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GRAPHEX

GRAPHEX GROUP LIMITED

烯石電動汽車新材料控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6128)

I. FORMATION OF JOINT VENTURE;

AND

**II. OPTION IN RELATION TO ACQUISITION OF JV
MEMBERSHIP INTEREST INVOLVING CONSIDERATION
ISSUE UNDER SPECIFIC MANDATE**

I. FORMATION OF JOINT VENTURE

Reference is made to the Company's announcement dated 7 February 2022 in relation to the non-legally binding memorandum of understanding dated 7 February 2022 entered into between Graphex Tech (an indirect wholly-owned subsidiary of the Company) and EES setting out the preliminary understanding in relation to the JV Formation.

On 30 May 2022 (after trading hours), Graphex Tech and EES entered into the Agreement in relation to the JV Formation. Upon formation, Graphex Tech will initially own one-third and EES will initially own two-third of the JV Membership Interest.

The purpose of the Joint Venture shall be to develop and operate in Michigan the Anode Material Processing Facility.

II. OPTIONS IN RELATION TO ACQUISITION OF JV MEMBERSHIP INTEREST

Pursuant to the Agreement, (i) EES granted to Graphex Tech the Call Option for purchasing 30 JV Units (representing one-third of the JV Membership Interest) from EES in consideration for 35,000,000 Consideration Shares; and (ii) Graphex Tech granted EES the Put Option for requiring Graphex Tech to purchase 30 JV Units (representing one-third of the JV Membership Interest) from EES in consideration for 35,000,000 Consideration Shares.

GENERAL

As certain of the applicable percentage ratios (as defined under the Listing Rules) in respect of the JV Formation (on a standalone basis and aggregated with the exercise of the Call Option/Put Option) are more than 5% but less than 25%, the JV Formation constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As certain of the applicable percentage ratios (as defined under the Listing Rules) in respect of the exercise of the Call Option/Put Option (on a standalone basis and aggregated with the JV Formation) are more than 5% but less than 25%, the exercise of the Call Option/Put Option constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As the exercise of the Put Option is not at the discretion of the Company, pursuant to Rule 14.74 of the Listing Rules, on the grant of the Put Option, the transaction will be classified as if the Put Option had been exercised.

The Company will also seek Ordinary Shareholders' approval on the Specific Mandate for the issuance of Consideration Shares upon exercise of the Call Option/Put Option.

A circular containing, among other things, (i) further details of the Call Option, the Put Option and the Specific Mandate; and (ii) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules. It is expected that the circular will be despatched to the Shareholders on or before 21 June 2022.

INTRODUCTION

Reference is made to the Company's announcement dated 7 February 2022 in relation to the non-legally binding memorandum of understanding dated 7 February 2022 entered into between Graphex Tech (an indirect wholly-owned subsidiary of the Company) and EES setting out the preliminary understanding in relation to the JV Formation.

On 30 May 2022 (after trading hours), Graphex Tech and EES entered into the Agreement in relation to the JV Formation. Upon formation, Graphex Tech will initially own one-third and EES will initially own two-third of the JV Membership Interest.

Pursuant to the Agreement, (i) EES granted to Graphex Tech the Call Option for purchasing 30 JV Units (representing one-third of the JV Membership Interest) from EES in consideration for 35,000,000 Consideration Shares; and (ii) Graphex Tech granted EES the Put Option for requiring Graphex Tech to purchase 30 JV Units (representing one-third of the JV Membership Interest) from EES in consideration for 35,000,000 Consideration Shares.

THE AGREEMENT

Date

30 May 2022 (after trading hours)

Parties

Graphex Tech and EES

EES is owned as to 85% by David Halabu, a citizen of the United States of America and 15% by Management 10 LLC, a Michigan limited liability company. The

ultimate beneficiaries of Management 10 LLC are Nemer Haddad and Derrick Gergis, both are citizens of the United States of America. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, EES and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

JV Formation

Pursuant to the Agreement, Graphex Tech and EES agreed to cause the Joint Venture to be organized as a Delaware limited liability company pursuant to the provisions of the Delaware Limited Liability Company Act on or about the Agreement Date.

The purpose of the Joint Venture shall be to develop and operate in Michigan a single facility, factory or other manufacturing or processing plant for the purposes of processing or otherwise enhancing graphite anode material or previously processed graphite, including without limitation spherical graphite processing and pitch coating of spherical graphite for use in any industry, including without limitation in connection with providing anode material for lithium-ion batteries utilized in electric automotive vehicles ("**Anode Material Processing Facility**").

