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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 2023**

#### **FINANCIAL HIGHLIGHTS**

- Revenue amounted to HK\$7,732.5 million for 1H 2023, representing a decrease of 14.2% from HK\$9,008.6 million of 1H 2022.
- Gross profit amounted to HK\$655.0 million for 1H 2023, representing a decrease of 42.3% from HK\$1,134.5 million of 1H 2022. Gross profit margin was 8.5% for 1H 2023, representing a decrease of 4.1 percentage points from 12.6% for 1H 2022.
- Operating profit amounted to HK\$184.1 million for 1H 2023, representing a decrease of 70.8% from HK\$630.5 million for 1H 2022.
- Profit attributable to owners of the Company amounted to HK\$134.9 million for 1H 2023, representing a decrease of 64.8% from HK\$383.2 million for 1H 2022.

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

*Six months ended 30 June 2023*

	Notes	Six months ended 30 June	
		2023 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited) (restated)
<b>REVENUE</b>	3	<b>7,732,538</b>	9,008,594
Cost of sales		<u>(7,077,578)</u>	<u>(7,874,097)</u>
Gross profit		<b>654,960</b>	1,134,497
Other income and gains	3	<b>64,026</b>	102,353
Selling and distribution expenses		<b>(84,472)</b>	(73,676)
Administrative expenses		<b>(312,143)</b>	(402,166)
Impairment losses on property, plant and equipment and mining rights		–	(126,297)
(Impairment losses)/reversals of impairment losses on financial assets, net		<b>(6,699)</b>	2,651
Finance costs	4	<b>(119,566)</b>	(106,855)
Other expenses		<b>(18,663)</b>	(23,690)
Share of profits and losses of associates		<u><b>(70)</b></u>	<u>346</u>
<b>PROFIT BEFORE TAX</b>	5	<b>177,373</b>	507,163
Income tax expenses	6	<u><b>(43,821)</b></u>	<u>(109,507)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>133,552</b></u>	<u>397,656</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
– Changes in fair value of financial assets at fair value through other comprehensive income, net of tax		<b>93</b>	131
– Exchange differences on translation of foreign operations		<u><b>(132,319)</b></u>	<u>(182,741)</u>
		<u><b>(132,226)</b></u>	<u>(182,610)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<u><b>1,326</b></u>	<u>215,046</u>

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited) (restated)
<b>Profit/(loss) for the period attributable to:</b>		
Owners of the Company	<b>134,903</b>	383,199
Non-controlling interests	<b>(1,351)</b>	14,457
	<u><b>133,552</b></u>	<u>397,656</u>
<b>Total comprehensive income for the period attributable to:</b>		
Owners of the Company	<b>(8,599)</b>	195,439
Non-controlling interests	<b>9,925</b>	19,607
	<u><b>1,326</b></u>	<u>215,046</u>
<b>Earnings per share attributable to owners of the Company</b>		
	7	
– Basic	<u><b>HK\$0.0393</b></u>	<u>HK\$0.1118</u>
– Diluted	<u><b>HK\$0.0393</b></u>	<u>HK\$0.1118</u>

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2023

		<b>30 June 2023</b>	31 December 2022
	<i>Notes</i>	<i>HK\$'000</i> <b>(Unaudited)</b>	<i>HK\$'000</i> <b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>3,902,940</b>	4,019,433
Investment properties		<b>99,783</b>	104,006
Right-of-use assets		<b>489,763</b>	523,350
Intangible assets		<b>210,301</b>	221,374
Investments in associates		<b>112,462</b>	86,203
Deferred tax assets		<b>18,352</b>	20,980
Prepayments and other assets		<b>143,834</b>	147,813
		<hr/>	<hr/>
Total non-current assets		<b>4,977,435</b>	5,123,159
<b>CURRENT ASSETS</b>			
Inventories		<b>1,841,587</b>	1,849,089
Trade and notes receivables	9	<b>1,162,793</b>	1,484,012
Prepayments, other receivables and other assets		<b>1,674,528</b>	1,380,919
Tax recoverable		<b>3,703</b>	7,117
Pledged deposits		<b>755,767</b>	430,839
Cash and cash equivalents		<b>950,014</b>	1,175,489
		<hr/>	<hr/>
Total current assets		<b>6,388,392</b>	6,327,465
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	10	<b>2,177,298</b>	2,148,852
Other payables and accruals		<b>1,579,349</b>	1,521,404
Interest-bearing bank and other borrowings		<b>3,165,024</b>	3,266,892
Due to related companies		<b>2,247</b>	7,505
Tax payable		<b>112,615</b>	129,077
		<hr/>	<hr/>
Total current liabilities		<b>7,036,533</b>	7,073,730
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		<b>(648,141)</b>	(746,265)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,329,294</b>	4,376,894
		<hr/>	<hr/>

	<b>30 June</b>	31 December
	<b>2023</b>	2022
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank and other borrowings	<b>1,151,560</b>	1,193,508
Deferred tax liabilities	<b>186,974</b>	180,385
Other long-term liabilities	<b>105,628</b>	106,120
Deferred income	<b>51,520</b>	64,595
	<u>1,495,682</u>	<u>1,544,608</u>
<b>Total non-current liabilities</b>	<b>1,495,682</b>	1,544,608
<b>NET ASSETS</b>	<b><u>2,833,612</u></b>	<b><u>2,832,286</u></b>
<b>EQUITY</b>		
<b>Equity attributable to owners of the Company</b>		
Issued capital	<b>342,846</b>	342,846
Reserves	<b>2,816,633</b>	2,825,232
	<u>3,159,479</u>	<u>3,168,078</u>
<b>Non-controlling interests</b>	<b>(325,867)</b>	(335,792)
	<u>3,159,479</u>	<u>3,168,078</u>
<b>Total equity</b>	<b><u>2,833,612</u></b>	<b><u>2,832,286</u></b>

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2023

## 1. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

### 1.1 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\$648.1 million as at 30 June 2023. Subsequent to the end of the reporting period, the Group has successfully renewed or obtained new bank loans of HK\$1,446.4 million during the period from 1 July 2023 up to 30 September 2023. The directors of the Company, also taking into account of internally generated funds from its operations and successful renewals of the bank loans during the period and after the reporting date, 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.

### 1.2 Prior year adjustments

In preparing the consolidated financial statement for the year ended 31 December 2022, management has identified some prior year adjustments to the prior year consolidated financial statements. Therefore, to conform with the presentation of the financial statements for the six months ended 30 June 2023, the corresponding prior year adjustments were made to the financial statements for the six months ended 30 June 2022. A detailed description of the nature of these adjustments are further discussed below.

