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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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue amounted to HK\$4,228.3 million for 1H 2021, representing an increase of 99.2% from HK\$2,123.1 million of 1H 2020.
- Gross profit amounted to HK\$714.0 million for 1H 2021, representing an increase of 164.3% from HK\$270.2 million of 1H 2020. Gross profit margin was 16.9% for 1H 2021, representing an increase of 4.2% from 12.7% for 1H 2020.
- Operating profit amounted to HK\$367.7 million for 1H 2021, representing an increase of 699.5% from HK\$46.0 million for 1H 2020.
- Profit attributable to owners of the parent amounted to HK\$22.1 million for 1H 2021 (1H 2020: loss of HK\$8.1 million).

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

Six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	4	4,228,335	2,123,141
Cost of sales		(3,514,341)	(1,852,976)
Gross profit		713,994	270,165
Other income and gains	4	74,357	93,574
Selling and distribution expenses		(59,822)	(46,671)
Administrative expenses		(251,436)	(157,234)
Impairment losses on property, plant and equipment	6	(45,557)	–
Impairment losses on financial assets, net	6	(129,416)	(10,874)
Impairment loss on an investment in an associate	6	(15,325)	–
Finance costs	5	(98,867)	(108,426)
Other expenses		(10,564)	(5,424)
Share of profits and losses of:			
– Associates		(103,082)	(20,962)
– A joint venture		–	1,757
		74,282	15,905
Gain on bargain purchase from further acquisition of equity interest in a joint venture	6	–	69,411
Loss on deemed disposal of partial interest in an associate	6	–	(92,375)
PROFIT/(LOSS) BEFORE TAX	6	74,282	(7,059)
Income tax expense	7	(50,166)	(10,266)
PROFIT/(LOSS) FOR THE PERIOD		24,116	(17,325)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
– Changes in fair value of financial assets at fair value through other comprehensive income, net of tax		330	1,304
– Exchange differences on translation of foreign operations		35,795	(42,308)
– Cash flow hedges, net of tax		2,541	(2,219)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		62,782	(60,548)

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit/(loss) attributable to:			
Owners of the parent		22,060	(8,107)
Non-controlling interests		2,056	(9,218)
		<u>24,116</u>	<u>(17,325)</u>
Total comprehensive			
income/(loss) attributable to:			
Owners of the parent		59,112	(63,977)
Non-controlling interests		3,670	3,429
		<u>62,782</u>	<u>(60,548)</u>
Earnings/(loss) per share attributable			
to ordinary equity holders of the parent:			
	8		
– Basic		<u>HK\$0.0064</u>	<u>HK\$(0.0024)</u>
– Diluted		<u>HK\$0.0064</u>	<u>HK\$(0.0024)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

		30 June 2021	31 December 2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		3,412,857	3,354,950
Investment properties		116,159	115,394
Right-of-use assets		568,018	676,101
Intangible assets		560,481	478,014
Investments in associates		234,655	306,245
Due from an associate		–	–
Deferred tax assets		79,146	87,896
Prepayments and other assets		172,296	68,000
		<hr/>	<hr/>
Total non-current assets		5,143,612	5,086,600
CURRENT ASSETS			
Inventories		791,836	528,237
Trade and notes receivables	10	1,088,168	1,428,827
Prepayments, other receivables and other assets		994,786	817,400
Due from related companies		21,732	4,217
Due from associates		11,399	17,880
Tax recoverable		507	504
Pledged deposits		31,665	45,495
Cash and cash equivalents		803,541	1,129,543
		<hr/>	<hr/>
Total current assets		3,743,634	3,972,103
CURRENT LIABILITIES			
Trade and notes payables	11	615,977	683,757
Other payables and accruals		1,073,668	919,595
Derivative financial instruments		745	3,286
Interest-bearing bank and other borrowings	12	3,503,145	2,675,964
Due to related companies		1,233	1,873
Tax payable		12,259	3,136
		<hr/>	<hr/>
Total current liabilities		5,207,027	4,287,611
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(1,463,393)	(315,508)

		30 June	31 December
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,680,219	4,771,092
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	12	703,767	1,893,415
Deferred tax liabilities		251,965	220,295
Other long-term liabilities		47,423	47,111
Deferred income		63,209	59,198
Total non-current liabilities		1,066,364	2,220,019
Net assets		2,613,855	2,551,073
EQUITY			
Equity attributable to owners of the parent			
Issued capital		342,846	342,846
Reserves		2,234,100	2,174,988
Non-controlling interests		2,576,946	2,517,834
		36,909	33,239
Total equity		2,613,855	2,551,073

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2021

1. CORPORATE INFORMATION

South Manganese Investment 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 Room A02, 35th Floor, United Centre, 95 Queensway, Admiralty, 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 CHANGES TO ACCOUNTING POLICIES

2.1 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**”).

In preparing the interim condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK\$1,463.4 million as at 30 June 2021. Subsequent to the end of the reporting period, the Group has successfully obtained new short-term bank loans of HK\$324.9 million during the period from 1 July 2021 up to the date of this announcement. In addition, as the Group has been able to repay its bank loans when due so far, certain PRC banks have confirmed to the Group in writing that they will extend new loans totalling HK\$175.2 million to the Group upon repayment of certain short-term bank loans in the second half of the year 2021. The directors of the Company, also taking into account of internally generated funds from its operations, are of the opinion that, the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the interim condensed consolidated financial statements have been prepared on a going concern basis.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period's financial information.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
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Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>
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The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. Since the interest rates of interest-bearing bank borrowings were not replaced by RFRs during the period, the amendment did not have any impact on the financial position and performance of the Group. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings provided that the “**economically equivalent**” criterion is met.

- (b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted. The amendment did not have any impact on the financial position and performance of the Group as the Group did not obtain any rent concessions.

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 services and has four reportable operating segments as follows:

- (a) Manganese mining 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 concentrates and natural discharging manganese powder and sand;

- (b) EMM and alloying materials production segment (PRC)

The EMM and alloying materials production segment comprises mining and processing ores used in hydrometallurgical processing for/and production of Electrolytic Manganese Metal ("EMM") and manganese briquette, and pyrometallurgical processing for production of silicomanganese alloys;

- (c) Battery materials production segment (PRC)

The battery materials production segment engages in the manufacture and sale of battery materials products, including Electrolytic Manganese Dioxide ("EMD"), manganese sulfate, lithium manganese oxide and lithium nickel cobalt manganese oxide; and

- (d) Other business segment (PRC and HK)