Contributions

Graphex Tech shall cause the Group to grant to the Joint Venture a perpetual, royalty-free right and license to use and exploit the Technologies in connection with the establishment, development and operation of the Anode Material Processing Facility (the "**Technologies Contribution**"). The valuation of the Technologies Contribution was HK\$37 million as at 31 March 2022 (the "**Valuation**") prepared by an independent valuer using the relief from royalty method. Graphex Tech shall ensure that all appropriate personnel of the Group are involved and Graphex Tech shall furnish services of all its Michigan-based personnel in all stages of development and operation of such Anode Material Processing Facility. Graphex Tech shall arrange for offtake agreements with applicable mines and/or initial processors for supplying the necessary or appropriate graphite flake or high-quality spherical graphite to be utilized in such Anode Material Processing Facility, including without limitation from the Group's plant in the PRC to the extent necessary and legally permissible.

EES shall furnish the services of all its Michigan-based personnel, who will primarily be responsible for handling site searches and inspections, acquisitions, design, regulatory approval, construction and mechanical operation of the Anode Material Processing Facility. EES shall contribute US\$15 million to the Joint Venture (the "**Cash Contribution**") and arrange and provide for all office and administrative support for the Joint Venture in the United States, provided that the Joint Venture shall pay EES a reasonable amount for rent. In addition, EES will have primary

responsibility for providing and/or obtaining the additional requisite funding, capital and/or financial arrangements to purchase, construct and operate the Anode Material Processing Facility. EES shall utilize its contacts to manage all governmental and regulatory concerns.

The scope of the Technologies Contribution and the amount of Cash Contribution were determined after arm's length negotiation between Graphex Tech and EES with reference to the operational requirements of the Joint Venture.

JV Membership Interest

Upon formation, Graphex Tech will initially own 30 JV Units (representing one-third of the JV Membership Interest) and EES will initially own 60 JV Units (representing two-third of the JV Membership Interest).

The aforesaid ownership structure was determined after arm's length negotiation between Graphex Tech and EES with reference to their respective contributions to the Joint Venture (including the Technologies Contribution and the Cash Contribution).

Management

Except as otherwise provided in the Agreement, the management of the Joint Venture and all decisions concerning the business affairs of the Joint Venture shall be made by the managing members or any authorized agent designated in writing by the managing members. The managing members shall be Graphex Tech and EES (the "**Managing Member(s)**").

Unless expressly provided otherwise in the Agreement, consent by the Managing Members is required to authorize any actions of the Joint Venture. Consent of the Managing Members shall be the approval of more than 75% of the managing member voting percentages (the managing member voting percentage for each Managing Member shall be in accordance such Managing Member's percentage of JV Membership Interest). The Managing Members have the power, on behalf of the Joint Venture, to do all things necessary or convenient to carry out the business and affairs of the Joint Venture.

Each Managing Member shall discharge its duties to the Joint Venture and the other JV Member in good faith and with that degree of care that an ordinarily prudent person in a similar position would use under similar circumstances.

Distribution

Distributions, if any, shall be made in the sole discretion of the Managing Members. In the event that the Managing Members make a distribution of any proceeds, it shall be paid to the JV Members in the following priority:

- (i) During the first four years following the Agreement Date, 75% of each distribution shall be paid to EES and the balance shall be paid to Graphex Tech;
- (ii) During the fifth year following the Agreement Date, 75% of each Distribution shall be paid to Graphex Tech and the balance shall be paid to EES; and
- (iii) Thereafter, distributions shall be paid to all JV Members pro rata in accordance with their JV Membership Interest.

“Tag along” and “bring along” rights

JV Members shall have “tag along” rights in the event that a JV Member agrees to sell its entire JV Membership Interest in the Joint Venture to a bona fide third party purchaser.

If at any time any JV Member or group of JV Member holding at least a majority of the Joint Venture’s then JV Membership Interest taken together proposes to sell to any bona fide third party, for cash or for securities trading on the New York Stock Exchange, the NYSE American Stock Exchange or Nasdaq Stock Market, all the JV Membership Interest held by them, then such majority JV Member may, at their option, require each and every other JV Member to sell all their JV Membership Interest to such third party for the same consideration on the same terms and conditions upon which the majority JV Member sell their JV Membership Interest (i.e. the “bring along” rights).

The Call Option and the Put Option

EES granted to Graphex Tech the Call Option for purchasing 30 JV Units (representing one-third of the JV Membership Interest) from EES in consideration for 35,000,000 Consideration Shares.

