DAMENG

**CITIC Dameng Holdings Limited**

**中信大錳控股有限公司***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 1091)**

# ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

## FINANCIAL HIGHLIGHTS

- Revenue amounted to HK$3,263.1 million for 1H 2018, representing an increase of 18.8% from HK$2,746.7 million of 1H 2017.

- Gross profit amounted to HK$278.0 million for 1H 2018, representing a decrease of 28.8% from HK$390.4 million of 1H 2017. Gross profit margin was 8.5% for 1H 2018, representing a decrease of 5.7% from 14.2% for 1H 2017.

- Operating profit amounted to HK$110.2 million for 1H 2018, representing a decrease of 24.3% from HK$145.5 million in 1H 2017.

- The one-off non-cash loss of HK$69.4 million in 1H 2017, which represented a deemed disposal of interest in an associate upon its placing of new shares was not incurred in 1H 2018.

- Profit attributable to owners of the parent amounted to HK$85.9 million for 1H 2018 (1H 2017: HK$70.0 million).

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*Six months ended 30 June 2018*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| **REVENUE** | *4* | **3,263,124** | 2,746,733 |
| Cost of sales | | **(2,985,143)** | (2,356,360) |
| Gross profit | | **277,981** | 390,373 |
| Other income and gains | *4* | **203,118** | 80,724 |
| Selling and distribution expenses | | **(52,276)** | (44,717) |
| Administrative expenses | | **(181,953)** | (155,269) |
| Finance costs | *5* | **(128,469)** | (105,460) |
| Other expenses | | **(6,647)** | (2,804) |
| Share of losses of associates | | **(1,526)** | (17,303) |
| Operating profit | | **110,228** | 145,544 |
| Loss on deemed disposal of an associate | *6* | **–** | (69,365) |
| **PROFIT BEFORE TAX** | *6* | **110,228** | 76,179 |
| Income tax credit/(expense) | *7* | **3,791** | (9,231) |
| **PROFIT FOR THE PERIOD** | | **114,019** | 66,948 |
| **OTHER COMPREHENSIVE (LOSS)/INCOME** | | | |
| *Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:* | | | |
| – Exchange differences on translation of foreign operations | | **(36,998)** | 54,483 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **77,021** | 121,431 |

| | Notes | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| **Profit/(loss) attributable to:** | | | |
| Owners of the parent | | **85,884** | 70,010 |
| Non-controlling interests | | **28,135** | (3,062) |
| | | **114,019** | 66,948 |
| **Total comprehensive income/(loss) attributable to:** | | | |
| Owners of the parent | | **52,222** | 125,914 |
| Non-controlling interests | | **24,799** | (4,483) |
| | | **77,021** | 121,431 |
| **Earnings per share attributable to ordinary equity holders of the parent:** | *8* | | |
| – Basic | | **HK cents 2.51** | HK cents 2.04 |
| – Diluted | | **HK cents 2.51** | HK cents 2.04 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*30 June 2018*

| | Notes | 30 June 2018 HK$'000 (Unaudited) | 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **2,987,296** | 3,060,707 |
| Investment properties | | **100,480** | 101,203 |
| Prepaid land lease payments | | **455,437** | 467,959 |
| Intangible assets | | **571,925** | 590,512 |
| Investments in associates | | **986,449** | 915,379 |
| Deferred tax assets | | **38,363** | 34,456 |
| Prepayments and deposits | | **242,819** | 243,411 |
| Total non-current assets | | **5,382,769** | 5,413,627 |
| **CURRENT ASSETS** | | | |
| Inventories | | **860,042** | 909,067 |
| Trade and notes receivables | *10* | **1,656,892** | 1,175,599 |
| Prepayments, deposits and other receivables | | **482,539** | 355,967 |
| Due from related companies | | **28,942** | 9,638 |
| Due from an associate | | **9,475** | 11,053 |
| Tax recoverable | | **516** | 11,755 |
| Financial assets at fair value through profit or loss | | **7,964** | 8,154 |
| Pledged deposits | | **167,828** | 188,202 |
| Cash and cash equivalents | | **1,106,716** | 669,100 |
| Total current assets | | **4,320,914** | 3,338,535 |
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | *11* | **640,418** | 736,737 |
| Other payables and accruals | | **889,509** | 871,296 |
| Interest-bearing bank and other borrowings | *12* | **3,594,453** | 3,003,352 |
| Due to related companies | | **110,201** | 118,660 |
| Tax payable | | **4,198** | 2,108 |
| Total current liabilities | | **5,238,779** | 4,732,153 |
| **NET CURRENT LIABILITIES** | | **(917,865)** | (1,393,618) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,464,904** | 4,020,009 |

| | Notes | 30 June 2018 HK$'000 (Unaudited) | 31 December 2017 HK$'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | *12* | **1,114,262** | 744,845 |
| Deferred tax liabilities | | **196,018** | 200,421 |
| Other long-term liabilities | | **27,130** | 25,342 |
| Deferred income | | **83,374** | 82,302 |
| Total non-current liabilities | | **1,420,784** | 1,052,910 |
| **Net assets** | | **3,044,120** | 2,967,099 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | | **342,846** | 342,846 |
| Reserves | | **2,607,131** | 2,554,909 |
| | | **2,949,977** | 2,897,755 |
| **Non-controlling interests** | | **94,143** | 69,344 |
| Total equity | | **3,044,120** | 2,967,099 |

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*30 June 2018*

### 1. CORPORATE INFORMATION

CITIC Dameng Holdings Limited (the "**Company**") was incorporated in Bermuda on 18 July 2005 as an exempted company with limited liability under Section 14 of the Companies Act 1981 of Bermuda (as amended). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at 23/F, 28 Hennessy Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise manganese mining, ore processing and downstream processing operations in Mainland China, manganese mining and ore processing operations in Gabon, as well as trading of manganese ores, manganese alloys and related raw materials.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

**Basis of preparation**

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing Securities on the Stock Exchange and the Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

As at 30 June 2018, the Company and its subsidiaries (collectively referred to as the "**Group**") had net current liabilities of HK$917.9 million (31 December 2017: HK$1,393.6 million). In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

(a) The Group continues to restructure the mix of manganese products with the aim to increase the portion of products with higher margin so as to attain profitable and positive cash flow operations. In particular, the Group continues to ramp up mining and processing capacity of existing mines. In addition, the Group from time to time reviews its investment projects and may adjust its investment strategies in order to enhance the cash flow position of the Group whenever it is necessary.

(b) The Group is taking measures to tighten cost controls over administrative and other operating expenses aiming at improving the working capital and cash flow position of the Group including closely monitoring the daily operating expenses.

(c) At 30 June 2018, certain PRC banks had confirmed to the Group in writing regarding their agreements to renew their short-term bank loans granted to the Group totalling HK$829.7 million upon repayment when due, subject to the condition that the Group will be able to repay the total interest due upon the respective repayment dates. Based on the abovementioned agreements and past experience, the directors consider it is highly probable that the Group can extend adequate amount of short-term bank loans for another year when fall due to maintain sufficient working capital of the Group.

(d) The Group is actively following up with its debtors on outstanding receivables with an aim of agreeing a repayment schedule with each of them.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with the undrawn long-term loan and profitability of the Group in the first half of 2018, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the six months ended 30 June 2018 on a going concern basis.

**Significant accounting policies**

Except as described below, the accounting policies adopted in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the year ended 31 December 2017, except for the adoption of the revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which also include HKASs and Interpretations) as disclosed below. The Group has adopted the following revised HKFRSs for the first time for the current period's interim condensed consolidated financial statements.

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| Annual Improvements 2014-2016 Cycle | *Amendments to HKFRS 1 and HKAS 28* |

**HKFRS 9**

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group had adopted HKFRS 9 from 1 January 2018. The Group did not restate comparative information and recognised any material transition adjustments against the opening balance of equity at 1 January 2018. The impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

*(a)* *Classification and measurement*

Upon adoption of HKFRS 9, the classification and measurement of financial assets depends on two assessments: the financial asset's contractual cash flow characteristics and the entity's business model for managing the financial asset. The Group's listed bond investments of HK$7,964,000 as at 30 June 2018 are managed with a business model under which listed bond investments are held for trading. Accordingly, the listed bond investments are remained as financial assets at fair value through profit or loss upon the adoption of HKFRS 9.

*(b)* *Impairment*

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applies the simplified approach and records lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group applies the general approach and records twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group assessed that no significant financial effect on these interim condensed consolidated financial statement upon the initial adoption of the standard.

**HKFRS 15**

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard supersedes all previous revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group had adopted the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group applied the new requirements only to contracts that are not completed before 1 January 2018.

The principal activities of the Group consist of (a) manganese mining, ore processing, downstream processing operations and sales of manganese products; and (b) the trading of manganese ores, manganese alloys and related raw materials.

The Group is required to deliver manganese ores and other downstream processing products according to the contract terms, which is expected to be the only performance obligation in the contract. The Group enters into contracts with its customers with specified terms and each party's rights and payment terms are identifiable. Pricing for individual commodities are stated in the contracts with the customers. There is no market-based or index-based pricing, and hence no variable consideration. Generally, no transaction price should be allocated as the sale of manganese ores and other downstream processing products is the only performance obligation within a contract. The Group has concluded that revenue from sale of its products should be recognised at the point in time when control of the assets is transferred to the customer, generally on delivery of these products. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition. The impact on the amount of revenue to be recognised was further explained below.