The other business segment comprises, principally, the trading of various commodities such as manganese ores, EMM, manganese alloys and non-manganese metals, sales of scraps, rental of investment properties and leasehold lands and investments in companies engaged in trading business, mining and production of non-manganese metals.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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, non-lease-related finance costs, fair value gain/loss from the Group's financial instruments, production halt expenses as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude 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 derivative financial instruments, 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 between group companies are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Manganese mining		EMM and alloying materials production	Battery materials production	Other business	Total
	PRC	Gabon	PRC	PRC	PRC & HK	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June						
2021 (Unaudited)						
Segment revenue:						
Sales to external customers	69,931	289,429	1,958,740	701,312	1,208,923	4,228,335
Intersegment sales	–	40,262	–	–	36,518	76,780
Other income and gains from operations	14,979	4,249	31,469	5,745	13,975	70,417
	<u>84,910</u>	<u>333,940</u>	<u>1,990,209</u>	<u>707,057</u>	<u>1,259,416</u>	<u>4,375,532</u>
<i>Reconciliation:</i>						
Elimination of inter segment sales						(76,780)
Revenue, other income and gains from operations						<u>4,298,752</u>
Segment results	<u>24,158</u>	<u>38,334</u>	<u>173,145</u>	<u>119,049</u>	<u>(106,967)</u>	<u>247,719</u>
<i>Reconciliations:</i>						
Interest income						3,940
Corporate and other unallocated expenses						(78,842)
Finance costs (other than interest on lease liabilities)						(98,535)
Profit before tax						74,282
Income tax expense						(50,166)
Profit for the period						<u>24,116</u>
Assets and liabilities						
Segment assets	<u>953,524</u>	<u>229,572</u>	<u>4,035,143</u>	<u>1,632,410</u>	<u>1,059,779</u>	<u>7,910,428</u>
<i>Reconciliations:</i>						
Corporate and other unallocated assets						976,818
Total assets						<u>8,887,246</u>
Segment liabilities	<u>445,560</u>	<u>75,511</u>	<u>611,322</u>	<u>260,623</u>	<u>338,796</u>	<u>1,731,812</u>
<i>Reconciliations:</i>						
Corporate and other unallocated liabilities						4,541,579
Total liabilities						<u>6,273,391</u>

	Manganese mining		EMM and alloying materials production	Battery materials production	Other business	Total
	PRC	Gabon	PRC	PRC	PRC & HK	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June						
2020 (Unaudited)						
Segment revenue:						
Sales to external customers	46,903	–	1,518,711	323,335	234,192	2,123,141
Intersegment sales	–	–	–	–	21,096	21,096
Other income and gains from operations	1,909	29,947	19,688	6,457	17,575	75,576
	<u>48,812</u>	<u>29,947</u>	<u>1,538,399</u>	<u>329,792</u>	<u>272,863</u>	<u>2,219,813</u>
<i>Reconciliation:</i>						
Elimination of inter segment sales						(21,096)
Revenue, other income and gains from operations						<u>2,198,717</u>
Segment results	<u>1,892</u>	<u>24,579</u>	<u>97,028</u>	<u>115,902</u>	<u>(97,344)</u>	<u>142,057</u>
<i>Reconciliations:</i>						
Interest income						17,998
Corporate and other unallocated expenses						(61,558)
Finance costs (other than interest on lease liabilities)						(105,556)
Loss before tax						(7,059)
Income tax expense						(10,266)
Loss for the period						<u>(17,325)</u>
Assets and liabilities						
Segment assets	771,801	124,933	3,912,533	1,369,311	1,183,005	7,361,583
<i>Reconciliations:</i>						
Corporate and other unallocated assets						<u>1,713,037</u>
Total assets						<u>9,074,620</u>
Segment liabilities	300,830	17,713	690,124	300,536	121,221	1,430,424
<i>Reconciliations:</i>						
Corporate and other unallocated liabilities						<u>4,866,318</u>
Total liabilities						<u>6,296,742</u>

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods:		
Manganese mining	359,360	46,903
EMM and alloying materials production	1,958,740	1,518,711
Battery materials production	701,312	323,335
Other business	1,208,923	234,192
	4,228,335	2,123,141

Revenue from contracts with customers

(a) *Disaggregated revenue information*

For the six months ended 30 June 2021 (Unaudited)

Segments

	Manganese mining <i>HK\$'000</i>	EMM and alloying materials production <i>HK\$'000</i>	Battery materials production <i>HK\$'000</i>	Other business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sale of goods	359,360	1,958,740	701,312	1,208,923	4,228,335
Geographical markets					
Mainland China	198,348	1,901,070	689,781	1,208,923	3,998,122
Asia (excluding Mainland China)	161,012	44,459	7,268	–	212,739
Europe	–	3,277	885	–	4,162
North America	–	9,934	3,378	–	13,312
Total revenue from contracts with customers	359,360	1,958,740	701,312	1,208,923	4,228,335
Timing of revenue recognition					
Goods transferred at a point in time with customers	359,360	1,958,740	701,312	1,208,923	4,228,335

For the six months ended 30 June 2020 (Unaudited)

Segments

	Manganese mining <i>HK\$'000</i>	EMM and alloying materials production <i>HK\$'000</i>	Battery materials production <i>HK\$'000</i>	Other business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sale of goods	46,903	1,518,711	323,335	234,192	2,123,141
Geographical markets					
Mainland China	46,903	1,469,538	300,476	234,192	2,051,109
Asia (excluding Mainland China)	–	41,786	12,155	–	53,941
Europe	–	4,110	2,698	–	6,808
North America	–	3,277	8,006	–	11,283
Total revenue from contracts with customers	46,903	1,518,711	323,335	234,192	2,123,141
Timing of revenue recognition					
Goods transferred at a point in time with customers	46,903	1,518,711	323,335	234,192	2,123,141

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other income and gains		
Interest income	3,940	17,998
Gain on disposal of items of property, plant and equipment	–	2,690
Gain on disposal of items of right-of-use assets	–	123
Subsidy income	27,699	17,521
Net subcontracting income	3,199	29,662
Sale of scraps and other materials	19,729	4,916
Rental income	12,824	11,038
Others	6,966	9,626
	74,357	93,574

5. FINANCE COSTS

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Interest on loans wholly repayable within five years	88,575	96,968
Finance costs for discounted notes receivable	5,981	5,051
Interest expenses on lease liabilities	332	2,870
Other finance costs	3,979	3,537
	98,867	108,426
	98,867	108,426

6. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2021 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)
Cost of inventories sold [#]	3,514,304	1,852,344
Write-down of inventories to net realisable value, net [#]	37	632
Depreciation of property, plant and equipment	172,911	168,008
Depreciation of right-of-use assets	18,150	30,293
Amortisation of intangible assets	6,938	9,200
Research and development costs	37,745	10,597
Auditor's remuneration	3,455	1,805
Employee benefit expense	358,044	271,841
Loss/(gain) on disposal of items of property, plant and equipment*	4,733	(2,690)
Gain on disposal of right-of-use assets*	–	(123)
Foreign exchange differences, net*	4,737	6,078
Impairment losses on property, plant and equipment	45,557	–
Impairment losses on financial assets included in trade and notes receivables and other receivables, net	129,416	10,874
Impairment losses on non-financial assets included in prepayments, other receivables and other assets, net*	–	(1,296)
Impairment loss on an investment in an associate	15,325	–
Variable lease payments not included in the measurement of lease liabilities (included in cost of inventories sold)	3,139	3,131
Expenses relating to leases of low-value assets [^]	1,176	430
Gain on bargain purchase from further acquisition of equity interest in a joint venture (<i>note a</i>)	–	(69,411)
Loss on deemed disposal of partial interest in an associate (<i>note b</i>)	–	92,375
	–	92,375
	–	92,375

- # 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.
- ^ Included in “Selling and distribution expenses” or “Administrative expenses” in the interim condensed consolidated statement of profit or loss and other comprehensive income.

Note a: In March 2020, the Group recorded a gain on bargain purchase of HK\$69,411,000 arising from further acquisition of 65.17% equity interest in Ningbo Dameng Group. Upon completion of the further acquisition, Ningbo Dameng Group ceased to be a joint venture and became a wholly-owned subsidiary of the Group.

