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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)

FULFILMENT OF ALL RESUMPTION GUIDANCE AND RESUMPTION OF TRADING

FULFILMENT OF ALL RESUMPTION GUIDANCE

The Board is pleased to announce that the Company has fulfilled all the Resumption Guidance.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 30 March 2023. As the Resumption Guidance has been satisfied in full, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 5 February 2024.

This announcement is made by South Manganese Investment Limited (the “**Company**”) pursuant to Rule 13.09(2) of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 29 March 2023, 31 March 2023, 2 May 2023, 28 May 2023, 29 June 2023, 28 July 2023, 2 August 2023, 18 August 2023, 20 September 2023, 26 September 2023, 29 September 2023 and 30 November 2023 (the “**Announcements**”) in relation to, among other things, (i) the delay in publication of the annual results (the “**2022 Annual Results**”) and the annual report (the “**2022 Annual Report**”) of the Company for the year ended 31 December 2022; (ii) the formation of an independent investigation committee (the “**Independent Investigation Committee**”); (iii) appointment of RSM Corporate Advisory (Hong Kong) Limited (currently known as “Acclime Corporate Advisory (Hong Kong) Limited”) as the independent forensic accountant (the “**Independent Forensic Accountant**”); (iv) the guidance (the “**Resumption Guidance**”) for the resumption of trading issued to the Company by the Stock Exchange; (v) the quarterly update on the status of resumption; (vi) the appointment of SWRS Risk Services Limited as the independent internal control consultant (the “**Independent Internal Control Consultant**”); (vii) the resignation of PricewaterhouseCoopers (“**PwC**”) as the auditor of the Company with effect from 31 July 2023; (viii) the appointment of RSM Hong Kong (“**RSM HK**”) as the new auditor of the Company with effect from 18 August 2023; (ix) the delay in publication of the interim results (the “**2023 Interim Results**”) and the interim report (the “**2023 Interim Report**”) of the Company for the six months ended 30 June 2023; (x) the key findings of the independent investigation (the “**Independent Investigation**”); (xi) the key findings of the internal control review (the “**Internal Control Review**”) report; (xii) the announcement of the 2022 Annual Results; and (xiii) the announcement of the 2023 Interim Results. Reference is also made to the 2022 Annual Report and the 2023 Interim Report published by the Company on 11 December 2023. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND

As disclosed in the Announcements, on 28 March 2023, the board (the “**Board**”) of directors (the “**Director(s)**”) of the Company and the audit committee (the “**Audit Committee**”) of the Company has received a letter (the “**Letter**”) from PwC, regarding PwC’s suggestions concerning the Company’s Manganese Ore Trading Business that, among others: (1) the Audit Committee is responsible for the formation of an independent investigation committee; (2) the independent investigation committee shall appoint an independent third-party investigative agency to assist its investigation on, among others, (a) the unusualness noted from the confirmations returned by a supplier (the “**Supplier**”) and a customer (the “**Customer**”) (the “**Issue 1**”); (b) to provide further supporting documents to substantiate the trade with the Supplier and the Customer (the “**Issue 2**”); and (c) the commercial basis of the prepayment amounted to approximately RMB540 million as at 31 December 2022 made to the Supplier (the “**Issue 3**”) (collectively, the “**Audit Issues**”).

PwC has concerns about the commercial substance of the Manganese Ore Trading Business and the authenticity of the relevant sale and purchase transactions, and requested the Company to provide explanation and additional information in the Letter as set out below, including but not limited to:

- (i) provide explanations for the above together with relevant supporting documents, especially the commercial rationale of paying significant amount of prepayment to the Supplier;
- (ii) conduct background investigations of the Supplier and the Customer, and explain whether there is any relationship between the Supplier and the Customer, and whether there is any relationship with the Group;
- (iii) provide complete walk-through documents of the Manganese Ore Trading Business, explain whether there is any genuine transfer of inventory ownership, explain the roles and responsibility of each counterparty in the entire trade chain, and the relationship among the involved parties (including whether they are held by the same party), the commercial rationale and substance of these transactions, whether there are other relationships or arrangements not disclosed to PwC;
- (iv) comprehensively evaluate the reasonableness of the sales and purchase recognition of the Manganese Ore Trading Business; and
- (v) provide specific information on the funds flow to/ from the Supplier and the Customer with the Group.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:00 am on Thursday, 30 March 2023.

