SANERGY

SANERGY GROUP LIMITED
昇能集團有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock code: 2459)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024 AND CHANGE IN USE OF PROCEEDS FROM THE LISTING

The board (the "**Board**") of directors (the "**Director(s)**") of Sanergy Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June 2024 (the "**Reporting Period**" or "**1H2024**"), together with the comparative figures for the six months ended 30 June 2023 ("**1H2023**").

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Revenue	**32,101**	43,685
Gross (loss)/profit	**(8,114)**	5,301
Gross (loss)/profit margin %	**(25.3)%**	12.1%
Loss for the period attributable to owners of the Company	**(14,368)**	(4,224)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The demand for graphite electrodes in 1H2024 persisted at a subdued level, echoing the ongoing challenges within the commercial landscape as global economic uncertainties continued to impact steel industry production. Against the backdrop of cautious steel output, demand receded in the Group's primary markets of North America and Europe, influenced in part by customers' inventory realignments. Despite the context of continued weakness in steel production, the Group recorded a revenue of approximately US$32.1 million during 1H2024, representing a decrease of approximately 26.5% as compared with 1H2023 due to softening customer demand, declining selling prices of graphite electrodes and de-stocking in the downstream supply chain.

Notably, the Group's continuous efforts to provide a compelling value proposition to customers and effectively implement the de-stocking strategy enabled the Group to maintain a slight increase in the sales quantities in 1H2024. However, in the midst of suppressed market price and pricing dynamics persisting in most regions, the Group recorded a decrease in average selling price of graphite electrodes in 1H2024 by approximately 27.1% as compared with 1H2023.

While the Group recorded an increase in the average cost of sales per metric tonne ("**MT**"), the declining selling price of graphite electrodes led to an inventory provision of approximately US$2.0 million being recognized in the cost of sales of approximately US$40.2 million. Meanwhile, the average cost of sales per MT, excluding the effect of inventory provision, remained at similar level in both periods. As a result of the aforementioned decrease in revenue and the inventory provision, the Group recorded a gross loss of approximately US$8.1 million in 1H2024 as compared to a gross profit of approximately US$5.3 million in 1H2023.

As part of the Group's de-stocking effort, the Group's inventory level reduced by over 20%, from approximately US$57.0 million as at 31 December 2023 to approximately US$44.1 million as at 30 June 2024. The Group pursued this to minimize the overall potential inventory risk exposure, including (i) improving the Group's cashflow position by reducing the amount of capital tied up in the inventory, and (ii) increasing the Group's operational flexibility by more quickly adapting to changes in customer demand or market conditions and improving in forecasting, procurement, and production planning.

While the Group continues to strive to implement operational cost measures to maintain its industry competitiveness in graphite electrode business, the ground-breaking ceremony held in April 2024 marks a pivotal step in the strategic business diversification with graphite anode materials ("**GAM**") investment. Accordingly, the Group also incurred more expenses for its GAM business expansion project such as project preparation and development, which were carried out in a cautious manner in order to seize the opportunity in the European new energy market.

Despite the absence of the listing-related expenses during 1H2024, the Group's loss attributable to owners of the Company increased from approximately US$4.2 million in 1H2023 to approximately US$14.4 million in 1H2024. This was primarily due to the factors mentioned earlier, such as the suppressed market price, inventory provisions and continued development in GAM business expansion project. To navigate the challenging market conditions, the Group will continue demonstrating resilience and adaptability. The Group will swiftly implement a comprehensive response strategy, focusing on preserving its operating resources and minimizing inventory risk exposure. This proactive approach will help the Group weather the current industry headwinds and position itself for a stronger recovery as the market environment improves.

FUTURE PROSPECT

Looking ahead to the second half of 2024, the Group foresees a persisted challenging market environment with subdued demand in downstream steelmaking. Despite this backdrop, the World Steel Association expects that (i) this year global demand will see a 1.7% rebound; (ii) the developed world is expected to show a strengthening recovery with 1.3% in 2024; and (iii) emerging parts of the world are expected to show accelerating growth in their steel demand over 2024 after a significant slowdown over 2022-2023. Encouraged by these outlooks, 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. The global context of carbon neutrality continues to be the Group's growth driver in the mid-to-long term. Notably, Organisation for Economic Co-operation and Development's data and the Group's internal studies indicate a projected increase in global steelmaking capacity in 2024-2025, fueled by proliferation of electric arc furnace projects that will elevate demand for graphite electrodes.