#### Adjustment I

With regard to the investments in certain non-wholly owned subsidiaries, a difference was noted between “Non-controlling interests” and “Reserves” because the Group did not attribute the losses of these subsidiaries to the non-controlling interests (“NCI”) proportionate to the shareholding percentage.

This resulted in an understatement of “Reserves” and overstatement of “Non-controlling interests” as at 31 December 2021 and understatement of “Profit Attributable to Non-controlling interests” for the six months ended 30 June 2022.

## **Adjustment II**

During the year 2022, management has confirmed the understanding with the Social Security Bureau about the requirements of the interests in relation to social security welfare contribution, and considered that this constitutes a present obligation for a provision to be recognised.

This resulted in understatement of “Other payables and accruals”, overstatement of “Reserves”, and overstatement of “Non-controlling interests” as at 31 December 2021; and understatement of “Finance costs” for the six months ended 30 June 2022.

## **Adjustment III**

The Group carried out tax planning arrangement in relation to some subsidiaries in the past. During the year 2022, management revisited the tax positions of the Group and considered that the Group may be subject to additional income tax expenses and relevant expenses in relation to late payment, taken into account the statute of limitations.

This resulted in understatements of “Other payables and accruals” and “Tax payables”, overstatement of “Reserves”, and overstatement of “Non-controlling interests” as at 31 December 2021; and understatement of “Other expenses” for the six months ended 30 June 2022.

Management considered that the above adjustments are required to be made to the comparative information presented so as to ensure that the consolidated financial statements presented are in compliance with HKFRSs, enhancing the comparability with the current period’s results. The adjustments did not have any material impact on the Group’s cash flows.

A summary of the accumulated effects of the restatements on the consolidated statement of financial position of the Group as at 31 December 2021 and on the consolidated statement of profit or loss and other comprehensive income of the Group for the six months then ended 2022 by each financial statement line item affected are presented in the table below:

	As previously reported <i>HK\$ '000</i>	Adjustment I <i>HK\$ '000</i>	Adjustment II <i>HK\$ '000</i>	Adjustment III <i>HK\$ '000</i>	As restated <i>HK\$ '000</i>
<b>Effect on the Group's consolidated statement of financial position as at 31 December 2021</b>					
Other payables and accruals	2,009,900	–	93,294	93,459	2,196,653
Tax payables	206,723	–	–	121,990	328,713
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Reserves	2,764,519	170,423	(59,708)	(109,879)	2,765,355
Non-controlling interests	(62,789)	(170,423)	(33,586)	(105,570)	(372,368)
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	As previously reported <i>HK\$'000</i>	Adjustment I <i>HK\$'000</i>	Adjustment II <i>HK\$'000</i>	Adjustment III <i>HK\$'000</i>	As restated <i>HK\$'000</i>
<b>Effect on the Group's consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2022</b>					
Other expenses	(5,392)	–	–	(18,298)	(23,690)
Finance costs	(97,830)	–	(9,025)	–	(106,855)
	<u>424,979</u>	<u>–</u>	<u>(9,025)</u>	<u>(18,298)</u>	<u>397,656</u>
Profit for the period					
Profit for the period attributable to:					
Owners of the Company	453,339	(55,032)	(5,776)	(9,332)	383,199
Non-controlling interests	(28,360)	55,032	(3,249)	(8,966)	14,457
	<u>424,979</u>	<u>–</u>	<u>(9,025)</u>	<u>(18,298)</u>	<u>397,656</u>
Earnings per share attributable to owners of the Company					
Basic	0.1322	(0.0160)	(0.0017)	(0.0027)	0.1118
Diluted	0.1322	(0.0160)	(0.0017)	(0.0027)	0.1118
	<u>241,847</u>	<u>–</u>	<u>(8,503)</u>	<u>(18,298)</u>	<u>215,046</u>
Total comprehensive income for the period					
Total comprehensive income for the period attributable to:					
Owners of the Company	265,245	(55,032)	(5,442)	(9,332)	195,439
Non-controlling interests	(23,398)	55,032	(3,061)	(8,966)	19,607
	<u>241,847</u>	<u>–</u>	<u>(8,503)</u>	<u>(18,298)</u>	<u>215,046</u>

### **1.3 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 2022, except for the adoption of all new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant to the Group's operations and effective for its accounting year beginning on 1 January 2023. The new and revised HKFRSs do not have a material effect on the Group's condensed consolidated interim financial statement.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing these condensed consolidated interim financial statements.

## **2. 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 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 alloy and ferromanganese;

**(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 before tax except that interest income, non-lease-related finance costs, 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 interest-bearing bank and other borrowings (other than lease liabilities), 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
<b>Six months ended 30 June 2023 (Unaudited)</b>						
<b>Segment revenue:</b>						
Sales to external customers	67,339	514,569	1,615,881	926,713	4,608,036	7,732,538
Intersegment sales	–	211,326	–	–	–	211,326
Other income and gains from operations	6,814	3,103	29,112	6,244	8,591	53,864
	<u>74,153</u>	<u>728,998</u>	<u>1,644,993</u>	<u>932,957</u>	<u>4,616,627</u>	<u>7,997,728</u>
Reconciliation:						
Elimination of inter segment sales						<u>(211,326)</u>
Revenue, other income and gains from operations						<u>7,786,402</u>
<b>Segment results</b>	<u>(8,808)</u>	<u>83,798</u>	<u>83,950</u>	<u>172,874</u>	<u>25,021</u>	<u>356,835</u>
Reconciliations:						
Interest income						10,162
Corporate and other unallocated expenses						(76,385)
Finance costs (other than interest on lease liabilities)						<u>(113,239)</u>
Profit before tax						177,373
Income tax expense						<u>(43,821)</u>
Profit for the period						<u>133,552</u>
<b>Assets and liabilities</b>						
<b>Segment assets</b>	<u>608,249</u>	<u>593,674</u>	<u>3,382,650</u>	<u>2,326,545</u>	<u>2,371,199</u>	<u>9,282,317</u>
Reconciliations:						
Corporate and other unallocated assets						<u>2,083,510</u>
Total assets						<u>11,365,827</u>
<b>Segment liabilities</b>	<u>415,970</u>	<u>430,519</u>	<u>752,497</u>	<u>977,560</u>	<u>1,331,804</u>	<u>3,908,350</u>
Reconciliations:						
Corporate and other unallocated liabilities						<u>4,623,865</u>
Total liabilities						<u>8,532,215</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
<b>Six months ended 30 June 2022</b>						
<b>(Unaudited) (restated)</b>						
<b>Segment revenue:</b>						
Sales to external customers	36,458	603,103	2,263,223	1,054,924	5,050,886	9,008,594
Intersegment sales	–	87,292	–	–	–	87,292
Other income and gains from operations	502	1,693	52,188	9,649	33,327	97,359
	<u>36,960</u>	<u>692,088</u>	<u>2,315,411</u>	<u>1,064,573</u>	<u>5,084,213</u>	<u>9,193,245</u>
Reconciliation:						
Elimination of inter segment sales						<u>(87,292)</u>
Revenue, other income and gains from operations						<u>9,105,953</u>
<b>Segment results</b>	<u>(142,507)</u>	<u>167,934</u>	<u>305,354</u>	<u>358,589</u>	<u>34,838</u>	<u>724,208</u>
Reconciliations:						
Interest income						4,994
Corporate and other unallocated expenses						(116,715)
Finance costs (other than interest on lease liabilities)						<u>(105,324)</u>
Profit before tax						507,163
Income tax expense						<u>(109,507)</u>
Profit for the period						<u>397,656</u>
<b>Assets and liabilities</b>						
<b>Segment assets</b>	666,587	617,578	3,371,415	2,336,530	2,128,584	9,120,694
Reconciliations:						
Corporate and other unallocated assets						<u>1,950,421</u>
Total assets						<u>11,071,115</u>
<b>Segment liabilities</b>	432,987	281,907	1,141,947	391,812	560,914	2,809,567
Reconciliations:						
Corporate and other unallocated liabilities						<u>5,279,883</u>
Total liabilities						<u>8,089,450</u>

