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South Manganese Investment Limited

南方錳業投資有限公司

(incorporated in Bermuda with limited liability)

(Stock Code: 1091)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- Revenue amounted to HK\$9,008.6 million for 1H 2022, representing an increase of 113.1% from HK\$4,228.3 million of 1H 2021.
- Gross profit amounted to HK\$1,134.5 million for 1H 2022, representing an increase of 58.9% from HK\$714.0 million of 1H 2021. Gross profit margin was 12.6% for 1H 2022, representing a decrease of 4.3 percentage points from 16.9% for 1H 2021.
- Operating profit amounted to HK\$657.8 million for 1H 2022, representing an increase of 78.9% from HK\$367.7 million for 1H 2021.
- Profit attributable to owners of the parent amounted to HK\$453.3 million for 1H 2022, representing an increase of 1,955.0% from HK\$22.1 million for 1H 2021.

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

Six months ended 30 June 2022

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
REVENUE	3	9,008,594	4,228,335
Cost of sales		(7,874,097)	(3,514,341)
Gross profits		1,134,497	713,994
Other income and gains	3	102,353	74,357
Selling and distribution expenses		(73,676)	(59,822)
Administrative expenses		(402,166)	(251,436)
Impairment losses on property, plant and equipment and mining rights	5	(126,297)	(45,557)
Reversals of impairment losses/(impairment losses) on financial assets, net	5	2,651	(129,416)
Impairment loss on an investment in an associate	5	–	(15,325)
Finance costs	4	(97,830)	(98,867)
Other expenses		(5,392)	(10,564)
Share of profits and losses of associates		346	(103,082)
PROFITS BEFORE TAX	5	534,486	74,282
Income tax expenses	6	(109,507)	(50,166)
PROFITS FOR THE PERIOD		424,979	24,116
OTHER COMPREHENSIVE INCOME/(LOSS)			
<i>Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:</i>			
– Changes in fair value of financial assets at fair value through other comprehensive income, net of tax		131	330
– Exchange differences on translation of foreign operations		(183,263)	35,795
– Cash flow hedges, net of tax		–	2,541
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		241,847	62,782

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Profit/(loss) attributable to:			
Owners of the parent		453,339	22,060
Non-controlling interests		(28,360)	2,056
		<u>424,979</u>	<u>24,116</u>
Total comprehensive income/(loss) attributable to:			
Owners of the parent		265,245	59,112
Non-controlling interests		(23,398)	3,670
		<u>241,847</u>	<u>62,782</u>
Earnings per share attributable to ordinary equity holders of the parent:			
	7		
– Basic		<u>HK\$0.1322</u>	<u>HK\$0.0064</u>
– Diluted		<u>HK\$0.1322</u>	<u>HK\$0.0064</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	<i>Notes</i>	30 June 2022	31 December 2021
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		3,675,629	3,574,493
Investment properties		109,321	114,284
Right-of-use assets		581,328	662,257
Intangible assets		225,772	367,902
Investments in associates		85,655	92,608
Deferred tax assets		–	12,897
Prepayments and other assets		345,917	293,917
		<hr/>	<hr/>
Total non-current assets		5,023,622	5,118,358
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		1,498,971	1,399,096
Trade and notes receivables	9	1,109,885	1,454,714
Prepayments, other receivables and other assets		1,561,101	1,764,201
Due from related companies		35,823	1,560
Tax recoverable		482	505
Pledged deposits		516,975	200,547
Cash and cash equivalents		1,324,256	1,045,362
		<hr/>	<hr/>
Total current assets		6,047,493	5,865,985
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and notes payables	10	1,389,432	1,300,221
Other payables and accruals		1,299,202	2,009,900
Interest-bearing bank and other borrowings		3,598,147	3,623,953
Due to related companies		3,047	1,376
Tax payable		59,885	206,723
		<hr/>	<hr/>
Total current liabilities		6,349,713	7,142,173
		<hr/>	<hr/>
NET CURRENT LIABILITIES		(302,220)	(1,276,188)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,721,402	3,842,170
		<hr/>	<hr/>

	30 June 2022	31 December 2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	1,066,905	489,942
Deferred tax liabilities	153,748	140,669
Other long-term liabilities	111,605	112,456
Deferred income	71,935	54,527
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Total non-current liabilities	1,404,193	797,594
	<hr/>	<hr/>
Net assets	3,317,209	3,044,576
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EQUITY		
Equity attributable to owners of the parent		
Issued capital	342,846	342,846
Reserves	3,029,764	2,764,519
	<hr/>	<hr/>
	3,372,610	3,107,365
Non-controlling interests	(55,401)	(62,789)
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Total equity	3,317,209	3,044,576
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NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

1. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES

1.1 Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing Securities on the Stock Exchange and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

In preparing the interim condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its current assets by HK\$302.2 million as at 30 June 2022. Subsequent to the end of the reporting period, the Group has successfully obtained new short-term bank loans of HK\$360.9 million during the period from 1 July 2022 up to the date of this announcement. The directors of the Company, also taking into account of internally generated funds from its operations, are of the opinion that, the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the interim condensed consolidated financial statements have been prepared on a going concern basis.

1.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised as a mixture of both business products and geographical locations based on their products and services and has four reportable operating segments as follows:

(a) Manganese mining segment (PRC and Gabon)

The manganese mining segment engages in the mining and production of manganese products including principally, through the Group's integrated processes, the mining, beneficiation, concentrating, grinding and the production of manganese concentrates and natural discharging manganese powder and sand;

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

The EMM and alloying materials production segment comprises mining and processing ores used in hydrometallurgical processing for/and production of EMM Products, 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 EMD, manganese sulfate, lithium manganese oxide and lithium nickel cobalt manganese oxide; and

(d) Other business segment (PRC and HK)