The Group will strive to implement cost control measures to navigate the prevailing challenges in the commercial landscape, safeguarding the shareholders' interest and committing to delivering sustainable growth. While there have been challenges and it is currently expected that these challenges may continue to exist in the remaining period of 2024 and the near term, the Group has taken this opportunity to invest in diversification with GAM investment as a natural expansion of its business and the ground-breaking ceremony has taken place in Italy for the construction of GAM production facility in 1H2024. The Group remain committed to seize the opportunity in the European new energy market by contributing to the European lithium battery supply chain, with the support of various favorable European policies, such as Critical Raw Materials Act, EU Battery Regulation and EU Carbon Tax etc.

The Group will continuously uphold the mission of low-carbon transformation. Through two core strategies supporting the decarbonization of the steel and energy industries, it is committed to creating an efficient and sustainable path to a green and low-carbon future and delivering long term sustainable value for its shareholders.

FINANCIAL REVIEW

Revenue

The revenue decreased from approximately US$43.7 million in 1H2023 to approximately US$32.1 million in 1H2024 mainly due to the decrease in the average selling price of graphite electrodes from approximately US$4,549/MT in 1H2023 to approximately US$3,316/MT in 1H2024. Despite the current global economic uncertainties during 1H2024, the Group managed to maintain a slight increase in the sales quantities of graphite electrodes of 9,682MT in 1H2024 as compared to 9,603MT in 1H2023.

Cost of Sales

The cost of sales increased from approximately US$38.4 million in 1H2023 to approximately US$40.2 million in 1H2024 mainly due to (i) the increase in average cost of sales from approximately US$3,997/MT in 1H2023 to approximately US$4,154/MT in 1H2024 driven by the decrease in production volume in 1H2024 as compared to that of 1H2023 as a de-stocking effort; and (ii) the additional inventory provision of approximately US$2.0 million being recognised (1H2023: US$Nil) due to the decrease in net realizable value of the inventory as assessed based on the market prices of graphite electrodes.

Gross (Loss)/Profit and Gross (Loss)/Profit Margin

The gross profit decreased from approximately US$5.3 million in 1H2023 to gross loss of approximately US$8.1 million in 1H2024 and the gross profit margin decreased from approximately 12.1% in 1H2023 to a gross loss margin of approximately 25.3% in 1H2024. Such decrease in gross profit margin was mainly driven by the foregoing reasons, including (i) the decrease in average selling price of graphite electrodes; and (ii) the increase in average cost of sales of graphite electrodes per MT.

Administrative Expenses

The total administrative expenses of the Group were approximately US$5.8 million in 1H2024, representing an increase of approximately 8.9% as compared to 1H2023. Such increase was mainly due to increase in expenditure incurred for continued development in GAM business expansion project.

Finance Costs

The total finance costs of the Group were approximately US$1.7 million in 1H2024, representing a decrease of approximately US$0.4 million as compared to approximately US$2.1 million in 1H2023. The main reason for such decrease was the repayment of certain bank and other borrowings.

Listing-related Expenses

No listing-related expenses were incurred in 1H2024 as the Company's shares were successfully listed in January 2023 (1H2023: listing expenses of US$1.7 million and discretionary listing bonus expenses of US$3.0 million).

Loss for the Reporting Period

Overall, the loss attributable to owners of the Company increased from approximately US$4.2 million in 1H2023 to US$14.4 million in 1H2024, mainly driven by (i) the gross loss due to the foregoing reasons, and (ii) a moderate increase in administrative expenses due to continued development in GAM business expansion project and partially offset by the decrease in listing-related expenses.

Cash Flows, liquidity, Capital Resources and Capital Structure

During 1H2024, the Group satisfied its capital requirements principally with (i) the cash generated from operations; (ii) proceeds from bank and other borrowings; and (iii) proceeds from the listing of shares of the Company on the Stock Exchange on 17 January 2023.

The net cash from operating activities, the net cash used in investing activities and the net cash used in financing activities in 1H2024 amounted to approximately US$5.4 million (1H2023: net cash used in operating activities: US$4.7 million), approximately US$1.8 million (1H2023: net cash used in investing activities: US$10.0 million) and approximately US$10.9 million (1H2023: net cash from financing activities: US$30.8 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 30 June 2024, the Group's cash and cash equivalents were approximately US$22.3 million (31 December 2023: US$29.6 million) and mainly denominated in US$, EUR, RMB and HK$.

