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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 2020**

#### **FINANCIAL HIGHLIGHTS**

- Revenue amounted to HK\$4,367.6 million in 2020, representing a decrease of 24.7% from HK\$5,802.5 million in 2019.
- Gross profit amounted to HK\$576.5 million in 2020, representing a decrease of 6.2% from HK\$614.9 million in 2019. Gross profit margin was 13.2% in 2020, representing an increase of 2.6% from 10.6% in 2019.
- Non-cash impairment loss on investment in a 23.99% associate GMG of HK\$295.8 million (2019: Nil) was recognised in 2020.
- Net cash generated from operations amounted to HK\$596.8 million (2019: 659.8 million), representing a decrease of 9.5%.
- Loss attributable to owners of the parent was HK\$437.9 million in 2020 (2019: HK\$202.3 million).
- As at 31 December 2020, net gearing ratio increased to 134.8% (2019: 107.7%).

## CHAIRMAN'S STATEMENT

Dear Valued Shareholders,

Year 2020 is a year full of challenges. The pandemic of coronavirus disease 2019 (COVID-19) has brought unprecedented challenges and significantly increasing uncertainties to the world economy. Facing the grim situation of the rapid spread of the epidemic, countries around the world have actively adopted various levels of prevention and control measures, including internal restrictions such as prohibitions on the movement of people, and external restrictions such as border controls and strict entry and exit restrictions. This has directly led to the stagnation of global transportation and trade activities, a sharp decline in the economy, and a surge in unemployment. At the beginning of 2020, China's domestic consumption and commercial activities also almost ceased. Today, the COVID-19 is still raging in many countries.

During the year, due to the impact of the COVID-19, the supply of the manganese industry chain was greatly impacted. The average selling price of manganese ore and manganese products in China fluctuated repeatedly at low levels in China. Until the beginning of 2021, after the epidemic in China was controlled, the price of manganese products has rebounded. In the face of the continuous spread of the COVID-19, international trade continues to shrink, and the global economic recovery is hindered and prolonged.

In face of the COVID-19, the severe market situation of low prices of manganese products, and the increasingly stringent environmental protection and safety rectification policies and requirements of the Chinese government, the Group insists on reducing costs and increasing efficiency, optimizing configuration, and reducing pressure levels, strengthen the strategy of risk control, gradually shift the business focus to the more competitive battery material industry, strengthen the ability to innovate and change, open up the development path of the group with independent innovation, and enhance the market competitiveness of the group with the development of human resources and technological product innovation value, thereby promoting the healthy and steady development of the Group.

During the year, the Group continued to adhere to our strategy and prudently expanded its battery material production business. The completion of the further acquisition of a 65.17% equity interest in Ningbo Dameng in March 2020 marked an impressive development. Ningbo Dameng owns an EMD manufacturing plant in Laibin, Guangxi, Huiyuan Manganese Plant which is currently one of the largest electrolytic manganese dioxide manufacturing plants in China.

## **REDUCE COST AND INCREASE EFFICIENCY, LOSE WEIGHT AND KEEP FIT**

The Group has implemented the management philosophy of cost reduction and efficiency enhancement throughout all business segments. During the year, the Group grasped the key points of breaking the power consumption bottleneck and implementing strategic procurement, and exerted its efforts to reduce costs and increase efficiency in the whole production process and achieved remarkable results. The electricity consumption of the Group's main products such as EMM and silicomanganese alloy has been significantly reduced, and the recovery rate of manganese metal has been effectively increased, reaching the advanced level of the industry. The Group's management and control information system has achieved phased results, various management systems and processes have been continuously adjusted and optimized, and the efficiency of corporate operations and decision-making has been significantly improved.

During the year, the Group spared no effort to implement "Decrease levels, lose weight and keep fit" in its business operations, as well as comprehensively improve the quality and efficiency of development and strengthen cost control. The rectification of the corporate development mechanism and operational efficiency will be more efficient and flexible, and the Company will usher in new development opportunities, which will boost the Company's various businesses to a higher level.

Regarding the clean-up and level decrease of low-efficiency and ineffective subsidiaries, the Group insists on analyzing and screening one by one, so as to ensure that all levels that should be decreased are decreased, and all companies that should be cleaned up are cleaned up. The Group adheres to the principles of openness, fairness and impartiality, and strengthens coordination among various departments to ensure that the work is completed as planned, and the procedures are legal and compliant.

## **RISK CONTROL, SAFE PRODUCTION**

During the year, the Group also continued to improve risk assessment and management from top to bottom, further standardized the risk control system, and implemented it at all levels. The management of the Group insists on evaluating the risks and opportunities brought about by changes in the market and global economic situation in a prudent manner. The Group continues to make efforts to establish effective systems and implement safe production, consolidate the foundation, enforce strict supervision, implement safety and environmental protection risk management and control at all levels, continue to improve and optimize the internal control system and risk warning mechanism, and strengthen safety, environmental protection and legal compliance risks preventive mechanism to promote the stable and healthy development of the Group. At the same time, we will continue to pay close attention to the changes in the market structure, study and judge the market development situation, take multiple measures to maintain the stability of the industrial chain and supply chain, and strengthen business resilience.

During the year, the Group closely focused on the Company's safety and environmental protection responsibility goals, strengthened safety management, carefully investigated, eliminated various hidden dangers and various violations at the production site, and effectively improved the employees' awareness of autonomous security, and provided strong support for the Company's normal production.

## **JOIN FORCES TO FIGHT THE EPIDEMIC**

Since the outbreak of the COVID-19, the Group has taken "Protect employees, protect the market, protect production, and protect cash flow" as its work goals to win the battle against the epidemic, and make every effort to ensure the resumption of work and production and the stability of production and operation activities. Throughout the year, the Group had no epidemics and its production and operation were stable. During the epidemic, the Group implemented flexible home office and prepared employees to return to work safely; managed to purchase epidemic prevention materials to provide protection for the health of employees; strictly implemented cleaning and disinfection work to create a safe and hygienic working environment; strengthened epidemic safety education and established fact-based employee self-protection guidelines to enhance the awareness of safety and risk prevention.

## **PEOPLE-ORIENTED, BEAUTIFY THE HOME**

At the end of 2019, an earthquake occurred in Jingxi City, Guangxi Zhuang Autonomous Region, China. South Manganese Group, located near Jingxi City, was affected by the earthquake, and some buildings, roads and related living facilities in its production area were damaged. In order to completely solve the problem of long-term accommodation for the disaster-affected employees and their families and improve the happiness of the employees, the Daxin branch demolished the old staff canteen and built three resettlement buildings in the area. After many efforts, the resettlement building was completed at the end of 2020.

In the development of the Company, we always focus on the concept of "Green water and green mountains are golden mountains and silver mountains", and strive to promote a win-win situation for ecological and industrial development. Daxin branch carried out tree planting activities centered on the theme of "Contribute to the nature", and planted trees in the open space around the factory to beautify and green the factory. At the same time, the closed site of the slag warehouse is used to plant greenery, and the greening of the slag warehouse is combined with the construction of the closed warehouse to achieve the "three in one" of economic, ecological and social benefits. Tiandeng Manganese Mine Branch carried out greening and beautifying activities in the factory and living areas.

## **SINCERE GRATITUDE AND CREATE A BETTER FUTURE**

On behalf of the Board of Directors, I would like to express my sincere gratitude to the directors, management and all employees for their unity, cooperation, unremitting efforts and hard work in the current arduous and challenging business environment. I would also like to extend my heartfelt thanks to shareholders, customers and business partners for their continued trust and support to the Group during the year!

The world today is facing unprecedented changes. Some industries have been hit hard, and the industrial structure is accelerating adjustments. We must be fully prepared to deal with persistent risks and challenges, and we must also continue to improve the management system and seize development opportunities. The Group will continue to maintain confidence, keep steady and go far, as always, create long-term value for Shareholders, and seek more happiness for our employees. We will not forget the original intention and will keep in mind the mission, and sincerely hope to work together with you to create a better future!

**Li Weijian**

*Chairman*

30 March 2021

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*Year ended 31 December 2020*

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	<b>2019</b> <i>HK\$'000</i>
<b>REVENUE</b>	4	<b>4,367,563</b>	5,802,457
Cost of sales		<b>(3,791,058)</b>	(5,187,541)
		<hr/>	<hr/>
Gross profit		<b>576,505</b>	614,916
		<hr/>	<hr/>
Other income and gains	4	<b>248,297</b>	244,342
Selling and distribution expenses		<b>(104,626)</b>	(92,220)
Administrative expenses		<b>(381,350)</b>	(396,386)
Impairment losses on property, plant and equipment and mining rights		<b>(22,166)</b>	(95,381)
Impairment losses on financial assets, net		<b>(145,618)</b>	(140,462)
Impairment loss on investment in an associate	14	<b>(295,781)</b>	–
Finance costs	5	<b>(213,865)</b>	(225,894)
Other expenses		<b>(12,121)</b>	(57,770)
Share of profits and losses of:			
– Associates		<b>(131,914)</b>	(67,548)
– A joint venture		<b>1,793</b>	(763)
		<hr/>	<hr/>
		<b>(480,846)</b>	(217,166)
Gain on bargain purchase from further acquisition of equity interest in a joint venture	13	<b>69,411</b>	–
Loss on deemed disposal of partial interest in an associate	6	<b>(92,375)</b>	–
		<hr/>	<hr/>
<b>LOSS BEFORE TAX</b>	6	<b>(503,810)</b>	(217,166)
		<hr/>	<hr/>
Income tax credit/(expense)	7	<b>45,956</b>	(16,832)
		<hr/>	<hr/>
<b>LOSS FOR THE YEAR</b>		<b>(457,854)</b>	(233,998)
		<hr/> <hr/>	<hr/> <hr/>

<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	<b>2019</b> <b>HK\$'000</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS):</b>		
<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	1,182	(5,332)
– Exchange differences on translation of foreign operations	147,845	(53,844)
– Share of other comprehensive income of an associate	449	1,602
– Cash flow hedges, net of tax	691	(2,200)
	<hr/>	<hr/>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(307,687)</b>	<b>(293,772)</b>
	<hr/>	<hr/>
Loss attributable to:		
Owners of the parent	(437,929)	(202,338)
Non-controlling interests	(19,925)	(31,660)
	<hr/>	<hr/>
	<b>(457,854)</b>	<b>(233,998)</b>
	<hr/>	<hr/>
Total comprehensive loss attributable to:		
Owners of the parent	(284,755)	(261,886)
Non-controlling interests	(22,932)	(31,886)
	<hr/>	<hr/>
	<b>(307,687)</b>	<b>(293,772)</b>
	<hr/>	<hr/>
<b>LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	<b>8</b>	
Basic	<b>HK\$(0.1277)</b>	<b>HK\$(0.0590)</b>
	<hr/> <hr/>	<hr/> <hr/>
Diluted	<b>HK\$(0.1277)</b>	<b>HK\$(0.0590)</b>
	<hr/> <hr/>	<hr/> <hr/>

The Board does not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

		<b>2020</b>	<b>2019</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>3,354,950</b>	2,670,964
Investment properties		<b>115,394</b>	94,931
Right-of-use assets		<b>676,101</b>	612,486
Intangible assets		<b>478,014</b>	464,093
Investments in associates		<b>306,245</b>	812,456
Investment in a joint venture		–	122,919
Due from an associate		–	34,766
Deferred tax assets		<b>87,896</b>	30,251
Prepayments and other assets		<b>68,000</b>	107,927
		<hr/>	<hr/>
Total non-current assets		<b>5,086,600</b>	4,950,793
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Inventories		<b>528,237</b>	518,396
Trade and notes receivables	<i>10</i>	<b>1,428,827</b>	1,697,341
Prepayments, other receivables and other assets		<b>817,400</b>	386,304
Due from related companies		<b>4,217</b>	17,356
Due from associates		<b>17,880</b>	–
Due from a joint venture		–	43,779
Tax recoverable		<b>504</b>	488
Derivative financial instruments		–	13,726
Pledged deposits		<b>45,495</b>	35,616
Cash and cash equivalents		<b>1,129,543</b>	1,103,606
		<hr/>	<hr/>
Total current assets		<b>3,972,103</b>	3,816,612
		<hr/>	<hr/>

	<i>Notes</i>	<b>2020</b> <i>HK\$'000</i>	<b>2019</b> <i>HK\$'000</i>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	<i>11</i>	<b>683,757</b>	690,498
Other payables and accruals		<b>919,595</b>	771,767
Derivative financial instruments		<b>3,286</b>	4,835
Interest-bearing bank and other borrowings	<i>12</i>	<b>2,675,964</b>	3,511,908
Due to related companies		<b>1,873</b>	3,971
Tax payable		<b>3,136</b>	6,830
		<hr/>	<hr/>
Total current liabilities		<b>4,287,611</b>	4,989,809
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		<b>(315,508)</b>	(1,173,197)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,771,092</b>	3,777,596
		<hr/>	<hr/>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	<i>12</i>	<b>1,893,415</b>	646,199
Derivative financial instruments		–	1,580
Deferred tax liabilities		<b>220,295</b>	191,741
Other long-term liabilities		<b>47,111</b>	42,572
Deferred income		<b>59,198</b>	57,078
		<hr/>	<hr/>
Total non-current liabilities		<b>2,220,019</b>	939,170
		<hr/>	<hr/>
Net assets		<b>2,551,073</b>	2,838,426
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		<b>342,846</b>	342,846
Reserves		<b>2,174,988</b>	2,460,893
		<hr/>	<hr/>
		<b>2,517,834</b>	2,803,739
<b>Non-controlling interests</b>		<b>33,239</b>	34,687
		<hr/>	<hr/>
Total equity		<b>2,551,073</b>	2,838,426
		<hr/> <hr/>	<hr/> <hr/>

## **NOTES TO FINANCIAL STATEMENTS**

*31 December 2020*

### **1. CORPORATE INFORMATION**

The Company was incorporated in Bermuda on 18 July 2005 as an exempted company with limited liability under Section 14 of the Companies Act 1981 of Bermuda (as amended). The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at Room A02, 35th Floor, United Centre, 95 Queensway, Admiralty, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise manganese mining, ore processing and downstream processing operations in Mainland China, manganese mining and ore operations in Gabon, as well as trading of manganese ores, manganese alloys and related raw materials.

