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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

- Revenue amounted to HK\$12,830.8 million in 2021, representing an increase of 193.8% from HK\$4,367.6 million in 2020.
- Gross profit amounted to HK\$2,338.9 million in 2021, representing an increase of 305.7% from HK\$576.5 million in 2020. Gross profit margin was 18.2% in 2021, representing an increase of 5.0 percentage points from 13.2% in 2020.
- Non-cash impairment losses on property, plant and equipment and mining right of HK\$236.4 million (2020: HK\$22.2 million) was recognised in 2021.
- Non-cash impairment loss on investment in a 23.99%-owned associate GMG of HK\$15.3 million (2020: HK\$295.8 million) was recognised in 2021.
- Share of losses of associates amounted to HK\$297.3 million (2020: HK\$131.9 million) in 2021.
- Net cash generated from operations amounted to HK\$1,595.1 million (2020: HK\$596.8 million) in 2021, representing an increase of 167.3%.
- Profit attributable to owners of the parent was HK\$466.2 million in 2021 (2020: loss of HK\$437.9 million).
- As at 31 December 2021, net gearing ratio decreased to 92.3% (2020: 134.8%).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
REVENUE	3	12,830,762	4,367,563
Cost of sales		(10,491,823)	(3,791,058)
		<hr/>	<hr/>
Gross profit		2,338,939	576,505
		<hr/>	<hr/>
Other income and gains	3	158,422	248,297
Selling and distribution expenses		(135,371)	(104,626)
Administrative expenses		(597,465)	(381,350)
Impairment losses on property, plant and equipment and mining rights		(236,425)	(22,166)
Impairment losses on financial assets, net		(158,663)	(145,618)
Impairment loss on an investment in an associate		(15,325)	(295,781)
Finance costs	4	(219,533)	(213,865)
Other expenses		(252,296)	(12,121)
Share of profits and losses of:			
– Associates		(297,347)	(131,914)
– A joint venture		–	1,793
		<hr/>	<hr/>
		584,936	(480,846)
Gain on bargain purchase from further acquisition of equity interest in a joint venture		–	69,411
Loss on deemed disposal of partial interest in an associate		–	(92,375)
		<hr/>	<hr/>
PROFIT/(LOSS) BEFORE TAX	5	584,936	(503,810)
		<hr/>	<hr/>
Income tax (expense)/credit	6	(208,751)	45,956
		<hr/>	<hr/>
PROFIT/(LOSS) FOR THE YEAR		376,185	(457,854)
		<hr/> <hr/>	<hr/> <hr/>

<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
OTHER COMPREHENSIVE INCOME:		
<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	1,127	1,182
– Exchange differences on translation of foreign operations	112,905	147,845
– Share of other comprehensive income of an associate	–	449
– Cash flow hedges, net of tax	3,286	691
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	493,503	(307,687)
Profit/(loss) attributable to:		
Owners of the parent	466,185	(437,929)
Non-controlling interests	(90,000)	(19,925)
	376,185	(457,854)
Total comprehensive income/(loss) attributable to:		
Owners of the parent	589,531	(284,755)
Non-controlling interests	(96,028)	(22,932)
	493,503	(307,687)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
	7	
Basic	HK\$0.1360	HK\$(0.1277)
Diluted	HK\$0.1360	HK\$(0.1277)

The Board does not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		3,574,493	3,354,950
Investment properties		114,284	115,394
Right-of-use assets		662,257	676,101
Intangible assets		367,902	478,014
Investments in associates		92,608	306,245
Deferred tax assets		12,897	87,896
Prepayments and other assets		293,917	68,000
		<hr/>	<hr/>
Total non-current assets		5,118,358	5,086,600
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		1,399,096	528,237
Trade and notes receivables	9	1,454,714	1,428,827
Prepayments, other receivables and other assets		1,764,201	817,400
Due from related companies		1,560	4,217
Due from associates		–	17,880
Tax recoverable		505	504
Pledged deposits		200,547	45,495
Cash and cash equivalents		1,045,362	1,129,543
		<hr/>	<hr/>
Total current assets		5,865,985	3,972,103
		<hr/>	<hr/>

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
CURRENT LIABILITIES			
Trade and notes payables	<i>10</i>	1,300,221	683,757
Other payables and accruals		2,009,900	919,595
Derivative financial instruments		–	3,286
Interest-bearing bank and other borrowings		3,623,953	2,675,964
Due to related companies		1,376	1,873
Tax payable		206,723	3,136
		<hr/>	<hr/>
Total current liabilities		7,142,173	4,287,611
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(1,276,188)	(315,508)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,842,170	4,771,092
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		489,942	1,893,415
Deferred tax liabilities		140,669	220,295
Other long-term liabilities		112,456	47,111
Deferred income		54,527	59,198
		<hr/>	<hr/>
Total non-current liabilities		797,594	2,220,019
		<hr/>	<hr/>
Net assets		3,044,576	2,551,073
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		342,846	342,846
Reserves		2,764,519	2,174,988
		<hr/>	<hr/>
		3,107,365	2,517,834
Non-controlling interests		(62,789)	33,239
		<hr/>	<hr/>
Total equity		3,044,576	2,551,073
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2021

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, financial assets at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2021, the Group had net current liabilities of HK\$1,276,188,000 (2020: HK\$315,508,000), out of which HK\$3,602,687,000 represented bank loans repayable within one year.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group’s net current liabilities position as at 31 December 2021. Subsequent to the year end, the Group has i) successfully renewed or obtained new bank loans of HK\$1,117.9 million during the period from 1 January 2022 up to the date of this announcement; and ii) obtained confirmations from certain PRC banks which had confirmed in writing to the Group to renew their short-term loans totaling HK\$882.1 million (equivalent to RMB720.0 million) on repayment when due. The directors of the Company, also taking into account of the expected sales and internally generated funds from its operations and the successful renewals of the bank loans during the year 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 consolidated financial statements have been prepared on a going concern basis.

1.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e. existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1.2 Changes in accounting policies and disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>

The nature and the 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 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. As the Group has no interest-bearing bank loans with floating interest rates as at 31 December 2021, 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.

- (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.

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 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 and rental of investment properties and leasehold lands and investments in companies engaged in mining and production of non-manganese metals and trading business.