## Advances from customers

Advance payment is required for sales to certain customers in Mainland China and Hong Kong except in circumstances for credit sales. Prior to the adoption of HKFRS 15, the amount of revenue related to the advance payment was deferred and recognised in the statement of financial position within "Other payables and accruals". Upon the adoption of HKFRS 15, the Group renamed the deferred revenue related to advance payments to "Contract liabilities" within "Other payable and accruals".

**Issued but not yet effective HKFRSs**

The Group has not applied the following new HKFRSs, that have been issued but are not yet effective, in these interim condensed consolidated financial statements:

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 16 | *Leases*[1] |
| HKFRS 17 | *Insurance Contracts*[3] |
| HKFRS 19 Amendments | *Plan Amendments, Curtailment or Settlement*[2] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[1] |
| Annual Improvements 2015-2017 Cycle | *Amendments to a number of HKFRSs*[1] |

1 Effective for annual periods beginning on or after 1 January 2019

2 Apply to plan amendments, curtailment or settlement that occur on or after 1 January 2019

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined

The Group is in the process of making an assessment of the impact of these new HKFRSs upon initial application, but is not in a position to state whether these new HKFRSs will have a significant impact on the Group's results of operations and financial position.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised as a mixture of both business products and geographical locations based on their products and has four reportable operating segments as follows:

(a) Manganese mining and ore processing segment (PRC and Gabon)

The manganese mining and ore processing segment engages in the mining and production of manganese products including principally, through the Group's integrated processes, the mining, beneficiation, concentrating, grinding and the production of manganese concentrate and natural discharging manganese powder and sand;

(b) Manganese downstream processing segment (PRC)

The manganese downstream processing segment engages mainly in producing two types of materials: (i) alloying materials including Electrolytic Manganese Metal ("**EMM**"), manganese briquette and silicomanganese alloys; and (ii) battery materials of Electrolytic Manganese Dioxide ("**EMD**"), manganese sulfate, lithium manganese oxide and lithium nickel manganese cobalt oxide ("**NMC**");

(c) Non-manganese processing segment (PRC)

The non-manganese processing segment engages in the production and sale of non-manganese products, including lithium cobalt oxide; and

(d) Others segment (PRC and HK)

The others segment comprises, principally, the trading of various commodities such as manganese ores, EMM, manganese alloys and non-manganese metals, sales of scraps, and rental of investment properties and leasehold lands.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, loss on deemed disposal of an associate, fair value gain/loss from the Group's financial instruments, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude financial assets at fair value through profit or loss, deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, deferred tax liabilities, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

| | Manganese mining and ore processing | | Manganese downstream processing | Non-manganese processing | Others | | |
|---|---|---|---|---|---|---|---|
| | PRC | Gabon | PRC | PRC | PRC & HK | Eliminations | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Six months ended 30 June 2018 (Unaudited)** | | | | | | | |
| **Segment revenue:** | | | | | | | |
| Sales to external customers | **77,090** | **4,317** | **1,797,843** | **–** | **1,383,874** | **–** | **3,263,124** |
| Intersegment sales | **70,360** | **–** | **–** | **–** | **–** | **(70,360)** | **–** |
| Other revenue | **5,371** | **52,319** | **30,642** | **–** | **100,594** | **–** | **188,926** |
| Total | **152,821** | **56,636** | **1,828,485** | **–** | **1,484,468** | **(70,360)** | **3,452,050** |
| **Segment results** | **(54,379)** | **53,566** | **178,986** | **–** | **88,835** | **–** | **267,008** |
| *Reconciliations:* | | | | | | | |
| Interest income | | | | | | | **14,192** |
| Corporate and other unallocated expenses | | | | | | | **(42,503)** |
| Finance costs | | | | | | | **(128,469)** |
| Profit before tax | | | | | | | **110,228** |
| Income tax credit | | | | | | | **3,791** |
| Profit for the period | | | | | | | **114,019** |
| **Assets and liabilities** | | | | | | | |
| **Segment assets** | **891,149** | **299,201** | **4,788,912** | **–** | **1,524,824** | **–** | **7,504,086** |
| *Reconciliations:* | | | | | | | |
| Corporate and other unallocated assets | | | | | | | **2,199,597** |
| Total assets | | | | | | | **9,703,683** |
| **Segment liabilities** | **420,707** | **30,101** | **1,333,427** | **–** | **220,200** | **–** | **2,004,435** |
| *Reconciliations:* | | | | | | | |
| Corporate and other unallocated liabilities | | | | | | | **4,655,128** |
| Total liabilities | | | | | | | **6,659,563** |

| | Manganese mining and ore processing | | Manganese downstream processing | Non-manganese processing | Others | | |
|---|---|---|---|---|---|---|---|
| | PRC | Gabon | PRC | PRC | PRC & HK | Eliminations | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Six months ended 30 June 2017 (Unaudited)** | | | | | | | |
| **Segment revenue:** | | | | | | | |
| Sales to external customers | 73,880 | 298,024 | 1,507,744 | 48,098 | 818,987 | – | 2,746,733 |
| Intersegment sales | 126,730 | – | – | – | – | (126,730) | – |
| Other revenue | 3,124 | 11,419 | 23,441 | 45 | 31,840 | – | 69,869 |
| Total | 203,734 | 309,443 | 1,531,185 | 48,143 | 850,827 | (126,730) | 2,816,602 |
| **Segment results** | (19,328) | 43,293 | 210,670 | 11,751 | 40,844 | – | 287,230 |
| *Reconciliations:* | | | | | | | |
| Interest income | | | | | | | 10,855 |
| Corporate and other unallocated expenses | | | | | | | (29,778) |
| Finance costs | | | | | | | (105,460) |
| Loss on deemed disposal of an associate | | | | | | | (69,365) |
| Share of losses of associates | | | | | | | (17,303) |
| Profit before tax | | | | | | | 76,179 |
| Income tax expense | | | | | | | (9,231) |
| Profit for the period | | | | | | | 66,948 |
| **Assets and liabilities** | | | | | | | |
| **Segment assets** | 1,153,520 | 377,518 | 4,572,611 | 45,113 | 1,058,705 | – | 7,207,467 |
| *Reconciliations:* | | | | | | | |
| Corporate and other unallocated assets | | | | | | | 1,914,318 |
| Total assets | | | | | | | 9,121,785 |
| **Segment liabilities** | 387,781 | 24,029 | 908,544 | 7,604 | 98,193 | – | 1,426,151 |
| *Reconciliations:* | | | | | | | |
| Corporate and other unallocated liabilities | | | | | | | 4,900,331 |
| Total liabilities | | | | | | | 6,326,482 |

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts during the reporting period.

An analysis of revenue, other income and gains is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| **Revenue** | | |
| Sale of goods | **3,263,124** | 2,746,733 |
| **Other income and gains** | | |
| Interest income | **14,192** | 10,855 |
| Gain on disposal of items of property, plant and equipment | **8,361** | 3,166 |
| Subsidy income | **9,342** | 11,737 |
| Subcontracting income | **52,319** | 10,493 |
| Compensation income | **84,204** | – |
| Sale of scraps | **14,093** | 9,882 |
| Rental income | **14,090** | 9,966 |
| Foreign exchange gain, net | **4,787** | 3,445 |
| Reversal of impairment loss of trade and other receivables, net | **–** | 12,424 |
| Others | **1,730** | 8,756 |
| | **203,118** | 80,724 |

## 5. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest on loans wholly repayable within five years | **107,164** | 81,384 |
| Finance costs for discounted notes receivable | **12,013** | 13,992 |
| Other finance costs | **9,292** | 10,084 |
| | **128,469** | 105,460 |

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **2,981,685** | 2,348,916 |
| Write-down of inventories to net realisable value, net[#] | **3,458** | 7,444 |
| Depreciation | **174,279** | 146,722 |
| Amortisation of prepaid land lease payments | **6,547** | 5,790 |
| Amortisation of intangible assets | **11,770** | 6,555 |
| Auditor's remuneration | **2,006** | 1,637 |
| Minimum lease payments under operating leases, land and buildings | **8,688** | 5,728 |
| Employee benefit expense | **281,176** | 230,726 |
| Compensation income* | **(84,204)** | – |
| Gain on disposal of items of property, plant and equipment* | **(8,361)** | (3,166) |
| Foreign exchange differences, net* | **(4,787)** | (3,445) |
| Impairment/(reversal of impairment) of trade and other receivables, net* | **5,239** | (12,424) |
| Fair value loss on financial assets at fair value through profit or loss* | **224** | 143 |
| Loss on deemed disposal of an associate *(note)* | **–** | 69,365 |

[#] Included in "Cost of sales" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

* Included in "Other income and gains" (note 4) or "Other expenses" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

*Note:* In May 2017, the Group recorded a non-cash loss of HK$69,365,000 resulting from the dilution in our shareholding in an associate, China Polymetallic Mining Limited ("**CPM**") from 29.81% to 24.84% upon completion of the issue of new shares of an additional 20% by CPM.

## 7. INCOME TAX CREDIT/(EXPENSE)

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The major components of income tax credit/(expense) for the reporting period are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Current – PRC | | |
| Charge for the period | **(2,605)** | (2,314) |
| Current – Gabon | | |
| Charge for the period | **(45)** | (2,561) |
| Deferred | **6,441** | (4,356) |
| Total tax credit/(charge) for the period | **3,791** | (9,231) |

**Hong Kong profits tax**

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the reporting period.