Graphex Tech granted EES the Put Option for requiring Graphex Tech to purchase 30 JV Units (representing one-third of the JV Membership Interest) from EES in consideration for 35,000,000 Consideration Shares.

The Call Option and the Put Option are exercisable at any time after the Option Effective Date and commencement of building Anode Material Processing Facility in the Michigan, including without limitation construction proceeding on such building, full financing committed for completion of such building and/or architectural designs developed for local development approval of such building.

For clarification, if the Call Option is exercised, the Put Option no longer applies, and vice-versa.

As at the date of this announcement, the Company has 539,347,688 Ordinary Shares in issue. The 35,000,000 Consideration Shares represent approximately 6.49% of the existing issued Ordinary Shares and 6.09% of the issued Ordinary Shares as enlarged by the allotment and issuance of the Consideration Shares (assuming that there is no other change in the issued share capital of the Company).

The Consideration Shares shall be allotted and issued pursuant to the Specific Mandate, and shall rank pari passu with the Ordinary Shares in issue on the date of allotment and issuance including the rights to all dividends, distributions and other payments made or to be made for which the record date falls or after the date of such allotment and issuance.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares.

The Issue Price is HK\$1.10 per Consideration Share, which represents:

- (i) a discount approximately 0.90% to the closing price of HK\$1.11 per Ordinary Share as quoted on the Stock Exchange on the date of this announcement;
- (ii) a discount of approximately 4.01% to the average closing prices of HK\$1.146 per Ordinary Share as quoted on the Stock Exchange for the last five consecutive trading days up to 27 May 2022, being the last trading day immediately preceding the date of this announcement; and
- (iii) a discount of approximately 5.42% to the average closing prices of HK\$1.163 per Ordinary Share as quoted on the Stock Exchange for the last 10 consecutive trading days up to 27 May 2022, being the last trading day immediately preceding the date of this announcement.

The number of Consideration Shares and the Issue Price was determined after arm's length negotiations between EES and Graphex Tech with reference to (i) the sum of the Cash Contribution and the Valuation; (ii) one-third of the JV Membership Interest; and (iii) the current market price of the Ordinary Share.

INFORMATION ON THE GROUP AND GRAPHEX TECH

The principal activities of the Group are the business of processing and sale of graphite and graphene related products in the PRC, and landscape architecture business mainly in Hong Kong and the PRC.

Graphex Tech is a limited liability company incorporated in Delaware and is a wholly owned subsidiary of the Company. Graphex Tech was established to promote the production and sales of graphene products in the United States and develop into an important link in the supply chain of the electric vehicle (“EV”) industry in the world.

INFORMATION ON EES

EES is a limited liability company incorporated in Michigan. To the best of the knowledge, information and belief of the Board, EES maintains a relatively large team of professionals experienced in handling all aspects for the design, construction, regulatory, supply sourcing, legal and financial affairs for building first class manufacturing and processing facilities in the United States, in particular in Detroit, Michigan metropolitan area and other states. Its affiliated entity recently developed and currently owns and operates Emerald Business Park, a 23-acre industrial park located in Warren, Michigan with approximately 400,000 rentable square feet and its own newly constructed 12-megawatt electrical substation. In the heart of the automobile parts supply industry in the United States, EES’s team built this facility from a collection of empty shells into several manufacturing and first-class processing facilities to accommodate a single purpose highly regulated industry which requires precise, high-quality production. EES’s team has numerous strong relationships within the automotive industry and various regulatory authorities.

REASONS FOR AND BENEFITS OF THE JV FORMATION

Processed spherical graphite constitutes the predominant anode material used to make lithium-ion batteries for the EV and renewable energy storage. With the manufacture, sale and use of the EV expected to grow exponentially worldwide over the next decade, and in particular in the United States, the growth in output by automobile battery manufacturers is correspondingly expected to soar. To accommodate this growth, it is necessary and anticipated that the processing and output of pitch coated spherical graphite will greatly increase every year to satisfy this growing demand for EV. The opportunity for anode material processing within the United States is enormous. Facilities based in the United States that have the expertise and capability to produce high quality anode materials at scale will create tremendous upside in the value chain by providing the benefits of localized supply, reducing external geopolitical risks, and developing first-rate processing materials.