As disclosed in the Announcements, on 24 May 2023, the Company received a letter from the Stock Exchange setting out the following Resumption Guidance:

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

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

FULFILMENT OF ALL RESUMPTION GUIDANCE

The Board is pleased to announce that the Company has fulfilled all the Resumption Guidance, details of which are set out as follows:

Resumption Guidance (1) - publish all outstanding financial results required under the Listing Rules and address any audit modifications

As at the date of this announcement, all the outstanding financial results of the Company have been published as follows:

- (a) on 30 November 2023, the Company published the announcement of the 2022 Annual Results with the 2022 Annual Report issued on 11 December 2023; and
- (b) on 30 November 2023, the Company published the announcement of the 2023 Interim Results with the 2023 Interim Report issued on 11 December 2023.

RSM HK, the auditor of the Company, has issued unqualified opinion in its auditor's report on the Group's consolidated financial statements for the financial year ended 31 December 2022. Please refer to the 2022 Annual Report published on 11 December 2023 for further details.

As of the date of this announcement, the Company has no outstanding financial results required by the Listing Rules to be published. The Company is expected to published the announcement in relation to its preliminary results in respect of the financial year ended 31 December 2023 not later than three months after the end of the financial year of the Company, i.e. on or before 31 March 2024 in compliance with Rule 13.49(1) of the Listing Rules and despatch its annual report for the year ended 31 December 2023 to the Shareholders not more than four months after the end of the financial year (i.e. on or before 30 April 2024) in compliance with Rule 13.46(2)(a) of the Listing Rules.

Based on the foregoing, the Board is of the view that the Company has adequately fulfilled Resumption Guidance (1).

Resumption Guidance (2) - conduct an appropriate independent investigation into the audit issues, assess their impact on the Company's business operation and financial position, announce the findings and take appropriate remedial actions

As disclosed in the Announcements, in order to address and resolve the Audit Issues, the Independent Investigation Committee, comprising Mr. Zhang Yupeng, Mr. Yuan Mingliang and Mr. Lo Sze Hung, all independent non-executive Directors, was established on 31 March 2023. The duties and purposes of the Independent Investigation Committee is to commission and lead the Independent Investigation.

As disclosed in the Announcements, on 25 May 2023, the Company has engaged the Independent Forensic Accountant to conduct the Independent Investigation and produce a report of findings on the Independent Investigation to the Independent Board Committee. The Independent Forensic Accountant issued the report (the “**Independent Investigation Report**”) of the Independent Investigation on 15 September 2023.

Summary of the key findings of the Independent Investigation

The key findings of the Independent Investigation are summarized as follows:

Background of the Manganese Ore Trading Business

Manganese ore is mainly classified into manganese oxide ore, manganese hemi-carbonate ore and manganese carbonate ore. Ghana is one of the very few countries in the world that produces high-grade manganese carbonate ore while the Mine Owner is the only company engaged in the mining and production of Ghana manganese ore.

In consideration of the increasing stringent national environmental protection policies and the increasing demand of manganese carbonate ore in batteries production, the Company is of the view that the demand of imported high-grade manganese carbonate ore (such as the Ghana manganese ore) for the manganese manufacturing industry in the PRC will continue to increase and therefore, securing stable supplies of the Ghana manganese ore would create a competitive advantage to the Company. In fact, the quantity of manganese ore imported to the PRC has increased from approximately 11.6 million tons in 2010 to approximately 29.9 million tons in 2022.

The Group has attempted to acquire the holding company of the Mine Owner but in vain, which was subsequently acquired by another entity in May 2017.

The Group attended the national conference of China National Manganese Industry Technology Committee EMM Innovation Alliance[#] (全国电解锰创新联盟) (the “**National Manganese Alliance**”) held on 9 January 2021, at which all members to the National Manganese Alliance reached a consensus to expand the use of existing imported manganese ore as much as possible and to reduce the reliance on the mining of domestic mines in order to achieve a better protection of domestic manganese ore

resources and reduce the adverse impact of mining to the environment.

