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## **ELATE HOLDINGS LIMITED**

**誼礫控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 076)**

### **SUPPLEMENTARY ANNOUNCEMENT IN RELATION TO THE SWAP OF GRAPHITE ORE AND SEMI-FINISHED GRAPHITE**

Reference is made to the “Business Update Announcement” dated 6 November 2019 (the “Announcement”) of Elate Holdings Limited (the “Company”) in relation to the “Swap of Graphite Ore and Semi-finished Graphite Contract” (the “Contract” or the “Swap”) entered into between Global Select Limited (“GSL”), a wholly-owned subsidiary of the Company, and Madagascar Graphite Limited (“MGL”), a supplier of graphite materials in Madagascar. The Board would like to provide supplementary information of the graphite business of the Company. Capitalised terms used in this announcement shall have the same meanings as defined in the Announcement, unless otherwise stated.

In general speaking, the Swap brings two significant benefits but no harm to the Company. First of all, the Swap increases flexibility of using of raw material, because all finished products which can be produced by the Semi-finished Graphite can be produced by graphite ore as well. However, some orders with specific requests for certain volume density or grain size cannot be produced from the Semi-finished Graphite, only particular types of graphite ore can meet the requirements. Secondly, before the Swap, every ton of finished products need 20 tons of graphite ore in average. Each ton of graphite ore costs US\$15, therefore the cost for graphite ore for each ton of finished products is US\$300.

By swapping in 1:11 proportion is advantageous to the Company, since 22 tons of graphite ore can produce more than 1 ton of finished products; the cost of 2 tons of the Semi-finished Graphite which to be used to swap the graphite ore is US\$200. As such, the material cost for graphite ore can be reduced from US\$300 to US\$200.

The business model of the Company's graphite business contains two parts: one is to produce and trade graphite finished products; another part is, if conditions are suitable, to trade graphite ore and the Semi-finished Graphite for profit.

The Company built its production lines in area where the graphite mines are located. Production process includes low carbon content graphite ore or semi-processed graphite---purifying---grinding and sifting ---repeated refining---obtaining products with 95% carbon content---drying--- packaging.

Finished products are sold to customers from all over the world, industries range from steel (which accounts for 35% of the tonnage and the sales), batteries, graphene, lubrication, aerospace and nuclear power (which accounts for 65% of the tonnage and the sales) etc. In 2018, 54% customers of the Company are from Africa, 17.1 % are from China, 7.7% are from Germany, 7% are from the U.S and 6.6% are from India, 1.4% are from U.K, 1% are from Austria, and 4.8% are from other areas.

Currently, the Company has its graphite production lines in Toamasina, Madagascar. In 2018, the yearly production was about 10,000 tons finished products, and it is expected to increase gradually. Since the Company has not yet been able to recruit management personnel with both knowledge of Madagascar's official language and graphite industry, currently the Company still has to outsource the management of the production lines to Aspect Group Limited ("Aspect").

Aspect, as the Company's contractor, is pleased to see that the Company being able to increase in productivity and reduce production cost. Pursuant to the contract entered into between Aspect and the Company, all the production cost is paid in advance by Aspect, including but not limited to raw material, labour cost, water, electricity, tax, environmental levy, transportation fee, customs clearance, and Aspect's administrative costs. All these expenses are subject to the Company's approval with certain restrictions. Every year the Company and Aspect agrees an amount of production cost according to inflation. Aspect will pay in advance the actual production cost and be reimbursed the agreed production cost after the finished products are shipped. If the actual production cost is lower than the agreed production cost, the difference will be earned by Aspect as their extra management fee. By swapping of graphite ore and the Semi-finished Graphite, the money saved belongs to the Company and the Company can secure a steady supply of graphite ore with lower cost and with more desired higher ore quality, and Aspect is no longer required to pay for the graphite ore in advance, Aspect is happy with the Swap arrangement.

The Company has been in graphite industry for more than 10 years and has been maintaining good relationship with customers. Our sales persons are actively developing customers or some customers contact the Company by referral. Currently the customers are mainly graphite traders, refractory

material manufacturers, graphite machining, batteries manufacturers, lubricant manufacturers, crucible manufacturers, etc. In daily operation, customers contact the staff by sending purchase orders. If the requests confirmed by the production lines, a quotation will be sent to customers and production begins after customers agree the price by signing back the quotation as confirmation. Finished products will be sent from the production lines and shipped to the customers by sea transportation. Customers bear the transportation cost.

In the past a few years, there was instability in turnover of graphite business of the Company. The main reason is in years before 2016, the Company produced and sold its graphite products from its production lines in Heilongjiang, China. But with yearly mining quotas set by the Chinese government, the supply of ore could meet only a few months' production needs. The Company therefore shut down the production lines in China and established its graphite business in Madagascar. During those times there was ups and downs in turnover. The Company has resolved to focus on Madagascar's production lines. Since the shortage of supply of graphite ore is no longer a problem, and orders with specific requirements for graphite ore types can be met, it is expected the turnover in graphite business will increase steadily year by year.

By Order of the Board of  
**Elate Holdings Limited**  
Vivian Lam  
*Company Secretary*

Hong Kong, 2 December 2019

*As at the date of this announcement, the board of directors comprises of Mr. Feng Zhong Yun and Ms. Zhang Xue, being executive directors; Mr. Han Zhi Jun, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ng Lai Po being independent non-executive directors.*