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 from continuing operations. 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 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 (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 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 and HK	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2021						
Segment revenue (note 3)						
Sales to external customers	134,391	587,303	4,510,502	1,673,925	5,924,641	12,830,762
Intersegment sales	–	78,123	–	–	46,719	124,842
Other revenue	15,591	9,147	57,846	27,686	41,844	152,114
	<u>149,982</u>	<u>674,573</u>	<u>4,568,348</u>	<u>1,701,611</u>	<u>6,013,204</u>	<u>13,107,718</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						<u>(124,842)</u>
Revenue from operations						<u>12,982,876</u>
Segment results	(137,317)	(43,313)	894,967	292,783	(45,001)	962,119
<i>Reconciliation:</i>						
Interest income						6,308
Corporate and other unallocated expenses						(165,489)
Finance costs (other than interest on lease liabilities)						<u>(218,002)</u>
Profit before tax						584,936
Income tax expense						<u>(208,751)</u>
Profit for the year						<u>376,185</u>
Assets and liabilities						
Segment assets	767,345	504,709	3,984,040	2,284,238	2,074,841	9,615,173
<i>Reconciliation:</i>						
Corporate and other unallocated assets						<u>1,369,170</u>
Total assets						<u>10,984,343</u>
Segment liabilities	465,063	447,371	743,355	866,522	796,540	3,318,851
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities						<u>4,620,916</u>
Total liabilities						<u>7,939,767</u>
Other segment information:						
Depreciation and amortisation	23,015	35,761	300,666	175,275	8,003	542,720
Unallocated depreciation and amortisation						<u>4,253</u>
Total depreciation and amortisation						<u>546,973</u>
Capital expenditure [#]	73,834	61,192	317,354	343,267	24,016	819,663
Unallocated capital expenditure						<u>414</u>
Total capital expenditure						<u>820,077</u>
Impairment losses recognised in profit or loss	<u>167,445</u>	<u>13,280</u>	<u>86,634</u>	<u>5,093</u>	<u>137,961</u>	<u>410,413</u>
(Loss)/gain on disposal of items of property, plant and equipment	<u>(1,107)</u>	<u>–</u>	<u>(19,690)</u>	<u>(16,878)</u>	<u>1,644</u>	<u>(36,031)</u>
Investments in associates	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>92,608</u>	<u>92,608</u>
Share of losses of associates	<u>–</u>	<u>–</u>	<u>(288,900)</u>	<u>–</u>	<u>(8,447)</u>	<u>(297,347)</u>
Settlement expense with a subcontractor	<u>–</u>	<u>(166,045)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(166,045)</u>

[#] Capital expenditure consists of additions to property, plant and equipment, investment properties, right-of-use assets and intangible assets.

	Manganese mining		EMM and alloying materials production	Battery materials production	Other business	Total
	PRC	Gabon	PRC	PRC	PRC and HK	
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Year ended 31 December 2020						
Segment revenue (note 3)						
Sales to external customers	105,064	–	3,089,155	918,448	254,896	4,367,563
Intersegment sales	–	–	–	–	21,089	21,089
Other revenue	25,473	84,267	51,768	9,519	51,233	222,260
	<u>130,537</u>	<u>84,267</u>	<u>3,140,923</u>	<u>927,967</u>	<u>327,218</u>	<u>4,610,912</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						(21,089)
Revenue from operations						<u>4,589,823</u>
Segment results	8,549	78,342	147,490	163,964	(568,984)	(170,639)
<i>Reconciliation:</i>						
Interest income						26,037
Corporate and other unallocated expenses						(152,177)
Finance costs (other than interest on lease liabilities)						(207,031)
Loss before tax						(503,810)
Income tax credit						45,956
Loss for the year						(457,854)
Assets and liabilities						
Segment assets	879,504	154,721	4,130,451	1,633,363	928,088	7,726,127
<i>Reconciliation:</i>						
Corporate and other unallocated assets						1,332,576
Total assets						9,058,703
Segment liabilities	395,044	73,327	904,127	375,878	4,045	1,752,421
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities						4,755,209
Total liabilities						6,507,630
Other segment information:						
Depreciation and amortisation	18,161	10,334	329,535	92,965	5,971	456,966
Unallocated depreciation and amortisation						3,499
Total depreciation and amortisation						<u>460,465</u>
Capital expenditure	32,918	–	229,182	690,345	10,941	963,386
Unallocated capital expenditure						3,581
Total capital expenditure						<u>966,967</u>
Impairment losses recognised in profit or loss	<u>17,710</u>	<u>–</u>	<u>25,380</u>	<u>13,659</u>	<u>411,042</u>	<u>467,791</u>
(Loss)/gain on disposal of items of property, plant and equipment	<u>(1,844)</u>	<u>–</u>	<u>3,892</u>	<u>(14)</u>	<u>13,259</u>	<u>15,293</u>
Investments in associates	<u>–</u>	<u>–</u>	<u>281,769</u>	<u>–</u>	<u>24,476</u>	<u>306,245</u>
Share of losses of associates	<u>–</u>	<u>–</u>	<u>(24,495)</u>	<u>–</u>	<u>(107,419)</u>	<u>(131,914)</u>
Share of profits of a joint venture	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,793</u>	<u>–</u>	<u>1,793</u>

Geographical information

(a) Revenue from external customers

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Mainland China	11,939,795	4,237,886
Asia (excluding Mainland China)	612,554	104,845
Europe	35,890	12,587
North America	242,523	12,245
	<u>12,830,762</u>	<u>4,367,563</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Segment assets		
Mainland China	5,026,005	4,951,294
Africa	79,456	47,410
	<u>5,105,461</u>	<u>4,998,704</u>

The non-current assets information above is based on the locations of assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately HK\$2,303,832,000 (2020: approximately HK\$549,675,000) was derived from sales by trading sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue from contracts with customers	12,830,762	4,367,563

Revenue from contracts with customers

(a) *Disaggregated revenue information*

For the year ended 31 December 2021

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	721,694	4,510,502	1,673,925	5,924,641	12,830,762
Geographical markets					
Mainland China	296,196	4,073,060	1,645,898	5,924,641	11,939,795
Asia (excluding Mainland China)	425,498	182,049	5,007	–	612,554
Europe	–	34,054	1,836	–	35,890
North America	–	221,339	21,184	–	242,523
Total revenue from contracts with customers	721,694	4,510,502	1,673,925	5,924,641	12,830,762
Timing of revenue recognition					
Goods transferred at a point in time with customers	721,694	4,510,502	1,673,925	5,924,641	12,830,762

For the year ended 31 December 2020

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	105,064	3,089,155	918,448	254,896	4,367,563
Geographical markets					
Mainland China	105,064	2,979,629	900,940	252,253	4,237,886
Asia (excluding Mainland China)	–	100,682	4,163	–	104,845
Europe	–	7,407	5,180	–	12,587
North America	–	1,437	8,165	2,643	12,245
Total revenue from contracts with customers	105,064	3,089,155	918,448	254,896	4,367,563
Timing of revenue recognition					
Goods transferred at a point in time with customers	105,064	3,089,155	918,448	254,896	4,367,563

An analysis of other income and gains is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Other income and gains		
Bank and other interest income	6,308	26,037
Gain on disposal of items of property, plant and equipment	–	15,293
Subsidy income*	54,594	65,413
Net subcontracting income [#]	–	85,279
Sale of scraps	35,734	9,660
Gross rental income from investment property operating leases:		
Lease payments, including fixed payments	24,455	25,920
Fair value gains on investment properties	–	121
Others	37,331	20,574
	<u>158,422</u>	<u>248,297</u>

* The amount mainly represented government grants of subsidy and compensation for electricity costs, research and development costs and relocation costs in Mainland China. Conditions or contingencies relating to these grants are fulfilled and they are not deducted from related costs which they are intended to compensate, but recorded in other income.