In late 2020, the Group entered into negotiation for business opportunities with the Mine Owner in Ghana and an agency agreement (the “**Agency Agreement**”) was eventually entered into in relation to the exclusive agency in South China except the Manganese Triangle (i.e. Huayuan County in Hunan, Xiushan Tujia and Miao Autonomous County in Chongqing and Songtao Miao Autonomous County in Guizhou) with agency period commenced from 1 January 2021 and ending on 31 December 2023. Before the entering into of the Agency Agreement, the Group has imported two batches of Ghana manganese ore of modest quantity directly from the Mine Owner on a trial basis. Under the Agency Agreement, the Group is required to purchase a minimum quantity of manganese ore from the Mine Owner for three years ending 31 December 2023. Ghana manganese ore is a high-grade manganese ore with relatively simple processing procedure, and is one of the best suitable raw materials for electrolytic manganese. Given that the Ghana manganese ore is one of the major manganese carbonate ore in the world with scarce supply and the Mine Owner is the only company engaged in the mining and production of Ghana manganese ore, the Mine Owner has a very strong bargaining power in pricing.

During the negotiation process between the Mine Owner and the Group and with a view to commence the trading business pending finalisation of the terms of the Agency Agreement, the Mine Owner introduced the Supplier, which was then an existing customer and the authorized distributor and sales partner in the PRC of the Mine Owner, to the Group for business opportunities. The Mine Owner recognized that the purchase from the Supplier would be counted for the purpose of fulfilling the minimum purchase quantity of the Group under the Agency Agreement. The Supplier also referred the Customer, which was then an existing customer of the Supplier, to the Group for business opportunities in 2021. It was intended to be a provisional arrangement adopted by the Group having considered (a) the recommendation was made by the Mine Owner to the Group when the Agency Agreement had not yet been finalized; (b) the weak demand, the disruptions to shipping and local manganese market in the PRC as a result of the COVID-19 pandemic; and (c) the Company was still in the early stage of developing such trade practice.

The Company was also given to understand that the involvement of the Group in the transactions was likely to have the effect of alleviating the financial pressure of the Supplier.

The Group conducted the Manganese Ore Trading Business by two ways: (i) the Group directly imported Ghana manganese ore from the Mine Owner to the PRC and then sold to downstream domestic traders or manufacturers; and (ii) the Group dealt with the upstream and downstream traders by way of domestic commodities trading. Under the model of domestic commodities trading, the transactions among the Supplier, the Group

and the Customer are carried out based on the certificate of weight and certificate of quality issued by the authoritative body (which were first issued by the authoritative body of the departing port and the arriving port, and would then be passed to the downstream trader(s) in the domestic commodity trading), and the delivery orders issued by the Supplier to the Group and issued by the Group to the Customer.

During the year ended 31 December 2022, the Manganese Ore Trading Business was solely conducted by way of domestic commodities trading among the Supplier, the Group and the Customer.

Issue 1

The unusualness noted from the confirmations returned by the Supplier and the Customer

For the registered addresses of the Supplier and the Customer, both the Supplier and the Customer use virtual office as their registered address which are driven by the tax incentives offered by the local governmental authorities of the local district where the said virtual offices are located. The use of virtual office as registered address, and the registered address not being the office address of the Supplier and the Customer are permitted under the local policy and is not an isolated case.

While the office addresses of the Supplier and the Customer are located in close proximity, there are clear signage erected outside their respective office addresses and with office equipment and staff working inside their respective office addresses. Given the proximity of their respective office addresses and the staff of the Supplier and the Customer would assist each other in daily logistic work, such as receiving and sending of delivery parcels, the unusualness noted by PwC, e.g. the confirmations returned by the Supplier and the Customer from same address, are due to the inattention of the administrative staff of the Supplier and the Customer.

In response to PwC's concerns on (i) not being able to obtain effective responses from the contact persons of the confirmations of the Supplier and the Customer and (ii) being unable to reach the relevant staff of the Supplier at the office number obtained from public source, the Independent Forensic Accountant conducted interviews with the responsible staff of both the Supplier and the Customer, redialed the office numbers of the Supplier and Customer and obtained replies from the relevant staff to some extent and verified the content of the confirmations returned.

