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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) KEY FINDINGS OF INTERNAL CONTROL REVIEW REPORT; AND (2) CONTINUED SUSPENSION OF TRADING**

This announcement is made by South Manganese Investment Limited (the “**Company**”) pursuant to Rule 13.09(2) 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, 28 July 2023, 2 August 2023, 18 August 2023 and 20 September 2023 (the “**Announcements**”) in relation to, among other things, (i) the delay in publication of the annual results and the annual report of the Company for the year ended 31 December 2022; (ii) the formation of an independent investigation committee; (iii) appointment of RSM Corporate Advisory (Hong Kong) Limited (currently known as “Acclime Corporate Advisory (Hong Kong) Limited”) as the independent forensic accountant (the “**Independent Forensic Accountant**”); (iv) the guidance (the “**Resumption Guidance**”) for the resumption of trading issued to the Company by the Stock Exchange; (v) the quarterly update on the status of resumption; (vi) the appointment of SWRS Risk Services Limited as the independent internal control consultant (the “**Independent Internal Control Consultant**”); (vii) the resignation of PricewaterhouseCoopers as the auditor of the Company with effect from 31 July 2023; (viii) the appointment of RSM Hong Kong as the new auditor of the Company with effect from 18 August 2023; (ix) the delay in publication of the interim results and the interim report of the Company for the six months ended 30 June 2023; and (x) the key findings of the independent investigation. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

## BACKGROUND

As disclosed in the Announcements, on 28 July 2023, the Company has appointed the Independent Internal Control Consultant to conduct the Independent Internal Control Review on certain aspects of the Group’s internal control procedure, system and control measures in order to fulfill the Resumption Guidance. The scope of the Internal Control Review covers (i) internal control review at entity level under the Committee of Sponsoring Organizations of the Treadway Commission (“**COSO**”) framework, including but not limited to control environment, risk assessment and response, control activities, information and communication, and monitoring; (ii) internal control review on business procedure including but not limited to financial reporting, revenue and accounts receivable, costs, purchases, expenditure and expenses, inventory management, bank and cash management, fixed assets management, human resources and payroll, taxation, mining management and information system control management; (iii) internal control review on compliance procedure in relation to certain Listing Rules and other related regulations; and (iv) internal control review on corporate governance practice under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

## SUMMARY OF THE KEY FINDINGS OF THE INTERNAL CONTROL REVIEW REPORT

The Independent Internal Control Consultant has completed the Internal Control Review, the follow-up review on the remedial measures adopted by the Company, and has issued a report of its findings and follow up review result (the “**Internal Control Review Report**”).

The key findings and remedial status of the Internal Control Review Report are summarized as follows:

### (i) Internal control review at entity level under the COSO framework

#### (a) Written policies

Key findings	Rectification recommendations	Company’s response and remedial status
<p>The management had adopted internal control system to monitor each business process and established written policies. However, the following processes were not included in the correspondent written policies:</p> <ul style="list-style-type: none"><li>(a) intragroup transactions;</li><li>(b) procurement management process,</li></ul>	<p>The management should consider incorporating the above processes into the written policies and ensure that the descriptions in the written policies are consistent with actual operations. In addition, the management should also consider regularly reviewing and updating the written policies when necessary to reflect the</p>	<p>Recommendations adopted and remedied.</p>

- supplier selection actual situation. The process and management should sign on warehousing process the written policies after (applicable to a review. When there are subsidiary) and updates, the management preparation and should also notify approval of purchase employees immediately so orders; that employees can understand the updates.
- (c) insurance evaluation and purchase, insurance policy renewal, third-party litigation handling, insurance claims handling process in relation to fixed assets; and
- (d) employee resignation management process and selection and management of outsourced labor companies (only applicable for mining business) under the human resources and payroll management.

*(b) Conflict of interest declaration mechanism*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
The Group had not established a reporting mechanism and handling process for conflicts of interest. Further, the Group did not require senior management and directors to declare potential conflicts of interest when joining the company, annually or when necessary.	The management should consider establishing a conflict of interest management mechanism including declaration procedure for conflict of interest, handling processes of conflict of interest, and require directors and senior management to make declaration when joining the company, annually or when necessary.	Recommendations adopted and remedied.

*(c) Succession planning for directors and senior management*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
The Group did not have a succession plan for the senior management and executive directors of the subsidiaries and branch companies.	The management should consider establishing a succession plan for key positions and the succession plan should be updated based on the actual situation of the Group. Relevant departments should also consider retaining employees through career development and training, and make effective resource planning.	Recommendations adopted and remedied.

**(ii) Internal control review on business procedure**

*(a) Financial reporting procedure*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
(1) The management did not properly allocate the access right of finance department personnel. The financial manager and financial personnel had the authority to close account and reverse closed account, while the financial personnel also had the authority to add and modify chart of accounts.	(1) The management should consider re-examining whether the authority of each personnel in the accounting system are consistent with actual operations, and appropriately allocate the access right of financial personnel in the accounting system.	(1) Recommendations adopted and remedied.
(2) The finance department did not maintain the reverse	(2) The management should consider requiring finance	(2) Recommendations adopted and remedied.

closed account application and approval record and regularly provide account payable records for procurement department to check with suppliers according to the approved policies and procedures.

department to record the application and approval of reverse closed account and regularly provide account payable records for procurement department to check with suppliers.