One of the Group’s principal activities is processing and sale of graphite and graphene related products in the PRC. The Group is currently producing over 10,000 metric tons of spherical graphite annually. Its products are critical to the transition to a more sustainable, resilient and environmentally friendly future and its operation is highly scalable. It maintains a relatively large team of highly experienced

personnel with the unique requisite knowledge base in the processing of high quality graphite anode material. Its team possesses patents and utility models covering various technological, design, and processing applications, in addition to trade secrets and technological expertise. The Group's key technical experts are uniquely experienced and knowledgeable in the proven production methodology for spherical graphite and coating. It is believed that energy storage is on the verge of accelerated growth and utility-scale battery storage will play an increasing role in the electrification.

By virtue of the JV Formation, the Company can be introduced to the United States market which is a great opportunity for the Group to further develop its graphene products business to become one of the major players in the industry. The JV Formation is expected to help expand and promote the growth of graphene products business to the global market. It is also anticipated that the Joint Venture can enable the Group's profitability and bring long term value to the Group.

In light of the above, the Directors consider that the terms of the Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CHANGES TO THE SHAREHOLDING AS A RESULT OF THE EXERCISE OF THE CALL OPTION OR PUT OPTION

For illustrative purpose only, set out below is a summary of the shareholdings in the Company (i) as at the date of this announcement; (ii) immediately after the allotment and issue of the Consideration Shares upon the exercise of the Call Option/Put Option, assuming there is no other change in the shareholding structure of the Company before the issue of the Consideration Shares:

Name of Shareholders	At the date of this announcement				Immediately upon the issue of the Consideration Shares			
	No. of Ordinary Shares	%	No. of Preference Shares	%	No. of Ordinary Shares	%	No. of Preference Shares	%
Mr. Chan Yick Yan Andross (Note 1)	97,920,887	18.16	—	—	97,920,887	17.05	—	—
PBLA Limited	75,223,669	13.95	—	—	75,223,669	13.10	—	—
Mr. Lau Hing Tat Patrick (Note 2)	55,215,444	10.24	—	—	55,215,444	9.61	—	—
Tycoon Partner Holdings Limited	—	—	323,657,534	100	—	—	323,657,534	100
EES	—	—	—	—	35,000,000	6.09	—	—
Public Shareholders	<u>310,987,688</u>	<u>57.65</u>	<u>—</u>	<u>—</u>	<u>310,987,688</u>	<u>54.15</u>	<u>—</u>	<u>—</u>
Total	<u>539,347,688</u>	<u>100</u>	<u>323,657,534</u>	<u>100</u>	<u>574,347,688</u>	<u>100</u>	<u>323,657,534</u>	<u>100</u>

Notes:

1. Mr. Chan Yick Yan Andross, an executive Director and the chief executive officer of the Company, holds 4,204,000 Ordinary Shares by himself and 93,716,887 Ordinary Shares through CYY Holdings Limited, a company wholly owned by him.
2. Mr. Lau Hing Tat, Patrick, the chairman and an executive director of the Company, holds 7,232,000 Ordinary Shares by himself, 46,003,444 Ordinary Shares through LSBJ Holdings Limited, a company wholly owned by him and is interested in 1,980,000 Ordinary Shares held by his spouse.

LISTING RULES IMPLICATION

As certain of the applicable percentage ratios (as defined under the Listing Rules) in respect of the JV Formation (on a standalone basis and aggregated with the exercise of the Call Option/Put Option) are more than 5% but less than 25%, the JV Formation constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As certain of the applicable percentage ratios (as defined under the Listing Rules) in respect of the exercise of the Call Option/Put Option (on a standalone basis and aggregated with the JV Formation) are more than 5% but less than 25%, the exercise of the Call Option/Put Option constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

As the exercise of the Put Option is not at the discretion of the Company, pursuant to Rule 14.74 of the Listing Rules, on the grant of the Put Option, the transaction will be classified as if the Put Option had been exercised.

The Company will also seek Ordinary Shareholders' approval on the Specific Mandate for the issuance of Consideration Shares upon exercise of the Call Option/Put Option.

EGM

The EGM will be convened for the purpose of considering and, if deemed appropriate, approving the Specific Mandate.

To the best of the knowledge, information and belief of the Directors, no Shareholder has a material interest in the JV Formation, the Call Option, the Put Option or the Specific Mandate, and is required to abstain from voting on the resolution to approve the Specific Mandate at the EGM.