Regarding the Issue 1, the Independent Forensic Accountant is able to obtain explanation from the relevant parties to a certain extent and does not identify any material unusualness.

Issue 2

To provide further supporting documents to substantiate the trade with the Supplier and the Customer

During the year ended 31 December 2022, the transactions among the Supplier, the Group and the Customer in relation to the Manganese Ore Trading Business were solely conducted by way of domestic commodities trading.

Unlike bulk cargo trading, the most important features of the domestic commodities trading of the Group in relation to the Manganese Ore Trading Business are the transfer of the ownership of the Ghana manganese ore, the settlement, the issue of the value added tax invoice for settlement, and the making and receipt of the payment, rather than taking physical delivery for settlement. The Independent Forensic Accountant noted from the published announcement of another listed company whose business covers domestic commodities trading in the PRC, that such listed company also has a similar trading arrangement. Based on the public disclosure of the said listed company, the settlement procedure is also based on the certificate of weight and certificate of quality issued by authoritative body, while the completion of transfer of cargo rights amongst the upstream trader, the company and the downstream trader is also based on the delivery instructions issued by each party. The Independent Forensic Accountant noted the similarities of the business model and nature between the domestic commodities trading of the Group in relation to the Manganese Ore Trading Business and that of the said public listed company.

Regarding a portion of the Ghana manganese ore under a shipment allegedly sold to a third party by the Supplier in August and September 2022 which were included in the purchase recorded by the Group from the Supplier and the sales to the Customer recognised by the Group in December 2022, the quantity involved (i) is approximately 611.2 wet metric tons of Ghana manganese ore; (ii) only formed a small part of the Ghana manganese ore involved in this batch of transaction among the Supplier, the Group and the Customer of approximately 204,724.7 wet metric tons of Ghana manganese ore; and (iii) formed part of the excess quantity of Ghana manganese ore as stated in the certificate of weight issued by the arriving port when comparing to the certificate of weight issued by the departing port. Since the unit price of the whole batch of Ghana manganese ore was yet to be finalised between the Group and the Supplier when such batch of Ghana manganese ore arrived the dock in August 2022, the Group had not yet decided whether to take up the whole batch of Ghana manganese ore by then. The Supplier then sold part of the said excess quantity of Ghana manganese ore to the third party in August and September 2022. In or around December 2022, when the Group decided to take up the whole batch of Ghana manganese ore, the Supplier topped up the discrepancy due to the sale to the third party. Both the Supplier and the freight forwarding agent in the dock confirmed that the Supplier had restored the

quantity of the Ghana manganese ore from another batch of Ghana manganese ore before transfer the ownership thereof. There were no claims or litigation made against the Group by the Customer and/or other parties in relation to the same and the Independent Forensic Accountant also does not identify any material abnormalities.

The background and relationship of the Supplier and the Customer

Save that the supervisor of the Customer (who does not participate in the management of the Customer and is an acquaintance of the beneficial owner of the Supplier and the Customer) is also the supervisor of a company, of which the former legal representative and executive director of the Supplier is the ultimate beneficial owner, legal representative and executive director, the Independent Forensic Accountant does not identify other relationship between the Supplier and the Customer.

Based on the public searches made by the Independent Forensic Accountant on the Supplier and Customer, the ultimate beneficial owners of the Supplier and the Customer as well as the key persons of the aforesaid parties, each of the Supplier and the Customer is third party independent of and not connected with the Group.

Issue 3

Prepayment made to the Supplier

A framework sales agreement for each year (but no individual sales agreement for each transaction) was entered into between the Group and the Supplier, with provisions regarding the amount of Ghana manganese ore to be purchased, the provisional price and the prepayment requirements of 95% of the contract amount. The Group would be notified by the Supplier from time to time when shipment schedule of Ghana manganese ore was determined. The Group would then seek the commitment from the downstream trader(s) before providing commitment to the Supplier in taking up the shipment. In order to securing the shipment, the Group would be required to make further prepayments to the Supplier which would be determined based on, among others, the quantity of Ghana manganese ore secured, the prevailing market price of Ghana manganese ore, and the amount of the prepayments already made. When the Supplier transfers the ownership of Ghana manganese ore to the Group, the Group would proceed to settlement, issue value added tax invoice, deduct purchase price from the prepayment. The prepayment would be made by the Group from time to time which had no direct correlation to the progress of the transfer the ownership of Ghana manganese ore to the Group.