The Group's total interest-bearing bank and other borrowings as at 30 June 2024 amounted to approximately US$28.4 million (31 December 2023: US$38.7 million), which were mainly denominated in US$, RMB, EUR and HK$. The interest-bearing bank borrowings were mainly used for working capital 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 30 June 2024, the Group's total equity and liabilities amounted to approximately US$131.5 million and US$76.4 million, respectively (31 December 2023: US$148.5 million and US$77.6 million, respectively).

Gearing Ratio

The Group's gearing ratio, as calculated based on total debts divided by total equity, decreased from approximately 26.1% as at 31 December 2023 to approximately 21.6% as at 30 June 2024. This was mainly attributable to the overall decrease in the total debts of approximately US$10.3 million resulting from the net repayment of interest bearing bank and other borrowings during 1H2024.

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 for the expansion of its operations. For 1H2024, the Group incurred capital expenditures of approximately US$0.9 million.

Contingent Liabilities

As at 30 June 2024, the Group did not have any material contingent liabilities.

Pledge of Assets

As at 30 June 2024, certain of property, plant and equipment, trade receivables and industrial leasehold land with carrying amounts of approximately US$22.1 million, US$5.6 million and US$3.1 million, respectively (31 December 2023: US$22.7 million, US$10.1 million and US$3.2 million, respectively) were pledged to independent third parties.

Material Acquisitions or Disposals of Subsidiaries, Associates and Joint Venture

The Group did not have any material acquisitions nor disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Significant Investments

The Group did not have any significant investment which accounted for more than 5% of the Group's total assets as at 30 June 2024.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2024

		Six months ended 30 June	
		2024	2023
	NOTES	***US$'000***	*US$'000*
		(unaudited)	(unaudited)
Revenue	*4*	**32,101**	43,685
Cost of sales		**(40,215)**	(38,384)
Gross (loss) profit		**(8,114)**	5,301
Other income	*4*	**303**	463
Other gains and losses	*5*	**721**	(1,206)
Impairment losses under expected credit loss model, net of reversal		**(61)**	–
Selling expenses		**(1,635)**	(1,325)
Administrative expenses		**(5,818)**	(5,342)
Other expenses		**(110)**	(109)
Share of results of an associate		**(192)**	–
Finance costs		**(1,733)**	(2,145)
Listing expenses		**–**	(1,655)
Discretionary listing bonus expenses		**–**	(3,045)
Loss before tax	*6*	**(16,639)**	(9,063)
Income tax credit	*7*	**2,271**	4,839
Loss for the period attributable to owners of the Company		**(14,368)**	(4,224)
Loss per share for profit attributable to the owners of the Company			
— Basic	*9*	**US$(1.4) cents**	US$(0.4) cents
— Diluted	*9*	**US$(1.4) cents**	US$(0.4) cents

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Other comprehensive expense		
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(2,595)**	(791)
Other comprehensive expense for the period, net of tax	**(2,595)**	(791)
Total comprehensive expense for the period attributable to owners of the Company	**(16,963)**	(5,015)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2024

	NOTES	At 30 June 2024 US$'000 (unaudited)	At 31 December 2023 US$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**97,079**	100,053
Right-of-use assets		**7,021**	7,156
Intangible assets		**735**	713
Prepayments and deposits		**618**	652
Interest in an associate		**6,337**	6,651
Deferred tax assets		**5,204**	3,413
		116,994	118,638
CURRENT ASSETS			
Inventories		**44,064**	57,024
Trade receivables	*10*	**14,375**	12,950
Prepayments, deposits and other receivables		**8,653**	6,282
Financial asset at fair value through profit or loss		**1,540**	1,540
Cash and cash equivalents		**22,279**	29,620
		90,911	107,416
CURRENT LIABILITIES			
Trade payables	*11*	**8,950**	7,200
Other payables and accruals		**24,077**	15,745
Lease liabilities		**325**	240
Interest-bearing bank and other borrowings		**25,724**	34,699
Income tax payable		**4,646**	4,687
		63,722	62,571
NET CURRENT ASSETS		**27,189**	44,845
TOTAL ASSETS LESS CURRENT LIABILITIES		**144,183**	163,483