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profits before tax. The adjusted profits before tax is measured consistently with the Group's profits before tax except that interest income, non-lease-related finance costs, production halt expenses as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, deferred tax liabilities, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers between group companies are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Manganese mining		EMM and alloying materials production	Battery materials production	Other business	Total
	PRC	Gabon	PRC	PRC	PRC & HK	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended 30 June 2022 (Unaudited)						
Segment revenue:						
Sales to external customers	36,458	603,103	2,263,223	1,054,924	5,050,886	9,008,594
Intersegment sales	–	87,292	–	–	–	87,292
Other income and gains from operations	502	1,693	52,188	9,649	33,327	97,359
	<u>36,960</u>	<u>692,088</u>	<u>2,315,411</u>	<u>1,064,573</u>	<u>5,084,213</u>	<u>9,193,245</u>
<i>Reconciliation:</i>						
Elimination of inter segment sales						(87,292)
Revenue, other income and gains from operations						<u>9,105,953</u>
Segment results	<u>(142,507)</u>	<u>167,934</u>	<u>305,354</u>	<u>358,589</u>	<u>34,838</u>	<u>724,208</u>
<i>Reconciliations:</i>						
Interest income						4,994
Corporate and other unallocated expenses						(98,417)
Finance costs (other than interest on lease liabilities)						(96,299)
Profit before tax						534,486
Income tax expense						(109,507)
Profit for the period						<u>424,979</u>
Assets and liabilities						
Segment assets	666,587	617,578	3,371,415	2,336,530	2,128,584	9,120,694
<i>Reconciliations:</i>						
Corporate and other unallocated assets						1,950,421
Total assets						<u>11,071,115</u>
Segment liabilities	432,987	281,907	1,141,947	391,812	560,914	2,809,567
<i>Reconciliations:</i>						
Corporate and other unallocated liabilities						4,944,339
Total liabilities						<u>7,753,906</u>

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

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of goods:		
Manganese mining	639,561	359,360
EMM and alloying materials production	2,263,223	1,958,740
Battery materials production	1,054,924	701,312
Other business	5,050,886	1,208,923
	<u>9,008,594</u>	<u>4,228,335</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

For the six months ended 30 June 2022 (Unaudited)

Segments

	Manganese mining <i>HK\$'000</i>	EMM and alloying materials production <i>HK\$'000</i>	Battery materials production <i>HK\$'000</i>	Other business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sale of goods	<u>639,561</u>	<u>2,263,223</u>	<u>1,054,924</u>	<u>5,050,886</u>	<u>9,008,594</u>
Geographical markets					
Mainland China	439,203	1,808,227	1,037,453	5,050,886	8,335,769
Asia (excluding Mainland China)	200,358	180,709	14,535	–	395,602
Europe	–	20,852	136	–	20,988
North America	–	253,435	2,800	–	256,235
	<u>639,561</u>	<u>2,263,223</u>	<u>1,054,924</u>	<u>5,050,886</u>	<u>9,008,594</u>
Total revenue from contracts with customers	<u>639,561</u>	<u>2,263,223</u>	<u>1,054,924</u>	<u>5,050,886</u>	<u>9,008,594</u>
Timing of revenue recognition					
Goods transferred at a point in time with customers	<u>639,561</u>	<u>2,263,223</u>	<u>1,054,924</u>	<u>5,050,886</u>	<u>9,008,594</u>

For the six months ended 30 June 2021 (Unaudited)

Segments

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

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other income and gains		
Interest income	4,994	3,940
Foreign exchange gains, net	16,215	–
Gain on disposal of items of property, plant and equipment	12,335	–
Subsidy income	18,625	27,699
Net subcontracting income	–	3,199
Sale of scraps and other materials	26,783	19,729
Rental income	9,737	12,824
Others	13,664	6,966
	<u>102,353</u>	<u>74,357</u>

4. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on loans wholly repayable within five years	83,994	88,575
Finance costs for discounted notes receivable	12,196	5,981
Interest expenses on lease liabilities	1,531	332
Other finance costs	109	3,979
	97,830	98,867

5. PROFITS BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold [#]	7,858,544	3,514,304
Write-down of inventories to net realisable value, net [#]	15,553	37
Depreciation of property, plant and equipment	207,969	172,911
Depreciation of right-of-use assets	20,671	18,150
Amortisation of intangible assets	7,227	6,938
Research and development costs	35,108	37,745
Auditor's remuneration	2,489	3,455
Employee benefit expense	402,362	358,044
(Gain)/loss on disposal of items of property, plant and equipment*	(12,335)	4,733
Foreign exchange differences, net*	(16,215)	4,737
Impairment losses on property, plant and equipment and mining rights	126,297	45,557
(Reversals of impairment losses)/impairment losses on financial assets included in trade and notes receivables and other receivables, net	(2,651)	129,416
Impairment loss on an investment in an associate	–	15,325
Variable lease payments not included in the measurement of lease liabilities (included in cost of inventories sold)	3,099	3,139
Expenses relating to leases of low-value assets [^]	–	1,176

- # Included in “Cost of sales” in the interim condensed consolidated statement of profit or loss and other comprehensive income.
- * Included in “Other income and gains” (note 3) or “Other expenses” in the interim condensed consolidated statement of profit or loss and other comprehensive income.
- ^ Included in “Selling and distribution expenses” or “Administrative expenses” in the interim condensed consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX EXPENSES

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group operate.

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

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Current – PRC		
Charge for the period	39,367	1,212
Current – Hong Kong		
Charge for the period	2,814	–
Current – Gabon		
Charge for the period	36,050	9,657
Deferred	31,276	39,297
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Total tax charge for the period	109,507	50,166
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Hong Kong profits tax

Hong Kong profits tax for the six months ended 30 June 2022 has been provided at the rate of 16.5% on the estimated assessable profits for the period. No provision for Hong Kong profits tax for six months ended 30 June 2021 has been made as the Group had utilised unrecognised tax losses brought forward from prior years to set off against the current period’s taxable profits.

PRC corporate income tax (“CIT”)

Pursuant to the PRC Income Tax Law and the respective regulations, except for the preferential tax treatment available to South Manganese Group and Huiyuan Manganese which are recognised as a High and New Technology Enterprise and was entitled to a preferential CIT rate of 15% up to 2022 and 2023 respectively, and Guangxi Start, which was entitled to a preferential CIT rate of 15% for Developing Western China for which the policy will expire in 2030 and the related benefit will be subject to review by tax authorities every year thereafter, other companies of the Group which operate in Mainland China are subject to CIT at a rate of 25% on their respective taxable income.