### **2. BASIS OF PREPARATION AND CHANGES TO ACCOUNTING POLICIES AND DISCLOSURES**

#### **2.1 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 profit or loss, 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 (“**HKS**”) and all values are rounded to the nearest thousand except when otherwise indicated.

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\$315,508,000 as at 31 December 2020. Subsequent to the year end, the Group has successfully obtained new short-term bank loans of HK\$704.5 million during the period from 1 January 2021 up to the date of this announcement. In addition, as the Group has been being able to repay its bank loans when due so far, certain PRC banks have confirmed to the Group in writing that they will extend new loans totaling HK\$454.2 million to the Group upon repayment of certain short-term bank loans in the year 2021. The directors of the Company, also taking into account of internally generated funds from its operations, are of the opinion that, the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. 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.

## 2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the Conceptual Framework for Financial Reporting 2018 and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.

- (b) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.
- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“**RFR**”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships that was affected by the interest rate benchmark reform.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. 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.

- (e) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

### **3. OPERATING SEGMENT INFORMATION**

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

**(a) Manganese mining segment (PRC and Gabon)**

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

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

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

**(c) Battery materials production segment (PRC)**

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

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

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

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

Segment assets exclude derivative financial instruments, 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
<b>Year ended 31 December 2020</b>						
<b>Segment revenue</b>						
Sales to external customers	105,064	–	3,089,155	918,448	254,896	4,367,563
Intersegment sales	–	–	–	–	21,089	21,089
Other revenue	213	84,267	51,768	9,519	76,493	222,260
	<u>105,277</u>	<u>84,267</u>	<u>3,140,923</u>	<u>927,967</u>	<u>352,478</u>	<u>4,610,912</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						<u>(21,089)</u>
Revenue from operations						<u>4,589,823</u>
<b>Segment results</b>	<b>(71,383)</b>	<b>177,947</b>	<b>147,490</b>	<b>163,964</b>	<b>(568,984)</b>	<b>(150,966)</b>
<i>Reconciliation:</i>						
Interest income						26,037
Corporate and other unallocated expenses						(171,850)
Finance costs (other than interest on lease liabilities)						<u>(207,031)</u>
Loss before tax						<u>(503,810)</u>
Income tax expense						<u>45,956</u>
<b>Loss for the year</b>						<b><u>(457,854)</u></b>
<b>Assets and liabilities</b>						
<b>Segment assets</b>	<b>879,504</b>	<b>493,752</b>	<b>4,423,884</b>	<b>680,752</b>	<b>1,248,235</b>	<b>7,726,127</b>
<i>Reconciliation:</i>						
Corporate and other unallocated assets						<u>1,332,576</u>
<b>Total assets</b>						<b><u>9,058,703</u></b>
<b>Segment liabilities</b>	<b>223,527</b>	<b>224,210</b>	<b>1,122,188</b>	<b>178,451</b>	<b>4,045</b>	<b>1,752,421</b>
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities						<u>4,755,209</u>
<b>Total liabilities</b>						<b><u>6,507,630</u></b>
<b>Other segment information:</b>						
Depreciation and amortisation	8,239	10,334	329,535	102,887	5,971	456,966
Unallocated depreciation and amortisation						<u>3,499</u>
Total depreciation and amortisation						<u>460,465</u>
Capital expenditure <sup>#</sup>	32,918	–	229,182	175,059	10,941	448,100
Unallocated capital expenditure						<u>3,581</u>
Total capital expenditure						<u>451,681</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>

<sup>#</sup> 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
<b>Year ended 31 December 2019</b>						
<b>Segment revenue</b>						
Sales to external customers	122,366	–	3,259,384	664,974	1,755,733	5,802,457
Intersegment sales	–	–	–	–	482,217	482,217
Other revenue	753	104,331	42,263	5,090	55,261	207,698
	<u>123,119</u>	<u>104,331</u>	<u>3,301,647</u>	<u>670,064</u>	<u>2,293,211</u>	<u>6,492,372</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						<u>(482,217)</u>
Revenue from operations						<u>6,010,155</u>
<b>Segment results</b>	<b>(35,830)</b>	<b>62,183</b>	<b>144,896</b>	<b>70,363</b>	<b>(119,806)</b>	<b>121,806</b>
<i>Reconciliation:</i>						
Interest income						36,644
Corporate and other unallocated expenses						(157,685)
Finance costs (other than interest on lease liabilities)						<u>(217,931)</u>
Loss before tax						<u>(217,166)</u>
Income tax expense						<u>(16,832)</u>
<b>Loss for the year</b>						<b><u>(233,998)</u></b>
<b>Assets and liabilities</b>						
<b>Segment assets</b>	<b>982,234</b>	<b>144,907</b>	<b>4,156,207</b>	<b>969,035</b>	<b>1,264,364</b>	<b>7,516,747</b>
<i>Reconciliation:</i>						
Corporate and other unallocated assets						<u>1,250,658</u>
<b>Total assets</b>						<b><u>8,767,405</u></b>
<b>Segment liabilities</b>	<b>412,522</b>	<b>17,062</b>	<b>1,047,069</b>	<b>137,005</b>	<b>20,726</b>	<b>1,634,384</b>
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities						<u>4,294,595</u>
<b>Total liabilities</b>						<b><u>5,928,979</u></b>
<b>Other segment information:</b>						
Depreciation and amortisation	23,351	10,258	305,626	38,796	5,294	383,325
Unallocated depreciation and amortisation						<u>3,694</u>
Total depreciation and amortisation						<u>387,019</u>
Capital expenditure	96,783	–	388,108	86,805	1,003	572,699
Unallocated capital expenditure						<u>2,586</u>
Total capital expenditure						<u>575,285</u>
Impairment losses recognised in profit or loss	<u>44,291</u>	<u>44,808</u>	<u>82,978</u>	<u>18,966</u>	<u>108,163</u>	<u>299,206</u>
(Loss)/gain on disposal of items of property, plant and equipment	<u>(329)</u>	<u>–</u>	<u>14,198</u>	<u>(1,223)</u>	<u>(430)</u>	<u>12,216</u>
Investments in associates	<u>–</u>	<u>–</u>	<u>292,767</u>	<u>–</u>	<u>519,689</u>	<u>812,456</u>
Investment in a joint venture	<u>–</u>	<u>–</u>	<u>–</u>	<u>122,919</u>	<u>–</u>	<u>122,919</u>
Share of losses of associates	<u>–</u>	<u>–</u>	<u>(19,947)</u>	<u>–</u>	<u>(47,601)</u>	<u>(67,548)</u>
Share of losses of a joint venture	<u>–</u>	<u>–</u>	<u>–</u>	<u>(763)</u>	<u>–</u>	<u>(763)</u>

## Geographical information

### (a) Revenue from external customers

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Mainland China	4,237,886	5,480,772
Asia (excluding Mainland China)	104,845	267,361
Europe	12,587	43,084
North America	12,245	11,240
	<u>4,367,563</u>	<u>5,802,457</u>

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

### (b) Non-current assets

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Segment assets		
Mainland China	4,951,294	4,862,924
Africa	47,410	57,618
	<u>4,998,704</u>	<u>4,920,542</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\$549,675,000 (2019: approximately HK\$870,551,000) was derived from sales by the EMM and alloying materials production segment and trading sales to a single customer.

#### 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers	<b>4,367,563</b>	5,802,457

#### Revenue from contracts with customers

##### (a) *Disaggregated revenue information*

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
<b>Geographical markets</b>					
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	<b>105,064</b>	<b>3,089,155</b>	<b>918,448</b>	<b>254,896</b>	<b>4,367,563</b>
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time with customers	<b>105,064</b>	<b>3,089,155</b>	<b>918,448</b>	<b>254,896</b>	<b>4,367,563</b>

For the year ended 31 December 2019

**Segments**

	Manganese mining <i>HK\$'000</i>	EMM and alloying materials production <i>HK\$'000</i>	Battery materials production <i>HK\$'000</i>	Other business <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Sale of goods</b>	122,366	3,259,384	664,974	1,755,733	5,802,457
<b>Geographical markets</b>					
Mainland China	122,366	2,950,270	655,498	1,752,638	5,480,772
Asia (excluding Mainland China)	–	260,013	4,253	3,095	267,361
Europe	–	37,861	5,223	–	43,084
North America	–	11,240	–	–	11,240
Total revenue from contracts with customers	122,366	3,259,384	664,974	1,755,733	5,802,457
<b>Timing of revenue recognition</b>					
Goods transferred at a point in time with customers	122,366	3,259,384	664,974	1,755,733	5,802,457

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

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>
Revenue from contracts with customers					
Sales to external customers	105,064	3,089,155	918,448	254,896	4,367,563

For the year ended 31 December 2019

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>
Revenue from contracts with customers					
Sales to external customers	122,366	3,259,384	664,974	1,755,733	5,802,457

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u>44,305</u>	<u>52,841</u>

**(b) Performance obligations**

Information about the Group's performance obligations is summarised below:

*Sale of goods*

The performance obligation is satisfied upon delivery of the commodities and payment is generally due within one to three months from the invoice date, except for new customers, where payment in advance is normally required.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Amounts expected to be recognised as revenue:		
Within one year	<u>30,761</u>	<u>44,305</u>

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Other income and gains</b>		
Bank and other interest income	26,037	36,644
Gain on disposal of items of property, plant and equipment	15,293	12,216
Subsidy income*	65,413	32,423
Net subcontracting income <sup>#</sup>	85,279	103,092
Sale of scraps	9,660	13,179
Gross rental income from investment property operating leases:		
Lease payments, including fixed payments	25,920	26,491
Fair value gains on investment properties	121	–
Others	20,574	20,297
	<u>248,297</u>	<u>244,342</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.

<sup>#</sup> 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.

## 5. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on loans wholly repayable within five years	199,811	208,025
Finance costs for discounted notes receivable	7,204	7,946
Interest on lease liabilities	6,834	7,963
Other finance costs	16	1,960
	<u>213,865</u>	<u>225,894</u>

## 6. LOSS BEFORE TAX

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Cost of inventories sold <sup>#</sup>	3,791,307	5,166,810
Depreciation of property, plant and equipment	381,194	309,997
Depreciation of right-of-use assets	58,864	59,307
Amortisation of intangible assets	20,407	17,715
Research and development costs	43,102	24,939
Minimum lease payments under operating leases, land and buildings	–	–
Lease payments not included in the measurement of lease liabilities	7,874	7,587
Auditor's remuneration	3,266	3,457
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	490,696	447,859
Pension scheme contributions	31,408	79,482
Other employee welfare	72,071	62,536
	<u>594,175</u>	<u>589,877</u>
Gain on disposal of items of property, plant and equipment*	(15,293)	(12,216)
Loss on disposal of financial assets at fair value through profit or loss*	–	98
Loss on stocktake*	–	4,722
Foreign exchange differences, net*	3,075	10,084
(Reversal of impairment)/impairment of inventories, net <sup>#</sup>	(249)	49,692
Impairment of financial assets, net:		
Impairment of trade and notes receivables, net	46,182	80,358
Impairment of financial assets included in prepayments, other receivables and other assets	66,424	53,175
Impairment of an amount due from an associate	33,012	6,929
	<u>145,618</u>	<u>140,462</u>
Impairment loss on property, plant and equipment	3,582	53,559
Impairment loss on mining rights	18,584	41,822
Impairment loss on non-financial assets included in prepayments, other receivables and other assets*	4,226	13,671
Impairment loss on investment in an associate	295,781	–
Loss on deemed disposal of partial interest in an associate ( <i>note</i> )	92,375	–
Gain on bargain purchase from acquisition of a subsidiary	(69,411)	–
Provision for rehabilitation	2,224	15,118
Fair value gains on investment properties*	(121)	–

# HK\$3,791,058,000 (2019: HK\$5,187,541,000) included in “Cost of sales” and Nil (2019: HK\$28,961,000) included in “Other expenses” in the consolidated statement of profit or loss and other comprehensive income

\* HK\$15,414,000 (2019: HK\$12,216,000) included in “Other income and gains” (note 4) and HK\$7,301,000 (2019: HK\$23,853,000) included in “Other expenses” in the consolidated statement of profit or loss and other comprehensive income.

*Note:* 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 rights issue.

## 7. INCOME TAX (CREDIT)/EXPENSE

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

	2020 <i>HK\$’000</i>	2019 <i>HK\$’000</i>
Current – PRC		
Charge for the year	7,672	5,175
Current – Gabon		
Charge for the year	–	64
Deferred	(53,628)	11,593
	<u>(45,956)</u>	<u>16,832</u>
Total tax expense for the year	<u>(45,956)</u>	<u>16,832</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 ended in 2020 and the related benefit will be subject to review by tax authorities every year thereafter, other companies of the Group which operate in Mainland China are subject to CIT at a rate of 25% on their respective taxable income.

## Gabon corporate income tax

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

## 8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the 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 (2019: 3,428,459,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amounts presented.