The Company was also given to understand that the Group's prepayments made to the Supplier had then been paid to the upstream supplier(s) and ultimately the Mine Owner, as the Mine Owner needs to speed up the fund collection to support its expenditure in

mining and production. While the Supplier and the Customer had pre-existed business relationship, the Group considers that the involvement of the Group in the transactions was likely to have the effect of alleviating the financial pressure of the Supplier due to its pre-payment requirements owed to its upstream supplier(s), having regard in particular, the uncertainties and disruptions on shipping and local manganese market in the PRC caused by the COVID-19 pandemic.

The prepayment amount incurred in the domestic commodities trading in relation to the Manganese Ore Trading Business is mainly due to the contractual requirement under the framework sales agreements entered into with the Supplier. For instance, the Group entered into framework sales agreement (the “**2022 Framework Sales Agreement**”) with the Supplier in relation to the sale and purchase of 1,000,000 ($\pm 10\%$) wet metric tons Ghana manganese ore at the contract sum of approximately RMB1,140,700,000 on 27 October 2021. Pursuant to the terms of the 2022 Framework Sales Agreement, the Group was required to make prepayment in the sum of RMB1,083,665,000 (equivalent to 95% of the contract sum) to the Supplier from time to time. Part of such prepayment was satisfied by carrying forward the prepayment made pursuant to the framework sales agreement in prior year.

Prepayment to the Supplier from 31 December 2022 to 28 March 2023

The Group made prepayment of approximately RMB58 million to the Supplier from 31 December 2022 to 28 March 2023 in view of the quantity of the Ghana manganese ore to be purchased by the Group from the Supplier. Though the framework sales agreement for the year 2023 was not entered into at that time, the Group has already reached consensus with the Supplier on the purchase quantity of 1,000,000 wet metric tons Ghana manganese ore in order to comply with the Agency Agreement. The framework sales agreement for 2023 was subsequently entered into between the Group and the Supplier.

Having considered the prepayment of approximately RMB58 million paid by the Group to the Supplier from 31 December 2022 to 28 March 2023 before the entering into of the framework sales agreement for 2023, the Independent Forensic Accountant recommends the management of the Group to strengthen the procedure in relation to the Manganese Ore Trading Business, including but not limited to determining the pricing with the supplier and the customer, approval of sales agreement, making of prepayment.

The account receivable from the Customer

Individual sales agreement for each transaction (but no framework sales agreement for each year) was entered into between the Group and the Customer, and prepayment would be made based on the quantity and purchase price of the Ghana manganese ore

under each transaction.

Despite the general requirement for prepayment before issuing delivery order to the Customer, the Group recorded an account receivable from the Customer of approximately RMB77 million as at 31 December 2022. Given the then upcoming Chinese New Year and the negative impact brought by COVID-19 across the PRC, the Customer was having a cash flow pressure and asked the Group to grant credit terms to the Customer only for this transaction. Having considered the previous good trading record of the Customer and the Customer being a major customer of the Group in relation to the Manganese Ore Trading Business, the Group granted credit terms to the Customer. The Customer subsequently settled the account payable in full by 13 March 2023.

Comparisons between the Supplier and the other suppliers of the Group

During the year ended 31 December 2022, the Supplier is the Group's sole supplier of the Ghana Manganese ore. The Group is not informed as to the supplier samples adopted by PwC in making comparison to the prepayment amount and aging of the Supplier and is of the view that other suppliers of the Group for bulk cargo trading are not suitable comparables.

Further, as mentioned above, Ghana manganese ore is a high-grade manganese ore with relatively simple processing procedure, and is the best raw material for electrolytic manganese. Given that the Ghana manganese ore is the only manganese carbonate ore in the world with scarce supply, the Mine Owner has a very strong bargaining power in pricing. Moreover, as the PRC is one of the major manufacturers of electrolytic manganese which imports approximately 30 million tons manganese ore per year and has a high degree of dependency on import of approximately 80%, industry experts confirm that the level of prepayment paid by the Group to the Supplier is consistent with the industry norm in the PRC.