[#] Pursuant to the subcontracting agreement entered into between the Group and a third party, the Group subcontracted the operation of a mine located in Gabon and is entitled to receive subcontracting income which included a fixed income per annum and a variable income dependent on the sales of ores produced by the subcontractor.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on loans wholly repayable within five years	197,264	199,811
Finance costs for discounted notes receivable	20,464	7,204
Interest on lease liabilities	1,531	6,834
Other finance costs	274	16
	<u>219,533</u>	<u>213,865</u>

5. PROFIT/(LOSS) BEFORE TAX

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of inventories sold [#]	10,488,720	3,791,307
Depreciation of property, plant and equipment	456,131	381,194
Depreciation of right-of-use assets	71,438	58,864
Amortisation of intangible assets	19,404	20,407
Research and development costs	72,265	43,102
Lease payments not included in the measurement of lease liabilities	8,049	7,874
Auditor's remuneration	4,998	3,266
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	682,517	490,696
Pension scheme contributions	83,441	31,408
Other employee welfare	77,155	72,071
	<u>843,113</u>	<u>594,175</u>
Loss/(gain) on disposal of items of property, plant and equipment*	36,031	(15,293)
Foreign exchange differences, net*	33,142	3,075
Share of profits and losses of:		
Associates	297,347	131,914
Joint venture	–	(1,793)
Impairment of inventories/(reversal of impairment), net [#]	3,103	(249)
Impairment of financial assets, net:		
Impairment of trade and notes receivables, net [^]	122,662	46,182
Impairment of financial assets included in prepayments, other receivables and other assets	24,555	66,424
Impairment of an amount due from an associate	11,446	33,012
	<u>158,663</u>	<u>145,618</u>
Impairment loss on property, plant and equipment	69,572	3,582
Impairment loss on mining rights	166,853	18,584
Impairment loss on non-financial assets included in prepayments, other receivables and other assets*	–	4,226
Impairment loss on an investment in an associate	15,325	295,781
Loss on deemed disposal of partial interest in an associate**	–	92,375
Gain on bargain purchase from an acquisition of a subsidiary	–	(69,411)
Settlement expense with a subcontractor***	166,045	–
Fair value losses/(gains) on investment properties*	4,243	(121)

- # HK\$10,491,823,000 (2020: HK\$3,791,058,000) included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.
- * Nil (2020: HK\$15,414,000) included in “Other income and gains” (note 3) and HK\$73,416,000 (2020: HK\$7,301,000) included in “Other expense” in the consolidated statement of profit or loss and other comprehensive income.
- ** In February 2020, the Group recorded a non-cash extraordinary loss of HK\$92,375,000 resulting in dilution in the Group’s shareholding from 29.99% to 23.99% as the Group did not participate in GMG’s right issue.
- *** During the year ended 31 December 2021, Huazhou BVI and a shareholder of an associate of the Group entered a mutual offsetting agreement to net off the mutual debts via transferring assets and liabilities of the shareholder of an associate of the Group. Huazhou BVI recognised the relevant expense of HK\$20,570,000 and HK\$166,045,000 in “Impairment losses on financial assets, net” and “Other expenses”, respectively.

6. INCOME TAX EXPENSE/(CREDIT)

The Group is subject to income tax on an entity basis and assessable based on tax rates prevailing in the jurisdictions in which members of the Group operate.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Current – PRC		
Charge for the year	174,636	7,672
Current – Gabon		
Charge for the year	39,094	–
Deferred	(4,979)	(53,628)
	<u>208,751</u>	<u>(45,956)</u>
Total tax expense/(credit) for the year	<u>208,751</u>	<u>(45,956)</u>

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 year’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.

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

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 3,428,459,000 (2020: 3,428,459,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2021. And no adjustment has been made to the basic earnings/(loss) per share amounts presented for the year ended 31 December 2020 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Earnings/(loss)		
Earnings/(loss) attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	<u>466,185</u>	<u>(437,929)</u>
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	<u>3,428,459,000</u>	<u>3,428,459,000</u>

8. DIVIDENDS

The board does not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

9. TRADE AND NOTES RECEIVABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	1,136,324	1,020,549
Notes receivable	623,637	589,525
	<hr/>	<hr/>
Less: Impairment	1,759,961 (305,247)	1,610,074 (181,247)
	<hr/>	<hr/>
	1,454,714	1,428,827
	<hr/> <hr/>	<hr/> <hr/>

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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one month	507,505	382,677
One to two months	237,332	85,516
Two to three months	50,496	57,887
Over three months	35,744	313,222
	<hr/>	<hr/>
	831,077	839,302
	<hr/> <hr/>	<hr/> <hr/>

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

Notes receivable represent bank acceptance notes issued by banks in Mainland China maturing before December 2022. 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:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	203,168	209,109
One to two months	282,866	141,664
Two to three months	64,498	68,362
Over three months	73,105	170,390
	<u>623,637</u>	<u>589,525</u>
	623,637	589,525

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, is as follows:

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	786,111	388,836
One to two months	369,383	102,932
Two to three months	29,747	61,302
Over three months	114,980	130,687
	<u>1,300,221</u>	<u>683,757</u>
	1,300,221	683,757

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	Increase/(decrease)	
			<i>HK\$'000</i>	%
Revenue	12,830,762	4,367,563	8,463,199	193.8
Gross profit	2,338,939	576,505	1,762,434	305.7
Gross profit margin	18.2%	13.2%	N/A	5.0
Operating profits	1,292,696	112,840	1,179,856	1,045.6
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 and mining right	(236,425)	(22,166)	214,259	966.6
Impairment losses on financial assets, net	(158,663)	(145,618)	13,045	9.0
Impairment loss on an investment in an associate	(15,325)	(295,781)	(280,456)	(94.8)
Loss on deemed disposal of partial interest in an associate	–	(92,375)	(92,375)	(100.0)
Share of profits and losses of				
– Associates	(297,347)	(131,914)	165,433	125.4
– A joint venture	–	1,793	(1,793)	(100.0)
Profit/(loss) before tax	584,936	(503,810)	1,088,746	216.1
Income tax (expense)/credit	(208,751)	45,956	(254,707)	(554.2)
Profit/(loss) for the year	376,185	(457,854)	834,039	182.2
Profit/(loss) attributable to owners of the parent	466,185	(437,929)	904,114	206.5
Loss attributable to non-controlling interests	(90,000)	(19,925)	(70,075)	(351.7)
	376,185	(457,854)	834,039	182.2

Overview

In 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, the global economy was restoring to normal gradually. This was evidenced by increasing profits from enterprises and improving economic data. Such phenomenon was largely attributable to the large scale transitory economic stimulus packages carried out by different countries around the world. The rebound of economies led to significant demand in logistic supplies and temporary distortions of global logistics and supply chains during the year 2021. There are still emerging threats of the COVID-19 variants especially near the end of the year 2021. We expect the recovery of global economy largely depends on the timing to successfully contain the COVID-19 variants.

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 early stages and quickly resumed its industrial productions in 2021 and thus stimulated demand for steel. On other hand, in order to achieve China’s carbon peak and carbon neutrality commitments, the PRC government strengthened the demand side management of electric power and regulate the orderly use of power supply in 2021. Certain EMM suppliers in China therefore slowed down their production and took this opportunity to upgrade their EMM plants to comply with more stringent environmental protection requirements. Such mixtures of demand side momentum and supply side factors have driven up the price of EMM Products significantly. As a result, the average selling price of our EMM Products for 2021 increased significantly by 106.3% to HK\$22,121 per tonne (2020: HK\$10,725 per tonne). The gross profit ratio of EMM Products increased by 29.7 percentage points to 44.2% in 2021 (2020: 14.5%) and the gross profit contribution of EMM Products increased by 369.0% to HK\$1,355.7 million in 2021 (2020: HK\$289.1 million).

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 becomes more stabilized and mature and is achieving encouraging results. In 2021, the Group continues our strategy to cautiously invest and expand our battery material products. By the end of the year 2021, the Group owns Huiyuan Manganese and Daxin EMD Plant with a total annual capacity of 150,000 tonnes per annum which is the largest EMD manufacturer in China with cost advantages including internal supply of manganese ores stably from our Gabon Bembélé Manganese Mine. The Group continues 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 including lithium manganese oxide and high purity manganese sulfate. The Group expects such measures would further integrate our battery materials production segment to grasp market opportunities arising from the commercialization of electric vehicles and development of battery products at unprecedented speed. In view of the development and results in the year 2021, the Group remains optimistic about this business segment.