**PRC corporate income tax ("CIT")**

Pursuant to the PRC Income Tax Law and the respective regulations, except for the preferential tax treatment available to CITIC Dameng Mining Industries Co., Limited which is recognised as a High and New Technology Enterprise and is entitled to a preferential CIT rate of 15% to 2018, and Guangxi Start Manganese Materials Co., Ltd., which is entitled to a preferential CIT rate of 15% for Developing Western China for which the policy will end in 2020 and related benefit will subject to review by tax authorities each year, other companies of the Group which operate in Mainland China are subject to CIT at a rate of 25% on their respective taxable income.

**Gabon corporate income tax**

Pursuant to the Gabon Income Tax Law, a company which operates in Gabon is subject to CIT at the higher of 35% of its taxable income or 1% of its revenue.

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| The calculation of basic and diluted earnings per share are based on: | | |
| **Profit** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **85,884** | 70,010 |
| | **Number of shares** | |
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | **3,428,459,000** | 3,428,459,000 |

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2018 nor the six months ended 30 June 2017. No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2018 nor the six months ended 30 June 2017 in respect of dilution as the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

## 9. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: Nil).

## 10. TRADE AND NOTES RECEIVABLES

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **983,820** | 837,632 |
| Notes receivable | **719,532** | 380,776 |
| | **1,703,352** | 1,218,408 |
| Less: Provision for impairment | **(46,460)** | (42,809) |
| | **1,656,892** | 1,175,599 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment is required either in advance or upon delivery. Credit periods allowed are determined according to relevant business practice and the relevant type of goods and generally are in the range of one month, extended to not more than three months for major customers, from the invoice date and cash realisation may be further extended by three to six months for those customers paying by notes receivable. 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 and followed up regularly by senior management.

An ageing analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Within one month | **484,587** | 385,568 |
| One to two months | **243,808** | 140,090 |
| Two to three months | **109,428** | 147,712 |
| Over three months | **99,537** | 121,453 |
| | **937,360** | 794,823 |

An ageing analysis of the notes receivable of the Group as at the end of the reporting period, based on the issue date of the notes, is as follows:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Within one month | **628,506** | 216,750 |
| One to two months | **47,021** | 71,161 |
| Two to three months | **13,122** | 36,964 |
| Over three months and less than six months | **30,883** | 55,901 |
| | **719,532** | 380,776 |

## 11. TRADE AND NOTES PAYABLES

An ageing analysis of the trade and notes payables as at the end of the reporting period, based on the invoice date, is as follows:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Audited) |
| Within one month | **371,780** | 306,243 |
| One to two months | **125,449** | 162,738 |
| Two to three months | **40,912** | 108,902 |
| Over three months | **102,277** | 158,854 |
| | **640,418** | 736,737 |

Trade payables are non-interest-bearing and are normally settled on 60-day terms.

## 12. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 30 June 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | *HK$'000* **(Unaudited)** | Effective interest rate (%) | Maturity | *HK$'000* (Audited) |
| **Current** | | | | | | |
| Finance lease payables | **6.32-8.70** | **2018-2019** | **148,034** | 6.32-7.51 | 2018 | 89,488 |
| Bank loans – secured *(note (a))* | **3.37-4.09** | **2018-2019** | **385,076** | 2.83-2.95 | 2018 | 238,381 |
| Bank loans – unsecured | **4.35-5.89** | **2018-2019** | **2,740,817** | 3.92-5.29 | 2018 | 2,166,180 |
| Current portion of long-term bank loans – unsecured | **4.75, LIBOR+2.60** | **2018-2019** | **320,526** | 3.83-4.99, LIBOR+2.60 | 2018 | 393,270 |
| Other loans – unsecured *(note (b))* | – | – | – | 4.73 | 2018 | 116,033 |
| | | | **3,594,453** | | | 3,003,352 |
| **Non-current** | | | | | | |
| Finance lease payables | **6.32-8.70** | **2019-2021** | **188,599** | 6.32-7.51 | 2019-2020 | 137,849 |
| Bank loans – unsecured | **4.75-5.46, LIBOR+2.60** | **2019-2020** | **925,663** | 3.83-5.23, LIBOR+2.60 | 2019 | 606,996 |
| | | | **1,114,262** | | | 744,845 |
| | | | **4,708,715** | | | 3,748,197 |

| | **30 June 2018** *HK$'000* **(Unaudited)** | 31 December 2017 *HK$'000* (Audited) |
|---|---|---|
| **Analysed into:** | | |
| Bank loans repayable: | | |
| Within one year or on demand | **3,446,419** | 2,797,831 |
| In the second year | **925,663** | 528,625 |
| In the third to fifth years, inclusive | **–** | 78,371 |
| | **4,372,082** | 3,404,827 |
| Other loans and finance leases repayable: | | |
| Within one year or on demand | **148,034** | 205,521 |
| In the second year | **132,070** | 109,525 |
| In the third to fifth years, inclusive | **56,529** | 28,324 |
| | **336,633** | 343,370 |
| | **4,708,715** | 3,748,197 |

(a) The above secured bank and other borrowings are secured by certain of the Group's assets with the following carrying values:

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Trade receivables | **385,076** | 238,381 |

(b) The balance as at 31 December 2017 represents a loan borrowed by way of gold lease arrangement from Industrial Bank Co., Ltd, with the principal of RMB96,638,000 (equivalent to HK$116,033,000) and bearing interest at a fixed rate of 4.73% per annum. The loan was repaid in June 2018.

(c) At 30 June 2018, except for bank and other borrowings of HK$875,141,000 (31 December 2017: HK$728,466,000) which were denominated in United States dollars, all borrowings were in Renminbi.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

| | **1H 2018** | 1H 2017 | Increase/(decrease) | |
|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *%* |
| Revenue | **3,263,124** | 2,746,733 | 516,391 | 18.8 |
| Gross profit | **277,981** | 390,373 | (112,392) | (28.8) |
| Gross profit margin | **8.5%** | 14.2% | – | (5.7) |
| Operating profit | **110,228** | 145,544 | (35,316) | (24.3) |
| Loss on deemed disposal of an associate | – | (69,365) | 69,365 | 100.0 |
| Profit before tax | **110,228** | 76,179 | 34,049 | 44.7 |
| Income tax credit/(expense) | **3,791** | (9,231) | 13,022 | 141.1 |
| Profit for the period | **114,019** | 66,948 | 47,071 | 70.3 |
| Profit attributable to owners of the parent | **85,884** | 70,010 | 15,874 | 22.7 |
| Profit/(loss) attributable to non-controlling interests | **28,135** | (3,062) | 31,197 | 1,018.8 |
| | **114,019** | 66,948 | 47,071 | 70.3 |

### Overview

In 1H 2018, the strong momentum of global economy experienced in 2017 is carried into the year 2018 and global economic growth keeps rising in 2018. However, the global economy will be affected by the following factors in the short-term. In the US, the tax policy changes are expected to stimulate investing activities of corporates in the short-term, in response to the corporate income tax cuts. The faster-than-expected inflation speeds up the normalisation of the interest rate in the US, which increases the price of financing for corporates and raising the possibility of market corrections for rich valued assets. In China, since the year 2017, the economy has been stabilised and showed signs of improvement, however, the economy in the short-to-medium term is deeply shadowed by the recent outbreak of the US-China trade war, which is dampening global trade. The global economy in the year 2018 is full of ongoing uncertainties.

For the steel sector, the impact of successful implementation of supply side reform brought forward from the year 2017 merits the whole industry in 1H 2018. On the other hand, the cooling down of the property investments constrained the upsurge of the steel price and demand in 1H 2018. In the short-to-medium term, the growth of demand for steel would come from government-led infrastructures and manufacturing sector upgrades, while it is expected that the growth will be relatively moderate because: (a) the magnitude of de-leverage activities of the finance market in China will be increased; and (b) the Chinese economy matures gradually and begins to shift focus from manufacturing to consumption and services sectors. It is expected that the steel demand only remains steady in 2018 and the steel sector is still facing challenges ahead.

On the other hand, with the fast growing demand for portable electronics, hybrid and electric vehicles and other energy storage products in recent years, the market demand of battery materials grows rapidly. In response to the strong demand of battery materials, we had been cautiously expanding our battery material products (including EMD, manganese sulfate, lithium manganese oxide and NMC) in terms of production capacity and product type starting from 2016: (a) We had begun investing in production of NMC since 2016 and in 2H 2017, the production line of NMC commenced commercial production and therefore contributed to an increase in revenue in 1H 2018; (b) we had transformed our production line of lithium cobalt oxide to produce lithium manganese oxide from 2H 2017; (c) we had started building two production plants of lithium manganese oxide in our high-tech Chongzuo Base since 2H 2017 and the first plant commenced production in late June 2018 and the second plant will commence commercial production in around mid-2019. As a result, the revenue of battery material products recorded an increase of 58.3% to HK$316.4 million in 1H 2018 (1H2017: HK$199.9 million) and the gross profit contribution recorded an increase of 39.9% to HK$59.8 million in 1H 2018 (1H2017: HK$42.7 million).

