595,000 (2022: US$7,199,000) and US$3,186,000 (2022: US$3,323,000), respectively.

(iii) US$868,000 (2022: US$Nil), of which was secured by certain property, plant and equipment with carrying amounts of US$1,262,000 (2022: US$Nil).

(c) The Group's bank borrowings included fixed-rate borrowings of approximately US$9,046,000 (2022: approximately US$17,040,000) which carry effective interest rates ranged from 8% to 14.4% per annum (2022: 8%). The remaining Group's bank and other borrowings are variable-rate borrowings which carry interest at Hong Kong Interbank Offered Rate ("HIBOR"), London Interbank Offered Rate ("LIBOR"), Secured Overnight Financing Rate ("SOFR") and Euro Inter Bank Offered Rate ("EURIBOR") plus certain basis points. The range of effective interest rates is at 0.75% to 8.97% (2022: 0.75% to 5.51%) per annum.

26. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities — Gross

	Right-of-use assets US$'000	Fair value adjustments arising from acquisition of a subsidiary US$'000	Revaluation of property, plant and equipment US$'000	Others US$'000	Total US$'000
At 1 January 2022	96	219	14,197	3,171	17,683
Deferred tax credited to the statement of profit or loss during the year	(22)	(44)	(6)	(164)	(236)
Deferred tax credited to asset revaluation reserve during the year	–	–	(1,641)	–	(1,641)
Exchange realignment	–	–	(927)	–	(927)
At 31 December 2022	**74**	**175**	**11,623**	**3,007**	**14,879**
Deferred tax (credited) charged to the statement of profit or loss during the year	**(61)**	**(43)**	**(46)**	**701**	**551**
Deferred tax credited to asset revaluation reserve during the year	**–**	**–**	**(302)**	**–**	**(302)**
Exchange realignment	**–**	**–**	**302**	**–**	**302**
At 31 December 2023	**13**	**132**	**11,577**	**3,708**	**15,430**

Deferred tax assets — Gross

	Provision for inventories US$'000	Tax losses US$'000	Lease liabilities US$'000	Others US$'000	Total US$'000
At 1 January 2022	265	5,843	168	2,744	9,020
Deferred tax (charged) credited to the statement of profit or loss during the year	(249)	(2,977)	(10)	1,039	(2,197)
At 31 December 2022	**16**	**2,866**	**158**	**3,783**	**6,823**
Deferred tax credited to the statement of profit or loss during the year	**741**	**1,360**	**63**	**1,029**	**3,193**
At 31 December 2023	**757**	**4,226**	**221**	**4,812**	**10,016**

26. DEFERRED TAX (CONTINUED)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes and recognized in the consolidated statement of financial position:

	2023 **US$'000**	2022 US$'000
Net deferred tax assets	**3,413**	2,147
Net deferred tax liabilities	**(8,827)**	(10,203)
	(5,414)	(8,056)

The Group had aggregated tax losses of US$33,299,000 as at 31 December 2023 (2022: US$15,590,000) for which deferred tax assets have been recognized for such tax losses that are available for setting off against taxable profits generated indefinitely or within the next five to ten years. No deferred tax asset has been recognized in respect of the remaining tax losses of US$161,000 (2022: US$16,079,000) due to unpredictability of future profit streams.

Pursuant to the PRC Corporate Income Tax Law and the respective regulations, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China and Italy, respectively. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China.

At 31 December 2023, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Company's subsidiaries established in Mainland China and Italy (2022: US$Nil). In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China and Italy for which deferred tax liabilities have not been recognized totalled approximately US$2,268,000 (2022: US$10,735,000).

27. SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the scheme include (i) any directors or employees of the Company or any of its subsidiaries; (ii) the director or employee of its holding company, a subsidiary of its holding company or an associated company of the Company; and (iii) any person who provides services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long-term growth of the Group.

On 19 December 2022 (the "Adoption Date"), the Company adopted a share option scheme (the "Scheme"). The Scheme is valid and effective for a period of ten years from the Adoption Date, after which no further share options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Share options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to the end of the 10-year period shall continue to be valid and exercisable subject to and in accordance with the Scheme, notwithstanding the expiry of the Scheme.