	NOTES	At 30 June 2024 US$'000 (unaudited)	At 31 December 2023 US$'000 (audited)
NON-CURRENT LIABILITIES			
Other payables and accruals		**1,200**	1,288
Lease liabilities		**858**	911
Interest-bearing bank and other borrowings		**2,653**	3,964
Deferred tax liabilities		**7,942**	8,827
		12,653	14,990
NET ASSETS		**131,530**	148,493
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital	*12*	**10,100**	10,100
Reserves		**121,430**	138,393
TOTAL EQUITY		**131,530**	148,493

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2024

1. GENERAL AND BASIS OF PREPARATION

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 condensed 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 six months ended 30 June 2024.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as the applicable disclosure requirements of Appendix D2 to the Rules Governing the Listing of Securities on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as appropriate. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Other than additional accounting policies resulting from the application of amendments to the Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2024 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sale of graphite electrodes. The executive directors of the Company have been identified as the chief operating decision maker. Information reported to the executive directors 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

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Americas	**8,479**	13,578
Europe, Middle East and Africa ("**EMEA**")	**18,162**	23,272
People's Republic of China (the "**PRC**")	**5,385**	6,771
Asia Pacific excluding the PRC	**75**	64
	32,101	43,685

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

(b) Non-current assets

	At 30 June 2024 *US$'000* **(unaudited)**	At 31 December 2023 *US$'000* (audited)
Americas	**224**	78
EMEA	**47,816**	50,241
PRC	**63,686**	64,836
Asia Pacific excluding the PRC	**30**	36
	111,756	115,191

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

4. REVENUE AND OTHER INCOME

An analysis of revenue is as follows:

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Revenue from contracts with customers		
Sale of graphite electrodes	**32,101**	43,685

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

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Type of goods or service		
Sale of graphite electrodes	**32,101**	43,685
Timing of revenue recognition		
Goods transferred at a point in time	**32,101**	43,685

Details of the disaggregated revenue based on geographical locations are disclosed in note 3(a).

For the six months ended 30 June 2024 and 2023, revenue of US$66,000 and US$26,000, respectively, was recognised 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 customers, 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, the amount of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) are not disclosed in the notes to these consolidated financial statements because all the remaining performance obligations in relation to the sale of graphite electrodes are a part of contracts that have an original expected duration of one year or less.

An analysis of other income is as follows:

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Bank interest income	**134**	175
Government subsidies*	**121**	283
Others	**48**	5
	303	463

* The subsidies for the six months ended 30 June 2024 and 2023 represented business, export and environmental subsidies received from the PRC government. There were no unfulfilled conditions or contingencies relating to these subsidies.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Loss on disposal of property, plant and equipment	**(6)**	–
Net gain (loss) from sale of other carbon products	**550**	(266)
Foreign exchange differences, net	**177**	(940)
	721	(1,206)

6. LOSS BEFORE TAX

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
The Group's loss before tax is arrived at after charging (crediting):		
Cost of inventories sold*	**38,181**	38,384
Net write-down of inventories*	**2,034**	–
Depreciation of property, plant and equipment**	**2,023**	2,020
Depreciation of right-of-use assets**	**286**	462
Amortisation of intangible assets^	**143**	142
Lease payments not included in the measurement of lease liabilities	**50**	9
Directors' remuneration	**437**	756
Other employee benefit expense:		
— Wages and salaries and pension scheme contributions#	**4,637**	7,593
— Less: Amount capitalised	**(1,995)**	(2,174)
— Less: Government subsidies##	**–**	(508)
Total employee benefit expense	**3,079**	5,667

\# The amount for the six months ended 30 June 2023 included the discretionary listing bonus expense of US$3,045,000.

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

* Included in cost of sales on the condensed consolidated statement of profit or loss and other comprehensive income.

** Certain depreciation charge for property, plant and equipment and right-of-use assets of US$1,825,000 and US$1,933,000 for the six months ended 30 June 2024 and 2023, respectively, are included in cost of sales on the condensed consolidated statement of profit or loss and other comprehensive income.

^ Included in administrative expenses on the condensed consolidated statements of profit or loss and other comprehensive income.

7. INCOME TAX CREDIT

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% on the estimated assessable profits arising in Hong Kong for both periods, except for one subsidiary of the Company which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 of assessable profits of this subsidiary for both periods are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Pursuant to the relevant tax laws of the United States of America (the "**US**"), federal corporation income tax was levied at the rate of up to 21% for both periods on the taxable income arising in the US during the period.