On the cost side, we strive to reduce our unit production cost and to maintain our competitiveness in the manganese sector through improvement of our production process and non-stop negotiations with our upstream suppliers for raw materials and power consumptions. The unit production cost of our major products in 1H 2018 remains steady compared with 1H 2017. We will continue to seek various means to improve our production efficiency and control our costs.

All in all, as a result of decrease in selling price of manganese products in 1H 2018, the gross profit ratio and gross profit contribution of the Group's major products EMM and manganese briquette as compared with corresponding period, decreased.

Nevertheless, during 1H 2018, our 64%-owned subsidiary Hui Xing Group received a relocation compensation in cash amounting to HK$84.2 million (equivalent to RMB68.4 million) from the government for demolishment of properties and structures on a leasehold land expropriated by the government in prior years. The amount received was recognised as compensation income under "Other income and gains" in 1H 2018 (1H 2017: Nil).

In addition, the gross profit contribution of our battery material products increased by 39.9% to HK$59.8 million in 1H 2018. (1H 2017: HK$42.7 million).

In summary, the operating profit decreased by 24.3% to HK$110.2 million in 1H 2018 (1H 2017: HK$145.5 million).

In 1H 2017, a loss of non-cash item in the sum of HK$69.4 million was incurred, resulting from the dilution in our shareholding in an associate, CPM from 29.81% to 24.84% following the 20% placing exercise by CPM in May 2017. As this item was one-off in 1H 2017, consolidated net profit attributable to owners of the parent in 1H 2018 improved to HK$85.9 million (1H 2017: HK$70.0 million).

**Comparison with six months ended 30 June 2018**

The following table sets out the revenue, sales volume and average selling prices of our products.

| | Six months ended 30 June | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | | | 2017 | | | |
| | **Sales Volume** | **Average Selling Price** | **Revenue** | **% of Total Revenue** | Sales Volume | Average Selling Price | Revenue | % of Total Revenue |
| | ***(tonnes)*** | ***(HK$/ Tonne)*** | ***(HK$'000)*** | ***(%)*** | *(tonnes)* | *(HK$/ Tonne)* | *(HK$'000)* | *(%)* |
| **Manganese mining and ore processing** | | | | | | | | |
| Gabon ore *(note a)* | **9,101** | **474** | **4,317** | **0.1** | 515,922 | 578 | 298,024 | 10.9 |
| Manganese concentrate | **210,530** | **292** | **61,572** | **1.9** | 159,623 | 341 | 54,408 | 2.0 |
| Natural discharging manganese powder and sand | **5,623** | **2,760** | **15,518** | **0.5** | 8,138 | 2,393 | 19,472 | 0.7 |
| ***Sub-Total*** | **225,254** | **361** | **81,407** | **2.5** | 683,683 | 544 | 371,904 | 13.6 |
| **Manganese downstream processing** | | | | | | | | |
| **Alloying materials** | | | | | | | | |
| EMM | **71,341** | **12,896** | **919,989** | **28.2** | 73,212 | 13,012 | 952,649 | 34.7 |
| Manganese briquette | **22,401** | **13,129** | **294,111** | **9.0** | 20,129 | 13,594 | 273,642 | 10.0 |
| | **93,742** | **12,952** | **1,214,100** | **37.2** | 93,341 | 13,138 | 1,226,291 | 44.7 |
| Silicomanganese alloy | **28,738** | **8,627** | **247,937** | **7.6** | 16,439 | 7,209 | 118,512 | 4.3 |
| Others | **5,872** | **3,302** | **19,389** | **0.6** | 704 | 15,797 | 11,121 | 0.4 |
| Sub-total of alloying materials | **128,352** | **11,542** | **1,481,426** | **45.4** | 110,484 | 12,273 | 1,355,924 | 49.4 |
| **Battery materials** | | | | | | | | |
| EMD | **14,563** | **9,668** | **140,788** | **4.3** | 11,704 | 8,222 | 96,232 | 3.5 |
| Manganese sulfate | **10,066** | **3,846** | **38,709** | **1.2** | 10,432 | 3,634 | 37,909 | 1.4 |
| Lithium manganese oxide | **1,145** | **63,929** | **73,199** | **2.2** | 356 | 49,660 | 17,679 | 0.6 |
| NMC | **291** | **218,973** | **63,721** | **2.0** | – | – | – | – |
| Sub-total of battery materials | **26,065** | **12,140** | **316,417** | **9.7** | 22,492 | 6,750 | 151,820 | 5.5 |
| ***Sub-Total*** | **154,417** | **11,643** | **1,797,843** | **55.1** | 132,976 | 11,338 | 1,507,744 | 54.9 |
| **Non-manganese processing** | | | | | | | | |
| Lithium cobalt oxide *(note b)* | **–** | **–** | **–** | **–** | 208 | 231,240 | 48,098 | 1.7 |
| ***Sub-Total, before other business*** | **379,671** | **4,950** | **1,879,250** | **57.6** | 816,867 | 2,360 | 1,927,746 | 70.2 |
| **Other business** | | | | | | | | |
| Trading *(note c)* | | | **1,383,874** | **42.4** | | | 818,987 | 29.8 |
| Total | | | **3,263,124** | **100.0** | | | 2,746,733 | 100.0 |

*Note a:* The Group entered into a subcontracting agreement with Guangxi Jinmeng, a shareholder of an associate of the Group, entrusting Guangxi Jinmeng with certain rights to operate the Group's Bembélé Manganese Mine in Gabon under the supervision of the Group and subject to certain conditions for a period of five years commencing from 1 March 2017. During the subcontracting period, the Group continues to control the strategy and significant matters of the mine's operation and the Group will receive a fixed income of RMB26,000,000 (equivalent to HK$31,985,000) per annum plus a variable income upon sale of ore mined by the subcontractor and determined with reference to the ore's selling price. The revenue and cost of sales from the ores of Bembélé Manganese Mine mined by Guangxi Jinmeng were not recognised in the Group's consolidated statement of profit or loss. Instead, the aggregate of fixed income and variable income abovementioned are recognised as subcontracting income under "Other income and gains" in the consolidated statement of profit or loss.

*Note b:* As lithium cobalt oxide price soared with that of cobalt since the start of 2017, some digital battery makers strengthened substitution of other materials for lithium cobalt oxide to reduce costs. Accordingly, in 1H 2018, we had transformed the production line of lithium cobalt oxide to produce lithium manganese oxide, therefore, there was no sale of lithium cobalt oxide during the period (1H 2017: 208 tonnes).

*Note c:* We had enlarged our scale of operations in trading business by commencing trading of non-manganese metals in China in April 2017, therefore, the revenue of trading business increased by 69.0% to HK$1,383.8 million in 1H 2018 (1H 2017: HK$819.0 million).

***Appreciation of RMB in the Period***

In 1H 2018, the average rate of exchange of RMB against Hong Kong Dollars strengthened by 8.7% compared with 1H 2017. The operations of the Group to a large extent are based in the PRC, major revenue and expenses are denominated in RMB which is also the functional currency of our PRC operations. As a result, the revenue and expenses items of the Group presented in Hong Kong Dollars in general increased due to RMB appreciation. The below analysis refer to factors in addition to change in exchange rate.

***Revenue***

In 1H 2018, the Group's revenue was HK$3,263.1 million (1H 2017: HK$2,746.7 million), representing an increase of 18.8% as compared with 1H 2017. The revenue increase was mainly due to: (a) increase in scale of operations in trading business which we commenced trading of non-manganese metals in China in April 2017; and (b) substantial increase in sales volume of silicomanganese alloy as our Qinzhou Ferroalloy Plant increased its production since 2H 2017. The above impact is partially offset by the decrease in sales volume of Gabon ores from Bembélé Manganese Mine in 1H 2018.

*Manganese mining and ore processing* – Revenue of manganese mining and ore processing segment decreased by 78.1% to HK$81.4 million (1H 2017: HK$371.9 million) was mainly due to the decrease in sales volume of Gabon ores in 1H 2018. In 1H 2017, we recommenced the sales of our Gabon ores from Bembélé Manganese Mine, and such sale represented the remaining inventories mined by the Group before our Gabon Bembélé Manganese Mine resumed operation in early 2017. The revenue of Gabon ores decreased in 1H 2018 as starting from early 2017 we recommenced our operation of Gabon Bembélé Manganese Mine under a subcontracting arrangement.

*Manganese downstream processing – Alloying Materials* – Revenue increased by 9.3% to HK$1,481.4 million in 1H 2018 (1H 2017: HK$1,355.9 million) and was mainly attributable to the followings:

(a) EMM and briquette together continues to be our major products in terms of revenue. However, as the market remains stagnant with the overall steel production in the PRC, our EMM production capacity and volume remained saturated in 1H 2018 with modest changes in revenue therefrom.

(b) The revenue of silicomanganese alloy increased by 109.2% to HK$247.9 million in 1H 2018 (1H 2017: HK$118.5 million), mainly attributable to the followings: (i) since 2H 2017, we increased our production of silicomanganese alloy amidst recovery of the alloy market and therefore the sales volume increased by 74.8% to 28,738 tonnes in 1H 2018 (1H 2017: 16,439 tonnes); and (ii) the average selling price of silicomanganese alloy increased by 19.7% to HK$8,627/tonne in 1H 2018 (1H 2017: HK$7,209/tonne).