27. SHARE OPTION SCHEME (CONTINUED)

The maximum number of shares which may be issued upon exercise of all share options granted under the Scheme and any other schemes of the Company shall not in aggregate exceed 100,000,000 ordinary shares, being 10.0% of the shares of the Company in issue on the Listing Date. The maximum number of shares issued and to be issued upon exercise of share options granted and to be granted to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or a substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company (excluding any independent non-executive director who is a grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, within any 12-month period, which are in excess of 0.1% of the shares of the Company in issue at the relevant time, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted by the eligible participant within 28 days from the date of offer, with the duplicate offer letter comprising acceptance of the offer duly signed by the grantee with the number of shares in respect of which the offer is accepted clearly stated therein, together with payment of a nominal consideration of US$1 by the grantee to the Company provided that no offer shall be open for acceptance after the expiry of the Scheme or after the Scheme has been terminated.

The exercise price of the share options is determinable by the directors in their absolute discretion at the time of the making of the offer which shall be stated in the letter containing the offer, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the grant date which must be a trading day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the grant date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Since the Adoption Date and up to 31 December 2023, no share options of the Company were granted, exercised, canceled or lapsed under the Scheme.

28. SHARE CAPITAL

Authorized:

	Number of shares	**Share capital** US$'000
At 1 January 2022	30,000,000	300
Increased of authorized share capital with par value of US$0.01 each (note)	4,970,000,000	49,700
At 31 December 2022 and 31 December 2023	5,000,000,000	50,000

Note: On 19 December 2022, the shareholders of the Company resolved to increase the authorized share capital of US$300,000 to US$50,000,000 by the creation of 4,970,000,000 additional shares, each ranking pari passu in all aspects with the Company's shares then in issue.

28. SHARE CAPITAL (CONTINUED)

Issued and fully paid:

	Number of shares in issue	Share capital
		US$'000
At 1 January 2022 and 31 December 2022	11,000,000	110
Capitalisation issue of 816,600,000 ordinary shares	816,600,000	8,166
Issue of 172,400,000 ordinary shares	172,400,000	1,724
Issue of 10,000,000 ordinary shares	10,000,000	100
At 31 December 2023	1,010,000,000	10,100

Pursuant to a written resolution passed by the shareholders of the Company on 19 December 2022, a total of 816,600,000 shares of US$0.01 each were allotted to the shareholders of the Company whose names appeared on the register of members of the Company as at 31 December 2021 on a pro rata basis by way of capitalization of US$8,166,000 from the Company's share premium account on the Listing Date. The capitalization issue was completed on 17 January 2023, resulting in increase in share capital and reduction in share premium of US$8,166,000, respectively.

The Company's shares were listed on the Stock Exchange on 17 January 2023 and as a result, an additional 172,400,000 ordinary shares were issued at US$0.21 (equivalent to HK$1.6) per share for a total consideration of US$35,364,000 (equivalent to HK$275,840,000), resulting in increase in share capital and share premium of US$1,724,000 and US$33,640,000, respectively. Transaction costs attributable to issue of shares amount to US$3,962,000 which is debited into share premium during the year ended 31 December 2023.

Pursuant to a deed of assignment entered into by the Group on 13 November 2023, a total of 10,000,000 new shares of US$0.01 each, amounted to US$100,000 in total (the "Consideration Shares"), were issued to the assignor, an independent third party, as a consideration for assigning its rights in relation to an acquisition of a land parcel in Italy to the Group. The Consideration Shares issued rank pari passu with the existing shares except that they are subject to the disposal restrictions pursuant to an undertaking given by the assignor. The issued shares were credited to other reserve as at 31 December 2023.

29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) The capital reserve represents the distribution to the Controlling Shareholder with respect to the consideration for the acquisition of subsidiaries in prior years and the non-controlling interests of a non-wholly-owned subsidiary which was acquired by the Controlling Shareholder in prior years.

The other reserve represents the new shares issued to acquire relevant rights in relation to an acquisition of a land parcel in Italy, which are subject to dealing restrictions pursuant to an undertaking given by the assignor of the rights.

(b) In accordance with the Company law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards to their respective statutory reserve until the reserve reaches 50% of their respective registered capital. Subject to certain restrictions set out in the Company law of the PRC, part of the statutory reserve may be converted to increase share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

(c) The asset revaluation reserve represents the revaluation surplus, net of tax, arising from the revaluation of property, plant and equipment. Release of asset revaluation reserve represents depreciation of the revaluation surplus, net of tax, of the related property, plant and equipment.