### 3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Revenue from contracts with customers		
Sale of goods:		
Manganese mining	<b>581,908</b>	639,561
EMM and alloying materials production	<b>1,615,881</b>	2,263,223
Battery materials production	<b>926,713</b>	1,054,924
Other business	<b>4,608,036</b>	5,050,886
	<b>7,732,538</b>	<b>9,008,594</b>

#### Revenue from contracts with customers

#### *Disaggregated revenue information*

For the six months ended 30 June 2023 (Unaudited)

Segments					Total <i>HK\$'000</i>
	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>	
Sale of goods	<b>581,908</b>	<b>1,615,881</b>	<b>926,713</b>	<b>4,608,036</b>	<b>7,732,538</b>
<b>Geographical markets</b>					
Mainland China	381,876	1,496,693	915,791	4,608,036	7,402,396
Asia (excluding Mainland China)	200,032	51,162	10,922	–	262,116
Europe	–	4,870	–	–	4,870
North America	–	63,156	–	–	63,156
Total revenue from contracts with customers	<b>581,908</b>	<b>1,615,881</b>	<b>926,713</b>	<b>4,608,036</b>	<b>7,732,538</b>
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time with customers	<b>581,908</b>	<b>1,615,881</b>	<b>926,713</b>	<b>4,608,036</b>	<b>7,732,538</b>

For the six months ended 30 June 2022 (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>
<b>Sale of goods</b>	639,561	2,263,223	1,054,924	5,050,886	9,008,594
<b>Geographical markets</b>					
Mainland China	439,203	1,808,227	1,037,453	5,050,886	8,335,769
Asia (excluding Mainland China)	200,358	180,709	14,535	–	395,602
Europe	–	20,852	136	–	20,988
North America	–	253,435	2,800	–	256,235
Total revenue from contracts with customers	639,561	2,263,223	1,054,924	5,050,886	9,008,594
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time with customers	639,561	2,263,223	1,054,924	5,050,886	9,008,594

An analysis of other income and gains is as follows:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Other income and gains</b>		
Interest income	<b>10,162</b>	4,994
Foreign exchange gains, net	–	16,215
Gains on disposal of items of property, plant and equipment	<b>5,205</b>	12,335
Subsidy income	<b>22,703</b>	18,625
Sale of scraps and other materials	<b>8,500</b>	26,783
Rental income	<b>8,727</b>	9,737
Others	<b>8,729</b>	13,664
	<b>64,026</b>	102,353

#### 4. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
		(restated)
Interest on loans wholly repayable within five years	97,272	93,019
Finance costs for discounted notes receivable	15,928	12,196
Interest expenses on lease liabilities	6,327	1,531
Other finance costs	39	109
	<u>119,566</u>	<u>106,855</u>

#### 5. PROFIT BEFORE TAX

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

	<b>Six months ended 30 June</b>	
	<b>2023</b>	<b>2022</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cost of inventories sold <sup>#</sup>	7,061,689	7,858,544
Write-down of inventories to net realisable value, net <sup>#</sup>	15,889	15,553
Depreciation of property, plant and equipment	209,328	207,969
Depreciation of right-of-use assets	17,113	20,671
Amortisation of intangible assets	2,562	7,227
Research and development costs	48,310	35,108
Auditor's remuneration	2,261	2,489
Employee benefit expense	377,325	402,362
Gains on disposal of items of property, plant and equipment*	(5,205)	(12,335)
Foreign exchange differences, net*	896	(16,215)
Impairment losses on property, plant and equipment and mining rights	–	126,297
Impairment losses/(reversals of impairment losses) on financial assets included in trade and notes receivables and other receivables, net	6,699	(2,651)
Variable lease payments not included in the measurement of lease liabilities (included in cost of inventories sold)	3,270	3,099
Expenses relating to leases of low-value assets <sup>^</sup>	4,432	–
	<u>4,432</u>	<u>–</u>



- # 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 3) 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.

## 6. INCOME TAX EXPENSES

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:

	<b>Six months ended 30 June</b>	
	<b>2023</b>	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Current – PRC		
Charge for the period	<b>7,438</b>	39,367
Current – Hong Kong		
Charge for the period	<b>2,365</b>	2,814
Current – Gabon		
Charge for the period	<b>19,275</b>	36,050
Deferred	<b>14,743</b>	31,276
	<hr/>	<hr/>
Total tax charge for the period	<b><u>43,821</u></b>	<b><u>109,507</u></b>

### **Hong Kong profits tax**

Hong Kong profits tax for the six months ended 30 June 2023 and 2022 has been provided at the rate of 16.5% on the estimated assessable profit for the period.

## PRC corporate income tax (“CIT”)

Pursuant to the PRC Income Tax Law and the respective regulations, except for the preferential tax treatment available to South Manganese Group, Qinzhou Dameng New Materials Co., Ltd 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 2025, 2025 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.

Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
		(restated)
The calculation of basic and diluted earnings per share are based on:		
<b>Earnings</b>		
Earnings attributable to owners of the Company, used in the basic earnings per share calculation	<u>134,903</u>	<u>383,199</u>
	<b>Number of shares</b>	
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>3,428,459,000</u>	<u>3,428,459,000</u>

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 nor the six months ended 30 June 2022.