Gabon corporate income tax

Pursuant to the Gabon Income Tax Law, a company which engages in mining operations in Gabon is subject to CIT at the higher of 35% of its taxable income or 1% of its revenue.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
The calculation of basic and diluted earnings per share are based on:		
Profits		
Profits attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>453,339</u>	<u>22,060</u>
	Number of shares	
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>3,428,459,000</u>	<u>3,428,459,000</u>

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 nor the six months ended 30 June 2021.

8. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2022 (2021: Nil).

9. TRADE AND NOTES RECEIVABLES

	30 June 2022 <i>HK\$'000</i> (Unaudited)	31 December 2021 <i>HK\$'000</i> (Audited)
Trade receivables	1,105,708	1,136,324
Notes receivable	272,290	623,637
	<hr/>	<hr/>
	1,377,998	1,759,961
Less: Impairment provision	(268,113)	(305,247)
	<hr/>	<hr/>
	1,109,885	1,454,714
	<hr/> <hr/>	<hr/> <hr/>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment is required either in advance or upon delivery. Credit periods allowed are determined according to relevant business practice and the relevant type of goods and generally are in the range of one month to three months from the invoice date and cash realisation may be further extended by three to six months for those customers paying by bank acceptance notes. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed and followed up regularly by senior management.

An ageing analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2022 <i>HK\$'000</i> (Unaudited)	31 December 2021 <i>HK\$'000</i> (Audited)
Within one month	487,723	507,505
One to two months	152,707	237,332
Two to three months	101,315	50,496
Over three months	95,850	35,744
	<hr/>	<hr/>
	837,595	831,077
	<hr/> <hr/>	<hr/> <hr/>

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

	30 June 2022	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within one month	112,925	203,168
One to two months	40,028	282,866
Two to three months	37,712	64,498
Over three months	81,625	73,105
	<u>272,290</u>	<u>623,637</u>

10. TRADE AND NOTES PAYABLES

An ageing analysis of the trade and notes payables as at the end of the reporting period, based on the invoice date of trade payables and the issue date of notes, is as follows:

	30 June 2022	31 December 2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within one month	653,041	786,111
One to two months	129,841	369,383
Two to three months	170,848	29,747
Over three months	435,702	114,980
	<u>1,389,432</u>	<u>1,300,221</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

	1H 2022	1H2021	Increase/(decrease)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Revenue	9,008,594	4,228,335	4,780,259	113.1
Gross profits	1,134,497	713,994	420,503	58.9
Gross profit margin	12.6%	16.9%	N/A	(4.3)
Operating profits	657,786	367,662	290,124	78.9
Impairment losses on property, plant and equipment and mining rights	(126,297)	(45,557)	80,740	177.2
Reversals of impairment losses/ (impairment losses) on financial assets, net	2,651	(129,416)	(132,067)	(102.0)
Impairment loss on an investment in an associate	–	(15,325)	(15,325)	(100.0)
Share of profits and losses of associates	346	(103,082)	(103,428)	(100.3)
Profits before tax	534,486	74,282	460,204	619.5
Income tax expenses	(109,507)	(50,166)	59,341	118.3
Profits for the period	424,979	24,116	400,863	1,662.2
Profits attributable to owners of the parent	453,339	22,060	431,279	1,955.0
Profit/(loss) attributable to non-controlling interests	(28,360)	2,056	(30,416)	(1,479.4)
	424,979	24,116	400,863	1,662.2

OVERVIEW

In 1H 2022, the global economy was facing severe challenges. The unforeseen outbreak of Russia-Ukraine War in February 2022 led to soaring of energy markets including oil and gas prices. Furthermore, the resurgence of the coronavirus disease (the “COVID-19”) resulting to lockdowns of certain areas in China since March 2022 delayed the economic recovery and to a certain extent disrupted the supply chain and logistic markets. As a result, the inflationary pressures that existed globally by the end of the year 2021 were further deteriorated in 1H 2022. In addition, the United States Federal Reserve Board increased its interest rate by three times from 0.25% to 1.75% in 1H 2022. All these factors increased the burdens of corporations worldwide and the economies were becoming more volatile around the world.

Steel sector is our major downstream industry, its demand for our EMM Products largely arising from consumptions within China. In 1H 2022, there was shrinkage of demand for steels as a result of lockdowns of certain areas in China. Also, downstream steel manufacturers sought alternative materials to replace EMM for their productions owing to the rocket-soared market price of EMM Products starting from the fourth quarter of the year 2021. Therefore, the market price of EMM Products dropped from peak in the first quarter to a more reasonable level since April 2022. The Group cautiously expects the demand of EMM Products will rebound in 2H 2022 upon the stimulation package implemented by the PRC government and the ease of lockdown measures. In addition, to address the inflationary pressures and maintain the cost competitiveness of our major products, the Group had centralized the purchase of major raw materials in 1H 2022. Despite the above challenging environment, the average selling price of our EMM Products for 1H 2022 increased by 53.4% to HK\$24,902 per tonne (1H 2021: HK\$16,233 per tonne). The gross profit ratio of EMM Products increased by 1.9 percentage points to 28.4% in 1H 2022 (1H 2021: 26.5%) and the gross profit contribution of EMM Products increased by 24.8% to HK\$429.1 million in 1H2022 (1H 2021: HK\$343.7 million).

In 1H 2022, our production of battery materials including EMD becomes more stabilized and mature and continued to achieve encouraging results. The increase on cost of productions of EMD has been partially mitigated by our internal supply of manganese ores from our Gabon Bembélé Manganese Mine and strengthened cost control measures. Despite in 1H 2022, certain of our downstream customers faced some setbacks due to significant increase in costs of raw materials especially lithium carbonate, demand for our major product EMD remained relatively strong. In the long term, Group remains optimistic about this business segment. The Group will continue to focus on seizing market share, securing raw materials supplies, strengthening product research and development, further upgrading our EMD production plants and expanding our production to other battery material products 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. Due to increasing demand in the market, the average selling price of EMD increased by 65.7% to HK\$16,405 per tonne (1H 2021: HK\$9,901 per tonne), the gross profit ratio increased by 17.8 percentage points to 50.6% (1H 2021: 32.8%) and the gross profit contribution of EMD recorded a remarkable increase of 125.0% to HK\$383.4 million (1H 2021: HK\$170.4 million).