The calculations of basic and diluted loss per share are based on:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Loss</b>		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	<u><u>(437,929)</u></u>	<u><u>(202,338)</u></u>
	<b>Number of shares</b>	
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	<u><u>3,428,459,000</u></u>	<u><u>3,428,459,000</u></u>

## 9. DIVIDENDS

The board does not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

## 10. TRADE AND NOTES RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	1,020,549	1,059,624
Notes receivable	589,525	763,936
	<hr/>	<hr/>
	1,610,074	1,823,560
Less: Impairment	(181,247)	(126,219)
	<hr/>	<hr/>
	<b>1,428,827</b>	<b>1,697,341</b>
	<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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one month	382,677	487,130
One to two months	85,516	95,661
Two to three months	57,887	36,888
Over three months	313,222	317,057
	<hr/>	<hr/>
	<b>839,302</b>	<b>936,736</b>
	<hr/> <hr/>	<hr/> <hr/>

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

Notes receivable represent: (a) bank acceptance notes of HK\$589,525,000 (2019: HK\$697,309,000) issued by banks in Mainland China maturing before 30 June 2021 and (b) commercial acceptance notes of nil (2019: HK\$66,627,000). 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one month	209,109	255,102
One to two months	141,664	199,675
Two to three months	68,362	153,468
Over three months	170,390	152,360
	<hr/>	<hr/>
	<b>589,525</b>	<b>760,605</b>
	<hr/> <hr/>	<hr/> <hr/>

## 11. TRADE AND NOTES PAYABLES

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within one month	388,836	456,254
One to two months	102,932	74,051
Two to three months	61,302	55,885
Over three months	130,687	104,308
	<u>683,757</u>	<u>690,498</u>

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

## 12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2020			31 December 2019		
	Effective Interest rate (%)	Maturity	<i>HK\$'000</i>	Effective Interest rate (%)	Maturity	<i>HK\$'000</i>
<b>Current</b>						
Lease liabilities	5.20-8.70	2021	35,778	5.20-8.70	2020	74,097
Bank loans – secured	–	–	–	3.09-3.19	2020	62,855
Bank loans – unsecured	2.62-4.35	2021	2,102,631	4.35-5.22, LIBOR+1.00, LIBOR+1.20	2020	2,685,565
Current portion of long-term bank loans – unsecured	4.5-5.46 LIBOR+2.30	2021	537,555	4.75-5.46, LIBOR+2.30	2020	689,391
			<u>2,675,964</u>			<u>3,511,908</u>
<b>Non-current</b>						
Lease liabilities	5.20	2023	3,737	5.20-8.70	2021	27,265
Bank loans – unsecured	3.85-5.46	2021-2023	1,889,678	4.75-5.46, LIBOR+2.30	2021-2023	618,934
			<u>1,893,415</u>			<u>646,199</u>
			<u>4,569,379</u>			<u>4,158,107</u>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Analysed into:</b>		
Bank loans repayable:		
Within one year or on demand	2,640,186	3,437,811
In the second year	1,430,758	519,902
In the third to fifth years, inclusive	458,920	99,032
	<u>4,529,864</u>	<u>4,056,745</u>
Other loans and lease liabilities:		
Within one year or on demand	35,778	74,097
In the second year	3,737	27,265
	<u>39,515</u>	<u>101,362</u>
	<u><b>4,569,379</b></u>	<u><b>4,158,107</b></u>

*Notes:*

- (a) The above secured bank loans were secured by certain of the Group's assets with the following carrying value:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	—	62,855
	<u>—</u>	<u>62,855</u>

- (b) As at 31 December 2020, except for bank and other borrowings of HK\$438,621,000 (2019: HK\$877,666,000) which were denominated in United States dollars, all borrowings were denominated in Renminbi.

### 13. BUSINESS COMBINATION

On 31 March 2020, the Group further acquired 65.17% partnership interest in Ningbo Dameng for a consideration of RMB124,046,000 (equivalent to HK\$136,674,000). Upon completion of the further acquisition, Ningbo Dameng Group ceased to be a joint venture and became a wholly owned subsidiary of the Group. Therefore, the Group ceased to account for the results of Ningbo Dameng Group by equity method, and consolidated its financial statements in full starting from the acquisition date. The principal activity of Ningbo Dameng is investment holding. Ningbo Dameng wholly owns a subsidiary Huiyuan Manganese in the PRC, principally engaging in manufacturing and sale of EMD.

The further acquisition has been accounted for using the acquisition method.

The fair values of the identifiable assets and liabilities of Ningbo Dameng Group as at the date of further acquisition were as follows:

	<i>HK\$ '000</i>
Property, plant and equipment	436,852
Right-of-use assets	64,667
Cash and bank balances	5,626
Trade and notes receivables	118,827
Other receivables and prepayments	47,112
Inventories	79,981
Trade and notes payables	(175,027)
Other payables and accruals	(124,551)
Bank loans	(110,180)
Deferred income	(1,161)
Deferred tax liabilities	(13,275)
	<hr/>
	328,871
Satisfied by:	
Cash	136,674
Net carrying amount of previously held interest in Ningbo Dameng Group	122,786
	<hr/>
	259,460
	<hr/> <hr/>
<b>Gain on bargain purchase recognised in profit or loss</b>	<b>69,411</b>
	<hr/> <hr/>

The fair values of the trade and notes receivables and other receivables and prepayments as at the date of acquisition amounted to HK\$118,827,000 and HK\$47,112,000, respectively. The gross contractual amounts of trade and notes receivables and other receivables and prepayments were HK\$123,130,000 and HK\$48,114,000 respectively, of which trade and notes receivables of HK\$4,303,000 and other receivables and prepayments of HK\$1,002,000 are expected to be uncollectible.

The Group recognised a gain on bargain purchase of HK\$69,411,000 in the consolidated statement of profit or loss for the year ended 31 December 2020, which was primarily attributable to the excess of the aggregate of the fair values of the net assets of Ningbo Dameng Group above the consideration that was mutually agreed between the parties, after netting off a loss of HK\$49,419,000 on remeasurement of the previously existing interest in Ningbo Dameng Group at the acquisition-date fair value.

The Group incurred transaction costs of HK\$50,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	<i>HK\$ '000</i>
Cash consideration	136,674
Cash and bank balances acquired	(5,626)
	<hr/>
Net outflow of cash and cash equivalents included	
in cash flows from investing activities	131,048
Transaction costs of the acquisition included	
in cash flows from operating activities	50
	<hr/>
	<u>131,098</u>

Since the acquisition, Ningbo Dameng Group contributed HK\$502,665,000 to the Group's revenue and a profit after tax of HK\$64,710,000 to the consolidated profit for the year ended 31 December 2020.

Had the acquisition taken place at the beginning of the year, Ningbo Dameng Group would have contributed HK\$583,047,000 and HK\$69,808,000 respectively to the revenue and the profit after tax of the Group for the year.

#### **14. IMPAIRMENT LOSS ON INVESTMENT IN AN ASSOCIATE**

Subsequent to the end of the reporting period on 19 March 2021, there were two announcements issued by GMG, one of which identified various factors relevant to significant loss expected, including underperformance of GMG in 2020 and questionable assets, and the other stated that GMG is unable to issue its results announcement as agreed with its auditor in accordance with rule 13.49(1) nor unaudited management accounts in accordance with rule 13.49(2) for the year ended 31 December 2020.

During the year, the Company has used the unaudited financial statements for the year ended 31 December 2020 for its equity method of accounting purpose. However, in light of the foregoing, and that GMG is now in the course of debt restructuring and negotiation with its sole and major lender banker which posed as significant financial difficulty, apart from the equity pick up, the Company determined that the net investment in GMG is impaired and the impairment loss is determined by assessing the recoverable amount of investment in GMG which is the higher of value in use or fair value less cost of disposal. With the significant changes as mentioned above this year, the value in use of GMG is less than its market capitalisation. Thus the net investment in GMG was written down to its fair value, which was categorised as Level 1 of the fair value hierarchy, with reference to GMG's quoted share price on the Stock Exchange as at the close of business of 31 December 2020, and an impairment loss of HK\$295.8 million was provided accordingly.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	Increase/(decrease)	
			<i>HK\$'000</i>	%
Revenue	<b>4,367,563</b>	5,802,457	(1,434,894)	(24.7)
Gross profit	<b>576,505</b>	614,916	(38,411)	(6.2)
Gross profit margin	<b>13.2%</b>	10.6%	N/A	2.6
Operating profits	<b>112,840</b>	86,988	25,852	29.7
Gain on bargain purchase from further acquisition of equity interest in a joint venture	<b>69,411</b>	–	69,411	100.0
Impairment losses on property, plant and equipment and mining rights	<b>(22,166)</b>	(95,381)	73,215	76.8
Impairment losses on financial assets, net	<b>(145,618)</b>	(140,462)	(5,156)	(3.7)
Impairment loss on investment in an associate	<b>(295,781)</b>	–	(295,781)	(100.0)
Loss on deemed disposal of partial interest in an associate	<b>(92,375)</b>	–	(92,375)	(100.0)
Share of profits and losses of				
– Associates	<b>(131,914)</b>	(67,548)	(64,366)	(95.3)
– A joint venture	<b>1,793</b>	(763)	2,556	335.0
Loss before tax	<b>(503,810)</b>	(217,166)	(286,644)	(132.0)
Income tax credit/(expense)	<b>45,956</b>	(16,832)	62,788	373.0
Loss for the year	<b>(457,854)</b>	(233,998)	(223,856)	(95.7)
Loss attributable to owners of the parent	<b>(437,929)</b>	(202,338)	(235,591)	(116.4)
Loss attributable to non-controlling interests	<b>(19,925)</b>	(31,660)	11,735	37.1
	<b>(457,854)</b>	(233,998)	(223,856)	(95.7)

## Overview

The global economy was deeply dampened by the outbreak of the coronavirus disease (the “COVID-19”) from the end of January 2020 that sustained throughout the whole year of 2020. Different levels of lockdown and quarantine measures around the world due to the outbreak of the COVID-19 has significantly reduced the human flows, social activities, transportation and trading activities worldwide and directly led to cliff-edge fall in economies, upsurge of unemployment and ruptures in the capital chain of corporations unprecedentedly. Different countries around the world implement various measures assisting people and corporations to relieve the situation and alleviate the impact. Close to the end of the year 2020, vaccines have started to be put into use gradually. With the progressive launch of more large scale vaccination covering more people worldwide in phases going forward, it may help the economic activities to restore to normal in the year 2021. Nevertheless, the spread of the COVID-19 has not yet been under control at this moment with even the threat of emerging COVID-19 variants. We expect the recovery of global economy largely depends on the timing to successfully contain the spread of the COVID-19 which in turn currently counts on vaccines which can build sufficient immunity amongst a required level of population and the government relief measures.

As the steel sector is our major downstream industry, its demand for our products was largely arising from consumptions within China. China’s economy shrank in the first quarter of the year 2020 and showed recovery in its manufacturing and exports sectors since the second quarter of the year 2020, as stimulated by the government-led investments, increased production for automobiles and upsurging demand for China’s products from worldwide. But only by the end of the year 2020, the significant increase in market price of our EMM products in December 2020 reflected a relatively strong signal of rebound of economy in China. As a result, the average selling price of our EMM products for 2020 decreased by 15.4% to HK\$10,725 per tonne (2019: HK\$12,680 per tonne). Nevertheless, the above negative impact was partially offset, but to a lesser extent, by decrease in the unit cost of production of EMM as a result of price decrease of its major raw materials including manganese ores, sulfuric acid and selenium dioxide. The gross profit ratio decreased by 3.0% to 14.5% in 2020 (2019: 17.5%) and the gross profit contribution of EMM products decreased by 24.0% to HK\$289.1 million (2019: HK\$380.2 million).

In 2020, the Group continues our strategy to cautiously invest and expand our production capacity of battery material products. The further acquisition of 65.17% equity interest of Ningbo Dameng in March 2020 signaled a remarkable development. After the further acquisition, Ningbo Dameng Group became a wholly owned subsidiary of the Group. Ningbo Dameng owns an EMD manufacturing plant, Huiyuan Manganese Plant, in Laibin, Guangxi. After the technological upgrade of Huiyuan Manganese Plant in the year 2019, its annual capacity increased to 90,000 tonnes per annum and coupled with our existing capacity of 30,000 tonnes per annum in Daxin, Guangxi, we are now the largest EMD manufacturing plant in the PRC with cost advantages including internal supply of manganese ores stably from our Gabon mine. With the additional equity interest in Huiyuan Manganese Plant and release of its new production capacity in the full year of 2020, our overall product mix has shifted to higher margin battery material products i.e. EMD with more profit contribution to the Group.

In 2020, due to temporary production halt of downstream customers in the PRC during the lockdown period in the first half of the year 2020, the average selling price of EMD for 2020 decreased by 14.6% to HK\$8,616 per tonne (2019: HK\$10,084 per tonne) and the gross profit ratio decreased by 7.2% to 25.4% in 2020 (2019: 32.6%). However, with the consolidation of and hence further contribution from Huiyuan Manganese Plant, the gross profit contribution of EMD recorded a remarkable increase of 108.3% to HK\$188.7 million (2019: HK\$90.6 million). On the other hand in 2020, the PRC government extended the electric vehicles subsidies for two more years until the end of the year 2022 with relatively mild changes. It is expected that further commercialization of electric vehicles in China will continue to stimulate the market demands for battery material products including EMD. The Group remains cautiously optimistic of the development of this business segment.

During the year 2020, the business environment was full of uncertainties. In broad terms, the Group implemented the following measures to overcome challenges including the COVID-19:

- (a) we strictly contain our capital expenditure. The remaining phase of Chongzuo lithium manganese oxide production plant with an additional production capacity of approximately 1,500 to 3,000 tonnes per annum (depending on the product type) which is now rescheduled to be completed by the year 2021 from April 2020.
- (b) we have increased the magnitude to improve the loan structure by significantly increase the portion of long term loans in order to contain the liquidity risk.

- (c) we continue to strive to ramp up our production of Gabon ores. In 2020, lockdown of certain countries with major manganese ore supplies has led to temporary closures of some manganese ore mines and/or ore ports and therefore reduction in manganese ores supply in the international market. Nevertheless, the Group has been strictly implementing precautionary measures at our mining site in Gabon since the beginning of the outbreak. At the same time Gabon government has only implemented lockdown around major city areas. Therefore, our mining operations in Gabon and its ore export remained largely unaffected by the COVID-19 throughout the year.
- (d) we continue to implement cost reduction program in our production. In 2020, the Group, including our Daxin and Tiandeng EMM plants obtained more discounts in power purchase and subsidies from local governments. In addition, we benefited from the PRC Government's measures implemented in the year 2020 in reducing corporations' burden of social insurance contribution.
- (e) we continue to carry out technical research and development to upgrade the quality of our battery material products including EMD and lithium manganese oxide to increase their added value and further extend their applications in electric vehicles and other electric tools and equipment to enhance our product competitiveness.