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 is eligible to carry back approximately US$21,952,000 net operating loss incurred in the year ended 31 December 2020 which gave rise to approximately US$4,610,000 tax credit for the six months ended 30 June 2023.

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

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% and 3.9%, respectively, on the taxable income for both periods.

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Current — Hong Kong		
Charge for the period	**8**	3
Current — elsewhere*	**121**	(4,082)
Deferred tax	**(2,400)**	(760)
Income tax credit for the period	**(2,271)**	(4,839)

* The amount for the six months ended 30 June 2023 included the tax credit impact of CARES Act received in March 2023, amounting to US$4,610,000.

8. DIVIDENDS

No dividend was declared by the Company to its shareholders during the six months ended 30 June 2024 and 2023.

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted loss per share is based on the loss for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the period.

The weighted average number of ordinary shares used for the purpose of calculating basic loss per share and diluted loss per share for the six months ended 30 June 2023 had been retrospectively adjusted for the effects of the issue of shares in connection with the capitalisation issue which was completed on 17 January 2023 ("**Listing Date**").

The computation of basic loss per share for the six months ended 30 June 2024 does not include the issuance of 10,000,000 share as a consideration for acquisition of a land in Italy as the share is subject to return.

The computation of diluted loss per share for the six months ended 30 June 2024 and 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 six months ended 30 June 2024.

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

	Six months ended 30 June	
	2024	2023
	US$'000	*US$'000*
	(unaudited)	(unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of calculating basic and diluted loss per share	**(14,368)**	(4,224)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**1,000,000,000**	984,760,221

The computation of diluted loss per share for the six months ended 30 June 2024 and 2023 does not assume the exercise of the Company's over-allotment option since their assumed exercise would result in a decrease in loss per share.

10. TRADE RECEIVABLES

	At **30 June 2024** ***US$'000*** **(unaudited)**	At 31 December 2023 *US$'000* (audited)
Trade receivables measured at amortised cost	**14,188**	13,046
Impairment losses	**(380)**	(319)
	13,808	12,727
Trade receivables measured at fair value through profit or loss ("**FVTPL**")	**567**	223
	14,375	12,950

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 minimise 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.

Certain trade receivable balances were 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 derecognised as the Group has transferred substantially all the risks and rewards of ownership of these receivables to the bank.

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 recognise as at 30 June 2024 was US$Nil (31 December 2023: US$131,000) and that of the associated liabilities as at 30 June 2024 was US$Nil (31 December 2023: US$124,000).

At 30 June 2024, certain trade receivables of approximately of US$5,622,000 (31 December 2023: US$10,063,000), were pledged to third parties.

An ageing 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:

	At 30 June 2024 *US$'000* **(unaudited)**	At 31 December 2023 *US$'000* (audited)
Not past due	**12,444**	7,524
Within 1 month	**1,595**	2,060
1 to 3 months	**325**	1,026
Over 3 months	**11**	2,340
	14,375	12,950

11. TRADE PAYABLES

	At 30 June 2024 *US$'000* **(unaudited)**	At 31 December 2023 *US$'000* (audited)
Trade payables	**8,950**	7,200

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

	At 30 June 2024 *US$'000* **(unaudited)**	At 31 December 2023 *US$'000* (audited)
Not past due	**7,036**	5,678
Within 1 month	**1,303**	1,092
1 to 3 months	**502**	281
Over 3 months	**109**	149
	8,950	7,200

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 to 120 days.

12. SHARE CAPITAL

Authorised:

	Number of shares	Share capital
		US$'000
At 1 January 2023, 31 December 2023 and 30 June 2024 — Ordinary shares of US$0.01 each	5,000,000,000	50,000

Issued and fully paid:

	Number of shares in issue	Share capital
		US$'000
At 1 January 2023	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 and 30 June 2024	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 capitalisation of US$8,166,000 from the Company's share premium account 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 and 30 June 2024.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there are no significant events materially affecting the Group after the Reporting Period and up to the date of this announcement.