Note b: In February 2020, the Group recorded a non-cash extraordinary loss of HK\$92,375,000 resulting from the dilution in the Group’s shareholding in GMG from 29.99% to 23.99% as the Group did not participate in GMG’s rights issue.

7. INCOME TAX 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 operate.

The major components of income tax expense for the reporting period are as follows:

	Six months ended 30 June	
	2021	2020
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Current – PRC		
Charge for the period	1,212	3,426
Current – Gabon		
Charge for the period	9,657	–
Deferred	39,297	6,840
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Total tax charge for the period	50,166	10,266
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Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had utilised unrecognised tax losses brought forward from prior years to set off against the current period’s taxable profits.

PRC corporate income tax (“CIT”)

Pursuant to the PRC Income Tax Law and the respective regulations, except for the preferential tax treatment available to South Manganese Group and Huiyuan Manganese which are recognised as a High and New Technology Enterprise and was entitled to a preferential CIT rate of 15% up to 2022 and 2023 respectively, and Guangxi Start, which was entitled to a preferential CIT rate of 15% for Developing Western China for which the policy will expire in 2030 and the related benefit will be subject to review by tax authorities every year thereafter, 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 engages in mining operations in Gabon is subject to CIT at the higher of 35% of its taxable income or 1% of its revenue.

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	Six months ended 30 June	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
The calculation of basic and diluted earnings/(loss) per share are based on:		
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation	22,060	(8,107)
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings/(loss) 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 2021 nor the six months ended 30 June 2020. No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2021 nor the six months ended 30 June 2020 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 2021 (2020: Nil).

10. TRADE AND NOTES RECEIVABLES

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Trade receivables	1,043,639	1,020,549
Notes receivable	333,118	589,525
	<hr/>	<hr/>
	1,376,757	1,610,074
Less: Impairment provision	(288,589)	(181,247)
	<hr/>	<hr/>
	1,088,168	1,428,827
	<hr/> <hr/>	<hr/> <hr/>

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 to three months from the invoice date and cash realisation may be further extended by three to six months for those customers paying by bank acceptance notes. 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 loss allowance, is as follows:

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Within one month	350,741	382,677
One to two months	127,404	85,516
Two to three months	65,136	57,887
Over three months	211,769	313,222
	<hr/>	<hr/>
	755,050	839,302
	<hr/> <hr/>	<hr/> <hr/>

An ageing analysis of the notes receivable of the Group as at the end of the reporting period, based on the receipt date of the notes and net of loss allowance, is as follows:

	30 June	31 December
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within one month	255,289	209,109
One to two months	37,680	141,664
Two to three months	2,382	68,362
Over three months and less than six months	37,767	170,390
	<hr/> 333,118 <hr/>	<hr/> 589,525 <hr/>

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 of trade payables and the issue date of notes, is as follows:

	30 June	31 December
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within one month	382,146	388,836
One to two months	86,232	102,932
Two to three months	42,604	61,302
Over three months	104,995	130,687
	<hr/> 615,977 <hr/>	<hr/> 683,757 <hr/>

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

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2021			31 December 2020		
	Effective interest rate (%)	Maturity	HK\$'000 (Unaudited)	Effective interest rate (%)	Maturity	HK\$'000 (Audited)
Current						
Lease liabilities	5.20-8.70	2021-2022	2,163	5.20-8.70	2021	35,778
Bank loans – unsecured	2.00-4.05	2021-2022	1,886,243	2.62-4.35	2021	2,102,631
Current portion of long-term bank loans – unsecured	3.85-5.46, LIBOR+2.30	2021-2022	1,614,739	4.50-5.46, LIBOR+2.30	2021	537,555
			<u>3,503,145</u>			<u>2,675,964</u>
Non-current						
Lease liabilities	5.20	2023	2,785	5.20	2023	3,737
Bank loans – unsecured	3.85-5.46	2022-2023	700,982	3.85-5.46	2022-2023	1,889,678
			<u>703,767</u>			<u>1,893,415</u>
			<u>4,206,912</u>			<u>4,569,379</u>
				30 June 2021	31 December 2020	
				HK\$'000 (Unaudited)	HK\$'000 (Audited)	
Analysed into:						
Bank loans repayable:						
Within one year or on demand				3,500,982		2,640,186
In the second year				700,982		1,430,758
In the third to fifth years, inclusive				–		458,920
				<u>4,201,964</u>		<u>4,529,864</u>
Other loans and lease liabilities:						
Within one year or on demand				2,163		35,778
In the second year				2,489		3,737
In the third to fifth years inclusive				296		–
				<u>4,948</u>		<u>39,515</u>
				<u>4,206,912</u>		<u>4,569,379</u>

At 30 June 2021, except for bank and other borrowings of HK\$405,600,000 (31 December 2020: HK\$438,621,000) which was denominated in United States dollars, all borrowings were in Renminbi.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

	1H 2021	1H2020	Increase/(decrease)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Revenue	4,228,335	2,123,141	2,105,194	99.2
Gross profit	713,994	270,165	443,829	164.3
Gross profit margin	16.9%	12.7%	N/A	4.2
Operating profit	367,662	45,984	321,678	699.5
Gain on bargain purchase from further acquisition of equity interest in a joint venture	–	69,411	(69,411)	(100.0)
Impairment losses on property, plant and equipment	(45,557)	–	(45,557)	(100.0)
Impairment losses on financial assets, net	(129,416)	(10,874)	(118,542)	(1,090.1)
Impairment loss on an investment in an associate	(15,325)	–	(15,325)	(100.0)
Loss on deemed disposal of partial interest in an associate	–	(92,375)	92,375	100.0
Share of profits and losses of				
– Associates	(103,082)	(20,962)	(82,120)	(391.8)
– A joint venture	–	1,757	(1,757)	(100.0)
Profit/(loss) before tax	74,282	(7,059)	81,341	1,152.3
Income tax expense	(50,166)	(10,266)	(39,900)	(388.7)
Profit/(loss) for the period	24,116	(17,325)	41,441	239.2
Profit/(loss) attributable to owners of the parent	22,060	(8,107)	30,167	372.1
Profit/(loss) attributable to non-controlling interests	2,056	(9,218)	11,274	122.3
	24,116	(17,325)	41,441	239.2

Overview

In 1H 2021, the development of the coronavirus disease (“the COVID-19”) was still affecting the global economy. With the progressive launch of more large scale vaccination covering more people worldwide and certain countries began to relieve the lockdown measures in phases, there are signals indicating that the global economy was gradually restoring to normal. This was evidenced by increasing profits from enterprises and improving unemployment rate. Such phenomenon was largely attributable to the large scale transitory economic stimulus packages carried out by different countries around the world. Nevertheless, there are emerging threats of the COVID-19 variants. We expect the recovery of global economy largely depends on the timing to successfully contain the COVID-19.