In summary, mainly as a result of net effect of (i) increase in sales volume of EMD upon consolidation of Huiyuan Manganese Plant in the year and its technological upgrade and (ii) decrease in average selling price of EMM products and EMD, our gross profit for 2020 decreased slightly to HK\$576.5 million (2019: HK\$614.9 million). But compensated with the absence of write-off of obsolete spare parts and consumables as well as prepayments for value added tax which were in dispute recorded in an aggregate amount of HK\$36.8 million in 2019 as other expenses of our Gabon Mine, our operating profit for 2020 increased to HK\$112.8 million (2019: HK\$87.0 million).

In 2020, the Group had the following major non-cash one-off items:

- (a) As detailed in our announcement of 30 March 2020, the Group acquired 65.17% equity interest of Ningbo Dameng, at an aggregate consideration of RMB124.0 million (equivalent to HK\$136.7 million). Upon completion of the further acquisition on 31 March 2020, Ningbo Dameng became a wholly owned subsidiary of the Group. Based on an independent third party valuer's valuation, a gain on bargain purchase of HK\$69.4 million was recognised in the consolidated statement of profit or loss of the Group upon completion of the acquisition.

- (b) Impairment losses on property, plant and equipment and mining rights of HK\$22.2 million (2019: HK\$95.4 million) was recognised mainly due to alteration of our expansion plan of Changgou Manganese mine owned by our 64% owned subsidiary Hui Xing Group led to an further adjustment to its value-in-use and corresponding impairment in value of the mining right, amounting to HK\$18.6 million (2019: HK\$41.8 million).
- (c) Impairment losses on financial assets of HK\$145.6 million (2019: HK\$140.4 million) was recognised, mainly represents: (i) impairment losses on trade and notes receivables of HK\$46.2 million (2019: HK\$80.4 million), including an amount due from one of our major customers including its subsidiaries of HK\$31.5 million (2019: HK\$77.2 million); (ii) further impairment losses on other current assets of HK\$49.7 million (2019: HK\$33.0 million) in respect of construction costs incurred for an aborted project development; (iii) impairment loss on a loan due from GMG of HK\$33.0 million (2019: Nil) and (iv) impairment losses on other long aged receivables.
- (d) Impairment loss on investment in GMG, an 23.99% associate of the Group of HK\$295.8 million (2019: Nil) was recognised. An impairment loss was provided mainly due to: (i) GMG suffered from the adverse impact of the COVID-19 in the year 2020 which led to significant underperformance on mining operations in the second half of the year 2020; and (ii) the viability of GMG to continue as a going concern decreased as GMG was in the course of debt restructuring and negotiation with its sole and major lender banker in the year 2020.
- (e) As detailed in our announcement of 20 February 2020, as the Group did not participate in the rights issue of GMG, the Group's shareholdings in GMG was diluted from 29.99% to 23.99% immediately after the completion of the rights issue. The Group recorded a one-off extraordinary non-cash loss of HK\$92.4 million arising from the deemed disposal of partial interest in GMG.
- (f) Share of losses of associates increased by HK\$64.4 million to HK\$131.9 million (2019: HK\$67.5 million) mainly attributable to increase in share of loss of GMG by HK\$59.8 million to HK\$107.4 million (2019: HK\$47.6 million) due to its impairment losses on non-current assets.

After taking into account of the above, the loss attributable to parent of the Group was HK\$437.9 million in 2020 (2019: HK\$202.3 million) and the earnings before interest, taxes, depreciation and amortisation (“**EBITDA**”) for 2020 decreased by 59.8% to HK\$144.5 million (2019: HK\$359.1 million).

## **IMPACTS OF THE COVID-19**

The sudden outbreak of COVID-19 pandemic in early 2020 has severely hindered global economic activities and brought uncertainties to business operations in various industries. Nevertheless, the production and operation of the Group remained generally stable with limited disruption. The Group was affected to a certain extent in terms of macroeconomy, market demand, product prices, etc. Yet the Group continued to strengthen its management and control which reduced costs and improved efficiency for all employees, and therefore the impact of the pandemic on our operations was contained to a manageable level.

### **I. Impacts of the pandemic on production and sales in 2020**

In 2020, the pandemic has minimal impact to the production of the Group's major manganese products (i.e. EMM products, EMD, manganese sulfate and silicomanganese alloys) but a greater impact to the sales of new energy materials. The production of new energy materials was relatively more affected due to the Group's "sales-based production" strategy. With weaker overseas orders, demand for lithium manganese oxide, high purity manganese sulfate, metal manganese powder and NCM were obviously inadequate. Other than metal manganese powder, productions of lithium manganese oxide and high purity manganese sulfate were hardly be half of the planned annual production, whereas production of NCM were shutdown throughout the year.

#### **1. *EMM products***

The sales and prices of the Group's major manganese products (including EMM products) were disclosed in other sections of this announcement in details. The impact posted by the pandemic on sales volume was insignificant, which was mainly due to the stable delivery of nearly 80% of our monthly production volume contemplated under the long-term contracts or strategic cooperation agreements entered into with large scale steel manufacturers during the year. The remaining production was quoted as appropriate for ad hoc tenders from steel manufacturers or individual orders from exporters or domestic traders. The overall production to sales ratio of metal manganese and processed products was 101.6%.

## 2. *Silicomanganese alloys*

The steel market remained sluggish under the impact of the pandemic. Coupled with the oversupply of silicomanganese alloys in the southern market of the PRC, steel manufacturers have leveled up their suppression on silicomanganese and therefore the prices of silicomanganese alloy products have continued to fall. The production volume of silicomanganese remained essentially constant in the year 2020 as compared to last year, while sales were mainly conducted with potent and long-established customers, among which only one was a new steel manufacturer in the region. In order to ensure sales and stabilize production and operation, the Group has actively taken actions after the pandemic showing signs of abating and strengthened and deepened partnership with long-established customers. Further efforts were put in cost reduction and efficiency enhancement for logistics. Logistics costs were further reduced due to the free highway toll policy during the pandemic as most of the product delivered to steel manufacturers throughout the year were mainly transported by motor vehicles.

## 3. *EMD*

The Group achieved its annual sales target at nearly 100% by actively reaching out to customers and keeping abreast of market conditions. Based on the estimation on the market condition during the period of pandemic prevention and control and its normalization, the Group has timely adjusted its production and sales strategy to favour high-margin products. In particular, Huiyuan Manganese has timely seized the opportunities arising in the alkaline products market and promptly adjusted its production and sales since June 2020, which led to significant increases in the production and sales volumes of alkaline products and thus its market share. With the deepening of cooperation with two domestic battery industry giants in China, our brand reputation has been greatly improved. Alkaline products with higher prices have become our best-selling product and have contributed higher profit margin.

## 4. *New energy materials*

Both market demand and prices of our lithium manganese oxide, high purity manganese sulfate, metal manganese powder and NCM were affected by the pandemic's local effect in the first half of the year, mainly because of the delay in resumption of production of our downstream customers and their production resumption rate was weak. On the other hand, the pandemic has become more and more serious worldwide in the second half of the year, which led to a surge in shipping fee for more than 1.5 times, and the appreciation of RMB further dampened the demands.

## **II. Impacts of the pandemic on overall financial and liquidity in 2020**

The market was affected by the pandemic, revenue was lower than the budget as selling price fell short of expectations. However, excluding the special non-recurring items, total operating profit did not deviate significantly from the budget, which was mainly due to the cost reduction and efficiency enhancement measures implemented by the Group in 2020 that greatly reduced our operating costs. The Group has also actively sought for subsidies released from the government's pandemic policies.

During the year, the production and sales of the Group's major manganese products were in balance. In 2020, the Group and its employees worked together to actively explore new market and vigorously promote cost reduction and efficiency enhancement internally in order to maintain profitability and positive operating cash flow. Net operating cash inflows for 2020 was HK\$596.8 million, which was slightly lower than expected as the Group prepaid HK\$540.0 million for its ore purchase shortly before the end of the year, which was a milestone for the Group's commencement of ore import trade. Generally speaking, the Group is still able to maintain adequate operating cash flow and good liquidity in spite of the pandemic.

## **III. Impacts of the pandemic on major risks arising in 2020**

### **1. *Macroeconomic risks***

In early 2020, the PRC government adopted a series of corresponding measures to control the spread of COVID-19 which inevitably led to a short pause for the domestic economy. Though the pandemic was soon under control and domestic demand and production gradually resumed from March 2020, yet the global macroeconomic conditions have further deteriorated, overseas demand has been drastically reduced and exports have been restricted with the rapid spread of the pandemic globally, the Group's production and operations therefore suffered.

### **2. *Market demand risk***

As the export of downstream customers of the Group's new energy materials was restricted, sales was significantly affected. In order to reduce loss, we temporarily restricted some of our production lines to reduce the backlog of certain products.

### **3. *Products price risk***

As affected by the pandemic, the prices of the Group's major products demonstrated a downward trend in the second quarter of 2020 and continued to hover at a low level. Certain products suffered larger price drop. The price of lithium manganese oxide products has decreased by approximately 23% as compared with the price before the pandemic. The price of EMD has once hit its lowest at only approximately 90% of the price before the pandemic. The price of silicomanganese alloys has once hit its lowest by dropping approximately 7% from the price before the pandemic. The price of EMM products was basically the same as before the pandemic but remained at a low level for a prolonged period. From December 2020, driven by peak season of products demand and rising raw material prices, the prices of the Group's major products rebounded with a large extent and as such the products price risk were greatly mitigated.

### **4. *Production management risk***

Due to the pandemic, the working arrangement for other main production staff of the Group and the logistics were restricted leading to inventory backlog. The Group's daily production and operation have been affected to a certain extent. Some production lines were temporarily suspended and restricted in March and April 2020. The progress of individual project development has slowed down, but the overall impact on the Group's production and operation is not significant, and production management risks are under control.

#### **IV. Short term and medium-to-long term strategies/measures in response to the pandemic**

Currently, China achieved major improvement in the pandemic prevention and control while the pandemic situation in overseas is still worsening, All units and departments of the Group will continue to further strengthen the management mechanism of “joint crowd prevention and control”, standardize the pandemic prevention and control, and strictly implement various measures of “defensing imported cases while preventing domestic cases”. The main measures include the followings:

1. The Group establishes a special team or command center to take the lead for pandemic prevention and control with unified leadership, unified command, and overall coordination by allocating different responsibilities into right places, fully carrying out the Group’s pandemic prevention and control work, and strictly implementing “Special Emergency Response Plan on COVID-19 for Corporate《公司新型冠狀病毒感染肺炎專項應急預案》”, “On-site Solution Plan on COVID-19 for Corporate《公司新型冠狀病毒感染肺炎現場處置方案》”, “Prevention and Control and Resumption of Work and Production with Safety Production Plan for Corporate《公司疫情防控和復工複產安全生產方案》” and other systems.
2. On one hand, the Group will secure the supplies of raw materials for production, ensure stable and increased production of mining, and actively explore the domestic and overseas manganese ore resource markets. On the other hand, taking into account that the pandemic may lead to closure of cities and roads, it is necessary to verify logistics and transportation with due diligence to guarantee the logistics and transportation of imported and exported materials and strengthen the order risk management to prevent the risk of late delivery.
3. The Group will make full use of the Government’s supportive policies for helping companies during the pandemic, such as “tax cuts, tax exemptions, interest rate cuts, interest exemptions, subsidies, incentives” and other policies.
4. In the case of fully implementing the pandemic prevention and control measures, the Group will seize opportunities, turn crisis into opportunities, fully grasp the opportunities that appear in the domestic and overseas industry during the pandemic, and help the Group develop new momentum in a timely manner.

## **V. Adjustment to the future operation plan**

With the experience of tackling the COVID-19 in 2020 and the large-scale use of medical resources including vaccines and face masks as well as higher awareness of prevention from the public, the pandemic has been effectively controlled within China, and the economy is still stable and improving and continues to develop. Accordingly, the Group currently has no large-scale adjustments to its future operation plans, and is steadily and actively promoting the Group's development in accordance with the "14th Five-Year Plan".

## **VI. Estimated impacts of the pandemic for 2021**

In early 2021, the pandemic situation in China was fluctuating to some extent and it is still not optimistic overseas. A number of countries continue to launch new COVID-19 vaccines, but it will take some time for large-scale use as there are still a plenty of uncertainties in the internal and external environment. It is expected that the Group will face higher macroeconomic risks in the first half of 2021. However, the demand for consumption and investment will become positive when the pandemic is gradually controlled. Moreover, the negative impacts caused by the macroeconomy can be offset by the demand for the Group's products in the peak season. Therefore, it is expected with caution that the impacts of COVID-19 in 2021 will not be significant to the Group. The market demand risks, product price risks, trade credit risks and production management risks faced by the Group are expected to be significantly reduced. At the same time, the Group actively adopts various responsive measures to alleviate the impact of the pandemic, and fully grasps the opportunities arising in the industry, at home and abroad, to help the Group to develop new momentum in due course.

## **INVESTMENT IN AN ASSOCIATE, GMG**

GMG is a company listed on the HKSE with Stock Code: 2133.HK and an associate of the Company. It is one of the largest lead-silver polymetallic mining companies in Myanmar and owns and operates lead-zinc-silver polymetallic mines in Yunnan Province, the PRC. As an associate of the Company, the investment in GMG has been recorded by the Group as "Investments in associates", and "Due from an associate" and its results have been equity accounted for as "Share of profits and losses of associates".