## 8. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2023 (2022: Nil).

## 9. TRADE AND NOTES RECEIVABLES

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
Trade receivables	969,438	1,065,902
Less: Impairment provision	<u>(272,362)</u>	<u>(268,116)</u>
	697,076	797,786
Notes receivable	<u>465,717</u>	<u>686,226</u>
	<b><u>1,162,793</u></b>	<b><u>1,484,012</u></b>

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:

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
Within one month	453,427	560,460
One to two months	136,004	153,434
Two to three months	47,470	32,745
Over three months	<u>60,175</u>	<u>51,147</u>
	<b><u>697,076</u></b>	<b><u>797,786</u></b>

The Group normally offers credit terms of one month to three months to its established customers.

## 10. 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:

	<b>30 June 2023 HK\$'000 (Unaudited)</b>	31 December 2022 HK\$'000 (Audited)
Within one month	<b>896,325</b>	1,003,397
One to two months	<b>293,800</b>	378,559
Two to three months	<b>143,377</b>	39,302
Over three months	<b>843,796</b>	727,594
	<b><u>2,177,298</u></b>	<b><u>2,148,852</u></b>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

	<b>1H 2023</b>	1H2022	Increase/(decrease)	
	<b>HK\$'000</b>	HK\$'000	HK\$'000	%
		(restated)		
Revenue	<b><u>7,732,538</u></b>	<u>9,008,594</u>	<u>(1,276,056)</u>	<u>(14.2)</u>
Gross profit	<b>654,960</b>	1,134,497	(479,537)	(42.3)
Gross profit margin	<u>8.5%</u>	<u>12.6%</u>	N/A	<u>(4.1)</u>
Operating profit	<b>184,142</b>	630,463	(446,321)	(70.8)
Impairment losses on property, plant and equipment and mining rights	–	(126,297)	(126,297)	(100.0)
(Impairment losses)/reversals of impairment losses on financial assets, net	<b>(6,699)</b>	2,651	(9,350)	(352.7)
Share of profits and losses of associates	<u>(70)</u>	<u>346</u>	<u>(416)</u>	<u>(120.2)</u>
Profit before tax	<b>177,373</b>	507,163	(329,790)	(65.0)
Income tax expenses	<u>(43,821)</u>	<u>(109,507)</u>	<u>(65,686)</u>	<u>(60.0)</u>
Profit for the period	<b><u>133,552</u></b>	<u>397,656</u>	<u>(264,104)</u>	<u>(66.4)</u>
Profit for the period attributable to owners of the Company	<b>134,903</b>	383,199	(248,296)	(64.8)
Profit/(loss) for the period attributable to non-controlling interests	<u>(1,351)</u>	<u>14,457</u>	<u>(15,808)</u>	<u>(109.3)</u>
	<b><u>133,552</u></b>	<u>397,656</u>	<u>(264,104)</u>	<u>(66.4)</u>

## OVERVIEW

In 1H 2023, the global economy remained relatively stagnant. Western countries and enterprises were adapting to new norms from post-pandemic era with high borrowing costs, rising costs of productions and expecting less consumptions from people. To contain the inflation, the prolonged and higher-than-expected interest rate increase in Western countries delayed the economic recovery. All these factors increased the burdens of corporations worldwide and the economies were facing challenges ahead.

Steel sector is our major downstream industry, its demand for our EMM Products largely arising from consumptions within China. In 1H 2023, the demand for steels remained stagnant as a result of slowing down of property development sector amid the PRC government has added stimulus to the economy by easing the interest rate, removing purchase restrictions on properties in certain areas and encouraging consumptions in China. Therefore, the average selling price of our EMM Products for 1H 2023 decreased by 41.0% to HK\$14,695 per tonne (2022: HK\$24,902 per tonne). The gross profit ratio of EMM Products decreased by 10.8 percentage points to 17.6% in 2022 (1H 2022: 28.4%) and the gross profit contribution of EMM Products decreased by 49.6% to HK\$216.1 million in 1H 2023 (1H 2022: HK\$429.1 million).

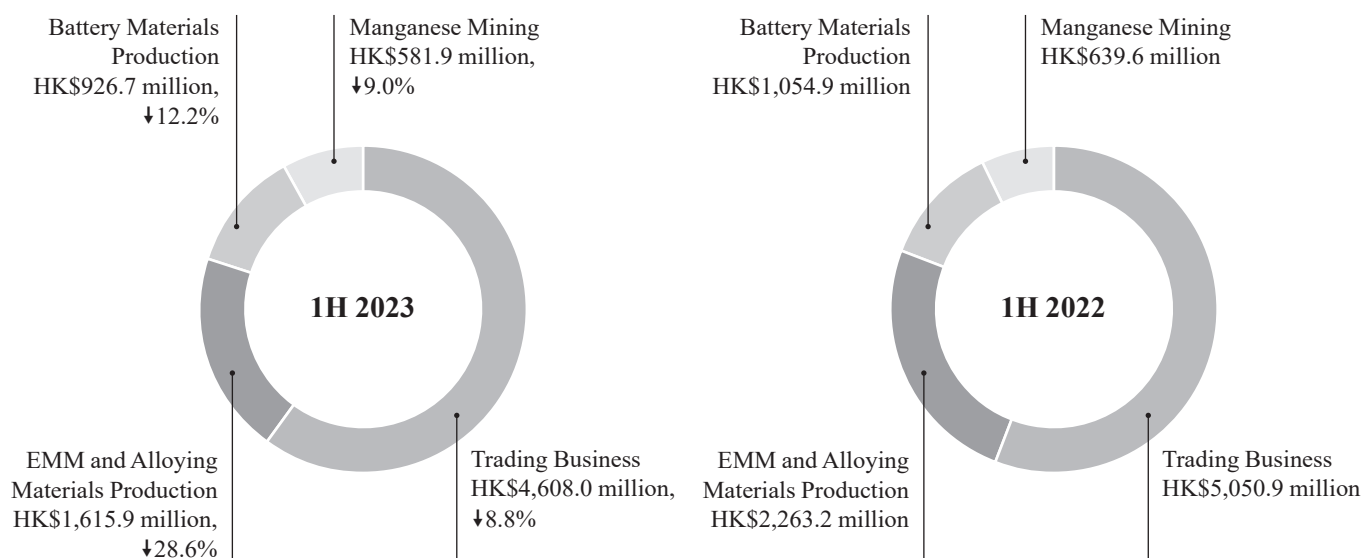
In 1H 2023, our production of battery materials including EMD continued to achieve encouraging results. The demand of battery materials products showed signs of recovery as compared to 2H 2022. This is mainly attributable to strong sales performance of electric vehicles which attracted our downstream manufacturers resumed their productions. In the meantime, the Group continued to enjoy the costs advantage from our internal supply of manganese ores from our Gabon Bembélé Manganese Mine and strengthened cost control measures which can partially mitigate the increase in costs of productions. In the long term, Group remains optimistic about this business segment and will continue to focus on seizing market share, securing raw materials supplies, strengthening product research and development, further upgrading our EMD production plants and expanding our production to other battery material products. In 1H 2023, the average selling price of EMD decreased by 3.0% to HK\$15,916 per tonne (1H 2022: HK\$16,405 per tonne), the gross profit ratio decreased by 6.1 percentage points to 44.5% (1H 2022: 50.6%) and the gross profit contribution of EMD recorded a decrease of 24.6% to HK\$289.1 million (1H 2022: HK\$383.4 million).