As the steel sector is our major downstream industry, its demand for our products largely arising from consumptions within China. China has successfully contained the spread of the COVID-19 at the early stages in the year 2020 and resumed its industrial productions, as in contrary to other countries which were largely affected by the pandemic, the demand for China’s products grew significantly. In addition, the dual circulation strategy advocated by the PRC government with increasing consumptions within China and recovery of the automobile industry since 2H 2020 further stimulated the growth of economy. The significant increase in market price of our EMM products in December 2020 had been carried over to the year 2021 and such demand side momentum had been sustained during 1H 2021. As a result, the average selling price of our EMM products for 1H 2021 increased significantly by 51.7% to HK\$16,233 per tonne (1H 2020: HK\$10,700 per tonne). The gross profit ratio of EMM products increased by 11.1% to 26.5% in 1H 2021 (1H 2020: 15.4%) and the gross profit contribution of EMM products increased by 146.1% to HK\$343.7 million in 1H 2021 (1H 2020: HK\$139.7 million).

In 1H 2021, the Group continues our strategy to cautiously invest and expand our battery material products. Given our blueprint laid out in early years and after several years of development and integration of our talents, our production of battery materials including EMD become stabilized and mature. The Group now owns Huiyuan Manganese Plant and Daxin Manganese Plant with a total annual capacity of 120,000 tonnes per annum which is the largest EMD manufacturing plant in China with cost advantages including internal supply of manganese ores stably from our Gabon Bembélé Manganese Mine. The Group is now focusing on seizing market share, strengthening product research and development and expanding our production of other battery material products including lithium manganese oxide and high purity manganese sulfate. It is expected that further commercialization of electric vehicles in China will continue to stimulate the market demands for battery material products including EMD. The Group remains cautiously optimistic of the development of this business segment. In 1H 2021, due to the full period effect from further acquisition of Huiyuan Manganese Plant in March 2020, the sales volume of EMD was nearly double to 52,487 tonnes in 1H 2021 (1H 2020: 28,282 tonnes) while the average selling price of EMD increased by 14.5% to HK\$9,901 per tonne (1H 2020: HK\$8,645 per tonne), the gross profit ratio increased by 5.8% to 32.8% (1H 2020: 27.0%). Therefore, the gross profit contribution of EMD recorded a remarkable increase of 158.0% to HK\$170.4 million (1H 2020: HK\$66.0 million).

In summary, mainly due to increase in average selling prices of EMM products and EMD and increase in sales volume of EMD, the Group's operating profit for 1H2021 increased by 699.5% to HK\$367.7 million (1H 2020: HK\$46.0 million).

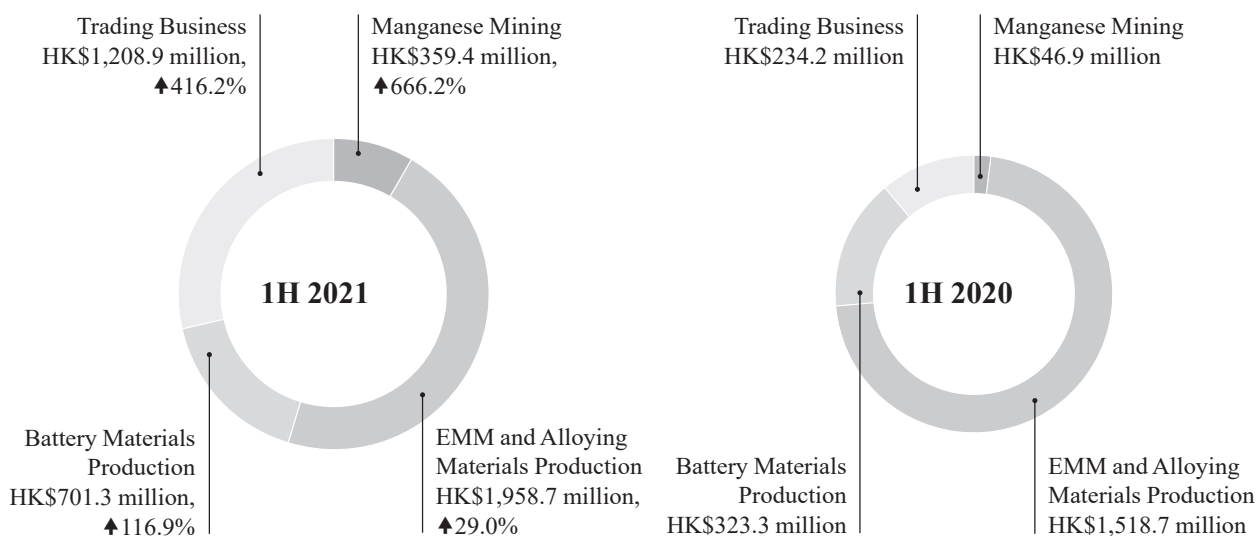
In 1H 2021, the Group had the following major non-cash items:

- (a) Impairment losses on property, plant and equipment of HK\$45.6 million (1H 2020: Nil) was recognised mainly related to certain obsolete plant and machinery during the course of our modifications in accordance with our overall strategy to restructure product mix shifting to more manganese-related battery materials production.
- (b) Impairment losses on financial assets of HK\$129.4 million (1H 2020: HK\$10.9 million) was recognised mainly represents impairment losses on trade and notes receivables including an amount due from one of our major customers and its subsidiaries of HK\$110.2 million (1H 2020: Nil).
- (c) Share of losses of associates of HK\$103.1 million (1H 2020: HK\$21.0 million) mainly represents our share of loss of 33.0% owned Dushan Jinneng of HK\$93.8 million (1H 2020: HK\$12.7 million). The net loss of Dushan Jinneng increased in 1H 2021 mainly due to impairment losses on its certain long outstanding receivables and obsolete equipment.

As a result, the earnings before interest, taxes, depreciation and amortisation (“EBITDA”) for 1H2021 increased by 26.2% to HK\$367.2 million (1H 2020: HK\$290.9 million) and the profit attributable to owners of the parent of the Group in 1H 2021 was HK\$22.1 million (1H 2020: loss of HK\$8.1 million).

Comparison with six months ended 30 June 2020

Revenue by segment



In 1H 2021, the Group’s revenue was HK\$4,228.3 million (1H 2020: HK\$2,123.1 million), representing an increase of 99.2% as compared with 1H 2020. The increase was mainly due to the net effect of (a) increase in average selling prices of EMM products and EMD; (b) substantial increase in sales volume of EMD; (c) increase in sales revenue from Gabon ore; and (d) substantial increase in sales revenue from trading business.

In 1H 2021, the revenue of our major products EMM products accounted for 30.6% (1H 2020: 42.7%) of our total revenue.