## I. Loss on Deemed Disposal of Partial Interest in GMG

In February 2020, GMG completed a rights issue on the basis of one rights share for every four existing shares to raise approximately HK\$49.2 million (before expenses) for certain designated purposes as disclosed in its rights issue prospectus. Meanwhile, our Group had been facing operating challenges since the second half of the year 2019. In addition, adverse effects on the macro environment brought by the outbreak of the COVID-19 pandemic had resulted in further uncertainties and challenges in the operating environment of the Group in early 2020. Accordingly and to preserve cash and minimize capital expenditure and investments, we did not participate in GMG's rights issue and therefore immediately after the completion of the rights issue and up to the date of this announcement, our Group's percentage holding in GMG was reduced to approximately 23.99% (the "**Deemed Partial Disposal of GMG**") from approximately 29.99% immediately before its rights issue. As the subscription price of GMG per rights share was lower than the then book value of the net assets of GMG per share, the Group recorded a non-cash extraordinary loss of HK\$92.4 million on Deemed Partial Disposal of GMG.

## II. Share of losses of GMG

As disclosed by GMG and more detailed in its announcement headed "PROFIT WARNING" dated 19 March 2021:

1. GMG expected to record a net loss attributable to parent of GMG to not less than RMB350.0 million (not considering and excluding the impairment losses for relevant projects in Myanmar (if any)) for the year ended 31 December 2020 (2019: RMB70.8 million). The increase in net loss was mainly attributable to the impairment losses in GMG's mining assets and certain prepayments in China, which resulted from adverse impacts brought by factors including COVID-19 pandemic and the expected escalating mining and production costs and the falling selling price of GMG's products;
2. Due to (a) the continuing worsening of the emergency situation in Myanmar since early 2021; and (b) the continuing spread of the COVID-19 pandemic, which resulted in certain travel prohibitions and/or restrictions imposed by the governments of Myanmar and China. GMG expected that further impairment losses may be necessary upon the completion of its audit upon the gradual recovery in Myanmar.

Accordingly, the Group equity picked up its share of GMG's loss for the year 2020 of HK\$107.4 million (2019: HK\$47.6 million) and also took into account of the various factors in the announcements in the assessment of impairment loss in the next paragraphs.

### III. Impairment Loss on GMG

As disclosed by GMG and more detailed in its another announcement headed “INSIDE INFORMATION” also dated 19 March 2021, it:

1. will not be able to issue its preliminary results announcement nor unaudited management accounts in accordance with Rule 13.49 of the Listing Rules for the year ended 31 December 2020;
2. currently expects that its shares will be suspended from trading on the HKSE with effect from 1 April 2021 pursuant to Rule 13.50 of the Listing Rules, until it publishes an announcement containing the requisite financial information;
3. believes that the effects of the recent turmoil in Myanmar and the COVID-19 pandemic will impact on the assessment of its assets and operations in Myanmar and China. GMG expected that further impairment adjustments will most likely be required for GMG’s assets and businesses in Myanmar and China, which will have material and adverse impacts on its results in respect of the year ended 31 December 2020; and
4. is proactively advancing the refinancing and is in the course of loan restructuring and negotiation with its sole and major lender banker.

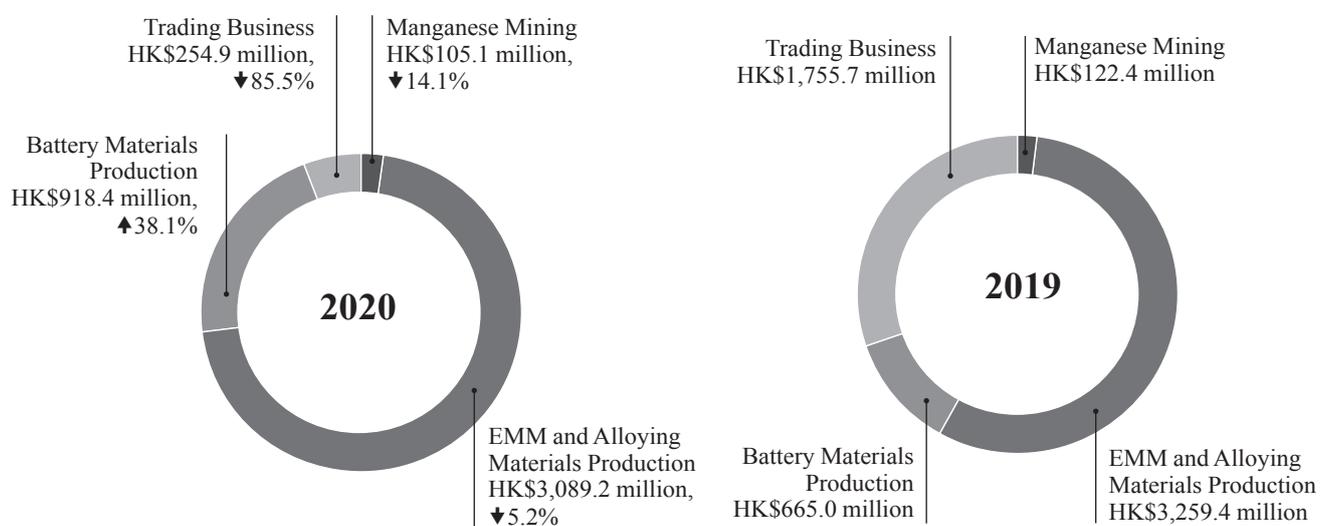
Also as disclosed in the previous annual and interim reports of GMG, it recorded a loss attributable to its owners of the parent for each of the five consecutive years ended 31 December 2019 and the half year ended 30 June 2020 and net current liabilities at each of the year end dates of the four consecutive years to 2019 and 30 June 2020.

Having assessed currently available information including those as to the underperformance of GMG in the second half of 2020 and ongoing review regarding the determination of GMG’s operating targets going forward amidst the political and economic environment of the places in which GMG operates, the projected future financials of GMG’s business and its viability to continue as a going concern, we have applied an expected cash flow approach for our investment value of GMG, which reflects our estimated possible outcomes arising from different project assets of GMG in Myanmar and China, and considering the strategic development of GMG including its ongoing negotiation with its lender banker for loan restructuring.

We have assessed that an impairment loss on investment in GMG of HK\$295.8 million (“**Impairment Loss**”) and an impairment loss on a loan due from GMG of HK\$33.0 million should be recognised for the year ended 31 December 2020. As the Impairment Loss is only an accounting related adjustment and non-cash in nature, it will not have any material adverse impact on the Group’s current and future cash flow and daily operations.

## Comparison with 2019

### Revenue by segment



In 2020, the Group's revenue was HK\$4,367.6 million (2019: HK\$5,802.5 million), representing a decrease of 24.7% as compared with 2019. The decrease was mainly due to the net effect of (a) decrease in average selling prices of EMM products and EMD; (b) substantial increase in sales volume of EMD upon consolidation of Huiyuan Manganese Plant and its volume expansion in the year upon its technological upgrade; and (c) substantial decrease in sales revenue from trading business.

In 2020, the revenue of our major products EMM products accounted for 45.7% (2019: 37.4%) of our total revenue.

## Manganese mining segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/tonne)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
<b>Year 2020</b>							
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
<b>Total</b>	<b>275,749</b>	<b>381</b>	<b>105,064</b>	<b>305</b>	<b>84,113</b>	<b>20,951</b>	<b>19.9</b>
<b>Year 2019</b>							
Manganese concentrate	279,350	383	106,961	273	76,135	30,826	28.8
Natural discharging manganese powder and sand	5,174	2,977	15,405	325	1,681	13,724	89.1
<b>Total</b>	<b>284,524</b>	<b>430</b>	<b>122,366</b>	<b>273</b>	<b>77,816</b>	<b>44,550</b>	<b>36.4</b>

## Results of Gabon Mine

	Year 2020 HK\$'000	Year 2019 HK\$'000	Increase/(Decrease)	
			HK\$'000	%
Net subcontracting income (note)	85,279	103,092	(17,813)	(17.3)

*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\$29,229,000) 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.

In 2020, revenue of manganese mining segment decreased by 14.1% to HK\$105.1 million (2019: HK\$122.4 million) mainly due to decrease in selling price of manganese ores because of the COVID-19. As a result, the gross profit of manganese mining segment decreased by 52.9% to HK\$21.0 million (2019: HK\$44.6 million).

The net subcontracting income from Gabon Mine decrease by 17.3% to HK\$85.3 million (2019: HK\$103.1 million) mainly attributable to the decrease in selling price of manganese ores.

As a result of decrease in impairment losses on mining rights and other assets, the results of manganese mining segment were profits of HK\$106.6 million (2019: HK\$26.4 million), recorded an increase of 303.8%.

**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 (%)
<b>Year 2020</b>							
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
<b>Total</b>	<b><u>353,518</u></b>	<b><u>8,738</u></b>	<b><u>3,089,155</u></b>	<b><u>7,810</u></b>	<b><u>2,760,935</u></b>	<b><u>328,220</u></b>	<b><u>10.6</u></b>
<b>Year 2019</b>							
EMM	137,295	12,576	1,726,592	10,287	1,412,306	314,286	18.2
Manganese briquette	33,831	13,102	443,240	11,152	377,294	65,946	14.9
	<u>171,126</u>	<u>12,680</u>	<u>2,169,832</u>	<u>10,458</u>	<u>1,789,600</u>	<u>380,232</u>	<u>17.5</u>
Silicomanganese alloy	145,004	7,236	1,049,179	7,097	1,029,053	20,126	1.9
Others	6,977	5,787	40,373	4,592	32,038	8,335	20.6
<b>Total</b>	<b><u>323,107</u></b>	<b><u>10,088</u></b>	<b><u>3,259,384</u></b>	<b><u>8,823</u></b>	<b><u>2,850,691</u></b>	<b><u>408,693</u></b>	<b><u>12.5</u></b>

Revenue of EMM and alloying materials production segment decreased by 5.2% to HK\$3,089.2 million in 2020 (2019: HK\$3,259.4 million) mainly attributable to the followings:

- (a) EMM products continued to be our major products in terms of revenue but its average selling price recorded a decrease of 15.4% to HK\$10,725 per tonne (2019: HK\$12,680 per tonne).

The above factor is partially offset by the following:

- (b) The sales volume of EMM products increased by 8.8% to 186,226 tonnes in 2020 (2019: 171,126 tonnes) mainly because our Daxin EMM Plant completed upgrading of certain production lines during the year.
- (c) The revenue of silicomanganese alloy increased by 1.7% to HK\$1,066.6 million (2019: HK\$1,049.2 million) mainly attributable to the net effect of (i) sales volume increased by 13.0% to 163,835 tonnes (2019: 145,004 tonnes) attributable to full year effect of production in the year 2020 from the leased alloy production furnaces in Xingyi, Guizhou which commenced production gradually in the first half of the year 2019; and (ii) the decrease in average selling price of silicomanganese alloy by 10.0% to HK\$6,511 per tonne in 2020 (2019: HK\$7,236 per tonne).

As a result of net effect of: (a) decrease in average selling prices of EMM products and silicomanganese alloy, the gross profit contribution of EMM and alloying materials production segment decreased by 19.7% to HK\$328.2 million (2019: HK\$408.7 million); and (b) the decrease in impairment losses on property, plant and equipment, EMM and alloying materials production segment recorded a profit of HK\$147.5 million (2019: HK\$144.9 million), an increase of 1.8%.

#### ***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 (%)
<b>Year 2020</b>							
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)
<b>Total</b>	<b>119,011</b>	<b>7,717</b>	<b>918,448</b>	<b>5,855</b>	<b>696,814</b>	<b>221,634</b>	<b>24.1</b>
<b>Year 2019</b>							
EMD	27,594	10,084	278,264	6,801	187,671	90,593	32.6
Manganese sulfate	31,191	3,534	110,237	2,875	89,671	20,566	18.7
Lithium manganese oxide	4,577	35,185	161,043	31,908	146,045	14,998	9.3
NCM	921	125,331	115,430	127,075	117,036	(1,606)	(1.4)
<b>Total</b>	<b>64,283</b>	<b>10,344</b>	<b>664,974</b>	<b>8,407</b>	<b>540,423</b>	<b>124,551</b>	<b>18.7</b>

Revenue of battery materials production segment increased significantly by 38.1% to HK\$918.4 million (2019: HK\$665.0 million) and gross profit of this segment increased by 77.9% to HK\$221.6 million (2019: HK\$124.6 million) mainly attributable to the net effect of the followings:

- (a) EMD continued to be our major battery materials product and upon the completion of the acquisition of Huiyuan Manganese Plant in March 2020 and its technological upgrade in the year 2019, the sales volume of EMD substantially increased by 212.7% to 86,294 tonnes (2019: 27,594 tonnes), contributing to an increase in revenue and gross profit in 2020.
- (b) Due to the outbreak of the COVID-19, especially during the lockdown period in the first quarter of 2020, certain downstream customers shut down the production temporarily, both the sales volume and the average selling price of lithium manganese oxide recorded a decrease.
- (c) In 2020, sales of NCM represented stocks brought forward. The Group ceased its production of NCM the profitability of which largely depends on the stability of raw material supply of lithium carbonate whose price is highly volatile. To contain the risk, the Group shifted its focus to the more popular and core products EMD and lithium manganese oxide. Therefore, the revenue of NCM decreased substantially.

As a result of increasing contribution from Ningbo Dameng Group including Huiyuan Manganese Plant and the gain on bargain purchase of HK\$69.4 million from further acquisition of equity interest therein, the results of battery materials production segment recorded a profit of HK\$164.0 million (2019: HK\$70.4 million), an increase of 133.0%.

### *Other business segment*

	<b>Revenue</b> <i>(HK\$'000)</i>	<b>Cost of Sales</b> <i>(HK\$'000)</i>	<b>Gross Profit</b> <i>(HK\$'000)</i>	<b>Gross Profit Margin</b> <i>(%)</i>
<b>Year 2020</b>				
Trading	<b>254,896</b>	<b>249,196</b>	<b>5,700</b>	<b>2.2</b>
<b>Year 2019</b>				
Trading	<b>1,755,733</b>	<b>1,718,611</b>	<b>37,122</b>	<b>2.1</b>

Revenue of other business segment decreased by 85.5% to HK\$254.9 million (2019: HK\$1,755.7 million) mainly because the Group became more cautious in monitoring customers' credit risk and therefore has significantly scaled down trading business.