(d) The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of US$82,000 (2022: US$1,772,000) and US$82,000 (2022: US$1,772,000), respectively, in respect of lease arrangements for property, plant and equipment.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

	Loans from a related company US$'000	Lease liabilities US$'000	Interest-bearing bank and other borrowings US$'000	Total US$'000
At 1 January 2022	10,473	791	20,259	31,523
Changes from financing cash flows:				
— Repayment of loans from a related company	(2,356)	–	–	(2,356)
— New borrowings	–	–	9,805	9,805
— Repayment of borrowings	–	–	(7,913)	(7,913)
— Repayment of principal portion of lease payments	–	(859)	–	(859)
Gain on modification of loans	(155)	–	–	(155)
Transfer of loans	(7,518)	–	7,518	–
New leases (note 16(b))	–	1,772	–	1,772
Termination	–	(1)	–	(1)
Interest expenses	378	93	1,242	1,713
Interest paid classified as operating cash flows	(422)	(93)	–	(515)
Exchange realignment	(400)	37	(682)	(1,045)
At 31 December 2022 and 1 January 2023	**–**	**1,740**	**30,229**	**31,969**
Changes from financing cash flows:				
— New borrowings	**–**	**–**	**33,344**	**33,344**
— Repayment of borrowings	**–**	**–**	**(26,917)**	**(26,917)**
— Repayment of principal portion of lease payments	**–**	**(517)**	**–**	**(517)**
New leases (note 16(b))	**–**	**82**	**–**	**82**
Termination	**–**	**(201)**	**–**	**(201)**
Interest expenses	**–**	**128**	**2,368**	**2,496**
Interest paid classified as operating cash flows	**–**	**(128)**	**–**	**(128)**
Loss on modification of loans	**–**	**–**	**82**	**82**
Exchange realignment	**–**	**47**	**(443)**	**(396)**
At 31 December 2023	**–**	**1,151**	**38,663**	**39,814**

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(c) Total cash outflow for leases

The total cash outflow/(inflow) for leases included in the consolidated statement of cash flows is as follows:

	2023 US$'000	2022 US$'000
Within operating activities	**215**	107
Within investing activities	**(27)**	353
Within financing activities	**517**	859
	705	1,319

31. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank and other borrowings are included in the notes 15, 16, 20 and 25.

32. COMMITMENTS

The Group has the following capital commitments at the end of the reporting period:

	2023 US$'000	2022 US$'000
Contracted, but not provided for:		
Acquisition of land, property, plant and equipment	**–**	10,769
Investment in an associate	**2,118**	–
Investment in an investee company	**6,918**	–
	9,036	10,769

33. RELATED PARTY TRANSACTIONS/BALANCES

Related party transactions

Other than those disclosed elsewhere in the consolidation financial statements, the Group had following transactions with related parties during the year:

	Notes	2023 US$'000	2022 US$'000
Financing charge paid/payable to a related company charged on the outstanding balances derived from the acquisition of a subsidiary	(i)	**–**	70
Lease payments paid to related companies	(ii)	**115**	115
Financing charge paid/payable to a related company	(iii)	**–**	378
Salaries paid to a related party	(iv)	**49**	45

The transactions were conducted on terms and conditions mutually agreed between the relevant parties. Management is of the opinion that those related party transactions were conducted in the ordinary course of business of the Group.

Notes:

(i) The financing charge was related to unpaid consideration for the acquisition of Sangraf Energy Technology Co., Ltd. and was paid/payable to a related company in which a close family member of the Controlling Shareholder is a key management personnel and owns certain equity interest. The financing charge was calculated at 7% per annum and was mutually agreed between the parties.

(ii) The lease payments were based on terms determined between the Group and related companies which are wholly-owned by close family members of the Controlling Shareholder. Lease interest of US$4,000 (2022: US$7,000) was charged to profit or loss.

(iii) The financing charge was related to loans from a related company in which a close family member of the Controlling Shareholder is a key management personnel and owns certain equity interest. The financing charge was calculated on the loan at 8% per annum and was mutually agreed between the parties.

(iv) Salaries were paid to a close family member of the Controlling Shareholders.

33. RELATED PARTY TRANSACTIONS/BALANCES (CONTINUED)

Related party balances

	Notes	2023 US$'000	2022 US$'000
Included in prepayments, deposits and other receivables:			
Due from the intermediate holding company	(v)	**–**	549
Due from the immediate holding company	(v)	**–**	17
Due from a related company:			
Rental deposit	(vi)	**10**	10
Included in other payables and accruals:			
Due to a shareholder	(v)	**616**	616
Lease liabilities	(vii)	**19**	130

Notes:

(v) The balances were non-trade related, unsecured, non-interest-bearing and repayment on demand.