*Manganese downstream processing – Battery Materials* – Revenue increased by 108.4% to HK$316.4 million (1H 2017: HK$151.8 million) and was mainly attributable to the followings:

The Group had been cautiously expanding our battery material products in terms of production capacity and product type starting from 2016 as follow: (a) we had begun investing in production of NMC since 2016 and in 2H 2017, the production line of NMC commenced commercial production and therefore contributed to an increase in revenue in 1H 2018; (b) we had transformed our production line of lithium cobalt oxide to produce lithium manganese oxide from 2H 2017 and this contributed to an increased sales volume of lithium manganese oxide by 221.6% to 1,145 tonnes in 1H 2018 (1H 2017: 356 tonnes).

As a result, the combined revenue of EMM and manganese briquette accounted for 37.2% (1H 2017: 44.7%) of our total sales.

The following table sets out the cost of sales, unit cost of sales, gross profit/(loss) and gross profit/(loss) margins of our products.

| | Six months ended 30 June | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | 2017 | | | |
| | **Cost of Sales** | **Unit Cost of Sales** | **Gross Profit/ (Loss)** | **Gross Profit/ (Loss) Margin** | Cost of Sales | Unit Cost of Sales | Gross Profit/ (Loss) | Gross Profit/ (Loss) Margin |
| | ***(HK$'000)*** | ***(HK$/ Tonne)*** | ***(HK$'000)*** | ***(%)*** | *(HK$'000)* | *(HK$/ Tonne)* | *(HK$'000)* | *(%)* |
| **Manganese mining and ore processing** | | | | | | | | |
| Gabon ore | **6,408** | **704** | **(2,091)** | **(48.4)** | 257,128 | 498 | 40,896 | 13.7 |
| Manganese concentrate | **68,928** | **327** | **(7,356)** | **(11.9)** | 44,299 | 278 | 10,109 | 18.6 |
| Natural discharging manganese powder and sand | **3,215** | **572** | **12,303** | **79.3** | 7,888 | 969 | 11,584 | 59.5 |
| ***Sub-Total*** | **78,551** | **349** | **2,856** | **3.5** | 309,315 | 452 | 62,589 | 16.8 |
| **Manganese downstream processing** | | | | | | | | |
| **Alloying materials** | | | | | | | | |
| EMM | **783,038** | **10,976** | **136,951** | **14.9** | 753,527 | 10,292 | 199,122 | 20.9 |
| Manganese briquette | **261,504** | **11,674** | **32,607** | **11.1** | 208,463 | 10,356 | 65,179 | 23.8 |
| | **1,044,542** | **11,143** | **169,558** | **14.0** | 961,990 | 10,306 | 264,301 | 21.6 |
| Silicomanganese alloy | **230,128** | **8,008** | **17,809** | **7.2** | 114,677 | 6,976 | 3,835 | 3.2 |
| Others | **17,232** | **2,935** | **2,157** | **11.1** | 9,655 | 13,714 | 1,466 | 13.2 |
| Sub-total of alloying materials | **1,291,902** | **10,065** | **189,524** | **12.8** | 1,086,322 | 9,832 | 269,602 | 19.9 |
| **Battery materials** | | | | | | | | |
| EMD | **106,893** | **7,340** | **33,895** | **24.1** | 80,388 | 6,868 | 15,844 | 16.5 |
| Manganese sulfate | **29,658** | **2,946** | **9,051** | **23.4** | 27,076 | 2,595 | 10,833 | 28.6 |
| Lithium manganese oxide | **61,554** | **53,759** | **11,645** | **15.9** | 14,531 | 40,817 | 3,148 | 17.8 |
| NMC | **58,534** | **201,148** | **5,187** | **8.1** | – | – | – | – |
| Sub-total of battery materials | **256,639** | **9,846** | **59,778** | **18.9** | 121,995 | 5,424 | 29,825 | 19.6 |
| ***Sub-Total*** | **1,548,541** | **10,028** | **249,302** | **13.9** | 1,208,317 | 9,087 | 299,427 | 19.9 |
| **Non-manganese processing** | | | | | | | | |
| Lithium cobalt oxide | – | – | – | – | 35,180 | 169,135 | 12,918 | 26.9 |
| ***Sub-Total, before other business*** | **1,627,092** | **4,286** | **252,158** | **13.4** | 1,552,812 | 1,901 | 374,934 | 19.4 |
| **Other business** | | | | | | | | |
| Trading | **1,358,051** | | **25,823** | **1.9** | 803,548 | | 15,439 | 1.9 |
| **Total** | **2,985,143** | | **277,981** | **8.5** | 2,356,360 | | 390,373 | 14.2 |

*Cost of Sales*

Total cost of sales increased by HK$628.7 million or 26.7%, to HK$2,985.1 million in 1H 2018 (1H 2017: HK$2,356.4 million). The cost increase was primarily due to: (a) the increase in the cost of sale for trading business due to increase in scale of operations; (b) the increase in the production costs for silicomanganese alloy as production volume increased; and being partially offset by (c) the decrease in sales volume of Gabon ores.

The unit cost of manganese mining and ore processing decreased by 22.8% to HK$349/tonne (1H 2017: HK$452/tonne) and was mainly attributable to the decrease in sales volume of Gabon ores.

In 1H 2018, unit cost of EMM and manganese briquette increased by 8.1% to HK$11,143/tonne (1H 2017: HK$10,306/tonne).

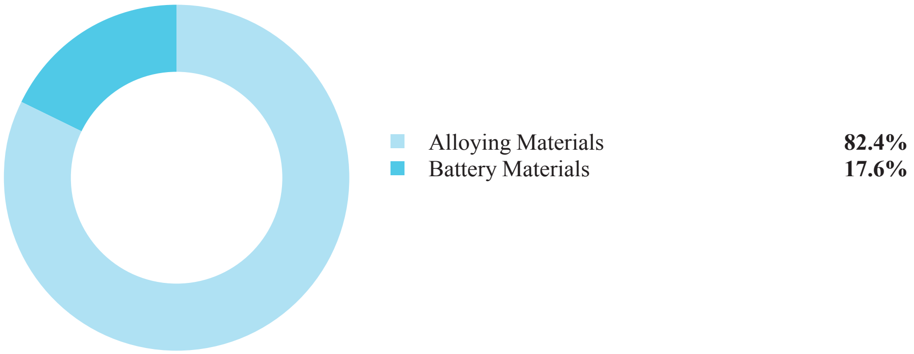
*Gross Profit*

In 1H 2018, the Group recorded a gross profit of HK$278.0 million (1H 2017: HK$390.4 million), representing a decrease of HK$112.4 million or 28.8%. The Group's overall gross profit margin was 8.5%, representing a decrease of 5.7% from 1H 2017 (1H 2017: 14.2%). The decreased in overall gross profit margin was mainly attributable to the decrease in selling price of our major products EMM and manganese briquette.

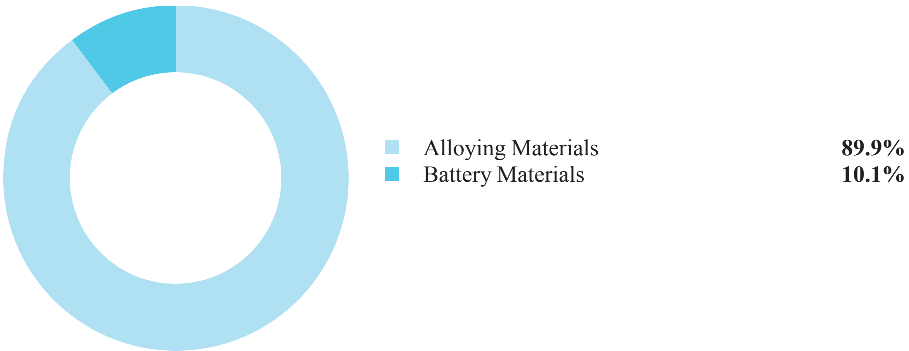
## Growing Significance of Battery Materials

### *Revenue from Manganese Downstream Processing*

For the six months ended 30 June 2018:

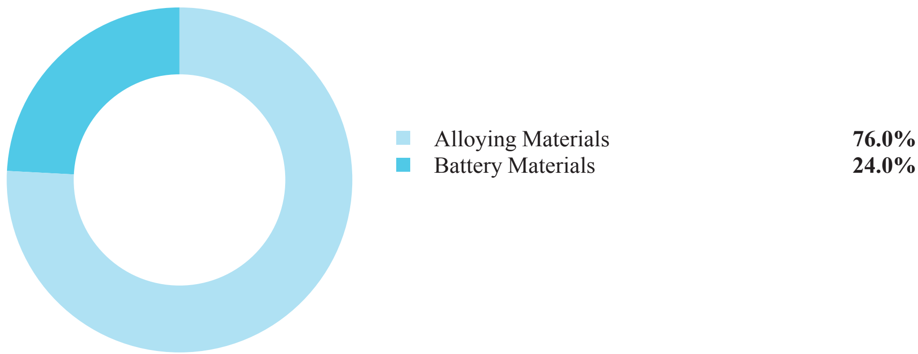



For the six months ended 30 June 2017:

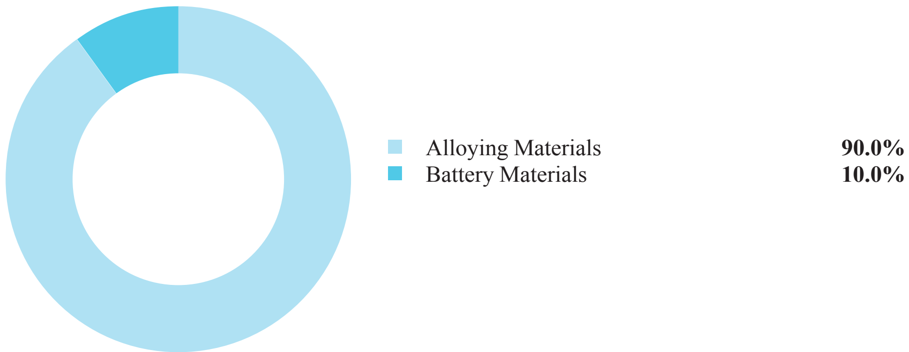


### *Gross profit from Manganese Downstream Processing*

For the six months ended 30 June 2018:




For the six months ended 30 June 2017:




### *Other Income and Gains*

Other income and gains increased by 151.6% to HK$203.1 million (1H 2017: HK$80.7 million). This was primarily due: (a) compensation income of HK$84.2 million in respect of relocation recognised during the period (1H 2017: Nil); and (b) subcontracting income from Bembélé Manganese Mine increased by 398.6% to HK$52.3 million in 1H 2018 (1H 2017: HK$10.5 million) due to increase in sales volume of ores mined by the subcontractor and accordingly, the profits shared therefrom.