### *Cost of Sales*

Total cost of sales decreased by 26.9% to HK\$3,791.1 million in 2020 (2019: HK\$5,187.5 million) in line with the decrease of the revenue and also the cost of sales from trading business as a result of the Group's effort to contain the scale of its trading business and its credit risk.

### *Gross Profit*

In 2020, the Group recorded a gross profit of HK\$576.5 million (2019: HK\$614.9 million), which represented a decrease of HK\$38.4 million from 2019, or 6.2% mainly due to decrease in selling prices of EMM products and EMD. The Group's overall gross profit margin was 13.2%, representing an increase of 2.6% from 10.6% in 2019. Improved overall gross profit margin was mainly attributable to the shift of product mix to more profitable EMM products and EMD as the revenue from the much lower profit margin trading business decreased.

### ***Other Income and Gains***

In 2020, other income and gains slightly increased by 1.6% to HK\$248.3 million (2019: HK\$244.3 million) mainly due to increase in subsidy income.

### ***Selling and Distribution Expenses***

The Group's selling and distribution expenses in 2020 increased by 13.5% to HK\$104.6 million (2019: HK\$92.2 million) mainly attributable to increase in sales volume and the transportation costs of silicomanganese alloys.

### ***Administrative Expenses***

Administrative expenses decreased by 3.8% to HK\$381.4 million in 2020 (2019: HK\$396.4 million) mainly attributable to (a) decrease in staff costs including social insurance contributions; and (b) decrease in production halt expenses in China.

### ***Impairment Losses on Property, Plant and Equipment and Mining Rights***

The amount mainly represents impairment losses on mining rights of HK\$18.6 million:

At 31 December 2020, the Group recognised an impairment loss of HK\$18.6 million (2019: HK\$41.8 million) in respect of Changgou Manganese Mine owned by our 64% owned subsidiary Hui Xing Group to write down to the recoverable amount of the mining right and its related infrastructure and plant and machinery ("CGU") of HK\$410.6 million. Due to adverse impact of the COVID-19 in the year 2020 and there were local initiatives to relocate some processing plants including our potential ore users to further away from Changgou Manganese Mine since the year 2018 which possibly lead to decrease in future demand of ore in that area, the Group remained hesitant about the expansion plan of Changgou Manganese Mine and made alterations to the plan by producing more high quality ores to cope with the change in conditions. Further suspension 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:

	<b>31 December 2020</b>	31 December 2019
(a) Production volume of ore ('000 tonnes)		
i) First year of production	<b>200</b>	200
ii) Second and third years of production	<b>711</b>	400
iii) Fourth to last year of production	<b>6,337</b>	15,537
	<hr/>	<hr/>
	<b>7,248</b>	16,137
	<hr/> <hr/>	<hr/> <hr/>
(b) Average selling price (HK\$/tonnes)	<b>527</b>	450
(c) Pre-tax discount rate	<b>9.7%</b>	8.8%

For valuation as at 31 December 2020, 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 2021.

The assumed average ore selling price of HK\$527 per tonne (equivalent to RMB442 per tonne) (2019: HK\$450 per tonne, equivalent to RMB397 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.

### ***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\$31.5 million (2019: HK\$77.2 million); (b) impairment loss amounting to HK\$49.7 million (2019: HK\$33.0 million) in respect of construction costs incurred for an aborted project development; (c) impairment loss on a loan due from an associate GMG of HK\$33.0 million (2019: Nil) with further details set out in the section headed “INVESTMENT IN AN ASSOCIATE, GMG”, and (d) impairment losses on other long outstanding receivables.

### ***Impairment Loss on Investment in an Associate***

Impairment Loss of HK\$295.8 million was recorded in the year on our investment in an associate GMG with further details set out in the section headed “INVESTMENT IN AN ASSOCIATE, GMG”.

### ***Finance Costs***

For 2020, the Group’s finance costs were HK\$213.9 million (2019: HK\$225.9 million), representing a decrease of 5.3% which was mainly due to (a) the Group’s effort to control finance costs and (b) interest rate reduction of certain bank loans as part of the PRC government measures to alleviate the impact of the pandemic on enterprises.

### ***Other Expenses***

Other expenses of HK\$12.1 million (2019: HK\$57.8 million) mainly represents foreign exchange losses and donations. The decrease was mainly because in the year 2019 there were (a) write-off of obsolete spare parts and consumables in aggregate of HK\$25.8 million unusable in the production process in Gabon; and (b) impairment of prepayments for value-added tax of HK\$11.0 million which were in dispute with tax bureau in Gabon for several years.

### ***Share of Losses of Associates***

Share of losses of associates of HK\$131.9 million (2019: HK\$67.5 million) represents:

- (a) share of loss of GMG of HK\$107.4 million (2019: HK\$47.6 million), with further details set out in the section headed “INVESTMENT IN AN ASSOCIATE, GMG”; and

- (b) share of loss of Dushan Jinneng, a 33.0% associate of the Group, of HK\$24.5 million (2019: loss of HK\$19.9 million). Dushan Jinneng is a manganese ferroalloy producer in Guizhou, the PRC. Since 2013, Dushan Jinneng, engaged in the building of a ferromanganese alloy plant with a designed annual capacity of 500,000 tonnes and two self-use 150 MW power generators in Dushan County, Guizhou, the PRC. During the year 2020, four furnaces were being in alloy production and it also engages in manganese ore trading business.

#### ***Share of Profit and Loss of a Joint Venture***

The amount represents share of profit of HK\$1.8 million of our 34.93% owned Ningbo Dameng Group (2019: loss of HK\$0.8 million) when it was a joint venture through 31 March 2020 but before it became a wholly owned subsidiary of the Group.

#### ***Gain on Bargain Purchase from the Further Acquisition of Equity Interest in a Joint Venture***

On 31 March 2020, the Group acquired 65.17% partnership interest in Ningbo Dameng at a consideration of RMB124.0 million (equivalent to HK\$136.7 million). The principal activity of Ningbo Dameng is investment holding. Ningbo Dameng wholly owns a subsidiary Huiyuan Manganese in China, principally engaging in manufacturing and sale of EMD. After the acquisition, Ningbo Dameng Group ceased to be a joint venture and became a wholly owned subsidiary of the Group and therefore, the Group ceased to account for the results of Ningbo Dameng Group using equity method but consolidated its financial statements in full after the acquisition date instead.

The Group recognised a gain on bargain purchase from this further acquisition of HK\$69.4 million in 2020, which was primarily attributable to the consideration determined based on the carrying amount of the net assets of Ningbo Dameng Group that was mutually agreed between the parties.

#### ***Loss on Deemed Disposal of Partial Interest in an Associate***

In February 2020, the Group recorded a non-cash extraordinary loss of HK\$92.4 million upon Deemed Partial Disposal with further details set out in the section headed “INVESTMENT IN AN ASSOCIATE, GMG”.

### ***Income Tax Credit/(Expense)***

In 2020, the effective tax rate was 9.1%, being lower than the statutory corporate income tax rates of the jurisdictions in which the Group operates, as the Impairment Loss in investment in GMG and the loss on Deemed Partial Disposal of GMG were non-deductible for tax purpose. But on the contrary, a subsidiary recognized deferred tax credit in respect of prior years' tax losses after careful assessment of future profitability. In 2019 the effective rate was negative 7.8% because certain subsidiaries in the PRC recorded losses but did not recognise deferred tax arising from such losses for prudence.

### ***Loss Attributable to Owners of the Parent***

For 2020, the Group's loss attributable to owners of the parent was HK\$437.9 million (2019: HK\$202.3 million).

### ***Loss per Share***

For 2020, loss per share attributable to ordinary equity holders of the Company was HK\$0.1277 (2019: HK\$0.0590).

### ***Final Dividend***

The Board does not recommend the payment of any dividend for the year ended 31 December 2020 (2019: Nil).

### ***Events after the End of the Reporting Period***

- (a) On 26 February 2021, the Group and the Gabon government completed the renewal of the mining convention of our Gabon Bembélé Manganese Mine. The new mining convention mainly: (i) clarifies and confirms the local government's participation in the shareholding structure; (ii) provides the Group with more favourable tax reliefs and (iii) regulates the social responsibilities of our Gabon operations. The Group expects the new mining convention can strengthen the cooperation between the Group and the Gabon government and further enhance the stability of our mining operations in Gabon.

- (b) On 30 March 2021, South Manganese Group, an indirect wholly-owned subsidiary of the Company, entered into a limited partnership agreement with ten independent third parties for the establishment of a limited partnership in the PRC and the subscription of interest therein. Pursuant to the agreement, the total capital of the limited partnership is RMB1,529.0 million. The Group participates as a limited partner with a subscribed share of capital contributions to be paid in instalments, amounting to RMB250.0 million, representing an interest of 16.35%. The principal activities of the limited partnership will be the sale and purchase of manganese products with the objective of promoting the green, healthy and stable development of the entire manganese industry in the long term.

### *Use of Proceeds from IPO*

Up to 31 December 2020, 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 <i>(HK\$ Million)</i>	Amount utilised up to 31.12.2020 <i>(HK\$ Million)</i>	% utilised	Amount utilised up to 31.12.2019 <i>(HK\$ Million)</i>	% 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	282	71.0%	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	1,868	94.2%	1,868	94.2%

As at 31 December 2020, proceeds from IPO designated for acquisition of mines and mining rights to the extent of HK\$115.0 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. Since IPO, the Group has been continuously studying potential acquisition opportunities of various mining projects introduced by investment banks, mine owners and other sources from time to time. However, the Group has not yet identified new projects which meet our investment strategy including risk return requirements. Currently the Group does not have a timetable for the utilisation of the remaining proceeds. Such timetable will only be available when the Group can identify project targets with a reasonable chance of acquisition completion. In the meantime, 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 2020, the currency denomination of the Group's cash and bank balances including pledged deposits were as follows:

<b>Currency Denomination</b>	<b>2020</b>	2019
	<i>HK\$ million</i>	<i>HK\$ million</i>
Denominated in:		
RMB	<b>1,028.0</b>	1,064.7
HKD	<b>7.9</b>	13.9
USD	<b>133.2</b>	42.5
XAF	<b>5.8</b>	18.1
EUR	<b>0.1</b>	–
	<hr/> <b>1,175.0</b> <hr/>	<hr/> 1,139.2 <hr/>

As at 31 December 2020, our cash and bank balances including pledged deposits were HK\$1,175.0 million (2019: HK\$1,139.2 million) while the Group's borrowings amounted to HK\$4,569.4 million (2019: HK\$4,158.1 million). The Group's borrowings net of cash and bank balances amounted to HK\$3,394.4 million (2019: HK\$3,018.9 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) Trade and notes receivables of the Group as at 31 December 2020 decreased by 15.8% to HK\$1,428.8 million (2019: HK\$1,697.3 million) mainly attributable to decrease in revenue for the year 2020.
- (b) At 31 December 2020, prepayments, other receivables and other assets classified under current assets increased by 111.6% to HK\$817.4 million (2019: HK\$386.3 million). It was mainly attributable to prepayment close to the year end for purchase of manganese ores by the Group from one of the largest mines in Africa to secure manganese ores supplies and for trading purpose amidst the rebound of the alloy market in December 2020.

### ***Net current liabilities***

As at 31 December 2020, the Group's net current liabilities substantially decreased to HK\$315.5 million (2019: HK\$1,173.2 million) mainly due to the Group's effort to improve the borrowing structure with more long-term bank loans.

### **Bank and other Borrowings**

As at 31 December 2020, the Group's borrowing structure and maturity profile were as follows:

<b>Borrowing structure</b>	<b>2020</b>	<b>2019</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Secured borrowings (including lease liabilities)	<b>39.5</b>	164.2
Unsecured borrowings	<b>4,529.9</b>	3,993.9
	<b>4,569.4</b>	<b>4,158.1</b>

<b>Maturity profile</b>	<b>2020</b>	<b>2019</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Repayable:		
On demand or within one year	<b>2,676.0</b>	3,511.9
After one year and within two years	<b>1,434.5</b>	547.2
After two years and within five years	<b>458.9</b>	99.0
	<b>4,569.4</b>	<b>4,158.1</b>

<b>Currency denomination</b>	<b>2020</b> <i>HK\$ million</i>	2019 <i>HK\$ million</i>
Denominated in:		
RMB	<b>4,130.8</b>	3,280.4
USD	<b>438.6</b>	877.7
	<b>4,569.4</b>	4,158.1

As at 31 December 2020, borrowings as to the amounts of HK\$2,380.6 million (2019: HK\$2,287.0 million) and HK\$2,188.8 million (2019: HK\$1,871.1 million), carry fixed and floating rate interest respectively. The fixed rate borrowings carry interest at rates ranging from 2.62% to 8.70%. The floating rate borrowings comprise RMB denominated loans carrying interest at a premium up to 10% above the China Loan Prime Rate, and USD denominated loans which carry interest at rates of LIBOR plus a margin of 2.30%.

Overall, aggregate borrowings increased to HK\$4,569.4 million (2019: HK\$4,158.1 million) mainly due to the acquisition of further interests in and consolidation of Ningbo Dameng Group. 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 2020, (a) right-of-use assets of HK\$147.3 million related to property, plant and equipment were held under leases (2019: HK\$170.8 million); (b) bank balances of HK\$45.5 million (2019: HK\$35.6 million) and notes receivables of HK\$90.8 million (2019: HK\$62.1 million) were pledged to secure certain of the Group's bank acceptance notes payable; and (c) None of trade receivables (2019: HK\$62.9 million) were pledged to secure certain of the Group's bank borrowings.