(vi) The balance as at 31 December 2023 and 2022 was due from a related company, which is wholly-owned by a close family member of the Controlling Shareholder. The balance is non-trade related, unsecured, non-interest-bearing and is refundable upon expiry of the rental contracts in February and April 2024.

(vii) During the year ended 31 December 2022, the Group entered into a rental agreements with the related company which is a wholly-owned by close family members of the Controlling Shareholder. The Group had recognized an addition of right-of-use assets and lease liabilities of US$219,000 during the year ended 31 December 2022 (2023: US$Nil).

Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management during the period was as follows:

	2023 US$'000	2022 US$'000
Short-term employee benefits	**667**	432
Post-employment benefits	**4**	14
Discretionary listing bonus expenses	**737**	–
	1,408	446

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2023			2022		
	Financial assets at FVTPL			Financial assets at FVTPL		
	Mandatorily designated as such US$'000	Financial assets at amortized cost US$'000	Total US$'000	Mandatorily designated as such US$'000	Financial assets at amortized cost US$'000	Total US$'000
Trade receivables	**223**	**12,727**	**12,950**	4,351	16,695	21,046
Financial assets included in prepayments, deposits and other receivables	**–**	**909**	**909**	–	1,514	1,514
Financial asset at FVTPL	**1,540**	**–**	**1,540**	–	–	–
Cash and cash equivalents	**–**	**29,620**	**29,620**	–	11,652	11,652
	1,763	**43,256**	**45,019**	4,351	29,861	34,212

Financial liabilities at amortized cost

	2023 US$'000	2022 US$'000
Trade payables	**7,200**	12,314
Financial liabilities included in other payables and accruals	**12,545**	7,231
Lease liabilities	**1,151**	1,740
Interest-bearing bank and other borrowings	**38,663**	30,229
	59,559	51,514

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, certain balances of trade receivables, trade payables, financial assets included in the current portion of prepayments, deposits and other receivables and financial liabilities included in the current portion of other payables and accruals and current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of financial assets included in non-current deposits, financial liabilities included in non-current other payables and accruals and non-current interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, and were assessed to be approximately their carrying amounts.

Except for certain balances of trade receivables disclosed in note 20 and financial asset at FVTPL in note 18, all other financial assets and financial liabilities of the Group were measured at amortized cost. The management consider that the carrying amounts of the other financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate to their fair values.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the directors. At each reporting date, the finance department analyzes the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the directors. The valuation process and results are discussed with the audit committee for financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial assets measured at FVTPL and give information about the fair values of the financial assets are determined (in particular, the valuation techniques and inputs used).

	2023 **US$'000**	2022 US$'000
Significant observable inputs (Level 2)	**223**	4,351
Significant unobservable inputs (Level 3)	**1,540**	–
	1,763	4,351

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets	Fair value as at 31 December 2023 US$'000	2022 US$'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Effect on fair value for increase
Financial asset at FVTPL	**1,540**	–	Level 3	Back solve from recent transaction price, and Black-Scholes model. The key inputs are: (i) Time to maturity; (ii) Risk free rate; (iii) Expected volatility; and (iv) Dividend yield	Expected volatility: 35% (2022: Nil)	Increase (note)
Trade receivables	**223**	4,351	Level 2	Discounted cash flow. Future cash flows are estimated based on rates currently available for installments with similar terms and risks.	N/A	

Note: A 10% increase or decrease in the expected volatility holding all other variable constant will increase or decrease the fair value of financial asset at FVTPL by US$102,000 as at 31 December 2023.

Reconciliation of Level 3 fair value measurements

	Financial assets at FVTPL 2023 US$'000
As at 1 January 2022 and 31 December 2022	–
Fair value gains in profit or loss	1,540
As at 31 December 2023	1,540

During the years ended 31 December 2023 and 2022, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, interest-bearing bank and other borrowings, financial asset at FVTPL and interest-bearing payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of each of the reporting period to a reasonably possible change in US$ exchange rates, with all other variables held constant, of the Group's profit before tax (arising from Euro ("EUR") and RMB denominated financial instruments) and the Group's equity.