A circular containing, among other things, (i) further details of the Call Option, the Put Option and the Specific Mandate; and (ii) a notice convening the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules. It is expected that the circular will be despatched to the Shareholders on or before 21 June 2022.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Agreement”	the agreement dated 30 May 2022 entered into between Graphex Tech and EES in relation to the JV Formation and the Grant of Options
“Agreement Date”	30 May 2022, being the date of which the Agreement was entered into between Graphex Tech and EES
“Board”	the board of Directors
“Call Option”	the right of Graphex Tech to purchase 30 JV Units (representing one-third of the JV Membership Interest) from EES in consideration for 35,000,000 Consideration Shares
“Company”	Graphex Group Limited, a company incorporated in Cayman Islands with limited liability and the Ordinary Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6128)
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consideration Shares”	the 35,000,000 new Ordinary Shares to be issued by the Company to EES upon exercise of the Call Option/Put Option
“Delaware”	the State of Delaware of the United States
“Director(s)”	the director(s) of the Company from time to time
“Distribution(s)”	the transfer of any property, real or personal, tangible or intangible (including money and any legal or equitable interest in such property, but excluding services and promises to perform services in the future) to a JV Member on account of a JV Membership Interest, including without limitation any dividend thereon

“EGM”	the extraordinary general meeting of the Company to be convened and held for the purposes of approving the Specific Mandate
“Graphex Tech”	Graphex Technologies, LLC, a limited liability company incorporated in Delaware and is an indirect wholly-owned subsidiary of the Company
“Grant of Options”	the grant of Call Option and Put Option pursuant to the Agreement
“Group”	the Company and its subsidiaries
“EES”	Emerald Energy Solutions LLC, a limited liability company incorporated in Michigan
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) and their ultimate beneficial owner(s) (if applicable) which are independent of and not connected with the Company and its connected persons
“Issue Price”	the issue price of HK\$1.10 per Consideration Share
“Joint Venture”	the new joint venture company to be formed by Graphex Tech and EES for the purpose of the development and operation of the Anode Material Processing Facility
“JV Formation”	formation of the Joint Venture in Michigan by Graphex Tech and EES pursuant to the Agreement
“JV Member(s)”	the person becoming a member of the Joint Venture and executing the Agreement as a member of the Joint Venture

“JV Membership Interest”	the rights of a JV Member to the Distribution (liquidating or otherwise) and allocations of the profits, losses, gains, deductions, and credits of the Joint Venture, and to the extent permitted by the Agreement, to possess and exercise the right of a JV Member to participate in the management of the Joint Venture, to vote on any matter, and to grant or to withhold consent or approval of actions of the Joint Venture
“JV Unit(s)”	the issued and outstanding units representing a fractional part of the JV Membership Interest
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Michigan”	the State of Michigan of the United States
“Option Effective Date”	the date on which Graphex Group has obtained shareholders’ approval and the listing approval from the Stock Exchange for the issuance and listing of the Consideration Shares upon exercise of the Call Option or the Put Option
“Ordinary Share(s)”	the ordinary shares of HK\$0.01 each in the share capital of the Company
“Ordinary Shareholder(s)”	holders of the issued Ordinary Shares for the time being
“PRC”	the People’s Republic of China
“Preference Share(s)”	the non-voting and non-convertible preference share(s) of HK\$0.01 each in the share capital of the Company
“Put Option”	the right of EES to require Graphex Tech to purchase 30 JV Units (representing one-third of the JV Membership Interest) from EES in consideration for 35,000,000 Consideration Shares
“Share(s)”	collectively, the Ordinary Share(s) and the Preference Share(s)
“Shareholder(s)”	holders of the issued Shares for the time being

“Specific Mandate”	the specific mandate to be sought from the Shareholders at the EGM for the allotment and issuance of the Consideration Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Technologies”	including (a) numerous patents and utility models covering various technological, design, and processing applications, (b) trade secrets, (c) technological knowhow, and (d) key personnel uniquely experienced and knowledgeable in the proven methodology for producing high quality spherical graphite and the coating thereof
“United States”	the United States of America
“US\$”	United States dollar(s), the lawful currency of the United States
“%”	per cent

By Order of the Board
Graphex Group Limited
Lau Hing Tat Patrick
Chairman

Hong Kong, 30 May 2022

As at the date of this announcement, the executive Directors are Mr. Lau Hing Tat Patrick, Mr. Chan Yick Yan Andross, Mr. Yang Liu and Mr. Qiu Bin; the non-executive Director is Mr. Ma Lida; and the independent non-executive Directors are Ms. Tam Ip Fong Sin, Mr. Wang Yuncai, Mr. Liu Kwong Sang, Mr. Tang Zhaodong and Mr. Chan Anthony Kaikwong.