In 2021, due to the full year effect from further acquisition of equity interest in Huiyuan Manganese in March 2020 and the ramping up of production upon its major technological upgrade completed by the end of the year 2020, the sales volume of EMD increased by 38.5% to 119,539 tonnes in 2021 (2020: 86,294 tonnes) while the average selling price increased by 24.7% to HK\$10,741 per tonne (2020: HK\$8,616 per tonne), the gross profit ratio increased by 3.8 percentage points to 29.2% (2020: 25.4%). Therefore, the gross profit contribution of EMD recorded a remarkable increase of 98.7% to HK\$374.9 million (2020: HK\$188.7 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 2021 increased by 1,045.6% to HK\$1,292.7 million (2020: HK\$112.8 million).

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

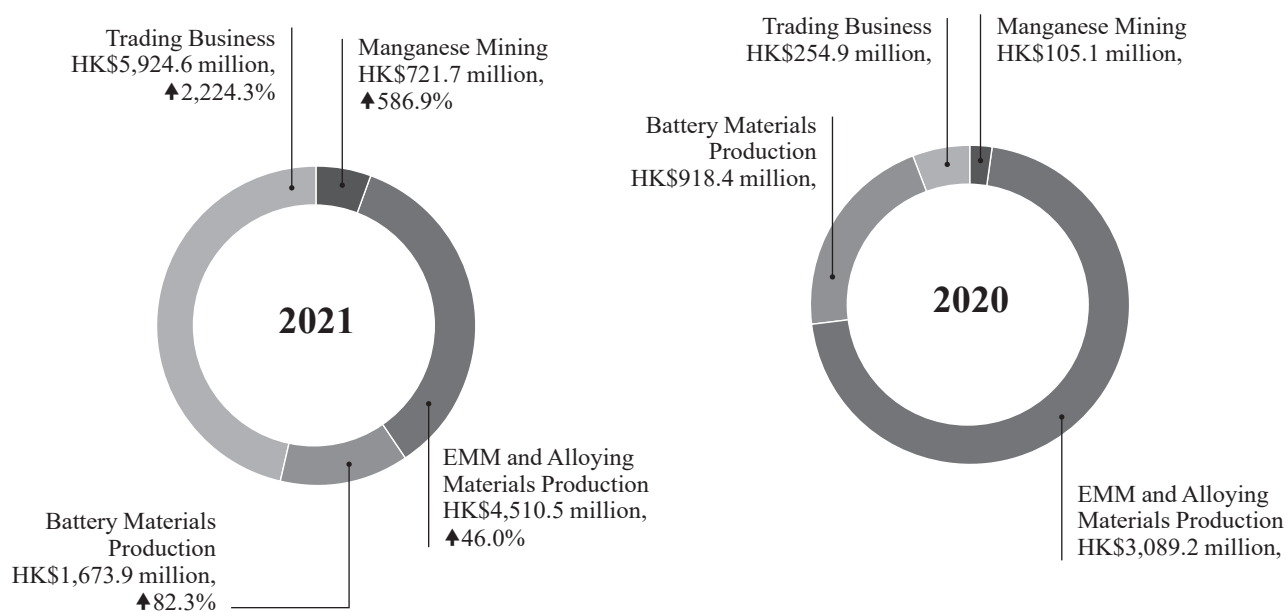
- (a) Impairment losses on property, plant and equipment and mining right of HK\$236.4 million (2020: HK\$22.2 million) were recognised mainly related to (i) further alteration of our expansion plan of Changgou Manganese Mine owned by our 64%-owned subsidiary Zunyi Group led to a further adjustment to its value-in-use and corresponding impairment in value of the mining right, amounting to HK\$166.9 million (2020: HK\$18.6 million); and (ii) certain obsolete plant and machinery during the course of our modifications and upgrades in accordance with our overall strategy to focus on more manganese-related battery materials production, resulting to an impairment loss of HK\$69.5 million (2020: HK\$3.6 million).

- (b) Impairment losses on financial assets of HK\$158.7 million (2020: HK\$145.6 million) were 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\$121.0 million (2020: HK\$31.5 million) which were overdue for over one year.
- (c) Share of losses of associates of HK\$297.3 million (2020: HK\$131.9 million) mainly represents our share of loss of 33.0%-owned Dushan Jinneng of HK\$288.9 million (2020: HK\$24.5 million). The net loss of Dushan Jinneng increased in 2021 mainly due to a provision for settlement expense with a subcontractor and impairment losses on a long outstanding receivable and obsolete equipment.

As a result, the earnings before interest, taxes, depreciation and amortisation (“**EBITDA**”) for 2021 increased by 830.7% to HK\$1,345.1 million (2020: HK\$144.5 million) and the profit attributable to owners of the parent of the Group in 2021 was HK\$466.2 million (2020: loss of HK\$437.9 million).

Comparison with 2020

Revenue by segment



In 2021, the Group’s revenue was HK\$12,830.8 million (2020: HK\$4,367.6 million), representing an increase of 193.8% as compared with 2020. The increase was mainly due to (a) increase in average selling prices of our major products including EMM Products, EMD and silicomanganese alloy; (b) 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 2021, the revenue of our EMM Products accounted for 23.9% (2020: 45.7%) 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 (%)
Year 2021							
Gabon ore (Note)	716,951	819	587,303	553	396,471	190,832	32.5
Manganese concentrate	227,940	486	110,737	345	78,537	32,200	29.1
Natural discharging manganese powder and sand	7,660	3,088	23,654	379	2,902	20,752	87.7
Total	952,551	758	721,694	502	477,910	243,784	33.8
Year 2020							
Gabon ore (Note)	–	–	–	–	–	–	–
Manganese concentrate	268,862	320	86,144	303	81,578	4,566	5.3
Natural discharging manganese powder and sand	6,887	2,747	18,920	368	2,535	16,385	86.6
Total	275,749	381	105,064	305	84,113	20,951	19.9

Note: The Group entered into a subcontracting agreement with a subcontractor, which is also the major shareholder of an associate of the Group, entrusting it with certain rights to operate the Group's Bembélé Manganese Mine in Gabon under the supervision of the Group and subject to certain conditions for a period of five years commencing from 1 March 2017. During the subcontracting period, the Group continues to control the strategy and significant matters of the mine's operation and the Group receives a fixed income of RMB26,000,000 (equivalent to HK\$31,325,000) per annum plus a variable income upon sales of ores mined by the subcontractor and determined with reference to the ore's selling price ("**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 2021.

In 2021, revenue of manganese mining segment increased by 586.9% to HK\$721.7 million (2020: HK\$105.1 million) mainly attributable 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 2021. The gross profit of manganese mining segment increased by 1,063.6% to HK\$243.8 million (2020: HK\$21.0 million) mainly due to increase in sales revenue of Gabon ore and increase in average selling price of manganese concentrate and natural discharging powder and sand.

There was no subcontracting income from Gabon Bembélé Manganese during the year 2021 (2020: HK\$85.3 million) as the subcontracting arrangement was terminated in 2021.