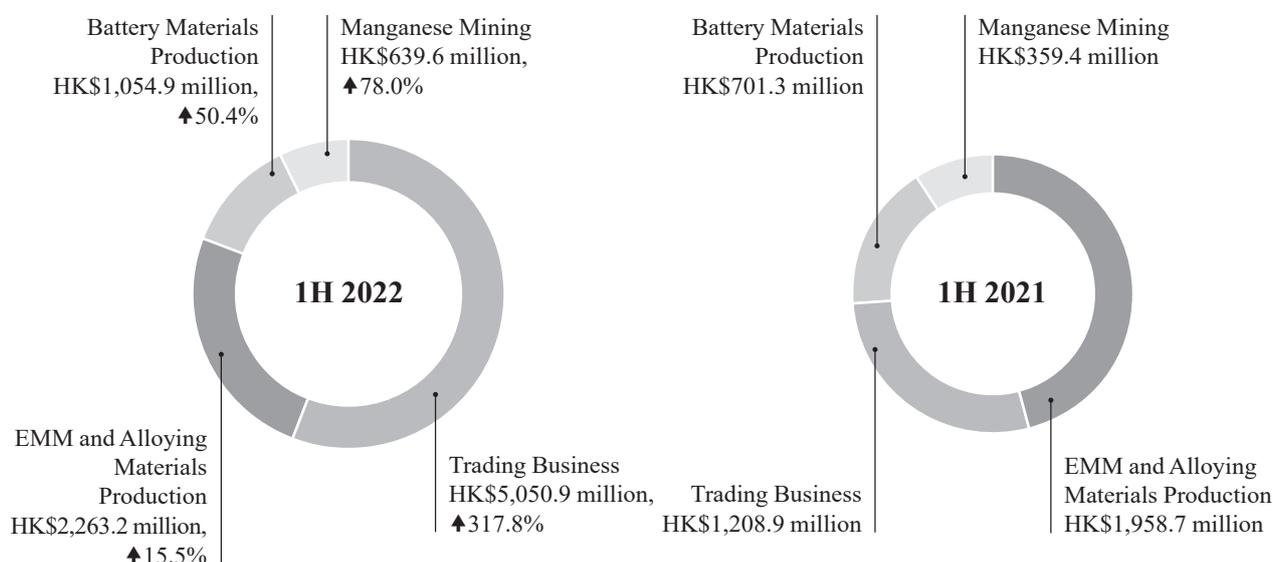
In summary, mainly due to increase in average selling prices of EMM Products and EMD, the Group's operating profit for 1H 2022 increased by 78.9% to HK\$657.8 million (1H 2021: HK\$367.7 million).

In 1H 2022, the Group recognised non-cash impairment losses on mining rights of HK\$126.3 million mainly related to further alternations to our investment and expansion plans of Changgou Manganese Mine and Waifu Manganese Mine.

As a result, the earnings before interest, taxes, depreciation and amortisation (“**EBITDA**”) for 1H 2022 increased by 135.1% to HK\$863.2 million (1H 2021: HK\$367.2 million) and the profit attributable to owners of the parent of the Group in 1H 2022 was HK\$453.3 million (1H 2021: HK\$22.1 million).

COMPARISON WITH SIX MONTHS ENDED 30 JUNE 2021

Revenue by segment



In 1H 2022, the Group's revenue was HK\$9,008.6 million (1H 2021: HK\$4,228.3 million), representing an increase of 113.1% as compared with 1H 2021. The increase was mainly due to (a) increase in average selling prices of EMM Products and EMD; (b) increase in sales volume of Gabon ore; and (c) substantial increase in sales revenue from trading business.

In 1H 2022, revenue of our major products EMM Products accounted for 16.8% (1H 2021: 30.6%) of our total revenue; and revenue of our battery materials production segment exceeded HK\$1.0 billion for the first time.

Manganese mining segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/tonne)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
Six months ended 30 June 2022							
Gabon ore	628,652	959	603,103	649	408,272	194,831	32.3
Manganese concentrate	66,945	446	29,884	400	26,793	3,091	10.3
Natural discharging manganese powder and sand	1,965	3,346	6,574	511	1,004	5,570	84.7
Total	697,562	917	639,561	625	436,069	203,492	31.8
Six months ended 30 June 2021							
Gabon ore	288,426	1,003	289,429	836	241,059	48,370	16.7
Manganese concentrate	133,214	434	57,864	353	46,969	10,895	18.8
Natural discharging manganese powder and sand	3,972	3,038	12,067	311	1,237	10,830	89.7
Total	425,612	844	359,360	680	289,265	70,095	19.5

In 1H 2022, revenue of manganese mining segment increased by 78.0% to HK\$639.6 million (1H 2021: HK\$359.4 million) mainly due to increase in sales volume of Gabon ore as the Group has ramped up the mining operations of Bembélé Manganese Mine. The gross profit of manganese mining segment increased by 190.3% to HK\$203.5 million (1H 2021: HK\$70.1 million) mainly due to increase in sales revenue of Gabon ore.

In 1H 2022, the manganese mining segment recorded a profit of HK\$25.4 million (1H 2021: HK\$62.5 million), a decrease of 59.3%, mainly attributable to the impairment losses on mining rights of HK\$126.3 million (1H 2021: Nil) recognised in 1H 2022.