*(b) Revenue and accounts receivable procedure*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
(1) The sales department only filled out the sales orders, delivery orders and settlement orders after receiving the settlement orders stamped by the customer to confirm receipt of the goods, and subsequently for the finance department to recognize the revenue.	(1) The management should consider requiring the sales department to fill out the sales orders and settlement orders simultaneously when signing a contract with the customer.	(1) Recommendations adopted and remedied.
(2) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that certain new customer acceptance approval date was later than the contract signing date, which was inconsistent with the relevant written policies.	(2) The management should consider requiring the sales department to evaluate new customers in a timely manner to ensure that the management is aware of relevant customer information. The sales department should sign contract with new customer only after the new customer acceptance approval has been obtained.	(2) Recommendations adopted and remedied.

*(c) Costs, purchases, expenditure and expenses procedure*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
<p>(1) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that the accounting entries were not prepared on the date of stock in since sales department had not timely updated the inventory movements record. (For details, please refer to inventory management procedures)</p>	<p>(1) The management should consider requiring sales department to update inventory and notify the finance department for making accounting entries simultaneously.</p>	<p>(1) Recommendations adopted and remedied.</p>
<p>(2) Deviation was noted between the approval processes of updated qualified supplier list as mentioned in the approved policies and procedures and current practice.</p> <p>Based on the samples obtained by the Independent Internal Control Consultant, it was noted that there was no management approval record on the supplier investigation report, and the procurement department did not keep the management's approval records of the updated qualified supplier list. A branch company did not add the review results of the supplier review checklist to the</p>	<p>(2) The management should consider updating the description of the approval and release of the qualified supplier list in the written policies based on the actual situation, and provide the same to employees for implementation after approval.</p> <p>The management should also consider requiring the procurement department to keep records of the management's approval of the supplier investigation report and the updated qualified supplier list.</p> <p>The management should also consider asking the</p>	<p>(2) Recommendations adopted and remedied.</p>

supplier review  
summary report.

procurement  
department to update  
the review results of  
the supplier review  
checklist to the  
supplier review  
summary report and  
submit it to the  
responsible  
management for  
approval and update  
the qualified supplier  
list in accordance with  
the requirements of the  
written policies.

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| <p>(3) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that a subsidiary had only collected the basic information of the suppliers but had not requested the suppliers to complete the supplier basic information due diligence checklist, which was inconsistent with the written policies.</p> | <p>(3) The management should consider requiring the responsible department to request the suppliers to fill in the supplier basic information due diligence checklist and provide supporting documents when selecting suppliers in accordance with the procurement written policies.</p> | <p>(3) Recommendations adopted and remedied.</p> |
| <p>(4) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that some subsidiaries had not recorded the site visit review of their suppliers, which was inconsistent with the written policies.</p>   | <p>(4) The management should consider requiring the relevant departments to complete the supplier recommendation form after the site visit review.</p>   | <p>(4) Recommendations adopted and remedied.</p> |
| <p>(5) Based on the samples obtained by the Independent Internal Control Consultant, it</p>   | <p>(5) The management should consider setting a time limit for the validity of the</p>   | <p>(5) Recommendations adopted and remedied.</p> |

was noted that the dates of certain supply contracts were substantially later than the approval date of the respective purchase application.

approval of purchase application. If the proposed signing date of the supply contract is after the validity period of the approval, the relevant department should be required to re-submit the purchase application.

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| <p>(6) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that the date of delivery note was earlier than the date of purchase order due to untimely preparation of purchase order. Besides, it was noted that some of the samples of purchase orders and arrival orders were prepared and approved by the same personnel. The management had not set up the authority of the personnel in the system according to their duties.</p> | <p>(6) The management should consider requiring procurement department to timely prepare the purchase order and appropriately dividing the preparation and approval functions of purchase orders and arrival orders and re-set the authority of the personnel according to their duties.</p> | <p>(6) Recommendations adopted and remedied.</p> |
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*(d) Inventory management procedure*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
<p>(1) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that the inventory of a subsidiary was not updated on time.</p>	<p>(1) The management should consider requiring sales and procurement department personnel to record stock in and stock out in a timely manner.</p>	<p>(1) Recommendations adopted and remedied.</p>
<p>(2) Based on the samples</p>	<p>(2) The management</p>	<p>(2) Recommendations</p>

obtained by the Independent Internal Control Consultant, it was noted that the approval date of material collection was earlier than the date of stock out application form.

Besides, it was noted from the samples that certain production reports of a subsidiary were prepared and approved by the same personnel and the management had not set up appropriate user authority.

should consider requiring the warehouse staff to arrange material collection according to the approved stock out application form and re-setting appropriate user authority in its internal system and assigning different personnel to perform preparation and approval functions.

adopted and remedied.