#### ***Guarantees***

- (a) As at 31 December 2020, the outstanding bank loan of an associate, in which the Group has a 33.0% equity interests, 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 2020, the associate's banking facilities guaranteed by the Group and the associate's holding company amounted to RMB800.0 million (equivalent to HK\$953.6 million) and were utilised to the extent of RMB564.9 million (equivalent to HK\$673.4 million) as at 31 December 2020 (2019: RMB615.0 million, equivalent to HK\$688.2 million).

- (b) As at 31 December 2020, 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 31 December 2020, loan facilities guaranteed by the Group and the holding company of the borrower amounted to RMB100.0 million (equivalent to HK\$119.2 million) (2019: RMB100.0 million, equivalent to HK\$111.9 million) and were utilised to the extent of RMB85.0 million (equivalent to HK\$101.3 million) (2019: RMB95.0 million, equivalent to HK\$106.3 million) by the borrower.

### ***Key Financial Ratios of the Group***

	<b>2020</b>	2019
Current ratio	<b>0.93</b>	0.76
Quick ratio	<b>0.80</b>	0.66
Net gearing ratio	<b>134.8%</b>	107.7%

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 2020, current ratio and quick ratio improved because of the Group's effort to improve the borrowing structure with more long-term bank loans. Net gearing ratio increased mainly due to the cash outflow for further acquisition of equity interest in Ningbo Dameng and the total comprehensive loss attributable to owners of the parent.

### ***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\$315.5 million as at 31 December 2020. Subsequent to the year end, the Group has successfully obtained new short-term bank loans of HK\$704.5 million during the period from 1 January 2021 up to the date of this announcement. In addition, as the Group has been being able to repay its bank loans when due so far, certain PRC banks have confirmed to the Group in writing that they will extend new loans totaling HK\$454.2 million to the Group upon repayment of certain short-term bank loans in the year 2021. The directors of the Company, also taking into account of internally generated funds from its operations, are of the opinion that the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the 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 2020, 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.

Sales to Customer A are on open account with a normal credit period ranging from about 75 days to 100 days from the date of receipt of goods, which can be extended for a further period of 60 days subject to the Company’s approval of conversion of the relevant trade receivables to commercial acceptance notes.

To contain the credit risk with Customer A, the Group suspended its trading business with it since the second half of the year 2019, therefore, there was no sales revenue from trading business to Customer A in 2020 (2019: HK\$557.3 million). As at 31 December 2020, trade receivables from Customer A was HK\$392.3 million (2019: HK\$362.9 million) and represented 38.4% of the Group’s total trade receivable; and notes receivable from Customer A was nil (2019: HK\$66.6 million).

Due to rapidly 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 receivable balances of Customer A increased to HK\$316.2 million at 31 December 2020 (2019: HK\$266.0 million). As a result, the Group further provided an impairment provision of HK\$31.5 million (2019: HK\$77.2 million) on trade and notes receivables due from it at 31 December 2020. In order to contain the increasing credit risk with this customer, the Group had instantly implemented the following measures to safeguard the repayment of the outstanding receivables:

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

### ***Interest rate risk***

We are exposed to interest rate risk resulting from fluctuations in interest rates on our floating rate debt. Floating interest rates are subject to interest rate changes in the China Loan Prime Rate as well as movements in LIBOR. If the China Loan Prime Rate increases or LIBOR moves up, our finance costs will increase. In addition, to the extent that we may need to raise debt financing or roll over our short-term loans in the future, any upward fluctuations in interest rates will increase the costs of new debt obligations. The Group 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.

### ***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. Except for our PRC operation mentioned in (b) below, we have not entered into any foreign exchange contracts or derivative transactions to hedge against foreign exchange risks.

- (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. 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 entered 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 which is under the subcontracting arrangement, our gross subcontracting income is substantially denominated in RMB and United States dollars and all major expenses are borne by the subcontractor.

Investment in Gabon operation is substantially financed by United States dollar loans which are expected to be repaid in the long term out of the project's operating cash inflow from the gross subcontracting income and from proceeds from ore sales which will be denominated in United States dollars if the subcontracting arrangement terminates.

### ***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***

- At the time of sudden outbreak of COVID-19 pandemic in early 2020, the market was seriously affected, while the Group mobilized its whole team of staff top-down and adopted various measures to contain the pandemic's effect and simultaneously brushed up its internal efficiency and management skill for cost reduction and productivity improvement. We believe that COVID-19 has now been effectively under control in the PRC but the Group will continue to align with the government in adopting measures to prevent the resurgence of the epidemics. Coupled with the gradual increase in the use of vaccines, we are cautiously optimistic about the continuous recovery of the economy of the PRC. Overseas, the numbers of reported cases though showing a decreasing trend in certain parts of the world, there are still some areas of reported resurgence of the epidemics and virus mutation. But hopefully with the proper implementation of quarantine and social distancing measures and the wider use of vaccines, economy in the Western countries will return to normal gradually. Since the beginning of 2021, the Group has seen increase of overseas orders with the European and American markets gradually showing vitality.

- After the further acquisition of 65.17% equity interest in Ningbo Dameng Group in March 2020, the Group becomes the largest EMD manufacturer in China. We had strengthened our leading position in battery materials production segment and we will continue to carry out technical research and development to upgrade the quality of our battery material products including EMD and lithium manganese oxide to increase their added value and further extend the applications in electric vehicles and other electric tools and equipment. The Report on the Work of the Government (中國政府工作報告) clearly stated its carbon reduction targets for the “14th Five-Year Plan” period with the aim to practically perform various work including the peaking of CO<sub>2</sub> emissions and carbon neutrality. It also formulated the “carbon emission peak action plan by 2030” and the “achievement of carbon neutrality goal in 2060”, followed by the optimization of industry structure and energy structure as well as the promotion of upgrade and replacement in the industry, thereby increased energy efficiency. It announced the “Green” stimulus package with a scale close to US\$195 billion, with focuses including accelerating the development of industries that already have established development base, such as new energy and electric vehicles. The rapid development of green manufacturing industries, such as new materials and new energy vehicles, will provide a vastly broad market 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 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 develop the production capacity of manganese alloy products through its technical teams in Qinzhou Ferroalloy Plant and Xingyi Ferroalloy Plant with its light asset model and control of overseas rich ore resources, so as to capture such market share.

- Our efforts spent on marketing of the Gabon ore in the past several years provide an encouraging result. Demands of our Gabon ore both from China and other new emerging markets are increasing. Our first priority now is to secure the stable production of our ores in Gabon and escalate the scale of our production and transportation, including purchase of additional locomotive and wagons as well as extending the length of our industrial spur to satisfy annual transportation of 1 million tonnes of ore by the end of 2021. Following our recent renewal of mining convention with Gabon government, we will allocate more resources in exploration to cover not only the area defined in our mining permit, but also that within our exploration rights of 2,000 square kilometers, so as to control more and higher grade manganese resources for the long term sustainability of Bembélé Manganese Mine.
- For the Dushan project, we will continue to cooperate with its largest shareholder in furthering the financing and construction of the project. It is expected that one unit of power generation and eight ferroalloy furnaces, equivalent to half of the project's overall capacity, will be completed and put into production by the end of 2021.
- In terms of financing, we will continue our efforts to improve our liquidity and capital structure by exploring various alternatives from debt to equity and to raise necessary funds to finance our operations. In particular, we will put more weight on longer term financing than short term, taking into account of different pricing of various financing alternatives and due consideration will also be given to equity financing which can reduce our gearing ratio and have the possible advantage of expanding our shareholder base. The Group strongly emphasizes the importance of liquidity and will continue to take measures to secure adequate working capital for our business operations.

## MINERAL AND MINING REPORT

### *Resources and Reserves*

Below is the information on our mineral resources and ore reserves in accordance with JORC Code as of 31 December 2020:

### *Summary of our manganese mineral resources*

Mines	Ownership Percentage	JORC	Million	Average	Million	Average
		Resource Category	tonnes	Manganese Grade (%)	tonnes	Manganese Grade (%)
			31.12.2020	31.12.2020	31.12.2019	31.12.2019
Daxin Mine	100%	Measured	3.35	26.03	3.35	26.03
		Indicated	57.70	21.85	59.52	21.67
		Subtotal	61.05	22.08	62.87	21.90
		Inferred	0.43	21.23	0.43	21.23
		Total	61.48	22.08	63.30	21.89
Tiandeng Mine	100%	Measured	0.55	18.26	0.55	18.26
		Indicated	2.69	16.85	2.76	16.76
		Subtotal	3.24	17.09	3.31	17.01
		Inferred	3.49	14.28	3.51	14.28
		Total	6.73	15.63	6.82	15.63

Mines	Ownership Percentage	JORC Resource Category	Million tonnes	Average Manganese Grade (%)	Million tonnes	Average Manganese Grade (%)
			31.12.2020	31.12.2020	31.12.2019	31.12.2019
Waifu Manganese Mine	100%	Measured	–	–	–	–
		Indicated	–	–	–	–
		Subtotal	–	–	–	–
		Inferred	<b>1.54</b>	<b>17.52</b>	1.54	17.52
		Total	<b>1.54</b>	<b>17.52</b>	1.54	17.52
Changgou Manganese Mine	64%	Measured	<b>3.57</b>	<b>20.45</b>	2.33	20.45
		Indicated	<b>15.02</b>	<b>20.32</b>	14.67	20.32
		Subtotal	<b>18.59</b>	<b>20.34</b>	17.00	20.34
		Inferred	<b>3.24</b>	<b>20.50</b>	4.22	20.50
		Total	<b>21.83</b>	<b>20.37</b>	21.22	20.37
Bembélé Manganese Mine	51%	Measured	–	–	–	–
		Indicated	<b>10.59</b>	<b>32.88</b>	12.14	32.49
		Subtotal	<b>10.59</b>	<b>32.88</b>	12.14	32.49
		Inferred	<b>12.37</b>	<b>32.74</b>	12.37	32.74
		Total	<b>22.96</b>	<b>32.80</b>	24.51	32.61
Total			<b>114.54</b>		117.39	

*Summary of our manganese ore reserves*

Mines	Ownership Percentage	JORC Resource Category	Million	Average	Million	Average
			tonnes	Manganese Grade (%)	tonnes	Manganese Grade (%)
			31.12.2020	31.12.2020	31.12.2019	31.12.2019
Daxin Mine	100%	Proved	3.13	20.75	3.13	20.75
		Probable	55.17	19.16	56.99	19.05
		Total	<b>58.30</b>	<b>19.24</b>	60.12	19.14
Tiandeng Mine	100%	Proved	0.51	15.78	0.51	15.78
		Probable	2.57	15.68	2.64	15.61
		Total	<b>3.08</b>	<b>15.70</b>	3.15	15.64
Waifu Manganese Mine	100%	Proved	–	–	–	–
		Probable	–	–	–	–
		Total	–	–	–	–
Changgou Manganese Mine	64%	Proved	3.57	20.45	2.33	20.45
		Probable	15.02	20.32	14.67	20.32
		Total	<b>18.59</b>	<b>20.34</b>	17.00	20.34
Bembélé Manganese Mine	51%	Proved	–	–	–	–
		Probable	10.58	31.14	12.13	31.21
		Total	<b>10.58</b>	<b>31.14</b>	12.13	31.21
Total			<b>90.55</b>		92.40	

Note: The figures of the aforesaid manganese resources and manganese ore reserves are rounded to two decimal place and these figures may show apparent addition errors.

## **Assumptions:**

The figures of the aforesaid manganese resources and manganese ore reserves are based on the following assumptions:

- (1)
  - (a) The manganese resources and manganese ore reserves for Daxin Mine, Tiandeng Mine and Bembélé Manganese Mine are based on the estimate as per the independent technical review report as shown in the Prospectus. The decreases of the manganese resources and manganese ore reserves in the aforesaid mines during the year were largely due to mining depletion. The year end amounts have been confirmed by our internal experts.
  - (b) The manganese resources and manganese ore reserves for Changgou Manganese Mine are based on the estimate in accordance with 《錳礦礦產資源儲量核實報告》(Manganese Resources Verification Report) newly prepared in July 2020. The increase of manganese resources and manganese ore reserves of the mine during the year were largely due to that the consumption of resources approved in the newly prepared Manganese Resources Verification Report is less than the previous estimated volume. The year end amounts have been confirmed by our internal experts.
  - (c) The manganese resources and manganese ore reserves for Waifu Manganese Mine are based on the estimate in accordance with 《靖西縣湖潤外伏錳礦礦產資源量核實地質報告評審意見書》(Accreditation Opinion of the Verified Geographical Resources Report of Waifu Manganese Mine, Jingxi County) dated 17 July 2004 prepared by 南寧儲偉資源有限責任公司 (Nanning Chu Wei Resources Limited Company). The year end amounts have been confirmed by our internal experts.
- (2) All material assumptions and technical parameters underpinning the estimates as stated in the aforesaid independent technical reports continue to apply and have not been materially changed.

## **Exploration, Development and Mining Activities**

### ***I) Exploration***

#### *Overview*

During the year, there were no significant progress in respect of our exploration works and we have not conducted any exploration drilling works which are largely due to: (1) completion of the exploration works at Daxin Mine and Changgou Manganese Mine; (2) Waifu Manganese Mine has not entered into formal operation; and (3) the data regarding the composition of the ore bodies and geological structure obtained through the previous exploration works conducted at Bembélé Manganese Mine can basically satisfy its existing mining production's need. During the year, our main focus was to continue the subsequent follow up work in respect of the exploration works at Tiandeng Mine.

#### *Daxin Mine*

During the year, we have not entered into any contracts or commitments in respect of exploration work or conducted any exploration work at Daxin Mine.

#### *Tiandeng Mine*

During the year, the mining geological experts have completed the review of the detailed exploration report in respect of the exploration area located at 440 meters depth below the mining block of Tiandeng Mine which we submitted to the Department of Land and Resources of Guangxi Zhuang Autonomous Region, the PRC and we are now making the relevant amendments to the detailed exploration report according to the expert opinions in order to continue the recordal of the accreditation process in the next step.