EMM and alloying materials production segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/tonne)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
Six months ended 30 June 2022							
EMM	52,614	23,614	1,242,401	17,604	926,196	316,205	25.5
Manganese briquette	8,056	33,316	268,396	19,305	155,520	112,876	42.1
	60,670	24,902	1,510,797	17,830	1,081,716	429,081	28.4
Silicomanganese alloy	79,247	9,307	737,563	8,843	700,816	36,747	5.0
Others	397	37,438	14,863	34,718	13,783	1,080	7.3
Total	140,314	16,130	2,263,223	12,802	1,796,315	466,908	20.6
Six months ended 30 June 2021							
EMM	64,634	16,376	1,058,418	11,909	769,747	288,671	27.3
Manganese briquette	15,180	15,625	237,195	12,000	182,156	55,039	23.2
	79,814	16,233	1,295,613	11,927	951,903	343,710	26.5
Silicomanganese alloy	86,404	7,586	655,459	6,888	595,156	60,303	9.2
Others	882	8,694	7,668	5,214	4,599	3,069	40.0
Total	167,100	11,722	1,958,740	9,286	1,551,658	407,082	20.8

Revenue of EMM and alloying materials production segment increased by 15.5% to HK\$2,263.2 million in 1H 2022 (1H 2021: HK\$1,958.7 million) mainly attributable to the followings:

- (a) EMM Products continued to be our major products in terms of revenue and the average selling price of EMM Products recorded an increase of 53.4% to HK\$24,902 per tonne (1H 2021: HK\$16,233 per tonne). The above impact was partially offset by the decrease of sales volume of EMM Products by 24.0% to 60,670 tonnes (1H 2021: 79,814 tonnes).
- (b) The revenue of silicomanganese alloy increased by 12.5% to HK\$737.6 million in 1H 2022 (1H 2021: HK\$655.5 million) mainly attributable to the increase in average selling price of silicomanganese alloy by 22.7% to HK\$9,307 per tonne in 1H 2022 (1H 2021: HK\$7,586 per tonne).

As a result of increase in average selling prices of EMM Products, the gross profit contribution of EMM and alloying materials production segment increased by 14.7% to HK\$466.9 million (1H 2021: HK\$407.1 million) and this segment recorded a profit of HK\$305.4 million (1H 2021: HK\$173.1 million), an increase of 76.4%.

Battery materials production segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/Tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/Tonne)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
Six months ended 30 June 2022							
EMD	46,202	16,405	757,948	8,106	374,535	383,413	50.6
Manganese sulfate	6,958	4,665	32,458	4,320	30,062	2,396	7.4
Lithium manganese oxide	2,967	88,925	263,839	79,953	237,221	26,618	10.1
NCM	3	226,333	679	152,333	457	222	32.7
Total	56,130	18,794	1,054,924	11,443	642,275	412,649	39.1
Six months ended 30 June 2021							
EMD	52,487	9,901	519,679	6,655	349,306	170,373	32.8
Manganese sulfate	13,721	3,681	50,508	3,042	41,734	8,774	17.4
Lithium manganese oxide	3,183	34,193	108,836	28,930	92,084	16,752	15.4
NCM	176	126,642	22,289	121,227	21,336	953	4.3
Total	69,567	10,081	701,312	7,251	504,460	196,852	28.1

Revenue of battery materials production segment increased by 50.4% to HK\$1,054.9 million (1H 2021: HK\$701.3 million) and gross profit of this segment increased by 109.6% to HK\$412.6 million (1H 2021: HK\$196.9 million) mainly attributable to the followings:

- (a) EMD continued to be our major battery material product and the average selling price of EMD increased by 65.7% to HK\$16,405 per tonne (1H 2021: HK\$9,901 per tonne). The above impact was partially offset by the decrease of sales volume of EMD by 12.0% to 46,202 tonnes (1H 2021: 52,487 tonnes).
- (b) In 1H 2022, the average selling price of lithium manganese oxide increased by 160.1% to HK\$88,925 per tonne (1H 2021: HK\$34,193 per tonne) in line with significant surge in unit cost brought by skyrocketed price of lithium carbonate.

As a result, the results of battery materials production segment recorded a profit of HK\$358.6 million (1H 2021: HK\$119.0 million), an increase of 201.2%.

Other business segment

	Revenue (HK\$'000)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
Six months ended 30 June 2022				
Trading	<u>5,050,886</u>	<u>4,999,438</u>	<u>51,448</u>	<u>1.0</u>
Six months ended 30 June 2021				
Trading	<u>1,208,923</u>	<u>1,168,958</u>	<u>39,965</u>	<u>3.3</u>

Revenue of other business segment increased to HK\$5,050.9 million (1H 2021: HK\$1,208.9 million) mainly because the Group cautiously expanded its trading business of manganese ore and non-manganese metals to build up the supply chain operations in Guangxi, Shanghai and Hong Kong.

Cost of Sales

Total cost of sales increased by 124.1% to HK\$7,874.1 million in 1H 2022 (1H 2021: HK\$3,514.3 million) in line with the increase of the revenue and also the cost of sales from trading business.

Gross Profit

In 1H 2022, the Group recorded a gross profit of HK\$1,134.5 million (1H 2021: HK\$714.0 million), which represented an increase of HK\$420.5 million from 1H 2021, or 58.9%. The Group's overall gross profit margin was 12.6%, representing decrease of 4.3 percentage points from 16.9% in 1H 2021. Overall gross profit margin decrease mainly attributable to increase in proportion of trading business with lower gross profit margin.

Other Income and Gains

Other income and gains increased by 37.7% to HK\$102.4 million (1H 2021: HK\$74.4 million) mainly due to (a) foreign exchange gains from certain loans denominated in RMB owing to depreciation of RMB against Hong Kong dollars in 1H 2022; and (b) gains on disposals of certain equipment.

Selling and Distribution Expenses

The Group's selling and distribution expenses in 1H 2022 increased by 23.2% to HK\$73.7 million (1H 2021: HK\$59.8 million) mainly attributable to increase in transportation costs.

Administrative Expenses

Administrative expenses increased by 59.9% to HK\$402.2 million in 1H 2022 (1H 2021: HK\$251.4 million) mainly attributable to increase in production halt expenses as Daxin EMM Plant, Daxin Manganese EMM Plant and Tiandeng EMM Plant have halted their EMM productions temporarily in the first quarter of the year 2022.