Manganese mining segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/tonne)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
Six months ended 30 June 2021							
Gabon ore	288,426	1,003	289,429	836	241,059	48,370	16.7
Manganese concentrate	133,214	434	57,864	353	46,969	10,895	18.8
Natural discharging manganese powder and sand	3,972	3,038	12,067	311	1,237	10,830	89.7
Total	425,612	844	359,360	680	289,265	70,095	19.5

Six months ended 30 June 2020

Gabon ore	–	–	–	–	–	–	–
Manganese concentrate	118,292	334	39,493	291	34,419	5,074	12.8
Natural discharging manganese powder and sand	2,603	2,847	7,410	280	729	6,681	90.2
Total	120,895	388	46,903	291	35,148	11,755	25.1

Results of Gabon Mine

	Six months ended 30 June		Increase/(Decrease)	
	2021	2020	HK\$'000	%
	HK\$'000	HK\$'000	HK\$'000	
Gross profit from sale of Gabon ore	48,370	–	48,370	100.0
Net subcontracting income (<i>note</i>)	3,199	29,662	(26,463)	(89.2)
Total	51,569	29,662	21,907	73.9%

Note: The Group entered into a subcontracting agreement with a subcontractor, the major shareholder of an associate of the Group, entrusting it with certain rights to operate the Group's Bembélé Manganese Mine in Gabon and use the Group's equipment therein 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 operations and the Group receives a fixed income of RMB26,000,000 (equivalent to HK\$31,190,000) per annum plus a variable income upon sales of ores mined and determined with reference to the ore's selling price (the "Gross subcontracting income"). The revenue and cost of sales from the ores of Bembélé Manganese Mine mined by the subcontractor were not recognised in the Group's consolidated statement of profit or loss. Instead, the aggregate of fixed income and variable income, i.e. the gross subcontracting income, after deducting the depreciation expenses of the Group's equipment utilised by the subcontractor above-mentioned is recognised as "Net subcontracting income" under "Other income and gains" in the consolidated statement of profit or loss. On 30 March 2021, the Group and the subcontractor reached an agreement to terminate the subcontracting agreement with effect from 31 December 2020 and the Group began to run the mining operations on its own in 1H 2021.

In 1H 2021, revenue of manganese mining segment increased by 666.2% to HK\$359.4 million (1H 2020: HK\$46.9 million) mainly due to increase in sales revenue of Gabon ore as the Group began to run the mining operations of Bembélé Manganese Mine on its own in 1H 2021. The gross profit of manganese mining segment increased by 496.3% to HK\$70.1 million (1H 2020: HK\$11.8 million) mainly due to increase in sales revenue of Gabon ore and increase in average selling price of manganese concentrate and natural discharging manganese powder and sand.

The net subcontracting income from Gabon Mine decreased by 89.2% to HK\$3.2 million (1H 2020: HK\$29.7 million) as the subcontracting arrangement was terminated in 1H 2021.

All in all, the manganese mining segment recorded a profit of HK\$62.5 million (1H 2020: HK\$26.5 million), an increase of 136.1%.

EMM and alloying materials production segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/tonne)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
Six months ended 30 June 2021							
EMM	64,634	16,376	1,058,418	11,909	769,747	288,671	27.3
Manganese briquette	15,180	15,625	237,195	12,000	182,156	55,039	23.2
	79,814	16,233	1,295,613	11,927	951,903	343,710	26.5
Silicomanganese alloy	86,404	7,586	655,459	6,888	595,156	60,303	9.2
Others	882	8,694	7,668	5,214	4,599	3,069	40.0
Total	167,100	11,722	1,958,740	9,286	1,551,658	407,082	20.8
Six months ended 30 June 2020							
EMM	68,206	10,666	727,516	9,010	614,568	112,948	15.5
Manganese briquette	16,435	10,840	178,160	9,214	151,426	26,734	15.0
	84,641	10,700	905,676	9,050	765,994	139,682	15.4
Silicomanganese alloy	91,482	6,588	602,679	6,264	573,070	29,609	4.9
Others	1,499	6,909	10,356	5,444	8,160	2,196	21.2
Total	177,622	8,550	1,518,711	7,585	1,347,224	171,487	11.3

Revenue of EMM and alloying materials production segment increased by 29.0% to HK\$1,958.7 million in 1H 2021 (1H 2020: HK\$1,518.7 million) mainly attributable to the followings:

- (a) EMM products continued to be our major products in terms of revenue and the average selling price of EMM products recorded an increase of 51.7% to HK\$16,233 per tonne (1H 2020: HK\$10,700 per tonne).
- (b) The revenue of silicomanganese alloy increased by 8.8% to HK\$655.5 million in 1H 2021 (1H 2020: HK\$602.7 million) mainly attributable to the increase in average selling price of silicomanganese alloy by 15.1% to HK\$7,586 per tonne in 1H 2021 (1H 2020: HK\$6,588 per tonne).

As a result of increase in average selling prices of EMM products and silicomanganese alloy, the gross profit contribution of EMM and alloying materials production segment increased significantly by 137.4% to HK\$407.1 million (1H 2020: HK\$171.5 million) and this segment recorded a profit of HK\$173.1 million (1H 2020: HK\$97.0 million), an increase of 78.4%.

Battery materials production segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/Tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/Tonne)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
Six months ended 30 June 2021							
EMD	52,487	9,901	519,679	6,655	349,306	170,373	32.8
Manganese sulfate	13,721	3,681	50,508	3,042	41,734	8,774	17.4
Lithium manganese oxide	3,183	34,193	108,836	28,930	92,084	16,752	15.4
NCM	176	126,642	22,289	121,227	21,336	953	4.3
Total	69,567	10,081	701,312	7,251	504,460	196,852	28.1
Six months ended 30 June 2020							
EMD	28,282	8,645	244,487	6,309	178,443	66,044	27.0
Manganese sulfate	15,959	3,250	51,866	2,429	38,764	13,102	25.3
Lithium manganese oxide	1,010	25,296	25,549	24,655	24,902	647	2.5
NCM	14	102,357	1,433	95,857	1,342	91	6.4
Total	45,265	7,143	323,335	5,378	243,451	79,884	24.7

Revenue of battery materials production segment increased by 116.9% to HK\$701.3 million (1H 2020: HK\$323.3 million) and gross profit of this segment increased by 146.4% to HK\$196.9 million (1H 2020: HK\$79.9 million) mainly attributable to the followings:

- (a) EMD continued to be our major battery material product and the sales volume of EMD substantially increased by 85.6% to 52,487 tonnes (1H 2020: 28,282 tonnes) after the further acquisition of equity interest of Huiyuan Manganese Plant on 30 March 2020, the Group consolidated the operating results of Huiyuan Manganese Plant for the whole period in 1H 2021 as contrary in which to only three months in 1H 2020. This contributed to an increase in revenue and gross profit in 1H 2021.
- (b) In 1H 2021, the Group obtained more sales order from a major downstream customer which was a leading battery manufacturer in China, therefore, the sales volume and average selling price of NCM increased.

As a result of the net effect of (a) increasing sales volume and average selling price of EMD in 1H 2021 and (b) in 1H 2021 the Group did not record a gain on bargain purchase of HK\$69.4 million from further acquisition of equity interest of Ningbo Dameng Group as contrary to 1H 2020, the results of battery materials production segment recorded a profit of HK\$119.0 million (1H 2020: HK\$115.9 million), an increase of 2.7%.

Other business segment

	Revenue <i>(HK\$'000)</i>	Cost of Sales <i>(HK\$'000)</i>	Gross Profit <i>(HK\$'000)</i>	Gross Profit Margin <i>(%)</i>
Six months ended 30 June 2021				
Trading	<u>1,208,923</u>	<u>1,168,958</u>	<u>39,965</u>	<u>3.3</u>
Six months ended 30 June 2020				
Trading	<u>234,192</u>	<u>227,153</u>	<u>7,039</u>	<u>3.0</u>

Revenue of other business segment increased by 416.2% to HK\$1,208.9 million (1H 2020: HK\$234.2 million) mainly because the Group cautiously resumed its trading business of manganese ore and non-manganese metals in 1H 2021.

Cost of Sales

Total cost of sales increased by 89.7% to HK\$3,514.3 million in 1H 2021 (1H 2020: HK\$1,853.0 million) in line with the increase of the revenue and also the cost of sales from trading business.