*(e) Bank and cash management procedure*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
There was inconsistency on the reimbursement time limits in two written policies.	The management should consider to unify the reimbursement time limits in all written policies.	Recommendations adopted and remedied.

*(f) Fixed assets management procedure*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
(1) No management approval record was kept in relation to the price comparison on the purchase of fixed assets.	(1) The management should consider requiring the logistics department to keep records of the management's approval in relation to the price comparison on the purchase of fixed assets.	(1) Recommendations adopted and remedied.
(2) According to the internal policy, payment application is	(2) The management should consider requiring relevant	(2) Recommendations adopted and remedied.

required to be approved by different level of management based on the amount involved. Based on the samples obtained by the Independent Internal Control Consultant, it was noted that certain payments were approved by the senior management not according to the written policies.

personnel to obtain approval from relevant management by level according to the amount involved.

*(g) Human resource and payroll procedure*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
(1) Certain standard forms and reports mentioned in the written policies were not yet prepared. Certain procedure in relation to recruitment and attendance and storage of human resources files were not implemented in accordance with written policies.	(1) The management should consider re-examining the description of the human resource written policies to ensure that the description of the human resource written policies is consistent with actual operations. The approved written policies should be provided to the responsible departments for strict compliance.	(1) Recommendations adopted and remedied.
(2) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that a branch company recruited staff not according to its annual recruitment plan. Its relevant written policies did not require re-approval for recruitment out of annual recruitment	(2) The management should consider establishing a process for recruitment out of the annual recruitment plan to ensure that the recruitments are approved.  The management should also consider strictly requiring the human resources	(2) Recommendations adopted and remedied.

plan.

Besides, it was noted from the samples that the resigned staff was not required to sign on the handover checklist in accordance to the approved policies and procedures.

department to follow the approved policies and procedures during the staff resignation processes.

*(h) Information system control management procedure*

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
(1) The information technology department did not request other departments to back up documents and staff's computers.	(1) The information technology department should require all departments to back up all documents and maintain separate storage for all backups.	(1) Recommendations adopted and remedied.
(2) There was no audit trail for changes to information system.	(2) All changes to the information system should keep proper record.	(2) Recommendations adopted and remedied.
(3) There was no separation of authority in the ERP system for the sales department personnel, procurement department personnel, logistics department personnel and manufacturing department personnel of a few subsidiaries.	(3) There should be separate authority within the ERP system according to employee duties.	(3) Recommendations adopted and remedied.
(4) The system administrator of the accounting system did not regularly check the authority of system users and keep traces of the checking work.	(4) The information technology department should regularly inspect the accounts in the accounting system and keep records of the inspection work to avoid the risk that the accounts of resigned	(4) Recommendations adopted and remedied.
It was noted that the		

user account of a resigned staff had not been frozen or deactivated.

personnel are not frozen or deactivated in time.

(5) The information technology department did not conduct vulnerability scanning, assessment and repair of the system, and did not generate a security operation report.

(5) The information technology department should regularly check the server security and produce security operation report.

(5) The information technology department has purchased an inspection system for system defect detection which was not yet arrived as at the date of the Internal Control Review Report and this announcement. The technology department will conduct vulnerability scanning, assessment and repair the system in writing regularly.

**(iii) Internal control review on compliance procedure in relation to certain Listing Rules and other rules and regulations**

<b>Key findings</b>	<b>Rectification recommendations</b>	<b>Company's response and remedial status</b>
(1) Though the Company has established written policies to monitor its compliance with the Listing Rules and in practice comply with the Listing Rules with its established standard procedures, there was no written policies for standard procedures in relation to connected persons management and notifiable transaction management.	(1) The management should include the established standard procedures into its written policies.	(1) Recommendations adopted and remedied.
(2) The list of connected	(2) The management	(2) Recommendations

persons of the Company was only circulated to the directors, shareholders and senior management at the end of each year.

should also consider to circulate the list of connected persons to all directors, shareholders and senior management on a regular basis (at least semiannually).

adopted and remedied.

(3) The Company regularly reviewed its corporate culture, mechanism for directors to obtain independent opinions, anti-money laundering policy, nomination policy, and accounting functions, but did not keep review records.

(3) The management should consider retaining all corporate governance-related documents.

(3) Recommendations adopted and remedied.

## **VIEWS OF THE BOARD**

The Board has reviewed the Internal Control Review Report prepared by the Independent Internal Control Consultant and considers that (i) the Internal Control Review Report has adequately assessed the effectiveness of the internal controls of the Group and ascertained certain internal control deficiencies; (ii) the identified internal control deficiencies have been remediated; and (iii) the remedial actions and improvement measures implemented by the Group are adequate and sufficient to address the identified internal control deficiencies.

Having carefully reviewed the rectification recommendations and the follow-up review conducted by the Independent Internal Control Consultant, the Board is of the view that the Group's internal control systems and financial reporting procedures are sufficient to meet the obligations under the Listing Rules.

## **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, 26 September 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.*