During the year 2021, the results of manganese mining segment recorded a loss HK\$180.6 million (2020: profit of HK\$86.9 million) mainly attributable to (a) increase in impairment loss on mining right of Changgou Manganese Mine and (b) a settlement expense of HK\$166.0 million was recorded, arising from early termination of subcontracting service with the subcontractor of our Gabon Bembélé Manganese Mine .

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 (%)
Year 2021							
EMM	119,102	22,824	2,718,331	12,336	1,469,280	1,249,051	45.9
Manganese briquette	19,580	17,845	349,398	12,396	242,713	106,685	30.5
	<u>138,682</u>	<u>22,121</u>	<u>3,067,729</u>	<u>12,345</u>	<u>1,711,993</u>	<u>1,355,736</u>	<u>44.2</u>
Silicomanganese alloy	168,188	8,379	1,409,280	7,457	1,254,146	155,134	11.0
Others	2,073	16,157	33,493	11,120	23,051	10,442	31.2
Total	<u>308,943</u>	<u>14,600</u>	<u>4,510,502</u>	<u>9,676</u>	<u>2,989,190</u>	<u>1,521,312</u>	<u>33.7</u>
Year 2020							
EMM	150,945	10,707	1,616,135	9,224	1,392,262	223,873	13.9
Manganese briquette	35,281	10,802	381,093	8,953	315,884	65,209	17.1
	<u>186,226</u>	<u>10,725</u>	<u>1,997,228</u>	<u>9,172</u>	<u>1,708,146</u>	<u>289,082</u>	<u>14.5</u>
Silicomanganese alloy	163,835	6,511	1,066,648	6,291	1,030,766	35,882	3.4
Others	3,457	7,312	25,279	6,371	22,023	3,256	12.9
Total	<u>353,518</u>	<u>8,738</u>	<u>3,089,155</u>	<u>7,810</u>	<u>2,760,935</u>	<u>328,220</u>	<u>10.6</u>

Revenue of EMM and alloying materials production segment increased by 46.0% to HK\$4,510.5 million in 2021 (2020: HK\$3,089.2 million) mainly attributable to the followings:

- (a) EMM Products continued to be our major products in terms of revenue and its average selling price recorded a significant increase of 106.3% to HK\$22,121 per tonne (2020: HK\$10,725 per tonne).

- (b) The revenue of silicomanganese alloy increased by 32.1% to HK\$1,409.3 million (2020: HK\$1,066.6 million) mainly attributable to increase in average selling price of silicomanganese alloy by 28.7% to HK\$8,379 per tonne in 2021 (2020: HK\$6,511 per tonne).

The above impact is partially offset by the following:

- (c) The sales volume of EMM Products decreased by 25.5% to 138,682 tonnes in 2021 (2020: 186,226 tonnes) mainly due to the Group has slowed down its production to carry out upgrades on production plants and also partly because of power supply restrictions in China.

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 363.5% to HK\$1,521.3 million (2020: HK\$328.2 million) and the EMM and alloying materials production segment recorded a profit of HK\$895.0 million (2020: HK\$147.5 million), representing an increase of 506.8%.

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 (%)
Year 2021							
EMD	119,539	10,741	1,283,990	7,605	909,083	374,907	29.2
Manganese sulfate	27,798	3,780	105,089	3,239	90,031	15,058	14.3
Lithium manganese oxide	6,012	43,236	259,936	34,371	206,640	53,296	20.5
NCM	192	129,740	24,910	122,438	23,508	1,402	5.6
Total	153,541	10,902	1,673,925	8,006	1,229,262	444,663	26.6
Year 2020							
EMD	86,294	8,616	743,518	6,429	554,808	188,710	25.4
Manganese sulfate	29,742	3,373	100,330	2,532	75,318	25,012	24.9
Lithium manganese oxide	2,951	24,461	72,184	21,760	64,213	7,971	11.0
NCM	24	100,667	2,416	103,125	2,475	(59)	(2.4)
Total	119,011	7,717	918,448	5,855	696,814	221,634	24.1

Revenue of battery materials production segment increased significantly by 82.3% to HK\$1,673.9 million (2020: HK\$918.4 million) and gross profit of this segment increased by 100.6% to HK\$444.7 million (2020: HK\$221.6 million) mainly attributable to the followings:

- (a) EMD continued to be our major battery materials product and the sales volume of EMD substantially increased by 38.5% to 119,539 tonnes (2020: 86,294 tonnes) mainly attributable to (i) the further acquisition of 65.17% equity interest of Huiyuan Manganese on 30 March 2020 as the Group consolidated the operating results of Huiyuan Manganese for the whole year in the year 2021 as contrary to only nine months in 2020; and (ii) ramping up of production by Huiyuan Manganese after its major technological upgrade completed by the end of the year 2020.
- (b) In 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 lithium manganese oxide increased.

As a result of the net effect of (a) increasing sales volume and average selling price of EMD and lithium manganese oxide in 2021; and (b) the Group did not record the gain on bargain purchase of HK\$69.4 million from further acquisition of equity interest of Ningbo Dameng Group as contrary to 2020, the results of battery materials production segment recorded a profit of HK\$292.8 million (2020: HK\$164.0 million), representing an increase of 78.6%.

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>
Year 2021				
Trading	<u>5,924,641</u>	<u>5,795,461</u>	<u>129,180</u>	<u>2.2</u>
Year 2020				
Trading	<u>254,896</u>	<u>249,196</u>	<u>5,700</u>	<u>2.2</u>

Revenue of other business segment increased by 2,224.3% to HK\$5,924.6 million (2020: HK\$254.9 million) mainly because the Group cautiously resumed its trading business of manganese ore and non-manganese metals to build up the supply chain operations in Guangxi and Hong Kong in 2021.

Cost of Sales

Total cost of sales increased by 176.8% to HK\$10,491.8 million in 2021 (2020: HK\$3,791.1 million) in line with the increase of the revenue and soaring prices of raw materials.

Gross Profit

In 2021, the Group recorded a gross profit of HK\$2,338.9 million (2020: HK\$576.5 million), which represented an increase of HK\$1,762.4 million from 2020, or 305.7%. The Group's overall gross profit margin was 18.2%, representing an increase of 5.0 percentage points from 13.2% in 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 36.2% to HK\$158.4 million (2020: HK\$248.3 million) in 2021 mainly due to decrease in net subcontracting income from Gabon Bembélé Manganese Mine.

Selling and Distribution Expenses

Selling and distribution expenses increased by 29.4% to HK\$135.4 million (2020: HK\$104.6 million) in 2021 mainly attributable to increase in sales volume and the transportation costs of EMD.

Administrative Expenses

Administrative expenses increased by 56.7% to HK\$597.5 million (2020: HK\$381.4 million) in 2021 mainly attributable to (a) increase in staff costs including social insurance contributions and performance related bonus; and (b) increase in product research and development expenses.

Impairment Losses on Property, Plant and Equipment and Mining Right

The amount represents impairment loss on mining right of HK\$166.9 million (2020: HK\$18.6 million) and impairment losses on property, plant and equipment of HK\$69.5 million (2020: HK\$3.6 million).

(a) *Impairment Loss on Mining Right*

At 31 December 2021, the Group recognised an impairment loss of HK\$166.9 million (2020: HK\$18.6 million) in respect of Changgou Manganese Mine owned by our 64%-owned subsidiary Zunyi Group to write down to the recoverable amount of the mining right and its related infrastructure and plant and machinery (“CGU”) of HK\$423.3 million. As a result of power supply restrictions and more stringent environmental regulations for ore production, downstream production plants near Changgou Manganese Mine are expected to close down or move out. Hence demand for manganese ores from Changgou Manganese Mine is expected to drop. Therefore we are minded in the expansion plan of Changgou Manganese Mine and made alterations to the plan by reducing the investments and adjusting its outputs to cope with the change in conditions. Further alternations during the year of our expansion plan of Changgou Manganese Mine led to an adjustment to its value-in-use and therefore a corresponding impairment in value of the mining right.