Gross Profit

In 1H 2021, the Group recorded a gross profit of HK\$714.0 million (1H 2020: HK\$270.2 million), which represented an increase of HK\$443.8 million from 1H 2020, or 164.3%. The Group's overall gross profit margin was 16.9%, representing an increase of 4.2% from 12.7% in 1H 2020. Improved overall gross profit margin was mainly attributable to increase in average selling prices of our major products including EMM products, EMD and silicomanganese alloy.

Other Income and Gains

Other income and gains decreased by 20.5% to HK\$74.4 million (1H 2020: HK\$93.6 million) mainly due to decrease in net subcontracting income from Bembélé Manganese Mine.

Selling and Distribution Expenses

The Group's selling and distribution expenses in 1H 2021 increased by 28.2% to HK\$59.8 million (1H 2020: HK\$46.7 million) mainly attributable to increase in sales volume and transportation costs of EMD.

Administrative Expenses

Administrative expenses increased by 59.9% to HK\$251.4 million in 1H 2021 (1H 2020: HK\$157.2 million) mainly attributable to (a) increase in staff costs including salaries and social insurance contributions; and (b) increase in product research and development expenses.

Impairment Losses on Property, Plant and Equipment

At 30 June 2021, the Group recognised an impairment loss of HK\$45.6 million in respect of plant and machinery in relation to a production plant in Tiandong. The production plant in Tiandong was originally designed for EMM production and the project was ceased before production commenced due to constraints in local supply of manganese ores because of disputes between local villagers and mine suppliers over the mining operations. In order to resume the project in Tiandong, the Group had carried out feasibility study and intended to transform the production plant to produce high purity manganese sulfate since the year 2019. In 1H2021, owing to the surge in costs of production including ores and electricity costs, the Group remained hesitant to carry out the project and the timetable in resuming the production of this project became uncertain. Any further delay in resuming the production of the project would lead to an adjustment to the recoverable amount of these assets. Therefore, an impairment loss of HK\$45.6 million was recognised in 1H 2021 to write down to its recoverable amount of HK\$26.1 million. The recoverable amount was determined by estimating the fair values of items of plant and machinery less their costs to sell.

Impairment Losses on Financial Assets, Net

The amount mainly represents impairment allowance on outstanding trade receivables due from one of our major customers including its subsidiaries of HK\$110.2 million as the ageing of the outstanding receivables deteriorates due to passage of time. The Group was in the process to transfer certain of the customer's assets from it to the Group to partially set-off against its outstanding balances and negotiating with it on a repayment schedule.

Impairment Loss on an Investment in an Associate

According to the announcement issued by GMG on 30 June 2021, GMG was affected adversely due to (a) the continuing worsening of the emergency situation in Myanmar since early 2021, where the Myanmar military has recently imposed martial law to a larger area across Myanmar, certain telecommunications had been interrupted and/or restricted and many countries have announced the arrangements for evacuation of their nationals; and (b) the continuing spread of the COVID-19, which resulted in certain travel prohibitions and/or restrictions imposed by the governments of Myanmar and China. These factors have affected the valuation of the GMG's business and assets in Myanmar and China.

In 1H 2021, due to worsening of the situations as mentioned above, an impairment loss of HK\$15,325,000 was recognised for the investment.

Finance Costs

For 1H 2021, the Group's finance costs were HK\$98.9 million (1H 2020: HK\$108.4 million), representing a decrease of 8.8% which was mainly due to the Group's effort to control finance costs and contain outstanding bank borrowings.

Other Expenses

Other expenses of HK\$10.6 million (1H 2020: HK\$5.4 million) mainly include foreign exchange losses, loss on disposals of items of property, plant and equipment and other expenses.

Share of Profits and Losses of Associates

Share of losses of associates of HK\$103.1 million (1H 2020: HK\$21.0 million) mainly represents:

- (a) share of loss of Dushan Jinneng, a 33.0% associate of the Group, of HK\$93.8 million (1H 2020: HK\$12.7 million) mainly due to impairment losses on its certain long outstanding receivables and obsolete equipment.
- (b) share of loss of GMG, a 23.99% associate of the Group, of HK\$9.1 million (1H 2020: HK\$8.3 million) mainly due to temporary suspension of operations of certain operating mines because of the COVID-19 and political unrest in Myanmar.

Income Tax Expense

In 1H 2021, the effective tax rate is 67.5% (1H 2020: negative 145.4%) which is higher than the statutory corporate income tax rates of the jurisdictions in which the Group mainly operates because certain subsidiaries recording losses in the period did not recognise deferred tax arising from such losses for prudence.

Profit Attributable to Owners of the Parent

For 1H 2021, the Group's profit attributable to owners of the parent was HK\$22.1 million (1H 2020: loss of HK\$8.1 million).

Earnings per Share

For 1H 2021, earnings per share attributable to ordinary equity holders of the Company was HK\$0.0064 (1H 2020: loss per share of HK\$0.0024).

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2021 (1H 2020: Nil).

Liquidity and Financial Resources

Cash and Bank Balances

As at 30 June 2021, the currency denomination of the Group's cash and bank balances including pledged deposits are as follows:

Currency denomination	30 June 2021 <i>HK\$ million</i>	31 December 2020 <i>HK\$ million</i>
Denominated in:		
RMB	790.7	1,028.0
HKD	1.7	7.9
USD	34.3	133.2
XAF	8.5	5.8
EUR	–	0.1
	835.2	1,175.0

As at 30 June 2021, our cash and bank balances including pledged deposits were HK\$835.2 million (31 December 2020: HK\$1,175.0 million) while the Group's borrowings amounted to HK\$4,206.9 million (31 December 2020: HK\$4,569.4 million). The Group's borrowings net of cash and bank balances amounted to HK\$3,371.7 million (31 December 2020: HK\$3,394.4 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.

Other major changes in working capital

- (a) At 30 June 2021, trade and notes receivables of the Group decreased by HK\$340.7 million to HK\$1,088.2 million (31 December 2020: HK\$1,428.8 million) mainly attributable to increase in discounting of notes receivable to contain cash level.
- (b) At 30 June 2021, prepayments, other receivables and other assets classified under current assets increased by HK\$177.4 million to HK\$994.8 million (31 December 2020: HK\$817.4 million) attributable to prepayment for purchase of manganese ores and non-manganese metals to secure the supplies for production or trading purpose.
- (c) At 30 June 2021, inventories increased by HK\$263.6 million to HK\$791.8 million (31 December 2020: HK\$528.2 million) mainly attributable to increase in inventories of Gabon ore mined by the Group and increase in raw materials purchased in Gabon and China to ramp up production amidst the rebound of the market in 1H 2021.

Net Current Liabilities

As at 30 June 2021, the Group had net current liabilities of HK\$1,463.4 million (31 December 2020: HK\$315.5 million). The increase in net current liabilities was mainly due to certain long-term bank loans becoming repayable within one year have been reclassified from long-term to current at 30 June 2021.