Impairment Losses on Mining Rights

In 1H 2022, the demand of manganese ores decreased significantly near the region of Changgou Manganese Mine and Waifu Manganese Mine as the local EMM manufacturers slowed down their productions during the period. Furthermore, there was shrinkage of demand for downstream steel products in China in 1H 2022 and the Group expects the oversupply of manganese ores in these local regions may sustains for a certain period. In response, the Group made alternations to the investment and expansion plans of Changgou Manganese Mine and Waifu Manganese Mine to contain our cash level. Further alternations of the investment plans led to adjustments to value-in-use of the two mines, as a result, impairment losses on mining rights of HK\$75.8 million and HK\$50.5 million were recognised in respect of Changgou Manganese Mine and Waifu Manganese Mine respectively in 1H 2022. Further information of the above impairments is as follow:

(a) *Changgou Manganese Mine*

At 30 June 2022, the Group recognised an impairment loss of HK\$75.8 million (1H 2021: Nil) 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\$332.1 million.

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:

	30 June	31 December
	2022	2021
(a) Production volume of ore ('000 tonnes)		
i) First year of production	244	338
ii) Second and third years of production	621	636
iii) Fourth to last year of production	4,932	5,611
	<hr/>	<hr/>
	5,797	6,585
	<hr/> <hr/>	<hr/> <hr/>
(b) Average selling price (HK\$/tonnes)	444	502
(c) Pre-tax discount rate	11.1%	11.1%

For valuation as at 30 June 2022, 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 2023.

The assumed average ore selling price of HK\$444 per tonne (equivalent to RMB368 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) Waifu Manganese Mine

At 30 June 2022, the Group recognised an impairment loss of HK\$50.5 million (1H 2021: Nil) in respect of Waifu Manganese Mine wholly owned by the Group to write down to the recoverable amount of the mining right and its related infrastructure and plant and machinery (“CGU”) of HK\$9.4 million.

The Group has assessed the value-in-use of Waifu 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:

	30 June 2022
(a) Production volume of ore ('000 tonnes)	
i) First year of production	–
ii) Second and third years of production	–
iii) Fourth to last year of production	450
	<hr/>
	450
	<hr/> <hr/>
(b) Average selling price (HK\$/tonnes)	321
(c) Pre-tax discount rate	11.1%

For valuation as at 30 June 2022, 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 2026.

The assumed average ore selling price of HK\$321 per tonne (equivalent to RMB266 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.

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

Reversals of Impairment Losses on Financial Assets, Net

The amount mainly represents reversal of impairment allowance on certain long outstanding trade receivables which have been settled in 1H 2022.

Finance Costs

For 1H 2022, the Group's finance costs were HK\$97.8 million (1H 2021: HK\$98.9 million), representing a decrease of 1.0%.

Other Expenses

Other expenses of HK\$5.4 million (1H 2021: HK\$10.6 million) mainly represents donations and inspection fees.

Share of Profits and Losses of Associates

In 1H 2022, share of profits of associates of HK\$346,000 (1H 2021: losses of HK\$103.1 million) represent share of profits of 16.35%-owned associate Qingdao Manganese.

Income Tax Expenses

In 1H 2022, the effective tax rate is 20.5% (1H 2021: 67.5%) which is higher than the statutory preferential corporate income tax rate of China in which the Group mainly operates because certain subsidiaries recording losses in the period did not recognise deferred tax arising from such losses for prudence.

Profits Attributable to Owners of the Parent

For 1H 2022, the Group's profit attributable to owners of the parent was HK\$453.3 million (1H 2021: HK\$22.1 million).

Earnings per Share

For 1H 2022, earnings per share attributable to ordinary equity holders of the Company was HK\$0.1322 (1H 2021: HK\$0.0064).

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2022 (1H 2021: Nil).

Liquidity and Financial Resources

Cash and Bank Balances

As at 30 June 2022, the currency denomination of the Group's cash and bank balances including pledged deposits are as follows:

Currency denomination	30 June 2022 <i>HK\$ million</i>	31 December 2021 <i>HK\$ million</i>
Denominated in:		
RMB	1,677.8	1,122.5
HKD	1.2	1.8
USD	134.5	85.5
XAF	27.7	36.1
	<u>1,841.2</u>	<u>1,245.9</u>

As at 30 June 2022, our cash and bank balances including pledged deposits were HK\$1,841.2 million (31 December 2021: HK\$1,245.9 million) while the Group's borrowings amounted to HK\$4,665.1 million (31 December 2021: HK\$4,113.9 million). The Group's borrowings net of cash and bank balances amounted to HK\$2,823.9 million (31 December 2021: HK\$2,868.0 million).

To manage liquidity risk, the Group continues to monitor current and expected liquidity requirements to secure sufficient balance of cash in the short and long terms as well as facilities from banks and financial institutions.

Other major changes in working capital

- (a) At 30 June 2022, trade and notes receivables of the Group decreased by HK\$344.8 million to HK\$1,109.9 million (31 December 2021: HK\$1,454.7 million) mainly attributable to increase in discounting of notes receivable to contain cash level.
- (b) At 30 June 2022, prepayments, other receivables and other assets classified under current assets decreased by HK\$203.1 million to HK\$1,561.1 million (31 December 2021: HK\$1,764.2 million) attributable to decrease in prepayments for purchase of manganese ores and non-manganese metals.
- (c) At 30 June 2022, other payables and accruals decreased by HK\$710.7 million to HK\$1,299.2 million (31 December 2021: HK\$2,009.9 million) mainly attributable to (i) a decrease in receipts in advance from customers of trading business upon delivery of products; and (ii) decrease in value added tax payable in China.

Net Current Liabilities

As at 30 June 2022, the Group had net current liabilities of HK\$302.2 million (31 December 2021: HK\$1,276.2 million). The decrease in net current liabilities because the Group has obtained more long-term loans during the period.