In fact, during the previous dealings in importing directly from the Mine Owner, the Group is required to make the same level of prepayment of 95% of the contract amount and the high prepayment level for Ghana manganese ore is extended from the mine owners to the downstream companies.

Pattern of the transactions among the Group, the Supplier and the Customer

After the issuance of delivery order by the Supplier, the Group would proceed to settlement, issue value added tax invoice and deduct the settlement sum from the prepayment amount. As the Group and the Supplier only entered into framework sales agreement for a year but did not enter into separate contract regarding shipment of the Ghana manganese ore, the progress in making prepayment to the Supplier had no direct

correlation with the transfer of ownership of the Ghana manganese ore from the Supplier.

Further, once a substantial amount of prepayment was made to the Supplier, having considered the risk exposure and cash management of the Group, the Group would only make further prepayment to the Supplier after securing the order from the Customer and obtaining prepayment from the Customer.

Communication with the Supplier about the details of prepayment, including payment amount and timing

Given PwC's concern on relying on verbal communication with the Supplier on the details of prepayment (including payment amount and timing and the lack of written documents recording the same), since March 2023, the Group reviewed and adopted remedial actions such that the communication between the Group and the Supplier and between the Group and the Customer (including whether to take up the Ghana manganese ore and the details of the delivery) is carried out by way of email.

Other findings by the Independent Forensic Accountant

The Independent Forensic Accountant noted that as at 31 May 2023, all the prepayment made by the Group to the Supplier and amount receivable from the Customer has been settled, and the Group has not suffered any loss.

Further, the Independent Forensic Accountant also notes that the Manganese Ore Trading Business has complied with relevant internal approval processes and possesses complete records and traceable approvals. Also, the Manganese Ore Trading Business is profitable even taking into account the finance cost of the Group.

Opinion of the Independent Investigation Committee

The Independent Investigation Committee has reviewed and considered the Independent Investigation Report. Having examined the Letter from PwC, the Independent Investigation Committee is of the view that the Independent Forensic Accountant has investigated into the Audit Issues to the extent that is practicable and the content and findings of the Independent Investigation are reasonable and acceptable. The Independent Forensic Accountant had performed appropriate procedures in respect of the Independent Investigation. The Independent Investigation Committee considers that the Audit Issues in respect of the Manganese Ore Trading Business have been adequately addressed. The Independent Investigation Committee suggests the Group to strengthen the procedure in relation to the Manganese Ore Trading Business, including but not limited to determining the pricing with the supplier and the customer, approval of sales agreement, making of prepayment in order to control the inherent risks.

Opinion of the Board

The Board has reviewed the content and the findings of the Independent Investigation Report. The Board concurs with the Independent Investigation Committee that and is of the view that the Independent Forensic Accountant has investigated into the Audit Issues raised by PwC and adequately addressed the concerns raised by PwC, and the findings of the Independent Investigation in the Independent Investigation Reports are reasonable and acceptable. The Board accepts the Independent Investigation Committee's suggestions to strengthen the procedure in relation to the Manganese Ore Trading Business in order to control the inherent risks.

Based on the foregoing, the Board is of the view that the Company has adequately fulfilled Resumption Guidance (2).

Resumption Guidance (3) - conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules

As disclosed in the Announcements, on 28 July 2023, the Company has appointed the Independent Internal Control Consultant to conduct the Independent Internal Control Review on certain aspects of the Group's internal control procedure, system and control measures in order to fulfill the Resumption Guidance.

Summary of the key findings of the Internal Control Review Report

The Independent Internal Control Consultant has completed the Independent Internal Control Review, the follow-up review on the remedial measures adopted by the Company, and has issued a report of its findings and follow up review result (the "**Internal Control Review Report**").