CHANGE OF USE OF PROCEEDS FROM THE LISTING

The Company's shares have been listed on the Main Board of the Stock Exchange since 17 January 2023 (the "**Listing Date**"). The net proceeds from the global offering after deducting the underwriting fees and commissions and related expenses (the "**Net Proceeds**") were approximately HK$186.7 million. As at 30 June 2024, approximately 47.2% of the Net Proceeds has not been deployed for the proposed allocation as designated and disclosed in the prospectus issued by the Company on 30 December 2022 (the "**Prospectus**") in an efficient manner. In this regard, the Board, after considering (i) the overall business operating environment, (ii) the present and future development of the Group, and (iii) factors as set out below in the paragraph headed "Reasons for and benefits of the Change in Use of Proceeds", has resolved to change the use of the unutilized portion of the Net Proceeds allocated under (i) "Pay for the purchase price of the Taigu Assets" and (ii) "Upgrade of the Group's graphite electrode production systems on the Italian Factory, the PRC Factory and the Sanli Assets" (the "**Change in Use of Proceeds**") as illustrated in the table below.

The table below illustrates, among others, (i) the utilized and unutilized amount of Net Proceeds as of 30 June 2024; and (ii) the Change in Use of Proceeds, in each case, in accordance with paragraph 11(8) of Appendix D2 to the Listing Rules:

	Purpose	Planned allocation of Net Proceeds as disclosed in the Prospectus *HK$'million*	Utilized Net Proceeds as at 30 June 2024 and the date of this announcement *HK$'million*	Unutilized Net Proceeds as at 30 June 2024 and the date of this announcement *HK$'million*	Proposed change in allocation of Net Proceeds *HK$'million*	Revised application of the unutilized Net Proceeds *HK$'million*	Expected timeline for full utilization of the unutilized Net Proceeds
1	Pay for the purchase price of the Taigu Assets (as defined in the Prospectus)	65.0	(44.2)	20.8	(20.8)	–	–
2	Upgrade of the Group's graphite electrode production systems on the Italian Factory, the PRC Factory and the Sanli Assets (as defined in the Prospectus)	103.0	(35.6)	67.4	(20.0)	47.4	first half of 2026
3	Working capital and general corporate purposes	18.7	(18.7)	–	–	–	–
4	Develop and expand GAM business	–	–	–	15.0	15.0	second half of 2025
5	Pay for operational costs of our graphite electrode business	–	–	–	25.8	25.8	first half of 2025
		186.7	(98.5)	88.2	–	88.2	

Reasons for and benefits of the Change in Use of Proceeds

Considering (1) the demanding business environment and the simultaneous development of the Group's dual-core business strategy in graphite electrodes and graphite anode materials; and (2) the imminent need to optimize funding use and maximizing the benefits of the Net Proceeds given that approximately 47.2% of the Net Proceeds remained unutilized after the Listing Date for 18 months, the Group anticipates that a strategic reallocation of the Net Proceeds is essential, advocating for a shift in the deployment of resources for the Company's long-term prosperity and optimization of funding resource.

(1) Pay for the purchase price of the Taigu Assets

The remaining unutilized proceeds for the purchase consideration of the Taigu Assets are reduced by HK$20.8 million to nil as (i) certain payment conditions of the acquisition are yet to be fulfilled and the Group expects such payment conditions will need to take a prolonged period of time to be fulfilled while the Group will continue to undergo negotiations with the vendor in an effort to obtain the required certificates following the required procedures; and (ii) the Group intends to use other funding resources e.g. debt financing or equity financing as the Group deems fit when needed in light of its own development status. Hence, such unutilized proceeds of approximately HK$20.8 million will be reallocated to payment for operational costs to support the ordinary course of graphite electrode business.

(2) Upgrade of the Group's graphite electrode production systems on the Italian Factory, the PRC Factory and the Sanli Assets

The remaining unutilized proceeds for upgrades on the Group's graphite electrode production facilities are reduced by HK$20 million as the Group considers slowing down the pace of the upgrades to the production facilities and reallocating HK$15 million to support the development of the GAM project in Narni, Italy (the "**Narni GAM Project**"), which would enable the Group to (i) cope with the market condition of the graphite electrodes industry; and (ii) seize the opportunity in the European new energy market. The remaining portion of HK$5 million will be allocated to support the operational costs of the Group's graphite electrode business as detailed below. When the Group deems fit in light of the market condition and its own development status, the Group intends to use its own financial resources to fund the upgrades on the Group's graphite electrode production facilities.

(3) Pay for operational costs of the graphite electrode business

A reallocation of approximately HK$25.8 million is made for the purpose of payment for operational costs to support the ordinary course of graphite electrode business, including but not limited to (i) procurement of raw materials and/or graphite electrodes, (ii) payment for subcontracting and conversion cost, and (iii) other operating and overhead costs, which will help improve the Group's liquidity, provide more buffer to adapt flexibly to changes in the market environment and demonstrate the resilience of the Group's existing core business. These funds are expected to support the Group's graphite electrode production for the upcoming one to two quarters and ensure the fulfillment of secured customer orders expected for delivery in 2024 and 2025.