The Group has assessed the value-in-use of Changgou Manganese Mine by discounting the future cash flows generated from the continuous use of the CGU. The major assumptions used in the discounted cash flows include discount rate, future production volume, estimated selling prices, capital expenditure and operating expenditure. The most critical assumptions are production volume, selling prices and discount rate as follow:

	31 December 2021	31 December 2020
(a) Production volume of ore ('000 tonnes)		
i) First year of production	338	200
ii) Second and third years of production	636	711
iii) Fourth to last year of production	5,611	6,337
	<hr/> 6,585 <hr/>	<hr/> 7,248 <hr/>
(b) Average selling price (HK\$/tonnes)	502	527
(c) Pre-tax discount rate	11.1%	9.7%

For valuation as at 31 December 2021, the production volume was determined based on estimated ore reserves which was assessed by the local Bureau of Geology and Mineral Exploration in accordance with the relevant rules governing the exploration of geology and mineral resources and future production plan as expanded starting from the year 2022.

The assumed average ore selling price of HK\$502 per tonne (equivalent to RMB417 per tonne) (2020: HK\$527 per tonne, equivalent to RMB442 per tonne) over the remaining useful life of the mining rights was estimated with reference to historic average market price of ore and current market condition in accordance with Guiding Opinions on Determination of Mining Rights Evaluation Parameters (or “礦業權評估參數確定指導意見” in Chinese).

The discount rate was determined using weighted average cost of capital calculation taking into account of the specific risk factor for the business operation.

(b) Impairment Losses on Property, Plant and Equipment

At 31 December 2021, the Group recognised an impairment loss of HK\$69.5 million represents:

- (i) an impairment loss of HK\$46.8 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 2021, 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\$46.8 million was recognised in 2021 to write down to its recoverable amount of HK\$26.6 million. The recoverable amount was determined by estimating the fair values of items of plant and machinery less their costs to sell.
- (ii) an impairment loss on obsolete plant and machinery of HK\$22.7 million in relation to a production plant in Tiandong arising during the course of upgrading its EMM production plant, certain obsolete production facilities and machinery were impaired to their recoverable amounts. The recoverable amounts were 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 (a) impairment loss on trade and notes receivables due from one of our major customers including its subsidiaries of HK\$121.0 million (2020: HK\$31.5 million); (b) impairment loss on a loan due from an associate GMG of HK\$11.4 million (2020: HK\$33.0 million); and (c) impairment losses on other long outstanding receivables.

Impairment Loss on an Investment in an Associate

According to the announcements issued by GMG, 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.

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

Finance Costs

In 2021, the Group's finance costs remain constant at HK\$219.5 million (2020: HK\$213.9 million), representing an increase of 2.7%.

Other Expenses

Other expenses of HK\$252.3 million (2020: HK\$12.1 million) mainly represents a settlement expense with the subcontractor in Gabon Bembélé Manganese Mine, foreign exchange losses and losses on disposals of property, plant and equipment. The increase was primarily due to (a) a settlement expense of HK\$166.0 million was recorded from early termination of subcontracting service with the subcontractor of our Gabon Bembélé Manganese Mine; (b) appreciation of United States dollars against RMB and EURO resulting in exchange loss in operations in Hong Kong and Gabon; and (c) losses on disposals of property, plant and equipment arising from upgrades of EMM production plants while certain obsolete equipment was disposed.

Share of Losses of Associates

Share of losses of associates of HK\$297.3 million (2020: HK\$131.9 million) represents:

- (a) share of loss of Dushan Jinmeng, a 33.0%-owned associate of the Group, of HK\$288.9 million (2020: HK\$24.5 million) mainly due to (i) provision for settlement expenses with a construction subcontractor; (ii) impairment losses on its property, plant and equipment owing to certain delays of its construction project; and (iii) impairment loss on a long outstanding receivable.
- (b) share of loss of GMG, a 23.99%-owned associate of the Group, of HK\$9.1 million (2020: HK\$107.4 million) mainly due to temporary suspension of operations of certain operating mines because of the COVID-19 and political unrest in Myanmar.
- (c) share of profit of Qingdao Manganese, a 16.35%-owned associate of the Group, of HK\$0.7 million (2020: nil).

Income Tax Expense

In 2021, the effective tax rate was 35.7% (2020: 9.1%), being higher than the statutory corporate income tax rates of the jurisdictions in which the Group operates, as share of losses of associates were non-deductible for tax purpose and certain subsidiaries in the PRC recorded losses in 2021 but did not recognize deferred tax arising from such losses for the sake of prudence.

Profit Attributable to Owners of the Parent

For 2021, the Group's profit attributable to owners of the parent was HK\$466.2 million (2020: loss of HK\$437.9 million).

Earnings per Share

For 2021, earnings per share attributable to ordinary equity holders of the Company was HK\$0.1360 (2020: loss per share HK\$0.1277).

Final Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2021 (2020: Nil).

Use of Proceeds from IPO

Up to 31 December 2021, we utilised the net proceeds raised from the IPO in accordance with the designated uses set out in the Prospectus as follows:

Description	Amount designated in Prospectus (HK\$ Million)	Amount utilised up to 31.12.2021 (HK\$ Million)	% utilised	Amount utilised up to 31.12.2020 (HK\$ Million)	% utilised
1 Expansion project at Daxin EMD Plant	79	79	100.0%	79	100.0%
2 Expansion project of underground mining and ore processing at Daxin Mine	278	278	100.0%	278	100.0%
3 Expansion and construction projects of our EMM production facilities	516	516	100.0%	516	100.0%
4 Construction project at Chongzuo Base	59	59	100.0%	59	100.0%
5 Development of Bembélé manganese mine and associated facilities	119	119	100.0%	119	100.0%
6 Technological improvement and renovation projects at our production facilities	40	40	100.0%	40	100.0%
7 Acquisition of mines and mining rights	397	301	75.8%	282	71.0%
8 Repayment on a portion of our bank borrowings	297	297	100.0%	297	100.0%
9 Working capital and other corporate purposes	198	198	100.0%	198	100.0%
Total	1,983	1,887	95.2%	1,868	94.2%

As at 31 December 2021, proceeds from IPO designated for acquisition of mines and mining rights to the extent of HK\$96.0 million was not yet utilised. According to the Prospectus, the proceeds shall be used for the acquisition of mines, mining rights in relation to mines with identified mining resources or related production facilities. During the year 2021, HK\$19.4 million was utilised and paid to the PRC government to extend the mining right of Changgou Manganese Mine. The unutilised portion of IPO proceeds continues to be maintained in deposits with licensed banks.