	(Decrease) Increase in exchange rate	Impact on profit (loss) before tax US$'000
2023		
If the RMB weakens against US$	**–5%**	**515**
If the RMB strengthens against US$	**5%**	**(515)**
If the EUR weakens against US$	**–5%**	**885**
If the EUR strengthens against US$	**5%**	**(885)**
2022		
If the RMB weakens against US$	–5%	91
If the RMB strengthens against US$	5%	(91)
If the EUR weakens against US$	–5%	857
If the EUR strengthens against US$	5%	(857)

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that only well-established customers will be considered for open account terms and the approval of credit terms is subject to stringent credit check procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

	Notes	12m or Lifetime ECL	Gross carrying amount 2023 US$'000	2022 US$'000
Trade receivables*	20	**Life time ECL (collective assessment)**	**13,046**	16,955
Financial assets included in prepayments, deposits and other receivables**	21	**12m ECL**	**909**	1,514
Cash and cash equivalents**				
— Not yet past due	22	**12m ECL**	**29,620**	11,652
			43,575	30,121

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the probability of default of customers is disclosed in note 20.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of other loans and funds generated from operations.

The maturity profile of the Group's financial liabilities as at the end of each of the reporting period, based on the contractual and undiscounted cashflows, is as follows:

	Weight average interest rate %	On demand US$'000	Within 1 year US$'000	2 to 5 years US$'000	After 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2023							
Trade payables	**N/A**	**–**	**7,200**	**–**	**–**	**7,200**	**7,200**
Financial liabilities included in other payables and accruals	**N/A**	**–**	**12,545**	**–**	**–**	**12,545**	**12,545**
Lease liabilities	**5.32**	**–**	**304**	**936**	**105**	**1,345**	**1,151**
Interest-bearing bank and other borrowings	**7.86**	**5,549**	**19,880**	**20,002**	**–**	**45,431**	**38,663**
		5,549	**39,929**	**20,938**	**105**	**66,521**	**59,559**

	Weight average interest rate %	On demand US$'000	Within 1 year US$'000	2 to 5 years US$'000	After 5 years US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at 31 December 2022							
Trade payables	N/A	–	12,314	–	–	12,314	12,314
Financial liabilities included in other payables and accruals	N/A	–	7,231	–	–	7,231	7,231
Lease liabilities	5.07	–	647	1,052	307	2,006	1,740
Interest-bearing bank and other borrowings	5.79	7,256	10,962	14,398	–	32,616	30,229
		7,256	31,154	15,450	307	54,167	51,514

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Ignoring the effect of any repayment on demand clause and based on the maturity terms of the bank and other borrowings, the undiscounted amount repayable in respect of the Group's interest-bearing bank and other borrowings were as follows:

	2023 US$'000	2022 US$'000
Within one year	**25,429**	18,218
In the second to fifth years, inclusive	**20,002**	14,398
	45,431	32,616

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders and return capital to shareholders. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 2022.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. Total debt includes other interest-bearing payables and interest-bearing bank and other borrowings. The gearing ratios as at the end of each of the reporting periods were as follows:

	2023 US$'000	2022 US$'000
Interest-bearing bank and other borrowings (note 25)	**38,663**	30,229
Total debt	**38,663**	30,229
Total equity	**148,493**	132,917
Gearing ratio	**26%**	23%

37. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Place of incorporation/ operation	Issued and paid capital	Proportion of nominal value of issued share/ registered capital held by the Company 2023 Directly %	2023 Indirectly %	2022 Directly %	2022 Indirectly %	Principal activities
GoSource Group Limited	Hong Kong	HK$50,000,000	–	100	–	100	Investment holding
Gosource Capital Limited	Hong Kong	HK$1	–	100	–	100	Investment holding
Gosource (China) Limited*	PRC	RMB100,000,000	–	100	–	100	Investment holding
Sangraf International (Hong Kong) Limited	Hong Kong	HK$1	–	100	–	100	Investment holding and trading of graphite electrodes
Sangraf Italy S.r.l.	Italy	EUR100,000	–	100	–	100	Manufacturing and trading of graphite electrodes
Henan Sangraf Carbon Technology Company Limited*	PRC	RMB192,000,000	–	100	–	100	Manufacturing and trading of graphite electrodes
Sangraf Energy Technology Co., Ltd.*	PRC	RMB50,000,000	–	100	–	100	Trading of graphite electrodes
Sangraf International SA	Switzerland	CHF820,000	–	100	–	100	Trading of graphite electrodes
Sangraf International Inc.	US	US$100	–	100	–	100	Trading of graphite electrodes
Sangraf International Proprietary Limited	South Africa	ZAR25,000	–	100	–	100	Trading of graphite electrodes
Grafworld Macau Commercial Offshore Limited	Macau	MOP100,000	–	100	–	100	Trading of graphite electrodes and needle coke

* These companies are limited liability wholly-owned foreign enterprises established in the PRC.