(4) Develop and expand GAM business

With references to the announcements of the Company dated 13 November 2023 and 22 December 2023 and the annual report for the year ended 31 December 2023 ("**FY2023**"), the Group has taken the opportunity to invest in diversification with GAM investment as a natural expansion of its business. While the Group would continue to strive to maintain operational cost efficiency in graphite electrode business, it is concurrently progressing in the Narni GAM Project, incurring expenses for project preparation and development to seize the opportunity in the European new energy market. The ground-breaking ceremony for the construction of Italy GAM production facility in 1H2024 marks a pivotal step in this strategic diversification. In this regard, the Board has decided to allocate approximately HK$15 million to continue to develop and expand the GAM business, including but not limited to capital expenditure, operational cost, research and development expenditure.

Based on a number of factors, including:

— the Group's full utilization of the proceeds originally allocated to working capital and general corporate purposes;

— the need for further funding required to enhance corporate cash flow and the flexibility of financial management of the Company so as to cope with the prevailing market dynamic and long production cycle;

— the significant market opportunity in GAM, the decision of natural expansion of the Group's business and the need to continue developing the Narni GAM Project to seize the market opportunity in the European new energy market, it is imperative to reallocate the aforementioned portion of the unutilized proceeds to (1) support the Narni GAM Project to diversify the Company's business while leveraging the common process technologies and common raw materials between graphite electrode production and graphite anode materials production; and (2) provide liquidity and resources for funding need for payment of operational costs for the graphite electrode business of the Group.

The Board considers that the strategic direction of the Company is consistent with the disclosures that were made in the annual report of the Company for FY2023. The Board confirms that there are no material changes in the nature of the business of the Group as set out in the Prospectus. The graphite electrode business will remain the core business of the Group. The proposed reallocation of the unutilized Net Proceeds would allow the Group to deploy its financial resources more effectively to support the original core business operation while naturally expanding and diversifying its business. The Board will continuously assess the plan for the use of the unutilized Net Proceeds and may revise or amend such plan where necessary to cope with the changing market conditions and strive for better business performance of the Group.

HUMAN RESOURCES AND REMUNERATION POLICIES

As at 30 June 2024, the Group employed 207 (as at 30 June 2023: 206) staff. The staff costs (including directors remuneration) for the Reporting Period amounted to approximately US$5.1 million (1H2023: US$8.3 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.

INTERIM DIVIDEND

The Board did not declare any interim dividend for 1H2024 and 1H2023.

CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). Throughout the Reporting Period, the Company has complied with the code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix C3 to the Listing Rules as its code of conduct regarding Directors' securities transactions. After making specific enquiries to all the Directors, each of them has confirmed that they have complied with the Model Code throughout the Reporting Period.

AUDIT COMMITTEE

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules, and currently comprises three independent non-executive Directors, namely Mr. Cheng Tai Kwan Sunny (Chairman), Ms. Chan Chore Man Germaine and Mr. Ngai Ming Tak Michael.

The Audit Committee has discussed with the management and the external auditors and reviewed this interim results announcement and the unaudited condensed consolidated interim financial statements of the Group for 1H2024.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial information for 1H2024 has been reviewed and agreed by the Company's auditors, Deloitte, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". The review report of the auditors will be included in the interim report of the Company for the Reporting Period to be dispatched to the Shareholders.

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

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sanergygroup.com). The interim report for the Reporting Period containing all the information required by Appendix D2 to the Listing Rules will be dispatched to the shareholders and available on the same websites in due course.

By Order of the Board
SANERGY GROUP LIMITED
Peter Brendon Wyllie
Chairman of the Board and Executive Director

Hong Kong, 30 August 2024

As at the date of this announcement, the Board comprises (i) Mr. Peter Brendon Wyllie (chairman of the Board) and Mr. Hou Haolong as executive Directors; (ii) Mr. Wang Ping and Professor Zheng Honghe as non-executive Directors; and (iii) Mr. Cheng Tai Kwan Sunny, Mr. Ngai Ming Tak Michael and Ms. Chan Chore Man Germaine as independent non-executive Directors.