Liquidity and Financial Resources

Cash and bank balances

As at 31 December 2021, the currency denomination of the Group's cash and bank balances including pledged deposits were as follows:

Currency Denomination	2021 <i>HK\$ million</i>	2020 <i>HK\$ million</i>
Denominated in:		
RMB	1,122.5	1,028.0
HKD	1.8	7.9
USD	85.5	133.2
XAF	36.1	5.8
EUR	–	0.1
	<hr/> 1,245.9 <hr/>	<hr/> 1,175.0 <hr/>

As at 31 December 2021, our cash and bank balances including pledged deposits were HK\$1,245.9 million (2020: HK\$1,175.0 million) while the Group's borrowings amounted to HK\$4,113.9 million (2020: HK\$4,569.4 million). The Group's borrowings net of cash and bank balances amounted to HK\$2,868.0 million (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 31 December 2021, inventories increased by 164.9% to HK\$1,399.1 million mainly attributable to (i) increase in inventories and production materials for Gabon Bembélé Manganese Mine and (ii) increase in inventories of EMM Products to fulfil customer order as the Group plans to slow down its production in the first quarter of the year 2022.
- (b) At 31 December 2021, prepayments, other receivables and other assets classified under current assets increased by 115.8% to HK\$1,764.2 million (2020: HK\$817.4 million). It was mainly attributable to (i) increase in prepayment for purchase of manganese ores by the Group to secure supplies for trading and production purposes; and (ii) more suppliers in battery materials production segment request advance payment for purchase of raw materials in the year 2021 due to rapid growth of the market demand.
- (c) At 31 December 2021, trade and notes payables increased by 90.2% to HK\$1,300.2 million (2020: HK\$683.8 million) mainly attributable to (i) increase in trade payable balance of EMD suppliers due to ramping up of EMD production and (ii) increase in notes payable balance from trading business.
- (d) At 31 December 2021, other payables and accruals increased by 118.6% to HK\$2,009.9 million (2020: HK\$919.6 million) mainly attributable to (i) increase in receipt in advance from customers of trading business and (ii) increase in value-added tax payable in China.

Net current liabilities

As at 31 December 2021, the Group's net current liabilities increased to HK\$1,276.2 million (2020: HK\$315.5 million). The increase was mainly due to reclassification of certain long-term bank loans to short-term bank loans as they were due within one year as at 31 December 2021.

Bank and other Borrowings

As at 31 December 2021, the Group's borrowing structure and maturity profile were as follows:

Borrowing structure	2021	2020
	<i>HK\$ million</i>	<i>HK\$ million</i>
Secured borrowings (including lease liabilities)	42.6	39.5
Unsecured borrowings	4,071.3	4,529.9
	4,113.9	4,569.4

Maturity profile	2021 <i>HK\$ million</i>	2020 <i>HK\$ million</i>
Repayable:		
On demand or within one year	3,624.0	2,676.0
After one year and within two years	478.1	1,434.5
After two years and within five years	11.8	458.9
	<hr/> 4,113.9 <hr/>	<hr/> 4,569.4 <hr/>
Currency denomination	2021 <i>HK\$ million</i>	2020 <i>HK\$ million</i>
Denominated in:		
RMB	4,060.9	4,130.8
USD	53.0	438.6
	<hr/> 4,113.9 <hr/>	<hr/> 4,569.4 <hr/>

As at 31 December 2021, borrowings as to the amounts of HK\$2,301.0 million (2020: HK\$2,380.6 million) and HK\$1,812.9 million (2020: HK\$2,188.8 million), carry fixed and floating rate interest respectively. The fixed rate borrowings carry interest at rates ranging from 0.91% to 5.50%. The floating rate borrowings comprise RMB denominated loans carrying interest at a premium up to 10% above the China Loan Prime Rate.

Overall, aggregate borrowings decreased to HK\$4,113.9 million (2020: HK\$4,569.4 million). The Group is continuing to explore various means including short-term or medium-term notes to improve borrowing structure in terms of interest rate level and repayment terms.

Charge on group assets

As at 31 December 2021, (a) right-of-use assets of HK\$147.9 million (2020: HK\$147.3 million) related to property, plant and equipment were held under leases; and (b) bank balances of HK\$200.6 million (2020: HK\$45.5 million) and notes receivable of nil (2020: HK\$90.8 million) were pledged to secure certain of the Group's bank acceptance notes payable.

Guarantees

- (a) As at 31 December 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 associate's holding company, according to their respective shareholding percentage on a several basis.

As at 31 December 2021, the associate's banking facilities guaranteed by the Group and the associate's holding company amounted to RMB800.0 million (equivalent to HK\$980.0 million) and were utilised to the extent of RMB559.9 million (equivalent to HK\$685.9 million) as at 31 December 2021 (2020: RMB564.9 million, equivalent to HK\$673.4 million).

- (b) As at 31 December 2021, loan facilities provided by Guangxi Dameng to a company (the "**Borrower**"), in which the Group has a 10% equity interest, were guaranteed by the Group and the major shareholder of the Borrower according to the shareholding percentage on a several basis.

As at 31 December 2021, loan facilities guaranteed by the Group and the holding company of the Borrower amounted to RMB100.0 million (equivalent to HK\$122.5 million) (2020: RMB100.0 million, equivalent to HK\$119.2 million) and were utilised to the extent of RMB50.0 million (equivalent to HK\$61.3 million) (2020: RMB85.0 million, equivalent to HK\$101.3 million) by the Borrower.

Key Financial Ratios of the Group

	2021	2020
Current ratio	0.82	0.93
Quick ratio	0.63	0.80
Net gearing ratio	92.3%	134.8%

Current ratio = balance of current assets at the end of the year/balance of current liabilities at the end of the year

Quick ratio = (balance of current assets at the end of the year – balance of inventories at the end of the year)/balance of current liabilities at the end of the year

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 31 December 2021, current ratio and quick ratio decreased because certain long-term bank loans becoming repayable within one year have been reclassified from long-term to current at 31 December 2021. Net gearing ratio improved mainly due to total comprehensive income attributable to the owners of the parent in 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 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\$1,276.2 million as at 31 December 2021. Subsequent to the year end, the Group has i) successfully renewed or obtained new bank loans of HK\$1,117.9 million during the period from 1 January 2022 up to the date of this announcement and ii) obtained confirmations from certain PRC banks which had confirmed in writing to the Group to renew their short-term bank loans totaling HK\$882.1 million on repayment when due. The directors of the Company, also taking into account of the expected sales and internally generated funds from its operations and the successful renewals of bank loans during the year 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 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. 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 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 31 December 2021, the customer with the largest balance of trade and notes receivables of the Group was a customer together with its subsidiaries ("**Customer A**") principally engaged in manganese ferroalloy production and manganese ore trading in the PRC and manganese mining in Gabon and the PRC. Customer A maintains close business relationship with major steel plants in the PRC. The Group supplies manganese ores to Customer A, which is also our subcontractor of Gabon Bembélé Manganese Mine.

Due to rapid cooling down in market demand of manganese ores and significant decrease in market ore price since the fourth quarter of the year 2019, liquidity risk for a large number of alloy and manganese ore suppliers in China including Customer A significantly increased. The market was further dampened by the outbreak of the COVID-19 in the year 2020. As a result, the overdue trade receivables balance of Customer A increased since the year 2019.

To contain the credit risk with Customer A and to secure the continuing production of Gabon Bembélé Manganese Mine, the Group started the process to take over the mining operations in Gabon since the second half of the year 2020. On 30 March 2021, the Group reached an agreement with Customer A to terminate the subcontracting arrangement with effect from 31 December 2020 and began the mining operations of Gabon Bembélé Manganese Mine on its own. The Group then took over the custody of Customer A's assets (mainly ore inventories) in Gabon ("**Gabon Assets**") and started the process of transferring those assets to the Group as partial repayment of the outstanding balance due from Customer A. After a thorough due diligence and asset valuations procedures and ongoing negotiations with Customer A, the Group finally reached an agreement with Customer A on 18 December 2021 to transfer the Gabon Assets at a total net worth of HK\$210.7 million to the Group.