Bank and Other Borrowings

As at 30 June 2021, the Group's borrowing structure and maturity profile are as follows:

	30 June	31 December
	2021	2020
	<i>HK\$ million</i>	<i>HK\$ million</i>
Borrowing structure		
Secured borrowings (including lease liabilities)	4.9	39.5
Unsecured borrowings	4,202.0	4,529.9
	<u>4,206.9</u>	<u>4,569.4</u>
	<u>4,206.9</u>	<u>4,569.4</u>
Maturity profile		
Repayable:		
On demand or within one year	3,503.1	2,676.0
After one year and within two years	703.5	1,434.5
After two years and within five years	0.3	458.9
	<u>4,206.9</u>	<u>4,569.4</u>
	<u>4,206.9</u>	<u>4,569.4</u>
Currency denomination		
Denominated in:		
RMB	3,801.3	4,130.8
USD	405.6	438.6
	<u>4,206.9</u>	<u>4,569.4</u>
	<u>4,206.9</u>	<u>4,569.4</u>

As at 30 June 2021, borrowings as to the amounts of HK\$1,886.2 million (31 December 2020: HK\$2,380.6 million) and HK\$2,320.7 million (31 December 2020: HK\$2,188.8 million), carry fixed and floating rate interest respectively. The fixed rate borrowings carry interest at rates ranging from 2.00% to 8.70%. The floating rate borrowings carry interest up to a premium up to 10% above the China Loan Prime Rate, and USD denominated loans carrying interest at rate of LIBOR plus a margin of 2.30%.

Overall, aggregate borrowings decreased to HK\$4,206.9 million (31 December 2020: HK\$4,569.4 million). The Group continues to explore 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 2021, (a) right-of-use assets of HK\$36.6 million (31 December 2020: HK\$147.3 million) related to property, plant and equipment were held under leases; and (b) bank balances of HK\$31.7 million (31 December 2020: HK\$45.5 million) and notes receivables of HK\$59.7 million (31 December 2020: HK\$90.8 million) were pledged to secure certain of the Group's bank acceptance notes payable.

Guarantees

- (a) As at 30 June 2021, the outstanding bank loan of an associate, in which the Group has a 33.0% 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 according to their respective shareholding percentage on a several basis.

As at 30 June 2021, the associate's banking facilities guaranteed by the Group and the holding company of the associate amounted to RMB800.0 million (equivalent to HK\$959.9 million) and were utilised to the extent of RMB562.9 million (equivalent to HK\$675.4 million) (31 December 2020: RMB564.9 million, equivalent to HK\$673.4 million).

- (b) As at 30 June 2021, the loan facilities provided by Guangxi Dameng to a company (the "**Borrower**"), in which the Group has a 10% equity interests, were guaranteed by the Group and the major shareholder of the Borrower according to the shareholding percentage on a several basis.

As at 30 June 2021, the loan facilities guaranteed by the Group and the major shareholder of the borrower amounted to RMB100.0 million (equivalent to HK\$120.0 million) (31 December 2020: RMB100.0 million, equivalent to HK\$111.9 million) and were utilised to the extent of RMB60.0 million (equivalent to HK\$72.0 million) (31 December 2020: RMB85.0 million, equivalent to HK\$101.3 million) by the borrower.

Key Financial Ratios of the Group

	30 June	31 December
	2021	2020
Current ratio	0.72	0.93
Quick ratio	0.57	0.80
Net Gearing ratio	130.8%	134.8%

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 2021, current ratio and quick ratio decreased because certain long-term bank loans becoming repayable within one year have been classified from long-term to current at 30 June 2021. Net gearing ratio improved mainly due to total comprehensive income attributable to owners of the parent in 1H 2021.

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 preparing the interim condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK\$1,463.4 million as at 30 June 2021. Subsequent to the end of the reporting period, the Group has successfully obtained new short-term bank loans of HK\$324.9 million during the period from 1 July 2021 up to the date of this announcement. In addition, as the Group has been able to repay its bank loans when due so far, certain PRC banks have confirmed to the Group in writing that they will extend new loans totalling HK\$175.2 million to the Group upon repayment of certain short-term bank loans in the second half of the year 2021. The directors of the Company, also taking into account of internally generated funds from its operations, are of the opinion that, the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the interim condensed consolidated financial statements have been prepared on a going concern basis.

Credit Risk

The Group endeavoured to maintain strict control over its outstanding receivables to minimise credit risk. Credit periods allowed are determined according to relevant business practice and the relevant type of goods and generally are in the range of one to three months from the invoice date and cash realisation may be further extended by three to six months for those customers paying by bank acceptance notes. 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 described below. The Group did not hold any collateral or other credit enhancements over its trade and notes receivable balances except for those detailed in this section of credit risk.

As at 30 June 2021, the customer with the largest balance of trade and notes receivables of the Group was a customer together with its subsidiaries ("**Customer A**") which is principally engaged in manganese ferroalloy production and manganese ore trading in China and manganese mining in Gabon. Customer A maintains close business relationship with major steel plants in China.

Sales to Customer A were on open account with a normal 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 60 days subject to the Company's approval of conversion of the relevant trade receivables to commercial acceptance notes.

To contain the credit risk with Customer A, the Group suspended its trading business with Customer A since 2H 2019, therefore, there was no sales revenue from trading business to Customer A in 1H 2021 (1H 2020: Nil). As at 30 June 2021, trade receivables from Customer A was HK\$402.6 million (31 December 2020: HK\$392.3 million) and represented 38.6% (31 December 2020: 38.4%) of the Group's total trade receivables, which was totally overdue as at 30 June 2021 (31 December 2020: HK\$312.7 million). As the ageing of receivables due from Customer A deteriorates, an further impairment provision of HK\$110.2 million was recognised in 1H 2021. At 30 June 2021, an accumulated impairment provision of HK\$220.8 million (31 December 2020: HK\$110.6 million) was recognised on trade receivables due from it.

In order to contain the increasing credit risk with this customer, the Group had implemented the following measures to safeguard the repayment of the outstanding receivables:

- (i) suspended the trading business with it since 2H 2019;
- (ii) obtained credit enhancements from it including custody of certain of its assets and its undertaking to transfer such to the Group as partial repayment of the outstanding balances;
- (iii) the Group was in the process of transferring the assets in (ii) from Customer A to the Group;
- (iv) renegotiated a repayment schedule with it for repayment of the balances in excess of those that can be set-off in (ii) above.

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 interest rate changes in the China Loan Prime Rate as well as movements in LIBOR. If the China Loan Prime Rate increases or LIBOR moves up, our finance costs 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 costs of new debt obligations. The Group secures interest rate swap contracts to effectively lock up certain United States dollars floating rate loan to fixed rate loan to contain interest rate risk.

Foreign exchange risk

The Group's operations are primarily in Hong Kong, China and Gabon. Foreign exchange risks for operations in each location are set out below.

- (a) In respect of our trading operations in Hong Kong, our sales and purchases are both denominated in United States dollars. In addition, Hong Kong dollars is pegged to United States dollars and hence foreign exchange risk is minimal.
- (b) In respect of our mining and downstream 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 denominated in RMB. Our PRC operations face minimal foreign exchange risks.
- (c) In respect of our Gabon operation, our income is substantially denominated in RMB and United States dollars and all major local operating expenses are denominated in XAF and RMB and the freight charges are denominated in United States dollars.

Investment in Gabon operation is substantially financed by United States dollar loans which are expected to be repaid in the long term out of the project's operating cash inflow from proceeds from ore sale which are denominated in United States dollars and RMB.