Bank and Other Borrowings

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

	30 June	31 December
	2022	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>
Borrowing structure		
Secured borrowings (including lease liabilities)	327.0	42.6
Unsecured borrowings	4,338.1	4,071.3
	4,665.1	4,113.9
	4,665.1	4,113.9
Maturity profile		
	30 June	31 December
	2022	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>
Repayable:		
On demand or within one year	3,598.1	3,624.0
After one year and within two years	654.7	478.1
After two years and within five years	412.3	11.8
	4,665.1	4,113.9
	4,665.1	4,113.9
Currency denomination		
	30 June	31 December
	2022	2021
	<i>HK\$ million</i>	<i>HK\$ million</i>
Denominated in:		
RMB	4,665.1	4,060.9
USD	–	53.0
	4,665.1	4,113.9
	4,665.1	4,113.9

As at 30 June 2022, borrowings as to the amounts of HK\$2,870.8 million (31 December 2021: HK\$2,301.0 million) and HK\$1,794.3 million (31 December 2021: HK\$1,812.9 million), carry fixed and floating rate interest respectively. The fixed rate borrowings carry interest at rates ranging from 2.00% to 9.30%. The floating rate borrowings carry interest up to a premium up to 10% above the China Loan Prime Rate.

Overall, aggregate borrowings increased to HK\$4,665.1 million (31 December 2021: HK\$4,113.9 million). The Group continues to explore various means including short-term or medium-term notes and more long-term bank loans to improve borrowing structure in terms of interest rate level and repayment terms.

Charge on Group Assets

As at 30 June 2022, (a) right-of-use assets of HK\$72.6 million (31 December 2021: HK\$147.9 million) related to property, plant and equipment were held under leases; (b) bank balances of HK\$517.0 million (31 December 2021: HK\$200.5 million) were pledged to secure certain of the Group's bank acceptance notes payable; and (c) property, plant and equipment and leasehold lands of HK\$153.9 million (31 December 2021: Nil) were pledged to secure certain of the Group's bank loans.

Guarantees

- (a) As at 30 June 2022, the outstanding bank loan of an associate, in which the Group has a 33.0% equity interest, was secured by the associate's lands and property, plant and equipment and guaranteed by the Group and the holding company of the associate according to their respective shareholding percentage on a several basis.

As at 30 June 2022, the associate's banking facilities guaranteed by the Group and the holding company of the associate amounted to RMB800.0 million (equivalent to HK\$937.5 million) and were utilised to the extent of RMB557.9 million (equivalent to HK\$653.8 million) (31 December 2021: RMB559.9 million, equivalent to HK\$685.9 million).

- (b) As at 30 June 2022, the loan facilities provided by Guangxi Dameng to a company (the "**Borrower**"), in which the Group has a 10% equity interests, were guaranteed by the Group and the major shareholder of the Borrower according to the shareholding percentage on a several basis.

As at 30 June 2022, the loan facilities guaranteed by the Group and the major shareholder of the borrower amounted to RMB100.0 million (equivalent to HK\$117.2 million) (31 December 2021: RMB100.0 million, equivalent to HK\$122.5 million) and were utilised to the extent of RMB45.0 million (equivalent to HK\$52.7 million) (31 December 2021: RMB50.0 million, equivalent to HK\$61.3 million) by the borrower.

Key Financial Ratios of the Group

	30 June	31 December
	2022	2021
Current ratio	0.95	0.82
Quick ratio	0.72	0.63
Net Gearing ratio	83.7%	92.3%

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

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

Net Gearing ratio = Calculated as net debt divided by equity attributable to owners of the parent. Net debt is defined as the sum of interest-bearing bank and other borrowings less cash and cash equivalents and pledged deposits

At 30 June 2022, current ratio and quick ratio improved because more long-term bank loans were obtained in 1H 2022. Net gearing ratio improved mainly due to profit attributable to owners of the parent in 1H 2022.

Liquidity risk and going concern basis

The Group monitors its risk to a shortage of funds on an on-going basis by closely monitoring the maturity of both its financial instruments and financial assets and projected cash flows from operations. The Group's objective is to maintain sufficient working capital to finance its operations and meet its financial obligation as and when they fall due. At the same time, the Group will strive a balance between continuity of funding and flexibility through the use of short-term and long-term bank loans, finance leases, other interest-bearing borrowings and short-term and medium-term notes, taking also into account of the different pricing of various financing for each alternatives. Due consideration will also be given to equity financing alternatives.

In preparing the interim condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK\$302.2 million as at 30 June 2022. Subsequent to the end of the reporting period, the Group has successfully obtained new short-term bank loans of HK\$360.9 million during the period from 1 July 2022 up to the date of this announcement. The directors of the Company, also taking into account of internally generated funds from its operations, are of the opinion that, the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the interim condensed consolidated financial statements have been prepared on a going concern basis.

Credit Risk

The Group endeavoured to maintain strict control over its outstanding receivables to minimise credit risk. Credit periods allowed are determined according to relevant business practice and the relevant type of goods and generally are in the range of one to three months from the invoice date and cash realisation may be further extended by three to six months for those customers paying by bank acceptance notes. Overdue balances are regularly reviewed by senior management. Since the Group's trade and notes receivables related to a large number of diversified customers, there was no significant concentration of credit risk save for a customer described below. The Group did not hold any collateral or other credit enhancements over its trade and notes receivable balances except for those detailed in this section of credit risk.

As at 30 June 2022, the customer with the largest balance of trade and notes receivables of the Group was a customer together with its subsidiaries (“**Customer A**”) which is principally engaged in manganese ferroalloy production and manganese ore trading in China and manganese mining in Gabon. As at 30 June 2022, trade receivables from Customer A was HK\$231.6 million (31 December 2021: HK\$231.6 million) and represented 20.9% (31 December 2021: 20.4%) of the Group’s total trade receivables, which was totally overdue and fully provided as at 30 June 2022 and 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. If the China Loan Prime Rate increases, our finance costs will increase. In addition, to the extent that we may need to raise debt financing or roll over our short-term loans in the future, any upward fluctuations in interest rates will increase the costs of new debt obligations.

Foreign exchange risk

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

- (a) In respect of our trading operations in Hong Kong, our sales and purchases are both denominated in United States dollars. In addition, Hong Kong dollars is pegged to United States dollars and hence foreign exchange risk is minimal.
- (b) In respect of our mining and downstream operations in the PRC, our products are sold to local customers in RMB and to a less extent to overseas customers in United States dollars. Major expenses of our PRC operations are denominated in RMB.