The key findings and remedial status of the Internal Control Review Report are summarized as follows:

(i) Internal control review at entity level under the COSO framework

(a) Written policies

| Key findings | Rectification recommendations | Company's response and remedial status |
|---|--|---|
| The management had adopted internal control system to | The management should consider incorporating the | Recommendations adopted and remedied. |

monitor each business process and established written policies. However, the following processes were not included in the correspondent written policies:

- (a) intragroup transactions;
- (b) procurement management process, supplier selection process and warehousing process (applicable to a subsidiary) and preparation and approval of purchase orders;
- (c) insurance evaluation and purchase, insurance policy renewal, third-party litigation handling, insurance claims handling process in relation to fixed assets; and
- (d) employee resignation management process and selection and management of outsourced labor companies (only applicable for mining business) under the human resources and payroll management.

above processes into the written policies and ensure that the descriptions in the written policies are consistent with actual operations. In addition, the management should also consider regularly reviewing and updating the written policies when necessary to reflect the actual situation. The management should sign on the written policies after review. When there are updates, the management should also notify employees immediately so that employees can understand the updates.

(b) Conflict of interest declaration mechanism

| Key findings | Rectification recommendations | Company's response and remedial status |
|---|---|---|
| The Group had not established a reporting mechanism and handling process for conflicts of interest. Further, the Group did not require senior management and directors to declare potential conflicts of interest when joining the company, annually or when necessary. | The management should consider establishing a conflict of interest management mechanism including declaration procedure for conflict of interest, handling processes of conflict of interest, and require directors and senior management to make declaration when joining the company, annually or when necessary. | Recommendations adopted and remedied. |

(c) Succession planning for directors and senior management

| Key findings | Rectification recommendations | Company's response and remedial status |
|--|--|---|
| The Group did not have a succession plan for the senior management and executive directors of the subsidiaries and branch companies. | The management should consider establishing a succession plan for key positions and the succession plan should be updated based on the actual situation of the Group. Relevant departments should also consider retaining employees through career development and training, and make effective resource planning. | Recommendations adopted and remedied. |

(ii) Internal control review on business procedure

(a) Financial reporting procedure

| Key findings | Rectification recommendations | Company's response and remedial status |
|--|---|--|
| <p>(1) The management did not properly allocate the access right of finance department personnel. The financial manager and financial personnel had the authority to close account and reverse closed account, while the financial personnel also had the authority to add and modify chart of accounts.</p> | <p>(1) The management should consider re-examining whether the authority of each personnel in the accounting system are consistent with actual operations, and appropriately allocate the access right of financial personnel in the accounting system.</p> | <p>(1) Recommendations adopted and remedied.</p> |
| <p>(2) The finance department did not maintain the reverse closed account application and approval record and regularly provide account payable records for procurement department to check with suppliers according to the approved policies and procedures.</p> | <p>(2) The management should consider requiring finance department to record the application and approval of reverse closed account and regularly provide account payable records for procurement department to check with suppliers.</p> | <p>(2) Recommendations adopted and remedied.</p> |

(b) Revenue and accounts receivable procedure

| Key findings | Rectification recommendations | Company's response and remedial status |
|---|--|---|
| (1) The sales department only filled out the sales orders, delivery orders and settlement orders after receiving the settlement orders stamped by the customer to confirm receipt of the goods, and subsequently for the finance department to recognize the revenue. | (1) The management should consider requiring the sales department to fill out the sales orders and settlement orders simultaneously when signing a contract with the customer. | (1) Recommendations adopted and remedied. |
| (2) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that certain new customer acceptance approval date was later than the contract signing date, which was inconsistent with the relevant written policies. | (2) The management should consider requiring the sales department to evaluate new customers in a timely manner to ensure that the management is aware of relevant customer information. The sales department should sign contract with new customer only after the new customer acceptance approval has been obtained. | (2) Recommendations adopted and remedied. |

(c) Costs, purchases, expenditure and expenses procedure

| Key findings | Rectification recommendations | Company's response and remedial status |
|--|--------------------------------------|---|
| (1) Based on the samples obtained by the | (1) The management should consider | (1) Recommendations adopted and |

Independent Internal Control Consultant, it was noted that the accounting entries were not prepared on the date of stock in since sales department had not timely updated the inventory movements record. (For details, please refer to inventory management procedures)

requiring sales department to update inventory and notify the finance department for making accounting entries simultaneously.

remedied.