In summary, mainly due to decrease in gross profit contribution from EMM Products and EMD, the Group's operating profit for 1H 2023 decreased by 70.8% to HK\$184.1 million (1H 2022: HK\$630.5 million).

All in all, the earnings before interest, taxes, depreciation and amortisation (“EBITDA”) for 1H 2023 decreased by 39.0% to HK\$515.8 million (1H 2022: HK\$844.9 million) and the profit attributable to owners of the Company in 1H 2023 was HK\$134.9 million (1H 2022: HK\$383.2 million).

## COMPARISON WITH SIX MONTHS ENDED 30 JUNE 2022

### Revenue by segment



In 1H 2023, the Group’s revenue was HK\$7,732.5 million (1H 2022: HK\$9,008.6 million), representing a decrease of 14.2% as compared with 1H 2022. The decrease was mainly due to (a) decrease in average selling prices of EMM Products and Alloy Products; (b) decrease in sales volume of Alloy Products and EMD; and (c) decrease in sales revenue from trading business.

In 1H 2023, revenue of our major products EMM Products accounted for 15.9% (1H 2022: 16.8%) 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 (%)
<b>Six months ended 30 June 2023</b>							
Gabon ore	593,476	867	514,569	673	399,627	114,942	22.3
Manganese concentrate	163,879	354	57,952	318	52,127	5,825	10.1
Natural discharging manganese powder and sand	3,533	2,657	9,387	522	1,843	7,544	80.4
<b>Total</b>	<b>760,888</b>	<b>765</b>	<b>581,908</b>	<b>596</b>	<b>453,597</b>	<b>128,311</b>	<b>22.1</b>
<b>Six months ended 30 June 2022</b>							
Gabon ore	628,652	959	603,103	649	408,272	194,831	32.3
Manganese concentrate	66,945	446	29,884	400	26,793	3,091	10.3
Natural discharging manganese powder and sand	1,965	3,346	6,574	511	1,004	5,570	84.7
<b>Total</b>	<b>697,562</b>	<b>917</b>	<b>639,561</b>	<b>625</b>	<b>436,069</b>	<b>203,492</b>	<b>31.8</b>

In 1H 2023, revenue of manganese mining segment decreased by 9.0% to HK\$581.9 million (1H 2022: HK\$639.6 million) mainly due to decrease in average selling price of Gabon ore. This leads to decrease in gross profit of manganese mining segment by 36.9% to HK\$128.3 million (1H 2022: HK\$203.5 million).

In 1H 2023, the manganese mining segment recorded a profit of HK\$75.0 million (1H 2022: HK\$25.4 million), an increase of 194.9%, mainly attributable to impairment losses on mining rights of HK\$126.3 million recognised in 1H 2022.



## 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/(loss) (HK\$'000)	Gross Profit/(Loss) Margin (%)
<b>Six months ended 30 June 2023</b>							
EMM	76,133	14,634	1,114,095	12,067	918,680	195,415	17.5
Manganese briquette	7,473	15,320	114,489	12,551	93,791	20,698	18.1
	83,606	14,695	1,228,584	12,110	1,012,471	216,113	17.6
Alloy Products	49,483	7,541	373,143	8,044	398,024	(24,881)	(6.7)
Others	24,630	575	14,154	580	14,277	(123)	(0.9)
<b>Total</b>	<b>157,719</b>	<b>10,245</b>	<b>1,615,881</b>	<b>9,034</b>	<b>1,424,772</b>	<b>191,109</b>	<b>11.8</b>
<b>Six months ended 30 June 2022</b>							
EMM	52,614	23,614	1,242,401	17,604	926,196	316,205	25.5
Manganese briquette	8,056	33,316	268,396	19,305	155,520	112,876	42.1
	60,670	24,902	1,510,797	17,830	1,081,716	429,081	28.4
Alloy Products	79,247	9,307	737,563	8,843	700,816	36,747	5.0
Others	397	37,438	14,863	34,718	13,783	1,080	7.3
<b>Total</b>	<b>140,314</b>	<b>16,130</b>	<b>2,263,223</b>	<b>12,802</b>	<b>1,796,315</b>	<b>466,908</b>	<b>20.6</b>

Revenue of EMM and alloying materials production segment decreased by 28.6% to HK\$1,615.9 million in 1H 2023 (1H 2022: HK\$2,263.2 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 a decrease of 41.0% to HK\$14,695 per tonne (1H 2022: HK\$24,902 per tonne). The above impact was partially offset by the increase of sales volume of EMM Products by 37.8% to 83,606 tonnes (1H 2022: 60,670 tonnes).
- (b) The revenue of Alloy Products decreased by 49.4% to HK\$373.1 million in 1H 2023 (1H 2022: HK\$737.6 million) mainly attributable to (i) decrease in sales volume of Alloy Products by 37.6% to 49,483 tonnes (1H 2022: 79,247 tonnes); and (ii) decrease in average selling price of Alloy Products by 19.0% to HK\$7,541 per tonne in 1H 2023 (1H 2022: HK\$9,307 per tonne). A gross loss was incurred in 1H 2023 because the production volume decreased as the Group transformed certain of its production lines of silicomanganese alloy to manufacture ferromanganese in 1H 2023.

As a result of decrease in average selling prices of EMM Products and Alloy Products, the gross profit contribution of EMM and alloying materials production segment decreased by 59.1% to HK\$191.1 million (1H 2022: HK\$466.9 million) and this segment recorded a profit of HK\$84.0 million (1H 2022: HK\$305.4 million), representing a decrease of 72.5%.