37. PARTICULARS OF THE PRINCIPAL SUBSIDIARIES (CONTINUED)

The above table lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2023 US$'000	2022 US$'000
NON-CURRENT ASSETS		
Investment in a subsidiary*	–	–
Due from subsidiaries	**39,872**	18,398
	39,872	18,398
CURRENT ASSETS		
Due from the immediate holding company	–	4
Prepayments	**1,514**	5
Cash and cash equivalents	**9,251**	2,702
	10,765	2,711
CURRENT LIABILITIES		
Due to a shareholder	**616**	616
Due to subsidiaries	**2,270**	5,590
Accruals	**1,151**	11
Interest-bearing bank borrowings	**8,740**	7,256
Total current liabilities	**12,777**	13,473
NET CURRENT LIABILITIES	**(2,012)**	(10,762)
NET ASSETS	**37,860**	7,636
EQUITY		
Share capital	**10,100**	110
Reserves	**27,760**	7,526
TOTAL EQUITY	**37,860**	7,636

* The investment cost in a subsidiary amounted to HK$1 as at 31 December 2023 and 2022.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

The amounts and movements of the Company's reserves during the year are as follows:

	Share premium US$'000	Other reserve US$'000	Retained earnings/ (accumulated losses) US$'000	Total US$'000
At 1 January 2022	7,300	–	805	8,105
Net loss and total comprehensive loss for the year	–	–	(579)	(579)
At 31 December 2022 and 1 January 2023	7,300	–	226	7,526
Net loss and total comprehensive expense for the year	–	–	(1,178)	(1,178)
Capitalisation issue of 816,600,000 ordinary shares	(8,166)	–	–	(8,166)
Issue of 172,400,000 ordinary shares	33,640	–	–	33,640
Transaction costs attributable to issue of shares	(3,962)	–	–	(3,962)
Issue of 10,000,000 ordinary shares	–	(100)	–	(100)
At 31 December 2023	28,812	(100)	(952)	27,760

Five-Year Financial Summary

A five-year financial summary of the results and of the assets and liabilities of the Group is set out below.

	Year ended 31 December				
	2019	2020	2021	2022	**2023**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Revenue	150,844	108,540	108,694	115,521	**72,292**
Cost of sales	(116,581)	(92,026)	(85,864)	(89,493)	**(71,451)**
Gross profit	34,263	16,514	22,830	26,028	**841**
Other income	2,980	4,937	830	358	**691**
Other gains and losses	(162)	(108)	(297)	(1,070)	**(128)**
Selling and administrative expenses	(26,298)	(13,145)	(12,096)	(12,060)	**(14,862)**
Other expenses	(1,524)	(200)	(1,164)	(244)	**(250)**
Share of result of an associate	–	–	–	–	**(265)**
Finance costs	(3,727)	(1,988)	(1,988)	(2,626)	**(3,653)**
Listing expenses	–	(2,804)	(1,961)	(1,198)	**(1,655)**
Discretionary listing bonus expenses	–	–	–	–	**(3,045)**
PROFIT (LOSS) BEFORE TAX	5,532	3,206	6,154	9,188	**(22,326)**
Income tax (expense) credit	(369)	980	(1,766)	(1,692)	**6,850**
PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	5,163	4,186	4,388	7,496	**(15,476)**

	As at 31 December				
	2019	2020	2021	2022	**2023**
	US$'000	US$'000	US$'000	US$'000	**US$'000**
Assets and liabilities					
Non-current assets	70,656	113,460	116,034	107,037	**118,638**
Current assets	143,782	96,108	106,826	98,814	**107,416**
Non-current liabilities	(22,870)	(27,666)	(26,678)	(27,411)	**(14,990)**
Current liabilities	(81,246)	(48,692)	(61,193)	(45,523)	**(62,571)**
Net assets	110,322	133,210	134,989	132,917	**148,493**