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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)

DISCLOSEABLE TRANSACTION IN RELATION TO THE SECOND FINANCE LEASE ARRANGEMENT

THE SECOND FINANCE LEASE ARRANGEMENT

(1) The Second Finance Lease Agreement

The Board is pleased to announce that, on 16 September 2022, Huiyuan Manganese, an indirect wholly owned subsidiary of the Company, entered into the Second Finance Lease Agreement with Cinda Financial, pursuant to which (i) Cinda Financial has agreed to purchase the Equipment II from Huiyuan Manganese at a consideration of RMB200,000,000 (equivalent to approximately HK\$228,000,000) and lease the Equipment II back to Huiyuan Manganese for a period of 36 months; and (ii) Huiyuan Manganese shall have the right to purchase the Equipment II at the nominal consideration of RMB1 (equivalent to approximately HK\$1.14) after the Lease Period.

Pursuant to the Second Finance Lease Agreement, Huiyuan Manganese agreed to pay Cinda Financial the Second Security Deposit of RMB16,000,000 (equivalent to approximately HK\$18,240,000) in connection with the Second Finance Lease Arrangement.

(2) The Second Letter of Guarantee

The Board is pleased to announce that, on 16 September 2022, South Manganese Group (an indirect wholly owned subsidiary of the Company) has agreed to enter into an irrevocable Second Letter of Guarantee to guarantee the due and punctual performance of duties and obligations by Huiyuan Manganese under the Second Finance Lease Agreement.

LISTING RULES IMPLICATIONS

As the First Finance Lease Arrangement and the Second Finance Lease Arrangement were entered into by the Group with Cinda Financial within 12 months, the transactions contemplated under the Second Finance Lease Arrangement shall be aggregated with the transactions contemplated under the First Finance Lease Arrangement pursuant to Rule 14.22 of the Listing Rules.

As the highest applicable Percentage Ratio in respect of the transactions contemplated under the First Finance Lease Arrangement and the Second Finance Lease Arrangement on an aggregate basis is more than 5% but less than 25%, the transactions under the Second Finance Lease Arrangement constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements but is exempt from shareholders' approval under Chapter 14 of the Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 12 August 2022 in relation to the First Finance Lease Arrangement (the “**Announcement**”). Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

THE SECOND FINANCE LEASE ARRANGEMENT

(1) The Second Finance Lease Agreement

The Board is pleased to announce that, on 16 September 2022, Huiyuan Manganese, an indirect wholly owned subsidiary of the Company, entered into the Second Finance Lease Agreement with Cinda Financial, pursuant to which (i) Cinda Financial has agreed to purchase the Equipment II from Huiyuan Manganese at a consideration of RMB200,000,000 (equivalent to approximately HK\$228,000,000) and lease the Equipment II back to Huiyuan Manganese for a period of 36 months; and (ii) Huiyuan Manganese shall have the right to purchase the Equipment II at the nominal consideration of RMB1 (equivalent to approximately HK\$1.14) after the Lease Period.

The principal terms of the Second Finance Lease Agreement are set out below:

Date: 16 September 2022

Parties

1. Huiyuan Manganese, as the lessee under the Finance Lease Agreement; and
2. Cinda Financial, as the lessor under the Finance Lease Agreement.

Finance Lease

Pursuant to the Second Finance Lease Agreement, Cinda Financial will purchase the Equipment II from Huiyuan Manganese (free from any title defects and encumbrances) at a consideration of RMB200,000,000 (equivalent to approximately HK\$228,000,000), which will be paid to Huiyuan Manganese within 5 business days after the fulfilment of certain conditions including, among others, the receipt of the title documents in respect of the Equipment II by Cinda Financial from Huiyuan Manganese (the “**Lease Commencement Date**”).

Pursuant to the Second Finance Lease Agreement, Cinda Financial will lease back the Equipment II to Huiyuan Manganese for a period of 36 months (the “**Lease Period**”) with effect from the Lease Commencement Date. Huiyuan Manganese shall pay the first lease payment of RMB3,840,000 (equivalent to approximately HK\$4,378,000) and subsequent twelve instalments in the aggregate sum of RMB212,025,000 (equivalent to approximately HK\$241,709,000) which is based on amortization schedule calculated in accordance with the Interest Rate payable on a quarterly basis with effect from the Lease Commencement Date.

Interest Rate

The initial Interest Rate chargeable under the Second Finance Lease Agreement shall be calculated in accordance with 1 year LPR as at 20 July 2022 (which is equivalent to 3.70% p.a.) and shall be adjusted on 1st January of each anniversary during the Lease Period by reference to the corresponding change of 1 year LPR on 31st December of the previous year.

For illustrative purpose only, assuming the Interest Rate remains unchanged at 3.70% p.a. during the entire Lease Period, the aggregate lease payment of RMB215,865,000 (equivalent to approximately HK\$246,086,000) shall be made by Huiyuan Manganese to Cinda Finance under the Second Finance Lease Agreement.

Second Security Deposit

Pursuant to the Second Finance Lease Agreement, the Second Security Deposit of RMB16,000,000 (equivalent to approximately HK\$18,240,000) will be paid by Huiyuan Manganese to Cinda Financial at the Lease Commencement Date. Cinda Financial is entitled to deduct from the Second Security Deposit if there is any outstanding payment or penalty resulting from any breach caused by Huiyuan Manganese. Any outstanding Second Security Deposit as at the expiry date of the Lease Period will be refunded to Huiyuan Manganese on the expiry date of the Lease Period.