## 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/(loss) (HK\$'000)	Gross Profit/(Loss) Margin (%)
<b>Six months ended 30 June 2023</b>							
EMD	40,784	15,916	649,102	8,827	359,990	289,112	44.5
Manganese sulfate	13,209	3,279	43,315	2,481	32,769	10,546	24.3
Lithium manganese oxide	3,008	77,891	234,296	92,437	278,051	(43,755)	(18.7)
NCM	-	-	-	-	-	-	-
<b>Total</b>	<b>57,001</b>	<b>16,258</b>	<b>926,713</b>	<b>11,768</b>	<b>670,810</b>	<b>255,903</b>	<b>27.6</b>
<b>Six months ended 30 June 2022</b>							
EMD	46,202	16,405	757,948	8,106	374,535	383,413	50.6
Manganese sulfate	6,958	4,665	32,458	4,320	30,062	2,396	7.4
Lithium manganese oxide	2,967	88,925	263,839	79,953	237,221	26,618	10.1
NCM	3	226,333	679	152,333	457	222	32.7
<b>Total</b>	<b>56,130</b>	<b>18,794</b>	<b>1,054,924</b>	<b>11,443</b>	<b>642,275</b>	<b>412,649</b>	<b>39.1</b>

Revenue of battery materials production segment decreased by 12.2% to HK\$926.7 million (1H 2022: HK\$1,054.9 million) and gross profit of this segment decreased by 38.0% to HK\$255.9 million (1H 2022: HK\$412.6 million) mainly attributable to the followings:

- EMD continued to be our major battery material product and the average selling price of EMD decreased by 3.0% to HK\$15,916 per tonne (1H 2022: HK\$16,405 per tonne) and the sales volume of EMD decreased by 11.7% to 40,784 tonnes (1H 2022: 46,202 tonnes).
- In 1H 2023, the average selling price of lithium manganese oxide decreased by 12.4% to HK\$77,891 per tonne (1H 2022: HK\$88,925 per tonne) in line with sharp decrease in the price its major raw material lithium carbonate. This also results to a gross loss of lithium manganese oxide in 1H 2023.

As a result, the results of battery materials production segment recorded a profit of HK\$172.9 million (1H 2022: HK\$358.6 million), representing a decrease of 51.8%.

## Other business segment

	<b>Revenue</b> <i>(HK\$ '000)</i>	<b>Cost of Sales</b> <i>(HK\$ '000)</i>	<b>Gross Profit</b> <i>(HK\$ '000)</i>	<b>Gross Profit Margin</b> <i>(%)</i>
<b>Six months ended 30 June 2023</b>				
Trading	<u>4,608,036</u>	<u>4,528,399</u>	<u>79,637</u>	<u>1.7</u>
<b>Six months ended 30 June 2022</b>				
Trading	<u>5,050,886</u>	<u>4,999,438</u>	<u>51,448</u>	<u>1.0</u>

Revenue of other business segment decreased to HK\$4,608.0 million (1H 2022: HK\$5,050.9 million), representing a decrease of 8.8%.

## Cost of Sales

Total cost of sales decreased by 10.1% to HK\$7,077.6 million in 1H 2023 (1H 2022: HK\$7,874.1 million) in line with the decrease of the revenue.

## Gross Profit

In 1H 2023, the Group recorded a gross profit of HK\$655.0 million (1H 2022: HK\$1,134.5 million), which represented a decrease of HK\$479.5 million from 1H 2022, or 42.3%. The Group's overall gross profit margin was 8.5%, representing decrease of 4.1 percentage points from 12.6% in 1H 2022. Overall gross profit margin decrease mainly attributable to decrease in average selling price of EMM Products and Alloy Products.

## Other Income and Gains

Other income and gains decreased by 37.4% to HK\$64.0 million (1H 2022: HK\$102.4 million) mainly due to (a) decrease in foreign exchange gains; and (b) decrease in sale of scraps and other materials.

## **Selling and Distribution Expenses**

The Group's selling and distribution expenses in 1H 2023 increased by 14.7% to HK\$84.5 million (1H 2022: HK\$73.7 million) mainly attributable to increase in transportation costs.

## **Administrative Expenses**

Administrative expenses decreased by 22.4% to HK\$312.1 million in 1H 2023 (1H 2022: HK\$402.2 million) mainly attributable to decrease in production halt expenses as in 1H2023 the EMM productions of the Group resumed to normal as contrary to temporary production halts of some EMM plants in the first quarter of the year 2022.

## **Impairment Losses on Financial Assets, Net**

The amount mainly represents impairment allowance on certain long outstanding trade receivables for customers of battery materials.

## **Finance Costs**

For 1H 2023, the Group's finance costs were HK\$119.6 million (1H 2022: HK\$106.9 million), representing an increase of 11.9% which is mainly attributable to (a) increase in interest on notes receivable discounting; and (b) increase in overall borrowings.

## **Other Expenses**

Other expenses of HK\$18.7 million (1H 2022: HK\$23.7 million) mainly represents donations, inspection fees and provisions for late payment charges.

## **Share of Profits and Losses of Associates**

In 1H 2023, share of losses of associates of HK\$70,000 (1H 2022: profits of HK\$346,000) represent share of profits of 16.00%-owned associate Qingdao Manganese, losses of 49.00%-owned Beibu Gulf Canal Company and losses of 20.00%-owned Beibu Gulf Mercantile Exchange.

## **Income Tax Expenses**

In 1H 2023, the effective tax rate is 24.7% (1H 2022: 21.6%) which is higher than the statutory preferential corporate income tax rate of China 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 Company**

For 1H 2023, the Group's profit attributable to owners of the Company was HK\$134.9 million (1H 2022: HK\$383.2 million).

## **Earnings per Share**

For 1H 2023, earnings per share attributable to owners of the Company was HK\$0.0393 (1H 2022: HK\$0.1118).

## **Interim Dividend**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2023 (1H 2022: Nil).

## Liquidity and Financial Resources

### Cash and Bank Balances

As at 30 June 2023, the currency denomination of the Group's cash and bank balances including pledged deposits are as follows:

<b>Currency denomination</b>	<b>30 June 2023</b>	<b>31 December 2022</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Denominated in:		
RMB	<b>1,616.8</b>	1,552.4
HKD	<b>2.9</b>	0.8
USD	<b>82.3</b>	49.3
XAF	<b>3.8</b>	3.7
EUR	<b>–</b>	0.1
	<b><u>1,705.8</u></b>	<b><u>1,606.3</u></b>

As at 30 June 2023, our cash and bank balances including pledged deposits were HK\$1,705.8 million (31 December 2022: HK\$1,606.3 million) while the Group's borrowings amounted to HK\$4,316.6 million (31 December 2022: HK\$4,460.4 million). The Group's borrowings net of cash and bank balances amounted to HK\$2,610.8 million (31 December 2022: HK\$2,854.1 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

At 30 June 2023, trade and notes receivables of the Group decreased by HK\$321.2 million to HK\$1,162.8 million (31 December 2022: HK\$1,484.0 million) mainly attributable to increase in discounting of notes receivable to contain cash level.

### Net Current Liabilities

As at 30 June 2023, the Group had net current liabilities of HK\$648.1 million (31 December 2022: HK\$746.3 million). The decrease in net current liabilities because the balance of bank and other borrowings slightly decreased.