### *Selling and Distribution Expenses*

Selling and distribution expenses in 1H 2018 have increased by 16.9% to HK$52.3 million (1H 2017: HK$44.7 million) which was in line with our increase in sales volume of manganese downstream processing products.

### *Administrative Expenses*

Administrative expenses have increased by 17.2% to HK$182.0 million (1H 2017: HK$155.3 million) which was mainly attributable to the upward adjustments of staff costs.

### *Finance Costs*

In 1H 2018, our Group's finance costs increased by 21.8% to HK$128.5 million (1H 2017: HK$105.5 million) was mainly attributable to increase in the outstanding balances of interest-bearing borrowings and upward movements in interest rates.

### *Other Expenses*

Other expenses amounted to HK$6.6 million (1H 2017: HK$2.8 million) which included impairment of trade and other receivables.

### *Share of Losses of Associates*

Share of losses of associates of HK$1.5 million (1H 2017: 17.3 million) represents the net effect of:

(a) the share of profit of Dushan Jinmeng, a 33% associate of the Group, of HK$3.1 million (1H 2017: HK$2.7 million); and

(b) the share of loss of CPM, an associate we held 29.99% as at 30 June 2018, of HK$4.6 million (1H 2017: HK$20.0 million).

The loss reduction of CPM was mainly due to the improved mining operations.

*Loss on Deemed Disposal of an Associate*

In 1H2017, a non-cash loss on deemed disposal of an associate of HK$69.4 million is recorded as our percentage equity interest held in CPM was diluted from 29.81% to 24.84% upon its placing of new shares in May 2017.

In August and September 2017, the Group re-increased the equity interest in CPM from 24.84% to 29.99%, effectively reinstating our percentage holding in CPM to the level similar to just before the above dilution.

*Income Tax Credit/(Expense)*

In 1H 2018, the effective tax rate is -3.4% (1H 2017: 12.1%). The effective tax rate for 1H 2018 differs from the statutory tax rate of our major operations in the PRC mainly because there were tax losses not recognised and brought forward to set off against current period's taxable profits of our PRC operations.

*Profit Attributable to Owners of the Parent*

For 1H 2018, the Group's profit attributable to owners of the parent was HK$85.9 million (1H 2017: 70.0 million).

*Earnings per Share*

For 1H 2018, earnings per share attributable to ordinary equity holders of the Company was 2.51 HK cents (1H 2017: 2.04 HK cents).

*Interim Dividend*

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (1H 2017: Nil).

### *Use of Proceeds from IPO*

Up to 30 June 2018, we utilised the net proceeds raised from IPO in accordance with the designated uses set out in the Prospectus as follows:

| | Description | Amount designated in Prospectus *(HK$ Million)* | Amount utilised up to 30.06.2018 *(HK$ Million)* | % utilised | Amount utilised up to 31.12.2017 (HK$ Million) | % utilised |
|---|---|---|---|---|---|---|
| 1 | Expansion project at Daxin EMD Plant | 79 | 79 | 100.0% | 79 | 100.0% |
| 2 | Expansion project of underground mining and ore processing at Daxin Mine | 278 | 278 | 100.0% | 278 | 100.0% |
| 3 | Expansion and construction projects of our EMM production facilities | 516 | 516 | 100.0% | 516 | 100.0% |
| 4 | Construction project at Chongzuo Base | 59 | 59 | 100.0% | 59 | 100.0% |
| 5 | Development of Bembélé manganese mine and associated facilities | 119 | 119 | 100.0% | 119 | 100.0% |
| 6 | Technological improvement and renovation projects at our production facilities | 40 | 40 | 100.0% | 40 | 100.0% |
| 7 | Acquisition of mines and mining right | 397 | 282 | 71.0% | 282 | 71.0% |
| 8 | Repayment on a portion of our bank borrowings | 297 | 297 | 100.0% | 297 | 100.0% |
| 9 | Working capital and other corporate purposes | 198 | 198 | 100.0% | 198 | 100.0% |
| | **Total** | 1,983 | 1,868 | 94.2% | 1,868 | 94.2% |

### *Liquidity and Financial Resources*

### *Cash and Bank Balances*

As at 30 June 2018, the currency denomination of the Group's cash and bank balances including pledged deposits are as follows:

| Currency denomination | **30 June 2018** *HK$ million* | 31 December 2017 *HK$ million* |
|---|---|---|
| Denominated in: | | |
| RMB | **1,004.8** | 620.4 |
| HKD | **7.9** | 13.2 |
| USD | **223.4** | 216.3 |
| XAF | **38.4** | 7.4 |
| | **1,274.5** | 857.3 |

As at 30 June 2018, our cash and bank balances including pledged deposits were HK$1,274.5 million (31 December 2017: HK$857.3 million) while the Group's borrowings amounted to HK$4,708.7 million (31 December 2017: HK$3,748.2 million). The Group's borrowings net of cash and bank balances amounted to HK$3,434.2 million (31 December 2017: HK$2,890.9 million).

To manage liquidity risk, the Group continues to monitor current and expected liquidity requirements to secure sufficient balance of cash in the short and long terms as well as facilities from banks and financial institutions.

### *Net Current Liabilities*

As at 30 June 2018, the Group had net current liabilities of HK$917.9 million (31 December 2017: HK$1,393.6 million). The decrease in net current liabilities was mainly attributable to the drawdown of certain long-term borrowings, including a finance lease of HK$186.5 million (equivalent to RMB157.5 million) during the six months perioded ended 30 June 2018.

*Bank and Other Borrowings*

As at 30 June 2018, the Group's borrowing structure and maturity profile are as follows:

| **Borrowing structure** | **30 June 2018** *HK$ million* | 31 December 2017 *HK$ million* |
|---|---|---|
| Secured borrowings (including finance lease payables) | **721.7** | 465.7 |
| Unsecured borrowings | **3,987.0** | 3,282.5 |
| | **4,708.7** | 3,748.2 |

| **Maturity profile** | **30 June 2018** *HK$ million* | 31 December 2017 *HK$ million* |
|---|---|---|
| Repayable: | | |
| On demand or within one year | **3,594.5** | 3,003.4 |
| After one year and within two years | **1,057.7** | 638.1 |
| After two years and within five years | **56.5** | 106.7 |
| | **4,708.7** | 3,748.2 |

| **Currency denomination** | **30 June 2018** *HK$ million* | 31 December 2017 *HK$ million* |
|---|---|---|
| Denominated in: | | |
| RMB | **3,833.6** | 3,019.7 |
| USD | **875.1** | 728.5 |
| | **4,708.7** | 3,748.2 |

As at 30 June 2018, borrowings as to the amounts of HK$2,677.3 million (31 December 2017: HK$2,147.6 million) and HK$2,031.4 million (31 December 2017: HK$1,600.6 million), carry fixed and floating rate interest respectively. The fixed rate borrowings carry interest at rates ranging from 3.37% to 8.70%. The floating rate borrowings carry interest up to a premium of 10% above the Benchmark Borrowing Rates of the People's Bank of China ("**PBOC**"), except the USD loans which carry interest at LIBOR plus a margin of 2.60%.

Overall, aggregate borrowings increased to HK$4,708.7 million (31 December 2017: HK$3,748.2 million). The Group are now exploring various means including short-term or medium-term notes and more long-term bank loans to improve borrowing structure in terms of interest rate level and repayment terms.

***Charge on Group Assets***

As at 30 June 2018, (a) property, plant and equipment of HK$186.6 million (31 December 2017: HK$143.4 million) were held under finance lease; (b) none else of the Group's property, plant and equipment (31 December 2017: Nil) were pledged to secure the Group's interest-bearing bank borrowings (except for finance lease payables mentioned in (a)); (c) bank balances of HK$167.8 million (31 December 2017: HK$188.2 million) were pledged to secure certain of the Group's bank acceptance notes; and (d) trade receivables of HK$385.1 million (31 December 2017: HK$238.4 million) were pledged to secure certain of the Group's bank borrowings.

