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South Manganese Investment Limited

南方錳業投資有限公司

(incorporated in Bermuda with limited liability)
(Stock Code: 1091)

(1) CHANGE OF AUDITOR;
(2) POSTPONEMENT OF 2023 ANNUAL GENERAL MEETING;
AND
(3) CONTINUED SUSPENSION OF TRADING

This announcement is made by South Manganese Investment Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09(2)(a) and 13.51(4) of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 29 March 2023, 31 March 2023, 2 May 2023, 28 May 2023, 29 June 2023, and 28 July 2023 (the “**Announcements**”) in relation to, among other things, (i) the delay in publication of the annual results (the “**Annual Results**”) and the annual report (the “**Annual Report**”) of the Company for the year ended 31 December 2022; (ii) the formation of an independent investigation committee (the “**Independent Investigation Committee**”); (iii) appointment of independent forensic account (the “**Independent Forensic Accountant**”); (iv) the guidance for the resumption of trading issued to the Company by the Stock Exchange (the “**Resumption Guidance**”); (v) the quarterly update on the status of resumption; and (vi) the appointment of independent internal control consultant. Unless otherwise defined, capitalised terms used herein shall have the same

meanings as those defined in the Announcements.

(1) CHANGE OF AUDITOR

Resignation of Auditor

The Board hereby announces that PricewaterhouseCoopers (“**PwC**”) has tendered its resignation as the auditor of the Company with effect from 31 July 2023 (the “**Resignation**”). PwC considers the following matters should be brought to the attention of the Shareholders and the creditors of the Company.

Unresolved audit issues identified by PwC (the “Audit Issues”)

In its resignation letter dated 31 July 2023 (the “**Resignation Letter**”), PwC referred to its Letter dated 28 March 2023 to the Company and the Audit Committee on the Audit Issues in relation to the Group’s Ghana manganese ore trading business (the “**Manganese Ore Trading Business**”) which include (a) the commercial basis of the high prepayment made to the Supplier; (b) some questionable features in the sample documents provided in relation to the transactions with the Supplier and with the Customer; and (c) the unusualness noted from the confirmations returned by the Supplier and the Customer.

PwC has concerns about the commercial substance of the Manganese Ore Trading Business and the authenticity of the relevant sale and purchase transactions, and requested the Company to provide explanation and additional information in the Letter as set out below, including but not limited to:

- provide explanations for the above and relevant supporting documents, especially the commercial rationale of paying significant amount of prepayment to the Supplier;
- conduct background investigations of the Supplier and the Customer, and explain whether there is any relationship between the Supplier and the Customer, and whether there is any relationship with the Group;
- provide complete walk-through documents of the Manganese Ore Trading Business, explain whether there is any genuine transfer of inventory ownership, explain the roles and responsibility of each counterparty in the entire trade chain, and the relationship among the involved parties (including whether they are held by the same party), the commercial rationale and substance of these transactions,

- whether there are other relationships or arrangements not disclosed to PwC;
- comprehensively evaluate the reasonableness of the sales and purchase recognition of the Manganese Ore Trading Business; and
 - provide specific information on the funds flow to/ from the Supplier and the Customer with the Group;

Other matters identified by PwC that required attention (the “Other Matters”)

PwC also states in its Resignation Letter that other than the Audit Issues as set out above, the following matters in relation to comparative figures as at 1 January 2022 need to be brought to the attention of the Shareholders and the creditors of the Company: (a) accumulated losses attributable to non-controlling interests of subsidiaries should be shared proportionately according to shareholding percentage; (b) provision of interest expenses in relation to the deferred social security insurance contribution; and (c) tax and other payables provision in relation to subcontracting income.

Actions taken by the Company

In response to the Audit Issues, the Company reiterated that it has endeavored to cooperate with PwC’s requests during the course of audit and has provided certain documents to PwC and arranged interviews for the warehousing agent, the Supplier and the Customer at the request of PwC.

PwC has communicated with the Audit Committee in relation to the Other Matters. The Company will also bring the Other Matters to the attention of the new auditor, and they will be dealt with in and subject to the audit of the Annual Results by the new auditor.

In response to the suggestion made by PwC in the Letter, the Board formed the Independent Investigation Committee on 31 March 2023 and the Independent Investigation Committee engaged the Independent Forensic Accountant on 25 May 2023 to conduct the Independent Investigation. PwC has indicated that the result of the Independent Investigation will serve as important audit evidence for the audit of the Annual Results, and will have significant impact on the nature, scope and timing of the audit procedures to be performed by PwC. PwC is required by the Hong Kong Standards on Auditing to assess the competency, objectivity and capabilities of the Independent Forensic Accountant, to be satisfied with respect to the adequacy of the scope and procedures of the Independent Investigation. In accordance with the request by the Company, PwC (a) participated in the meeting with the then candidates for the

Independent Forensic Accountant to explain the key matters and to discuss the scope of the Independent Investigation; and (b) participated in the meeting with the Independent Investigation Committee and provided comments on the scope of the Independent Investigation, the competency, objectivity and capabilities of the then candidates for the Independent Forensic Accountant.