As a result, at 31 December 2021, trade receivables balance due from Customer A decreased to HK\$231.6 million (2020: HK\$392.3 million) and represented 20.9% of the Group's total trade receivable. The balance was totally overdue and fully provided at 31 December 2021. The Group is now in the process to negotiate a repayment schedule with Customer A 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 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 secured interest rate swap contracts to effectively lock up certain United States dollars floating rate loan to fixed rate loan to contain interest rate risk from time to time.

Foreign exchange risk

The Group's operations are primarily in Hong Kong, the PRC 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 for self-use from overseas 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 expenses are denominated in RMB and XAF, which is pegged to EURO; while the freight charges are dominated 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 2021, the COVID-19 had been effectively under control in China 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 gradual increase in vaccination coverage in China, we are cautiously optimistic about the continuous recovery of the economy of China. 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 different 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 five areas, 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 China National Manganese Industry Technology Committee EMM Innovation Alliance (“全國錳業技術委員會電解金屬錳創新聯盟”), strengthen the cooperation within the industry with common objectives to improve and upgrade our industry, accelerate eco-friendly development and achieving sustainable development, which are achieving notable progress.

Although the Group becomes the largest EMD manufacturer in China, we continue 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 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).

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 silicomanganese alloy products through its technical teams in Qinzhou Ferroalloy Plant and Xingyi Ferroalloy Plant and control of overseas rich ore resources, and cooperate with the government, relying on Qinzhou Port as the largest manganese ore distribution centre in the Southern China, to develop commodity trading platform, integrate trading and industrial production 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. Following our 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.

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. We integrate Guangxi-Hong Kong supply chain financing activities through our supply chains operations, further enhance our financing abilities in Guangxi and Hong Kong and effectively reduce our finance costs. The Group strongly emphasizes the importance of liquidity and will continue to take measures to secure adequate working capital for our business operations.

OTHER INFORMATION

Annual General Meeting

The annual general meeting of the Company is tentatively scheduled to be held on Thursday 2, June 2022 (“**2022 AGM**”). Notice of the 2022 AGM will be published and issued to shareholders in due course.

Closure of Register of Members

The register of members will be closed from Friday, 27 May 2022 to Thursday, 2 June 2022, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2022 AGM, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 26 May 2022.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

Audit Committee

In compliance with the Listing Rules, the Audit Committee comprising three Independent Non-executive Directors has reviewed the accounting policies adopted by the Group and discussed auditing, risk management, internal controls and financial reporting matters including a review of the consolidated results of the Group for the year ended 31 December 2021.

Financial Information

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2021, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee, approved by the Board and agreed by the Group's external auditors, Ernst & Young. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

Corporate Governance

The Company is committed to maintaining a good and sensible framework of corporate governance and to complying with applicable statutory and regulatory requirements with a view to assuring the conduct of the management of the Company as well as protecting the interests of all shareholders. The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company.

The Board is of the view that the Company has, for the year ended 31 December 2021, save for the deviation from the code provision A.2.1 applied the principles and 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

As detailed in the Corporate Governance Report in our 2020 Annual Report, since 22 December 2020, the posts of Chairman and Chief Executive Officer were combined and Mr. Li Weijian assumed both the Chairman and the Chief Executive Officer of the Company and such practice deviates from code provision A.2.1 of the CG Code as set forth in Appendix 14 to Listing Rules. The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being

independent non-executive Directors, which can provide sufficient checks to protect the interests of the Company and the Shareholders. 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 the rules of no less stringent than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Securities Dealings Code") as its code of conduct for dealings in securities of the Company by the Directors.

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 year.

Publication of Final Results and Annual Report on the Stock Exchange

The final results announcement is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.southmn.com>). The annual report will be despatched to the shareholders and will be available on the websites of the Stock Exchange and the Company in due course.

Our Appreciation

Finally, we would like to express our gratitude to the Shareholders, business partners, suppliers and customers for their unfaltering support. We would also like to thank our dedicated staff for their contributions to the success of the Group.

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

Performance and results of the operations of the Company for previous years described within this announcement are historical in nature. Past performance is no guarantee of the future results of the Company. This announcement may contain forward-looking statements and opinions, and therefore risks and uncertainties are involved. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. None of the Company, the Directors, employees or agents assumes (a) any obligation to correct or update any forward looking statements or opinions contained in this announcement; and (b) any liability arising from any forward looking statements or opinions that do not materialise or prove to be incorrect.

GLOSSARY OF TERMS

Audit Committee	audit committee of the Company
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
BVI	the British Virgin Islands
Changgou Manganese Mine	貴州遵義匯興鐵合金有限責任公司長溝錳礦 (G u i z h o u Zunyi Hui Xing Ferroalloy Limited Company Changgou Manganese Mine)
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)
Daxin EMD Plant	an EMD production plant located in Daxin county, Guangxi, owned and operated by a wholly owned subsidiary of the Group
Daxin Mine	南方錳業集團有限責任公司大新錳礦 (South Manganese Group Limited Daxin Manganese Mine)
Director(s)	the director(s) of our Company
Dushan Jinmeng	獨山金孟錳業有限公司 (Dushan Jinmeng Manganese Limited Company)
EMD	electrolytic manganese dioxide

EMM	electrolytic manganese metal
EMM Products	EMM and manganese briquette
Gabon	the Gabonese Republic
GMG	Greenway Mining Group Limited (信盛礦業集團有限公司) (Stock Code:2133.HK), a limited liability company incorporated under the laws of the Cayman Islands on 30 November 2009
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 Industry 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
Huazhou BVI Group	Huazhou Mining Investment Limited together with its subsidiaries (including Compagnie Industrielle et Commerciale des Mines de Huazhou)
Huiyuan Manganese	廣西滙元錳業有限公司 (Guangxi Huiyuan Manganese Industry Co., Ltd)
IPO	the initial public offering and listing of Shares of the Company on the main board of the Stock Exchange on 18 November 2010
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

NCM	Lithium Nickel Cobalt Manganese Oxide
Ningbo Dameng	寧波大錳投資管理合伙企業(有限合伙) (Ningbo Dameng Management Partnership (Limited Partnership))
Ningbo Dameng Group	Ningbo Dameng together with its subsidiary Huiyuan Manganese
Prospectus	the prospectus of the Company dated 8 November 2010
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 16.35% equity interest
Qinzhou Ferroalloy Plant	the ferroalloy production plant located near Qinzhou port and owned and operated by 欽州大錳新材料有限公司 (Qinzhou Dameng New Materials Co., Ltd.), a company in which we indirectly hold 70% equity interest
Shares	ordinary shares in the share capital of the Company, with a nominal value of HK\$0.10 each
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
Xingyi Ferroalloy Plant	a ferroalloy production plant located in Xingyi, Guizhou, leased and operated by a wholly owned subsidiary of the Group
Zunyi Company	南方錳業集團遵義有限公司 (South Manganese Group Zunyi Co., Ltd.), formerly known as 貴州遵義匯興鐵合金有限責任公司 (Guizhou Zunyi Hui Xing Ferroalloy Limited Company)

Zunyi Group

Zunyi Company together with its subsidiaries

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, 25 March 2022

As at the date of this announcement, the executive Directors are Mr. Li Weijian, Mr. Zhang He and Mr. Xu Xiang; 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.