***Contingent Liabilities***

(a) As at 30 June 2018, the outstanding bank loan of an associate, in which the Group has a 33% equity interest, was secured by the associate's lands and property, plant and equipment and guaranteed by the Group and the holding company of the associate, Guangxi Jinmeng, according to the shareholding percentage on a several basis.

    As at 30 June 2018, the associate's banking facilities guaranteed by the Group and Guangxi Jinmeng amounted to RMB800,000,000 (equivalent to HK$947,520,000) and were utilised to the extent of RMB695,000,000 (equivalent to HK$823,158,000) (31 December 2017: RMB715,000,000, equivalent to HK$858,501,000) by the associate.

(b) At 30 June 2018, loans amounting to RMB20,000,000 (equivalent to HK$23,688,000) (31 December 2017: RMB20,000,000 equivalent to HK$24,014,000) provided by Guangxi Dameng to a company in which the Group owns 10% equity interest is guaranteed by the Group in proportion to equity interest held by the Group.

(c) A subsidiary of the Group is currently a defendant in a lawsuit brought by a party claiming that the subsidiary is liable for the losses owing to the termination of a subcontracting arrangement. Details are set out to in the announcement of the Group on 11 December 2015. In 2017, the first trial was concluded and the subsidiary had successfully defended against the claim. The lawsuit is currently under appeal by the claimant. The directors, based on the advice from the Group's PRC legal counsel, believe that the subsidiary has a valid defence against the claim under appeal and, accordingly, have not provided for any claim arising from the litigation, other than legal and other costs.

***Key Financial Ratios of the Group***

| | **30 June 2018** | 31 December 2017 |
|---|---|---|
| Current ratio | **0.82** | 0.71 |
| Quick ratio | **0.66** | 0.51 |
| Net Gearing ratio | **116.4%** | 99.8% |

| | | |
|---|---|---|
| Current ratio | = | balance of current assets at the end of the period/balance of current liabilities at the end of the period |
| Quick ratio | = | (balance of current assets at the end of the period – balance of inventories at the end of the period)/balance of current liabilities at the end of the period |
| Net Gearing ratio | = | Calculated as net debt divided by equity attributable to owners of the parent. Net debt is defined as the sum of interest-bearing bank and other borrowings less cash and cash equivalents and pledged deposits |

At 30 June 2018, current ratio and quick ratio improved mainly attributable to the drawdown of certain long-term borrowings. Net gearing ratio increased as we continue to cautiously develop our trading business which was mainly financed by banks' trade loans.

*Liquidity risk and going concern basis*

The Group monitors its risk to a shortage of funds on an on-going basis by closely monitoring the maturity of both its financial instruments and financial assets and projected cash flows from operations. The Group's objective is to maintain sufficient working capital to finance its operations and meet its financial obligation as and when they fall due. At the same time, the Group will strive a balance between continuity of funding and flexibility through the use of short-term and long-term bank loans, finance leases, other interest-bearing borrowings and short-term and medium-term notes, taking also into account of the different pricing of various financing for each alternatives. Due consideration will also be given to equity financing alternatives.

In view of the Group's net current liabilities of HK$917.9 million at 30 June 2018 (31 December 2017: HK$1,393.6 million), the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

(a) The Group continues to restructure the mix of manganese products processing with the aim to increase the portion of products with higher margin so as to attain profitable and positive cash flow operations. In particular, the Group continues to ramp up mining and processing capacity of existing mines. In addition, the Group from time to time reviews its investment projects and may adjust its investment strategies in order to enhance the cash flow position of the Group whenever it is necessary.

(b) The Group is taking measures to tighten cost controls over administrative and other operating expenses aiming at improving the working capital and cash flow position of the Group including closely monitoring the daily operating expenses.

(c) At 30 June 2018, certain PRC banks had confirmed to the Group in writing regarding their agreements to renew their short-term bank loans granted to the Group totalling HK$829.7 million upon repayment when due, subject to the condition that the Group will be able to repay the total interest due on the respective repayment dates. Based on the abovementioned agreements and past experience, the directors consider it is highly probable that the Group can extend adequate amount of short-term bank loans for a further year when fall due to maintain sufficient working capital of the Group.

(d) The Group is actively following up with its debtors on outstanding receivables with an aim of speeding up collection.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the abovementioned plans and measures, coupled with the undrawn long-term loan and profitability of the Group, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the six months ended 30 June 2018 on a going concern basis.

***Credit Risk***

The Group endeavoured to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management. Since the Group's trade and notes receivables related to a large number of diversified customers, there was no significant concentration of credit risk save for a customer, Guangxi Jinmeng, described below. The Group did not hold any collateral or other credit enhancements over its trade and notes receivable balances.

In 1H 2018, the largest customer of the Group by revenue is Guangxi Jinmeng which is principally engaged in manganese ferroalloy production, manganese ore trading and manganese mining in Gabon and the PRC. It maintains close business relationship with major steel plants in the PRC. The Group supplies manganese ores to Guangxi Jinmeng which is also our subcontractor in Gabon Bembélé Manganese Mine.

In 1H 2018, revenue of HK$461.6 million (1H 2017: HK$256.1 million) was derived from trading of manganese ores and revenue of HK$4.3 million (1H 2017: HK$216.7 million) was derived from sales of Gabon ores to Guangxi Jinmeng. In 1H 2018, total sales to Guangxi Jinmeng amounted to HK$465.9 million (1H 2017: HK$472.8 million), which accounted for 14.3% (1H 2017: 17.2%) of the Group's total sales. As at 30 June 2018, trade receivable from Guangxi Jinmeng was HK$232.0 million (31 December 2017: HK$209.5 million) and represents 23.6% (31 December 2017: 25.0%) of the Group's trade receivables, and notes receivable from Guangxi Jinmeng was HK$112.3 million (31 December 2017: Nil) and represents 15.6% of the Group's notes receivables.

Sales to Guangxi Jinmeng are on open account with a credit period ranging from about 75 days to 100 days from the date of receipt of goods, which can be extended for a further period of 90 days to 180 days subject to the Company's approval. Up to the date of this announcement, an aggregate amount of HK$23.5 million has been subsequently settled and the remaining unsettled balances are within their credit period. The directors of the Company consider that the related credit risk is acceptable to the Group.

### *Interest Rate Risk*

We are exposed to interest rate risk resulting from fluctuations in interest rates on our floating rate debt. Floating interest rates are subject to published interest rate changes in PBOC as well as movements in LIBOR. If the PBOC increases interest rates or LIBOR moves up, our finance cost will increase. In addition, to the extent that we may need to raise debt financing or roll over our short-term loans in the future, any upward fluctuations in interest rates will increase the cost of new debt obligations. We do not currently use any derivative instruments to modify the nature of our debt for risk management purpose.

### *Foreign Exchange Risk*

The Group's operations are primarily in Hong Kong, the PRC and Gabon. We have not entered into any foreign exchange contract or derivative transactions to hedge against foreign exchange fluctuations for these operations for reasons set out below.

In respect of our trading operations in Hong Kong, our sales and purchases are both denominated in United States dollars.

In respect of our operations in the PRC, our products are sold to local customers in RMB and to a less extent to overseas customers in United States dollars. Major expenses of our PRC operations are also denominated in RMB. The functional currencies of our PRC subsidiaries are RMB.

In respect of our Gabon operations, all our sales are denominated in United States dollars. Expenses (including sea freight for those sales on CIF basis) are also denominated in United States dollars with those expenses incurred locally denominated in EURO or Euro-pegged XAF. Gabon operation is partially financed by United States dollar loans which are expected to be repaid in the long term out of the project's operating cash inflow which is mainly denominated in United States dollars.

### *Our Employees*

As at 30 June 2018, we have a total of 7,671 employees (30 June 2017: 7,820), which is mainly located in Mainland China, representing 99.70% (30 June 2017: 99.74%). Over 37.64% of our employees are below 40, of which the majority of them are general workers. Therefore, we have a relatively young and equal workforce structure. It is contemplated in the future number of years, our workforce composition will remain relatively the same. We have also maintained a workforce with stable turnover for a number of years. For the six months ended 30 June 2018, our overall turnover rate was 2.50% (30 June 2017: 2.21%). In 2017, the Group's Bembélé Manganese Mine in Gabon resumed production, the headcount in Gabon As at 30 June 2018 set out below exclude the 277 (at 30 June 2017: 181) employees who worked for a subcontractor.

### *Events After the Reporting Period*

Upon the passing of a special resolution on 25 July 2018 and with effect thereon, an amount of HK$3,352,902,000 standing to the credit of the share premium account of the Company was cancelled, and HK$700,000,000 of the credit arising from such cancellation was applied towards offsetting the accumulated losses of the Company and the remaining balance of HK$2,652,902,000 of the credit arising from such cancellation was transferred to the contributed surplus account of the Company.

### *Future Development and Outlook*

- On 15 June 2018, the Group entered into an agreement to establish a limited partnership, Ningbo Dameng Management Partnership (Limited Partnership) ("寧波大錳管理合夥企業(有限合夥)") in China and subscribe the interest therein as detailed in our announcement dated 15 June 2018. Pursuant to the agreement, the registered capital of the limited partnership is HK$593,384,000 (equivalent to RMB501,000,000), among which HK$207,270,000 (equivalent to RMB175,000,000) or 34.9% of the registered capital is to be contributed by the Group as a limited partner. The establishment of this partnership is for the purpose of merger and acquisition as well as integration of upstream and downstream companies in manganese industry, including manganese resources, manganese products, and ferroalloy manufacturing. Riding on our expertise in manganese industry, it is expected that the partnership can explore high potential investment opportunities and enhance the profitability of the Group.