## Bank and Other Borrowings

As at 30 June 2022, the Group's borrowing structure and maturity profile are as follows:

	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<i>HK\$ million</i>	<i>HK\$ million</i>
<b>Borrowing structure</b>		
Secured borrowings (including lease liabilities)	730.9	841.3
Unsecured borrowings	3,585.7	3,619.1
	<u>4,316.6</u>	<u>4,460.4</u>
	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<i>HK\$ million</i>	<i>HK\$ million</i>
<b>Maturity profile</b>		
Repayable:		
On demand or within one year	3,165.1	3,266.9
After one year and within two years	365.7	737.9
After two years and within five years	785.8	455.6
	<u>4,316.6</u>	<u>4,460.4</u>
	<b>30 June</b>	31 December
	<b>2023</b>	2022
	<i>HK\$ million</i>	<i>HK\$ million</i>
<b>Currency denomination</b>		
Denominated in:		
RMB	4,312.5	4,147.4
USD	–	312.0
HK\$	4.1	1.0
	<u>4,316.6</u>	<u>4,460.4</u>

As at 30 June 2023, borrowings as to the amounts of HK\$3,052.0 million (31 December 2022: HK\$3,534.7 million) and HK\$1,264.6 million (31 December 2022: HK\$925.7 million), carry fixed and floating rate interest respectively. The fixed rate borrowings carry interest at rates ranging from 2.24% to 8.25%. The floating rate borrowings carry interest up to a premium up to 10% above the China Loan Prime Rate.

Overall, aggregate borrowings decreased to HK\$4,316.6 million (31 December 2022: HK\$4,460.4 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 2023, (a) right-of-use assets of HK\$35.6 million (31 December 2022: HK\$40.7 million) related to property, plant and equipment were held under leases; (b) bank balances of HK\$755.8 million (31 December 2022: HK\$430.8 million) were pledged to secure certain of the Group's bank acceptance notes payable and bank borrowings; and (c) property, plant and equipment and leasehold lands of HK\$560.5 million (31 December 2022: HK\$616.5 million) and trade receivables of HK\$53.4 million (31 December 2022: HK\$42.4 million) were pledged to secure certain of the Group's bank and other borrowings.

### Major Guarantees

As at 30 June 2023, the outstanding bank loan of an associate, in which the Group has a 33% equity interest, was secured by the associate's lands and property, plant and equipment and guaranteed by the Group and the holding company of the associate according to their respective shareholding percentage on a several basis.

As at 30 June 2023, the associate's banking facilities guaranteed by the Group and the holding company of the associate amounted to RMB800.0 million (equivalent to HK\$867.7 million) (31 December 2022: RMB800.0 million, equivalent to HK\$904.4 million) and were utilised to the extent of RMB552.9 million (equivalent to HK\$599.7 million) (31 December 2022: RMB554.9 million, equivalent to HK\$627.3 million).

### Key Financial Ratios of the Group

	<b>30 June 2023</b>	31 December 2022
Current ratio	<b>0.91</b>	0.89
Quick ratio	<b>0.65</b>	0.63
Net Gearing ratio	<b>82.6%</b>	90.1%



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 Company. 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 2023, current ratio and quick ratio remains constant compared with 31 December 2022. Net gearing ratio improved mainly due to profit attributable to owners of the Company in 1H 2023.

### **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\$648.1 million as at 30 June 2023. Subsequent to the end of the reporting period, the Group has successfully renewed or obtained new bank loans of HK\$1,446.4 million during the period from 1 July 2023 up to 30 September 2023. The directors of the Company, also taking into account of internally generated funds from its operations and successful renewals of the bank loans during the period and after the reporting date, 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.

As at 30 June 2023, 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 ferrous alloy production and manganese ore trading in China and manganese mining in Gabon. As at 30 June 2023, trade receivables from Customer A was HK\$232.7 million (31 December 2022: HK\$232.5 million) and represented 24.0% (31 December 2022: 21.8%) of the Group's total trade receivables, which was totally overdue and fully provided as at 30 June 2023 and 31 December 2022. The Group is now in the process to negotiate a repayment schedule with Customer A and preparing for legal proceedings with an aim to speed up the collections of the outstanding balance.

## **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. If the China Loan Prime Rate increases, 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.

## **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 except for the followings:

The Group imported manganese ores from oversea suppliers which are denominated in United States dollars to cope with its production of alloy materials and trading purpose. In addition, certain of our purchases was financed by bank borrowings denominated in United States dollars. In order to contain the foreign currency risk in association with such purchases, the Group may enter into forward currency contracts for selected major purchases at the time of entering into the relevant purchase contracts or loan contracts to secure against exchange rate movements.

- (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 RMB and XAF, which is pegged EURO, while the freight charges are denominated in United States dollars.

### **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 1H 2023, the global inflationary pressures carried from the year 2022 still existed. Western countries prolonged and strengthened the high interest policy to contain the inflation, which on the other hand cooling down investing activities globally. In China, the PRC government aimed at stimulating demand to boost its economies in order to recover from the pandemic. As such, the markets were shadowed from the above uncertainties and full of challenges ahead.

Despite the above, the Group's operating performance improved significantly and sustain its profitability since 2021. The Group will continue to focus on five business segment, i.e. ore and traditional manganese-related products, new energy materials, alloying materials, supply chain logistics and integrated solid waste recycling. The Group 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 following years.

As the second largest EMM manufacturer and supplier in China, we integrate the aims and requirements of the government to achieve “carbon peak and carbon neutrality”, work with the initiatives and plans of working committee of Metallurgical Mines' Association of China EMM Innovation Alliance (“中國冶金礦山企業協會電解金屬錳創新聯盟”), strengthen the synergies of the industry with common objectives to improve and upgrade our industry, accelerate eco-friendly development and achieving sustainable development, which are achieving notable progress. The sector outlook is expected to be challenging in the second half of the year 2023 as steel manufacturers continue to face challenges, such as oversupply and rising production costs which weaken their demand for our EMM Products. To weather the storm, major players in EMM sector jointly promote and launch out measures such as production restriction to cut EMM supply and technical upgrades.

As the largest EMD manufacturer in China, we are optimistic about the development of battery materials production segment and continue to strengthen our leading position and carry out technical research and development to upgrade the quality of our battery material products including EMD and lithium manganese oxide to enhance their value and further extend the applications in electric vehicles and other electric tools and equipment. The Group will actively respond to carbon reduction targets initiated by the PRC government for the 14th Five-Year Plan period and pave the way to seize 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 improvement of energy efficiency. It announced the “Green stimulus package” with a scale close to US\$195 billion focusing on accelerating the development of industries with established development foundation, 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).