PwC claimed to have closely communicated with the management and the chairman of the Audit Committee, who is also a member of the Independent Investigation Committee about the matters of the Independent Investigation, including but not limited to the request of observing certain interviews conducted by the Independent Forensic Accountant, and attending weekly progress meetings with the Independent Forensic Accountant. PwC have also proposed a preliminary additional audit fee quote, and timetable in relation to the audit work for the year ended 31 December 2022. PwC claimed that as of the date of its Resignation Letter, it has not received any reasonable explanations and materials from the Company regarding the Audit Issues and is not informed of the final scope and progress of the Independent Investigation. The Company reiterated the Company has cooperated with PwC on its best effort as mentioned above and as there was no consensus reached between PwC and the Company regarding the audit timetable and additional audit fee between PwC and the Company and therefore PwC did not participate in the process of the Independent Investigation.

Reason of Resignation of PwC as auditor of the Company

As mentioned in the Announcements, the Stock Exchange has imposed the Resumption Guidance on the Company for the resumption of trading in the Shares. Pursuant to the Resumption Guidance, the Company is required to, among other matters, publish all outstanding financial results. As at the date of this announcement, the Annual Results and the Annual Report remain outstanding. If the Company fails to remedy the issues causing its trading suspension, fulfill the Resumption Guidance and fully comply with the Listing Rules to the Stock Exchange's satisfaction and resume trading in the Shares by 29 September 2024, the Listing Division will recommend the Listing Committee to proceed with the cancellation of the Company's listing.

Given the imminent deadline for fulfilling the Resumption Guidance and for the best interest of the Company and its Shareholders having considered the audit timetable and audit fee, the Board wishes to complete the audit of the Annual Results as soon as possible. In these circumstances, the Board resolved to recommend PwC to resign as

the auditor of the Company, with a view to enable the Company to engage another auditor to complete the audit of the Annual Results.

On 15 July 2023, the Company served a notification to PwC that the Board resolved to recommend PwC to resign as the Company's auditor.

As set out in the Resignation Letter, in view of the situation that PwC is unable to obtain sufficient and reasonable explanations and evidence for the Audit Issues, and is not informed of the final scope, progress, and results of the Independent Investigation, PwC is unable to determine the corresponding audit procedures, and reasonably estimate the additional time required for the completion of the audit work for the year ended 31 December 2022. Therefore, PwC agrees to resign from the position of auditor of the Company with effect from 31 July 2023.

Save as disclosed above, the Board is not aware of any other disagreement between the Company and PwC, and/or any matters in relation to the Resignation that need to be brought to the attention of the Shareholders and creditors of the Company.

The Board would like to take this opportunity to express its heartfelt gratitude to PwC for its professional services provided to the Company in the past.

Proposed Appointment of Auditor

The Board further announces that, in accordance with the bye-laws of the Company and with the recommendation of the Audit Committee, it has resolved to appoint RSM Hong Kong (“**RSM HK**”) as the new auditor of the Company to fill the casual vacancy following the Resignation of PwC, subject to RSM HK's internal clearance procedure, and to hold office until the conclusion of the next annual general meeting of the Company. The Company will issue a separate announcement in relation to the appointment of the RSM HK upon completion of RSM HK's internal clearance procedure.

Further announcement(s) will be made to inform the Shareholders and potential investors of the Company of the latest development in relation to the audit, and publication of the Annual Results and Annual Report as and when appropriate.

(2) POSTPONEMENT OF 2023 ANNUAL GENERAL MEETING

Due to the delay in the publication of the Annual Report, the Board wishes to inform the Shareholders and potential investors of the Company that the 2023 annual general meeting of the Company will be postponed accordingly until further notice. Further announcement(s) will be made by the Company in relation to the holding of the 2023 annual general meeting of the Company as and when appropriate.

(3) CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 30 March 2023. Trading in the shares of the Company will remain suspended until further notice

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
SOUTH MANGANESE INVESTMENT LIMITED
Li Weijian
Chairman and Chief Executive Officer

Hong Kong, 2 August 2023

As at the date of this announcement, the executive Directors are Mr. Li Weijian, Mr. Zhang He, Mr. Xu Xiang and Mr. Li Junji; the non-executive Directors are Ms. Cui Ling and Mr. Pan Shenghai; and the independent non-executive Directors are Mr. Zhang Yupeng, Mr. Yuan Mingliang and Mr. Lo Sze Hung.