- In recent years, the market for battery materials grows rapidly. Accordingly, we continue to cautiously expand our business of battery material products, including expanding our production capacity for one of our major battery material products lithium manganese oxide as follows: (a) we had transformed our production line of lithium cobalt oxide to produce lithium manganese oxide from 2H 2017; and (b) we had started building two production plants of lithium manganese oxide in our high-tech Chongzuo Base since 2H 2017 and the first plant commenced commercial production in late June 2018 and the second plant will commence commercial production in around mid-2019 respectively. The Group can speed up participating in this fast growing market upon completion of the above project.

- Since late May this year, the supply of EMM in the PRC was highly tightened due to (a) the partial suspension of a major producer in the North Western China; and (b) a month long follow up investigation and inspection of, amongst others, manganese ore and downstream producers in major manganese producing regions by the Ministry of Ecology and Environment of the PRC. Therefore, market price of EMM has recorded rocket price increase since late June 2018. Current market price of EMM is higher than the average price in the first half of year 2018 by more than 50%. Since mid-June, our Group has been able to reap from the above two factors as we have always been emphasizing the importance of environmental protection and work safety and therefore our production chain from ore mining to EMM downstream processing has not been affected by the recent environmental investigation and inspection initiated by the central government. But some EMM producers have been forced to close down their operations to do certain remedial actions before they can recommence production while some others have run out of ore feed upon mine closure of their suppliers again due to environmental issues. We cautiously expect that our Group will be able to realize substantial benefits in the second half of this year from our past investment in environmental protection.

- The 33% owned associate of the Group, Dushan Jinmeng, is a manganese ferroalloy producer in Guizhou, the PRC. Since 2013, Dushan Jinmeng, engaged in the building of a ferromanganese alloy plant with an annual capacity of 500,000 tonnes and two self-use 150 MW power plants in Dushan County, Guizhou, the PRC. Ferromanganese alloy production of the first two furnaces commenced in December 2017. It is expected that by the beginning of 2019, half of the ferromanganese production furnaces and one self-use power plant will have been put into production, and the remaining half of the capacity will be put into production in mid-2019. Upon full production in 2019, Dushan Jinmeng will be one of the largest integrated power to manganese ferroalloy plant in the PRC, and therefore a key manganese ferroalloy supplier to steel plants in the southern market of the PRC. In addition, Dushan Jinmeng has commenced trading business in 2017.

- Riding on our expertise in manganese from mining to downstream processing and with the growing production capacity of ferroalloy of our Qinzhou Ferroalloy Plant and Dushan Jinmeng, we continue to cautiously develop our trading business of manganese ore, manganese ferroalloy and its related raw materials.

- Upon the recommencement of the mining operation of our Bembélé Manganese Mine in Gabon in 2017, we continue to explore China and overseas markets regarding our ores produced in Gabon. It is expected that Bembélé Manganese Mine will continue to contribute to our operating cash flow and profit.

- In terms of financing, we will continue our efforts to improve our liquidity and capital structure by exploring various alternatives from debt to equity and to raise necessary funds to finance our operations. In particular, we will put more weight on longer term financing than short term, taking into account of different pricing of various financing alternatives and due consideration will also be given to equity financing which can reduce our gearing ratio and have the possible advantage of expanding our shareholder base.

- The recent escalation of the US-China trade war is threatening the growth of China and global economies and exaggerating volatility to the currency markets. In addition, the trend of upward adjustment of US interest rate increases the financing costs of corporates. These factors increase the risks and costs of our business operations which to a large extent is currently situated in the upstream of the steel industry. The Group will continue to closely monitor the market conditions and may adjust the paces of our development and business strategy from time to time to overcome these challenges.

## CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2018, save for the deviation from the code provision A.2.1, the Company has applied the principles, complied with the applicable code provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

### Code provision A.2.1

#### *Chairman and Chief Executive Officer*

Since 30 September 2016, the posts of Chairman and Chief Executive Officer were combined and Mr. Yin Bo, the Chairman of the Board has also assumed the role of the Chief Executive Officer. This arrangement is in contravention of code provision A.2.1 of the CG Code. Mr. Yin has considerable knowledge of the Company's assets and his experience is very highly valued by the Board. At a challenging time for the Company, the Board decided that Mr. Yin was the best person to lead and oversee the implementation of the Company's long and short term plans in accordance with its strategy which is determined by the Board. All major decisions are made in consultation with the Board members, appropriate Board committees or senior management of the Group. Mr. Yin promotes a culture of openness and encourages the Directors to make a full and active contribution to the Board's affairs. During the six months ended 30 June 2018, the three Independent non-executive Directors of the Company offered strong and independent advice. All decisions have reflected the consensus of the Board. The Board is keeping this situation under review and will separate the role of Chairman and Chief Executive Officer when it is in the Company's best interests to do so.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for dealings in securities of the Company by its Directors (the "**Securities Dealings Code**") that is based on the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules (or on terms no less stringent than the Model Code).

All Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Securities Dealings Code throughout the six months ended 30 June 2018.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2018.

## REVIEW OF ACCOUNTS

The audit committee has reviewed the unaudited interim results for the six months ended 30 June 2018 with the management of the Company.

## FORWARD LOOKING STATEMENTS

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied by such statements.

## GLOSSARY OF TERMS

| | |
|---|---|
| "Bembélé Manganese Mine" | a manganese mine located in Bembélé, Moyen-Ogooue Province, Gabon, the exploration rights and mining rights of which are owned by La Compagnie Industrielle et Commerciale des Mines de Huazhou (Gabon) (華州礦業(加蓬)工貿有限公司), a company in which we indirectly hold 51% equity interest |
| "Board" or "Board of Directors" | our board of Directors |

| | |
|---|---|
| "China" or "PRC" | the People's Republic of China, but for the purpose of this interim report, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan |
| "Company" or "our Company" | CITIC Dameng Holdings Limited |
| "CPM" | China Polymetallic Mining Limited, a company incorporated in Cayman Islands with limited liability on 30 November 2009 and listed on the Stock Exchange (Stock Code: 2133) |
| "Daxin Mine" | 中信大錳礦業有限責任公司大新錳礦(CITIC Dameng Mining Industries Co., Limited Daxin Manganese Mine) |
| "Director(s)" | the director(s) of our Company |
| "Dushan Jinmeng" | 獨山金孟錳業有限公司(Dushan Jinmeng Manganese Limited Company) |
| "EMD" | electrolytic manganese dioxide |
| "EMM" | electrolytic manganese metal |
| "Gabon" | the Gabonese Republic |
| "Group", "we" or "us" | the Company and its subsidiaries |
| "Guangxi Dameng" | 廣西大錳錳業有限公司(Guangxi Dameng Manganese Industrial Co., Ltd.), a state-owned limited liability company established under the laws of the PRC on 30 July 2001. Guangxi Dameng is wholly-owned by the government of Guangxi, PRC |
| "Guangxi Jinmeng" | 廣西金孟錳業有限公司(Guangxi Jinmeng Manganese Limited Company), a company established under the laws of the PRC, which holds approximately 67.0% equity interest in Dushan Jinmeng |

| | |
|---|---|
| "Guangxi Start" | 廣西斯達特錳材料有限公司(Guangxi Start Manganese Materials Co., Ltd.) |
| "Hong Kong or HK" | the Hong Kong Special Administrative Region of the PRC |
| "Hui Xing Company" | 貴州遵義匯興鐵合金有限責任公司 (Guizhou Zunyi Hui Xing Ferroalloy Limited Company) |
| "Hui Xing Group" | Hui Xing Company together with its subsidiaries (including 遵義中信大錳設備製造安裝有限公司 (Zunyi CITIC Dameng Equipment Manufacture and Installation Co., Ltd.)) |
| "IPO" | the initial public offering and listing of Shares of the Company on the main board of the Stock Exchange on 18 November 2010 |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) |
| "NMC" | Lithium Nickel Manganese Cobalt Oxide |
| "Prospectus" | the prospectus of the Company dated 8 November 2010 |
| "Qinzhou Ferroalloy Plant" | the ferroalloy production plant located near Qinzhou Harbour and owned and operated by 中信大錳(欽州)新材料有限公司(CITIC Dameng (Qinzhou) New Materials Co., Ltd.), a company in which we indirectly hold 70% equity interest |
| "Shares" | ordinary shares in the share capital of the Company, with a nominal value of HK$0.10 each |
| "Stock Exchange" | the Stock Exchange of Hong Kong Limited |

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|---|---|
| "tonne" | metric tonne |
| "XAF" | Central African CFA franc |

*Note:* The English names of the PRC entities mentioned hereinabove are translated from their Chinese names. If there are any inconsistencies, the Chinese names shall prevail.

On behalf of the Board
**CITIC DAMENG HOLDINGS LIMITED**
**Yin Bo**
*Chairman*

Hong Kong, 25 July 2018

*As at the date of this announcement, the executive Directors are Mr. Yin Bo and Mr. Li Weijian; the non-executive Directors are Mr. Suo Zhengang, Mr. Lyu Yanzheng and Mr. Chen Jiqiu; and the independent non-executive Directors are Mr. Lin Zhijun and Mr. Tan Zhuzhong.*

* *For identification purpose only*