## **CHANGE OF AUDITORS**

For the purpose of maintaining good corporate governance practice and enhancing its standard, the Board and the audit committee of the Company consider that the auditor of the Company should be rotated after an appropriate period of time. Since Ernst & Young (“EY”) has been appointed as the Company’s auditor since listing, the management of the Company had discussions with EY about the proposal to change the auditor of the Company, and as a result EY tendered its resignation as auditor of the Company. EY has resigned as the auditor of the Company with effect from 19 October 2022. PricewaterhouseCoopers (“PwC”) has been appointed as the new auditor of the Company with effect from 19 October 2022 to fill the casual vacancy occasioned by the resignation of EY. Please refer to the announcement of the Company dated 19 October 2022 for further details.

PwC resigned as the auditor of the Company with effect from 31 July 2023. RSM Hong Kong has been appointed as the new auditor of the Company with effect from 18 August 2023 to fill the casual vacancy following the resignation of PwC and to hold office until conclusion of the next annual general meeting of the Company. Please refer to the announcements of the Company dated 2 August 2023 and 18 August 2023 for further details.

## **SUSPENSION OF TRADING, RESUMPTION GUIDANCE AND RESUMPTION PROGRESS**

On 28 March 2023, the Company received a letter from the former auditor of the Company, PwC regarding PwC’s suggestions concerning the Ghana manganese ore trading business of the Group (“**Audit Issues**”). Trading in shares of the Company on the Stock Exchange has been suspended with effect on 30 March 2023.

By way of letter dated 24 May 2023, the Stock Exchange imposed the following resumption guidance (the “**Resumption Guidance**”) for the Company:

- (i) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (ii) conduct an appropriate independent investigation into the Audit Issues, assess their impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions;
- (iii) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules;

- (iv) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; and
- (v) inform the market of all material information for the Company's shareholders and other investors to appraise the Company's position.

The Stock Exchange has stated that the Company must meet all Resumption Guidance, remedy the issues causing its trading suspension and fully comply with the Listing Rules to the Stock Exchange's satisfaction before trading in its securities is allowed to resume and for this purpose, the Company has the primary responsibility to devise its action plan for resumption. The Stock Exchange has further stated that it may modify or supplement the Resumption Guidance if the Company's situation changes. Under Rule 6.01A(1) of the Listing Rules, the Stock Exchange may cancel the listing of any securities that have been suspended from trading for a continuous period of 18 months. In the case of the Company, the 18-month period expires on 29 September 2024. If the Company fails to remedy the issues causing its trading suspension, fulfil the Resumption Guidance and fully comply with the Listing Rules to the Stock Exchange's satisfaction and resume trading in its shares by 29 September 2024, the Listing Division will recommend the Listing Committee to proceed with the cancellation of the Company's listing. Under Rules 6.01 and 6.10 of the Listing Rules, the Stock Exchange also has the right to impose a shorter specific remedial period, where appropriate.

On 31 March 2023, the Company has established an independent investigation committee, consisting of three independent non-executive directors of the Company (the "**Independent Investigation Committee**") to commission and lead the investigation to be conducted by independent professional advisor(s) on the addressed audit issues as requested by the PwC (the "**Independent Investigation**").

On 25 May 2023, the Independent Investigation Committee has engaged RSM Corporate Advisory (Hong Kong) Limited (currently known as "Acclime Corporate Advisory (Hong Kong) Limited"), as an independent forensic accountant ("**Independent Forensic Accountant**"), to undertake an independent investigation. The Independent Forensic Accountant has completed the Independent Investigation and issued the report on the Independent Investigation and provided therein recommendations (the "**Independent Investigation Report**") to the Independent Investigation Committee on 15 September 2023. The Independent Investigation Committee, having reviewed the findings and results of the Independent Investigation, presented the Independent Investigation Report together with its recommendations, to the Board for consideration and approval. The Board concurred with the Independent Investigation Committee that the Independent Forensic Accountant has investigated into the Audit Issues raised by PwC and adequately addressed the concerns raised by PwC. The findings of the Independent Investigation in the Independent Investigation Report are reasonable and acceptable. The Board accepts the Independent Investigation Committee's suggestions to strengthen the procedure in relation to the Ghana manganese trading ore business in order to control the inherent risks.

On 28 July 2023, the Company has appointed SWRS Risk Services Limited as an independent internal control consultant (the “**Independent Internal Control Consultant**”) to conduct an independent internal control review (the “**Internal Control Review**”) on certain aspects of the Group’s internal control procedure, system and control measures in order to fulfil the Resumption Guidance. The Independent Internal Control Consultant has completed the Internal Control Review and has issued a report of its findings and follow up review result (the “**Internal Control Review Report**”). The Board, having reviewed the Internal Control Review Report, considered 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.

For more details regarding the Audit Issues, the Resumption Guidance, the findings of the Independent Investigation and Internal Control Review, and the latest quarterly update on the resumption progress please refer to the announcements of the Company dated 29 March 2023, 28 May 2023, 20 September 2023, 26 September 2023 and 29 September 2023.

The Company is taking appropriate steps to remedy the issues causing the Suspension and fully comply with the Listing Rules to the Stock Exchange’s satisfaction before trading in the shares is allowed to resume. The Company will keep its shareholders and public informed of the developments in this regard by making further announcements as and when appropriate.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

Throughout the six months ended 30 June 2023, 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 2023, 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 2023, 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 2023.

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

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.



## REVIEW OF ACCOUNTS

The Audit Committee has reviewed the unaudited interim results for the six months ended 30 June 2023 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

Alloy Products	silicomanganese alloy and ferromanganese
Audit Committee	audit committee of the Company
Beibu Gulf Canal Company	北部灣運河(廣西)實業有限公司 (Beibu Gulf Canal (Guangxi) Industrial Limited Company), a limited liability company established under the laws of the PRC on 30 December 2022, which we hold 49.00% shareholding
Beibu Gulf Mercantile Exchange	北部灣(廣西)大宗商品交易有限公司 (Beibu Gulf (Guangxi) Mercantile Exchange Limited Company), a limited liability established under the laws of the PRC on 19 May 2022, which we hold 20.00% shareholding
Bembélé Manganese Mine	a manganese mine located in Bembélé, Moyen-Ogooue Province, Gabon, the exploration rights and mining rights of which are owned by 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 the 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
EMD	electrolytic manganese dioxide
EMM	electrolytic manganese metal
EMM Products	EMM and manganese briquette
Gabon	the Gabonese Republic
Group, we or us	the Company and its subsidiaries
Guangxi	Guangxi Zhuang Autonomous Region, the 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	廣西滙元錳業有限公司 (Guangxi Huiyuan Manganese Industry Co., Ltd)
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

Qingdao Manganese	青島錳系投資合夥企業(有限合夥)(Qingdao Manganese Investment Cooperative Enterprise (Limited Partnership)), a limited partnership in which we indirectly hold 16.00% equity interest
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)
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 and Chief Executive Officer*

Hong Kong, 29 November 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.*