Business Model and Strategy

The Group strives to be the global leading one stop and vertical integrated manganese producer while maintaining the Group's long term profitability and assets growth with adoption of flexible business model and strategy and prudent risk and capital management framework. We intend to adopt and implement the following strategies to achieve our objective:

- (a) expand and upgrade our manganese resources and reserves through exploration and enhance our strategic control of manganese resources and reserves through mergers and acquisitions;
- (b) enhance our operational efficiency and profitability; and
- (c) establish and consolidate our strategic relationships with selected major customers and industry leading partners.

Future Development and Outlook

- In the first half of 2021 COVID-19 had been effectively under control in the PRC but the Group will continue to demonstrate its commitment to its duties and align with the government in adopting measures to prevent the resurgence of the epidemics. It is expected that with the gradual increase in the vaccination coverage in China, we are cautiously optimistic about the continuous recovery of the economy of the PRC. Overseas, the numbers of reported cases though showing a decreasing trend in certain parts of the world, there are still some areas of reported resurgence of the epidemics and virus mutation. But hopefully with the proper implementation of quarantine and social distancing measures and the wider use of vaccines, economy in the Western countries will return to normal gradually. Since the beginning of 2021, the Group's operating performance improved significantly and its profits increased substantially. The Group will continue to focus on the important business segments such as mines and traditional products, new energy materials, alloying materials, supply chain logistics and integrated solid waste recycling. It will also continue to improve internal efficiency and management skills to reduce costs and increase productivity and competitiveness, so as to carry on the good momentum in the first half of the year.
- Although Group becomes the largest EMD manufacturer in China, we continued to strengthen our leading position in battery materials production segment and carry out technical research and development to upgrade the quality of our battery material products including EMD and lithium manganese oxide to increase their added value and further extend the applications in electric vehicles and other electric tools and equipment. The Group will actively respond to carbon reduction targets set up by the Chinese government for the 14th Five-Year Plan period and pave the way for development opportunities brought by such targets, including the optimization of industry structure and energy structure as well as the upgrade and replacement in the industry and the increase of energy efficiency. It announced the "Green" stimulus package with a scale close to US\$195 billion, with focuses including accelerating the development of industries that already have established development base, such as new energy and electric vehicles. The rapid development of green manufacturing industries, such as new materials and new energy vehicles, will provide a vastly broad market and opportunities for one of the Group's major businesses – cathode materials for batteries (including EMD, lithium manganese oxide and high purity manganese sulfate).

- With the promotion of upgrade construction of China-ASEAN Free Trade Areas, more and more steel manufacturers gradually extend their presence into ASEAN and peripheral coastal regions, with increasing demands in downstream crude steel markets. Crude steel production in Qinzhou, Beihai and Fangchenggang in Guangxi, Zhanjiang and the Pearl River Delta in Guangdong, Southeast Asia Vietnam, Malaysia, Indonesia and other regions reached a production capacity of nearly 100 million tonnes, and demand for manganese alloys within the regions exceeded 2 million tonnes. Meanwhile, to actively respond to the strategic adjustment of the national steel sector layout and serve the construction of land and sea passages of the “Belt and Road Initiative”, the transfers of steel production capacity from outside the regions were being vigorously undertaken, the technology level of steel sector was improved, weaknesses in total volume of steel sector were refined, and with the steel product variety enriched and steel sector structure optimized. The government of Guangxi Autonomous Region actively promoted the construction of Fangchenggang steel base, which enabled the technology equipment of the steel sector in such autonomous region to reach national advanced standards, the quality and stability of steel products to have significantly improved, and the demand and supply structure to be more balanced. The ferroalloy sector in Guangxi will soon encounter more developing opportunities, and the Group will grasp such opportunity to rapidly enhance the production capacity of manganese iron alloy products through its technical teams in Qinzhou Ferroalloy Plant and Xingyi Ferroalloy Plant with its light asset model and control of overseas rich ore resources, so as to better serve the Pan-Beibuwan steel base that demonstrates broad development prospects.
- Our efforts spent on marketing of the Gabon ore in the past several years provide an encouraging result. Demands of our Gabon ore both from China and other new emerging markets are increasing. Our first priority now is to secure the stable production of our ores in Gabon and escalate the scale of our production and transportation, including purchase of additional locomotive and wagons as well as extending the length of our industrial spur to satisfy annual transportation of 1 million tonnes of ore by the end of 2021. Following our recent renewal of mining convention with Gabon government, we will allocate more resources in exploration to cover not only the area defined in our mining permit, but also that within our exploration rights of 2,000 square kilometers, so as to control more and higher grade manganese resources for the long term sustainability of Bembélé Manganese Mine.
- For Dushan Jinneng, we will continue to cooperate with its largest shareholder in furthering the financing and construction of the project. It is expected that one unit of power generation and eight ferroalloy furnaces, equivalent to half of the project’s overall capacity, will be completed and put into production around the end of the year 2021.

- 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 Group strongly emphasizes the importance of liquidity and will continue to take measures to secure adequate working capital for our business operations.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2021, 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

During the six months ended 30 June 2021, the posts of Chairman and Chief Executive Officer were combined and Mr. Li Weijian, 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. Li 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. Li 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. Li 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 2021, the 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 2021.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2021, 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 2021.

REVIEW OF ACCOUNTS

The audit committee has reviewed the unaudited interim results for the six months ended 30 June 2021 with the management of the Company.

FORWARD LOOKING STATEMENTS

This interim results 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 announcement, excluding Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
Company or our Company	South Manganese Investment Limited, which is listed on the Stock Exchange (Stock Code: 1091.HK)
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
EMM Products	EMM and manganese briquette
Gabon	the Gabonese Republic
GMG	Greenway Mining Group Limited, a company incorporated in Cayman Islands with limited liability and listed on the Stock Exchange (Stock Code: 2133)
Group, we or us	the Company and its subsidiaries
Guangxi	Guangxi Zhuang Autonomous Region, the PRC
Guangxi Dameng	廣西大錳錳業集團有限公司 (Guangxi Dameng Manganese Industrial Group 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 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
Huiyuan Manganese	廣西匯元錳業有限公司 (Guangxi Huiyuan Manganese Industry Co., Ltd.)
Huiyuan Manganese Plant	An EMD manufacturing plant in Laibin, Guangxi owned by Huiyuan Manganese
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
NCM	Lithium Nickel Cobalt Manganese Oxide
Ningbo Dameng	寧波大錳投資管理合夥企業 (有限合夥) (Ningbo Dameng Management Partnership (Limited Partnership))
Ningbo Dameng Group	Ningbo Dameng together with its subsidiary Huiyuan Manganese
Shares	ordinary shares in the share capital of the Company, with a nominal value of HK\$0.10 each
South Manganese Group	南方錳業集團有限責任公司 (South Manganese Group Limited), an indirect wholly owned subsidiary of the Company
Stock Exchange	the Stock Exchange of Hong Kong Limited

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.

By Order of the Board
SOUTH MANGANESE INVESTMENT LIMITED
Li Weijian
Chairman

Hong Kong, 20 August 2021

As at the date of this announcement, the executive Directors are Mr. Li Weijian, Mr. Zhang He and Mr. Zhang Zongjian; the non-executive Directors are Mr. Lyu Yanzheng, Mr. Cheng Zhiwei and Ms. Cui Ling; and the independent non-executive Directors are Mr. Zhang Yupeng, Mr. Yuan Mingliang and Mr. Lau Wan Ki.