Save as disclosed hereinabove, we have not entered into any contracts or commitments in respect of exploration work or conducted any exploration work at Tiandeng Mine during the year.

#### *Waifu Manganese Mine*

During the year, we have not entered into any contracts or commitments in respect of exploration work or conducted any exploration work at Waifu Manganese Mine.

#### *Changgou Manganese Mine*

During the year, we have not entered into any contracts or commitments in respect of exploration work or conducted any exploration work at Changgou Manganese Mine.

#### *Bembélé Manganese Mine*

During the year, we have not entered into any contracts or commitments in respect of exploration work or conducted any exploration work at Bembélé Manganese Mine.

## **II) Development**

### *Daxin Mine*

During the year, our outsourced contractor, 廣西錫山礦業有限公司 (Guangxi Xishan Mining Limited Company) has commenced the 1,000,000 tonnes/year expansion project for the underground mining at southern mining zone of Daxin Mine. As at 31 December 2020, the tunnel construction works amounted to approximately 2,477 metres in length.

Save as disclosed hereinabove, we have not entered into any contracts or commitments in respect of the infrastructure development (including infrastructure construction, subcontracting arrangements or purchases of equipments) or conducted any infrastructure or development work at Daxin Mine during the year.

### *Tiandeng Mine*

During the year, we have not entered into any contracts or commitments in respect of the infrastructure development (including infrastructure construction, subcontracting arrangements or purchases of equipments) or conducted any infrastructure or development work at Tiandeng Mine.

### *Waifu Manganese Mine*

During the year, we have not entered into any contracts or commitments in respect of the infrastructure development (including infrastructure constructions, subcontracting arrangements or purchases of equipments) or conducted any infrastructure or development work at Waifu Manganese Mine.

### *Changgou Manganese Mine*

During the year, we have not entered into any contracts or commitments in respect of the infrastructure development (including infrastructure constructions, subcontracting arrangements or purchases of equipments) or conducted any infrastructure or development work at Changgou Manganese Mine.

## *Bembélé Manganese Mine*

During the year, we have not entered into any contracts or commitments in respect of the infrastructure development (including infrastructure constructions, subcontracting arrangements or purchases of equipments) or conducted any infrastructure or development work at Bembélé Manganese Mine during the year.

### **III) Mining activities**

#### *(1) Mining operations*

##### *Daxin Mine*

	<b>2020</b>	2019
<b>Open pit mining</b>		
Mining production volume ( <i>thousand tonnes</i> )	<b>226</b>	205
<b>Underground mining</b>		
Mining production volume ( <i>thousand tonnes</i> )	<b>1,621</b>	1,441
Total mining production ( <i>thousand tonnes</i> )	<b>1,847</b>	1,646
<b>Average manganese grade</b>		
Manganese carbonate ore	<b>13.3%</b>	14.2%
Manganese oxide ore	<b>25.6%</b>	26.8%

##### *Tiandeng Mine*

	<b>2020</b>	2019
<b>Open pit mining</b>		
Mining production volume ( <i>thousand tonnes</i> )	<b>498</b>	319
<b>Average manganese grade</b>		
Manganese carbonate ore	<b>12.1%</b>	12.8%
Manganese oxide	<b>12.8%</b>	13.3%

## Waifu Manganese Mine

During the year, there were no mining production.

## Changgou Manganese Mine

	2020	2019
<b>Underground mining</b>		
Mining production volume ( <i>thousand tonnes</i> )	251	202
Average manganese carbonate grade	<u>16.0%</u>	<u>16.5%</u>

## Bembélé Manganese Mine

	2020	2019
<b>Open pit mining</b>		
Mining production volume ( <i>thousand tonnes</i> )	1,546	1,574
Average manganese oxide grade	<u>29.8%</u>	<u>29.9%</u>

*Note:* Figures for mining production are rounded to nearest whole number and figures for manganese grade are rounded to one decimal place and these figures may show apparent addition errors.

(2) *Ore processing operations*

• Concentrating

<b>Production volume (<i>thousand tonnes</i>)</b>	<b>2020</b>	<b>2019</b>
<b>Daxin Concentration Plant</b>		
Manganese carbonate concentrate	1,172	948
Manganese oxide concentrate	112	–
<b>Total</b>	<b>1,284</b>	<b>948</b>
<b>Average manganese grade of concentrate</b>		
Manganese carbonate concentrate	19.8%	20.6%
Manganese oxide concentrate	25.6%	–
<b>Tiandeng Concentration Plant</b>		
Manganese carbonate concentrate	476	399
Manganese oxide concentrate	52	63
<b>Total</b>	<b>528</b>	<b>462</b>
<b>Average manganese grade of concentrate</b>		
Manganese carbonate concentrate	11.5%	11.9%
Manganese oxide concentrate	21.2%	20.5%
<b>Bembélé Concentration Plant</b>		
Manganese oxide concentrate	844	921
Average manganese grade of concentrate	36.1%	36.5%

• Grinding

<b>Production volume (<i>thousand tonnes</i>)</b>	<b>2020</b>	<b>2019</b>
<b>Daxin Grinding Plant</b>		
Powder produced	1,128	997
<b>Tiandeng Grinding Plant</b>		
Powder produced	447	367

*Note:* Figures for concentrating and grinding are rounded to nearest whole number and the figures for manganese grade are rounded to nearest one decimal place and these figures may show apparent addition errors.

#### IV) Downstream processing operations

##### (1) EMM and alloying materials

- EMM

Our existing EMM production facilities include Daxin EMM Plant, DXML EMM Plant, Tiandeng EMM Plant and Guangxi Start EMM Plant. Details of EMM production are set out below:

<b>Production (thousand tonnes)</b>	<b>2020</b>	<b>2019</b>
<b>Daxin EMM Plant</b>	<b>112.0</b>	<b>93.5</b>
<b>DXML EMM Plant</b>	<b>21.3</b>	<b>26.3</b>
<b>Tiandeng EMM Plant</b>	<b>37.3</b>	<b>34.9</b>
<b>Guangxi Start EMM Plant</b>	<b>17.5</b>	<b>17.9</b>
<b>Total</b>	<b>188.1</b>	<b>172.6</b>

- Manganese briquette

<b>Production (thousand tonnes)</b>	<b>2020</b>	<b>2019</b>
<b>Chongzuo Branch</b>	<b>5.5</b>	<b>19.2</b>
<b>Daxin Branch</b>	<b>32.4</b>	<b>12.9</b>
<b>Total</b>	<b>37.9</b>	<b>32.1</b>

- Silicomanganese alloy

<b>Production (thousand tonnes)</b>	<b>2020</b>	2019
<b>Qinzhou Ferroalloy Plant</b>	<b>76.7</b>	67.7
<b>Xingyi Ferroalloy Plant</b>	<b>88.7</b>	87.0
<b>Total</b>	<b>165.4</b>	154.7

(2) *Battery materials*

- EMD

<b>Production (thousand tonnes)</b>	<b>2020</b>	2019
<b>Daxin EMD Plant</b>	<b>30.0</b>	28.9
<b>Huiyuan Manganese</b>	<b>66.9</b>	–
<b>Total</b>	<b>96.9</b>	28.9

- Lithium manganese oxide

<b>Production (thousand tonnes)</b>	<b>2020</b>	2019
<b>Chongzuo Branch</b>	<b>3.1</b>	4.6

- NCM

<b>Production (thousand tonnes)</b>	<b>2020</b>	2019
<b>Chongzuo Branch</b>	<b>–</b>	0.98

- Manganese sulfate

<b>Production (thousand tonnes)</b>	<b>2020</b>	2019
<b>Daxin Manganese Sulfate Plant</b>	<b>27.6</b>	24.7

*Note:* Except figures for NCM are rounded to nearest two decimal place, all our other manganese downstream processing products are rounded to nearest one decimal place and these figures may show apparent addition errors.

V) *Exploration, Development and Mining Cost of the Group*

Expenses of exploration, development and mining activities of the Group for the year ended 31 December 2020 are set out below:

(HK\$ '000)

	<b>Daxin Mine</b>	<b>Tiandeng Mine</b>	<b>Waifu Manganese Mine</b>	<b>Changgou Manganese Mine</b>	<b>Bembélé Manganese Mine</b>	<b>Total</b>
<b>Exploration activities</b>						
Drilling and analysis	–	–	–	–	–	–
Transportation	–	–	–	–	–	–
Others	–	–	–	–	502	502
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>502</u>	<u>502</u>
<b>Development activities (including mine construction)</b>						
Purchases of assets and equipment	–	–	–	12,026	–	12,026
Construction of mines, tunnels and roads	–	–	–	–	–	–
Staff cost	–	–	–	–	–	–
Others	3,184	–	–	–	–	3,184
	<u>3,184</u>	<u>–</u>	<u>–</u>	<u>12,026</u>	<u>–</u>	<u>15,210</u>
<b>Mining activities*</b>						
Staff cost	2,947	7,666	–	7,526	–	18,139
Consumables	342	8,301	–	3,183	–	11,826
Fuel, electricity, water and other services	4,600	5,975	–	5,027	–	15,602
Transportation	10,506	–	–	–	–	10,506
Sub-contracting fee	270,672	9,961	–	49,510	–	330,143
Depreciation	46,104	3,831	–	3,131	–	53,066
Others	6,672	7,269	–	7,309	–	21,250
	<u>341,843</u>	<u>43,003</u>	<u>–</u>	<u>75,686</u>	<u>–</u>	<u>460,532</u>

(\* Concentrating not included)

## **OTHER INFORMATION**

### **Annual General Meeting**

The annual general meeting of the Company is tentatively scheduled to be held on Friday 4, June 2021 (“**2021 AGM**”). Notice of the 2021 AGM will be published and issued to shareholders in due course.

### **Closure of Register of Members**

The register of members will be closed from Monday, 31 May 2021 to Friday, 4 June 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the 2020 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 Friday, 28 May 2021.

### **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 2020.

### **Financial Information**

The financial information set out in this announcement does not constitute the Group’s audited accounts for the year ended 31 December 2020, 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.

### **Others**

On 21 December 2020, the Company was informed by Youfu Investment Co., Ltd that it becomes a shareholder of the Company with an equity interest of 994,260,000 shares, representing approximately 29.00% of the Company’s issued share capital. On 19 February 2021, The name of the Company was changed from CITIC Dameng Holdings Limited to South Manganese Investment Limited.

## **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 2020, 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 2019 Annual Report, since 26 September 2019, the posts of Chairman and Chief Executive Officer were combined and Mr. Guo Aimin, the Chairman of the Board assumed the role of the Chief Executive Officer until his resignation from the Company on 22 December 2020. This arrangement deviates from the code provision A.2.1 of the CG Code. 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 arrangement will not be impaired and is adequately ensured by the 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.

Immediately after Mr. Guo’s resignation coming into effect, Mr. Li Weijian was re-designated as both the Chairman and the Chief Executive Officer of the Company with effect from 22 December 2020 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 nonexecutive 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.dameng.citic.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

“Bembélé Concentration Plant”	the concentration plant associated with Bembélé Manganese Mine
“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 the Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Chongzuo Branch”	南方錳業集團有限責任公司崇左分公司 (South Manganese Group Limited Chongzuo Branch), formerly known as 中信大錳礦業有限責任公司崇左分公司 (CITIC Dameng Mining Industries Co., Limited Chongzuo Branch)
“Companies Ordinance”	the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company or our Company”	South Manganese Investment Limited (南方錳業投資有限公司), formerly known as CITIC Dameng Holdings Limited
“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) formerly known as 中信大錳礦業有限責任公司大新錳礦 (CITIC Dameng Mining Industries Co., 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)
“DXML”	大新大錳錳業有限公司 (Daxin Dameng Manganese Limited Company), formerly known as 中信大錳大新錳業有限公司 (CITIC Dameng Daxin 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), 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
“Hui Xing Company”	貴州遵義匯興鐵合金有限責任公司 (Guizhou Zunyi Hui Xing Ferroalloy Limited Company)

“Hui Xing Group”	Hui Xing Company together with its subsidiaries (including 遵義滙興設備製造安裝有限公司 (Zunyi Hui Xing Equipment Manufacture and installation Co., Ltd))
“Huiyuan Manganese”	廣西匯元錳業有限責任公司 (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
“JORC”	the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy
“JORC Code”	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 edition, which is used to determine resources and reserves, and is published by JORC of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia
“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
“Qinzhou Ferroalloy Plant”	the ferroalloy production plant located near Qinzhou port and owned and operated by 欽州大錳材料有限公司 (Qinzhou Dameng New Materials Co., Ltd.), formerly known as 中信大錳(欽州)新材料有限公司 (CITIC Dameng (Qinzhou) 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), formerly known as 中信大錳礦業有限責任公司 (CITIC Dameng Mining Co., Ltd.), a directly wholly owned subsidiary of the Group
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Tiandeng Mine”	南方錳業集團有限責任公司天等錳礦 (South Manganese Group Limited Tiandeng Mine) formerly known as 中信大錳礦業有限責任公司天等錳礦 (CITIC Dameng Mining Industries Co., Limited Tiandeng Manganese Mine)
“tonne”	metric tonne
“Waifu Manganese Mine”	南方錳業集團有限責任公司外伏錳礦 (South Manganese Group Limited Waifu Manganese Mine) formerly known as 中信大錳大新錳業有限公司靖西縣湖潤外伏錳礦 (CITIC Dameng Daxin Manganese Limited Company Jingxi Hu Run Waifu Manganese Mine)
“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

*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, 30 March 2021

*As at the date of this announcement, the executive Directors are Mr. Li Weijian, Mr. Zhang He and Mr. Zhang Zongjian; the non-executive Directors are Mr. Lyu Yanzheng, Mr. Cheng Zhiwei and Ms. Cui Ling; and the independent non-executive Directors are Mr. Lin Zhijun, Mr. Zhang Yupeng and Mr. Wang Zhihong.*

*\* For identification purpose only*