The Equipment II

The Equipment II consists of certain machinery and equipment for the operation of EMD plants located at Laibin City, Guangxi Province, the PRC and owned by Huiyuan Manganese. The

original cost and net book value of the Equipment II as at 31 December 2021, was RMB274,006,000 (equivalent to approximately HK\$312,367,000) and RMB227,871,000 (equivalent to approximately HK\$259,773,000) respectively.

Ownership of the Equipment II during the Lease Period

The legal ownership of the Equipment II will be transferred to Cinda Financial despite the Equipment II will be possessed and used by Huiyuan Manganese during the Lease Period.

At the end of the Lease Period and subject to fulfillment of all of its obligations under the Second Finance Lease Agreement, Huiyuan Manganese will be entitled to purchase the Equipment II on an “as-is” basis at a nominal consideration of RMB1 (equivalent to approximately HK\$1.14) after the Lease Period.

Financial effect

Under the applicable financial reporting standards, the transfer of the Equipment II will not be accounted for as disposal of asset in the relevant financial statements. The Second Finance Lease Agreement will be accounted for as a financing arrangement of Huiyuan Manganese.

(2) The Second Letter of Guarantee

On 16 September 2022, South Manganese Group (an indirect wholly owned subsidiary of the Company) has agreed to enter into an irrevocable Second Letter of Guarantee in favour of Cinda Financial to guarantee the due and punctual performance of duties and obligations by Huiyuan Manganese under the Second Finance Lease Agreement.

The principal terms of the Second Letter of Guarantee are as follows:

Subject matter:	South Manganese Group, as guarantor, agreed to provide guarantee for the due and punctual performance of duties and obligations by Huiyuan Manganese under the Second Finance Lease Agreement in favour of Cinda Financial. The Second Letter of Guarantee covers all the obligations of Huiyuan Manganese under the Second Finance Lease Agreement including but not limited to the lease payments and the Second Security Deposit.
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Term of the Second Letter of Guarantee:	From the effective date of the Second Letter of Guarantee to the date falling three years after the last tranche of the payment obligations of Huiyuan Manganese under the Second Finance Lease Agreement is fulfilled.
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REASONS AND BENEFIT FOR THE SECOND FINANCE LEASE ARRANGEMENT

The financial arrangements under the Second Finance Lease Agreement provides additional working capital to Huiyuan Manganese to support its operational activities. The terms of the Second Finance Lease Agreement (including the lease payments and the Second Security Deposit) and the Second Letter of Guarantee were determined after arm's length negotiation between the parties and by reference to, among other things, the book value of the Equipment II, the purchase cost of the Equipment II and similar prevailing leasing arrangements in the current market.

The Directors are of the view that the Second Finance Lease Arrangement and the transactions contemplated thereunder are on normal commercial terms which were made on an arm's length basis and fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION RELATING TO HUIYUAN MANGANESE, SOUTH MANGANESE GROUP AND CINDA FINANCIAL

Huiyuan Manganese is a company established in the PRC and an indirect wholly owned subsidiary of the Company. It is principally engaged in manufacturing and sale of EMD and related products.

South Manganese Group is a company incorporated in the PRC with limited liability, which is indirectly wholly owned by the Company and is one of market leaders in vertically integrated manganese producer that produces and sells manganese products.

Cinda Financial is a company established in the PRC and is principally engaged in finance lease business.

The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, Cinda Financial and its ultimate beneficial owner(s) are third parties independent of the Company and its Connected Persons.

LISTING RULES IMPLICATIONS

As the First Finance Lease Arrangement and the Second Finance Lease Arrangement were entered into by the Group with Cinda Financial within 12 months, the transaction contemplated under the Second Finance Lease Arrangement shall be aggregated with the transaction contemplated under the First Finance Lease Arrangement pursuant to Rule 14.22 of the Listing Rules.

As the highest applicable Percentage Ratio in respect of the transactions contemplated under the First Finance Lease Arrangement and the Second Finance Lease Arrangement on an aggregate basis is more than 5% but less than 25%, the transactions under the Second Finance

Lease Arrangement constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements but is exempt from shareholders' approval under Chapter 14 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Equipment II”	the equipment under the Second Finance Lease Agreement as further illustrated under paragraph headed the “Equipment II” in this announcement
“First Finance Lease Arrangement”	the finance lease arrangement in relation to the Finance Lease Agreement and the Letter of Guarantee dated 12 August 2022 entered into between Huiyuan Manganese and Cinda Financial, details of which refer to the Announcement
“Second Finance Lease Arrangement”	the Second Finance Lease arrangement in relation to the Second Finance Lease Agreement and the Second Letter of Guarantee
“Second Finance Lease Agreement”	Second Finance Lease Agreement dated 16 September 2022 entered into between Huiyuan Manganese and Cinda Financial
“Second Letter of Guarantee”	the irrevocable letter of guarantee dated 16 September 2022 entered into by South Manganese Group, pursuant to which South Manganese Group agreed to guarantee the due and punctual performance of duties and obligations by Huiyuan Manganese under the Second Finance Lease Agreement in favour of Cinda Financial
“Second Security Deposit”	RMB16,000,000 (equivalent to approximately HK\$18,240,000)

- Notes:*
- 1. 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.*
 - 2. Unless otherwise specified and for illustration purpose only, the figures in RMB are converted into HK\$ at the rate of RMB1.00=HK\$1.14 throughout this announcement for indication purposes only. Such conversion should not be construed as a representation that the relevant currency could actually be converted into HK\$ at that rate or at all.*

By order of the Board
SOUTH MANGANESE INVESTMENT LIMITED
Li Weijian
Chairman and Chief Executive Officer

Hong Kong, 16 September 2022

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