The Group also imported manganese ores 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. Therefore, our PRC operations face minimal foreign exchange risks.

- (c) In respect of our Gabon operation, our income is substantially denominated in RMB and United States dollars and all major local operating expenses are denominated in RMB and XAF, which is pegged EURO, while the freight charges are denominated in United States dollars.

Business Model and Strategy

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

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

Future Development and Outlook

In 1H 2022, although the COVID-19 showed sign of resurgence in China, the Group continues to demonstrate its commitment to its duties and align with the government in adopting measures to contain 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, more and more countries were easing the quarantine measures gradually to co-exist with the COVID-19. Hopefully with the implementation of different measures and the wider use of vaccines, global economy will return to normal gradually.

Since 2021, the Group's operating performance improved significantly and its profits increased substantially. The Group will continue to focus on five business segment, i.e. ore and traditional manganese-related products, new energy materials, alloying materials, supply chain logistics and integrated solid waste recycling. The Group will also continue to improve internal efficiency and management skills to reduce costs and increase productivity and competitiveness, so as to carry on the good momentum in the following years.

As the second largest EMM manufacturer and supplier in China, we integrate the aims and requirements of the government to achieve “carbon peak and carbon neutrality”, work with the initiatives and plans of Metallurgical Mines’ Association of China EMM Innovation Alliance (“中國冶金礦山企業協會電解金屬錳創新聯盟”), strengthen the synergies of the industry with common objectives to improve and upgrade our industry, accelerate eco-friendly development and achieving sustainable development, which are achieving notable progress. The sector outlook is expected to be challenging in the second half of the year 2022 as steel manufacturers still face challenges, such as oversupply and rising production costs which weaken their demand for our EMM Products. To weather the storm, major players in EMM sector join hands and launch out measures such as production suspension to cut EMM supply and technical upgrades.

As 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).

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the six months ended 30 June 2022, save for the deviation from the code provision A.2.1, the Company has applied the principles, complied with the applicable code provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules.

CODE PROVISION A.2.1

Chairman and Chief Executive Officer

During the six months ended 30 June 2022, the posts of Chairman and Chief Executive Officer were combined and Mr. Li Weijian, the Chairman of the Board has also assumed the role of the Chief Executive Officer. This arrangement is in contravention of code provision A.2.1 of the CG Code. Mr. Li has considerable knowledge of the Company's assets and his experience is very highly valued by the Board. At a challenging time for the Company, the Board decided that Mr. Li was the best person to lead and oversee the implementation of the Company's long and short term plans in accordance with its strategy which is determined by the Board. All major decisions are made in consultation with the Board members, appropriate Board committees or senior management of the Group. Mr. Li promotes a culture of openness and encourages the Directors to make a full and active contribution to the Board's affairs. During the six months ended 30 June 2022, the independent non-executive Directors of the Company offered strong and independent advice. All decisions have reflected the consensus of the Board. The Board is keeping this situation under review and will separate the role of Chairman and Chief Executive Officer when it is in the Company's best interests to do so.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for dealings in securities of the Company by its Directors (the "**Securities Dealings Code**") that is based on the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules (or on terms no less stringent than the Model Code).

All Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Securities Dealings Code throughout the six months ended 30 June 2022.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2022, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

REVIEW OF ACCOUNTS

The audit committee of the Company has reviewed the unaudited interim results for the six months ended 30 June 2022 with the management of the Company.

FORWARD LOOKING STATEMENTS

This interim results contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied by such statements.

Glossary of Terms

Bembélé Manganese Mine	a manganese mine located in Bembélé, Moyen-Ogooue Province, Gabon, the exploration rights and mining rights of which are owned by La Compagnie Industrielle et Commerciale des Mines de Huazhou (Gabon) (華州礦業(加蓬)工貿有限公司), a company in which we indirectly hold 51% equity interest
Board or Board of Directors	our board of Directors
Changgou Manganese Mine	貴州遵義匯興鐵合金有限責任公司長溝錳礦 (Guizhou 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 Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
Company or our Company	South Manganese Investment Limited, which is listed on the Stock Exchange (Stock Code: 1091.HK)
Director(s)	the director(s) of our Company
Daxin EMM Plant	an EMM production plant located in Daxin county, Guangxi, owned and operated by an indirect wholly owned subsidiary of the Group

Daxin Manganese EMM Plant	an EMM production plant located in Daxin county, Guangxi, owned and operated by an indirect wholly owned subsidiary of the Group
EMD	electrolytic manganese dioxide
EMM	electrolytic manganese metal
EMM Products	EMM and manganese briquette
Gabon	the Gabonese Republic
Group, we or us	the Company and its subsidiaries
Guangxi	Guangxi Zhuang Autonomous Region, the PRC
Guangxi 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 indirectly wholly-owned by the government of Guangxi, PRC
Guangxi Start	廣西斯達特錳材料有限公司 (Guangxi Start Manganese Materials Co., Ltd.)
Hong Kong or HK	the Hong Kong Special Administrative Region of the PRC
Huiyuan Manganese	廣西匯元錳業有限責任公司 (Guangxi Huiyuan Manganese Industry Co., Ltd.)
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
NCM	Lithium Nickel Cobalt Manganese Oxide
Qingdao Manganese	青島錳系投資合夥企業(有限合夥) (Qingdao Manganese Investment Cooperative Enterprise (Limited Partnership)), a limited partnership in which we indirectly hold 16.35% 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), an indirect wholly owned subsidiary of the Company
Stock Exchange	the Stock Exchange of Hong Kong Limited
Tiandeng EMM Plant	an EMM production plant located in Daxin county, Guangxi, owned and operated by an indirect wholly owned subsidiary of the Company
tonne	metric tonne
Waifu Manganese Mine	大新大錳錳業有限公司外伏錳礦 (Daxin Dameng Manganese Co., Ltd Waifu Manganese Mine)
XAF	Central African CFA franc
Zunyi Company	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

Hong Kong, 19 August 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.