- (2) Deviation was noted between the approval processes of updated qualified supplier list as mentioned in the approved policies and procedures and current practice.

Based on the samples obtained by the Independent Internal Control Consultant, it was noted that there was no management approval record on the supplier investigation report, and the procurement department did not keep the management's approval records of the updated qualified supplier list. A branch company did not add the review results of the supplier review

- (2) The management should consider updating the description of the approval and release of the qualified supplier list in the written policies based on the actual situation, and provide the same to employees for implementation after approval.

The management should also consider requiring the procurement department to keep records of the management's approval of the supplier investigation report and the updated qualified supplier list.

The management should also consider

- (2) Recommendations adopted and remedied.

checklist to the supplier review summary report.

asking the procurement department to update the review results of the supplier review checklist to the supplier review summary report and submit it to the responsible management for approval and update the qualified supplier list in accordance with the requirements of the written policies.

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| <p>(3) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that a subsidiary had only collected the basic information of the suppliers but had not requested the suppliers to complete the supplier basic information due diligence checklist, which was inconsistent with the written policies.</p> | <p>(3) The management should consider requiring the responsible department to request the suppliers to fill in the supplier basic information due diligence checklist and provide supporting documents when selecting suppliers in accordance with the procurement written policies.</p> | <p>(3) Recommendations adopted and remedied.</p> |
| <p>(4) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that some subsidiaries had not recorded the site visit review of their</p> | <p>(4) The management should consider requiring the relevant departments to complete the supplier recommendation form after the site visit review.</p> | <p>(4) Recommendations adopted and remedied.</p> |

suppliers, which was inconsistent with the written policies.

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| (5) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that the dates of certain supply contracts were substantially later than the approval date of the respective purchase application. | (5) The management should consider setting a time limit for the validity of the approval of purchase application. If the proposed signing date of the supply contract is after the validity period of the approval, the relevant department should be required to re-submit the purchase application. | (5) Recommendations adopted and remedied. |
| (6) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that the date of delivery note was earlier than the date of purchase order due to untimely preparation of purchase order. Besides, it was noted that some of the samples of purchase orders and arrival orders were prepared and approved by the same personnel. The management had not set up the authority of the personnel in the system according to their duties. | (6) The management should consider requiring procurement department to timely prepare the purchase order and appropriately dividing the preparation and approval functions of purchase orders and arrival orders and re-set the authority of the personnel according to their duties. | (6) Recommendations adopted and remedied. |

(d) Inventory management procedure

| Key findings | Rectification recommendations | Company's response and remedial status |
|---|---|--|
| <p>(1) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that the inventory of a subsidiary was not updated on time.</p> | <p>(1) The management should consider requiring sales and procurement department personnel to record stock in and stock out in a timely manner.</p> | <p>(1) Recommendations adopted and remedied.</p> |
| <p>(2) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that the approval date of material collection was earlier than the date of stock out application form.</p> <p>Besides, it was noted from the samples that certain production reports of a subsidiary were prepared and approved by the same personnel and the management had not set up appropriate user authority.</p> | <p>(2) The management should consider requiring the warehouse staff to arrange material collection according to the approved stock out application form and re-setting appropriate user authority in its internal system and assigning different personnel to perform preparation and approval functions.</p> | <p>(2) Recommendations adopted and remedied.</p> |

(e) Bank and cash management procedure

| Key findings | Rectification recommendations | Company's response and remedial status |
|--|--|---|
| <p>There was inconsistency on the reimbursement time</p> | <p>The management should consider to unify the</p> | <p>Recommendations adopted and remedied.</p> |

limits in two written reimbursement time limits policies. in all written policies.

(f) Fixed assets management procedure

| Key findings | Rectification recommendations | Company's response and remedial status |
|--|---|---|
| (1) No management approval record was kept in relation to the price comparison on the purchase of fixed assets. | (1) The management should consider requiring the logistics department to keep records of the management's approval in relation to the price comparison on the purchase of fixed assets. | (1) Recommendations adopted and remedied. |
| (2) According to the internal policy, payment application is required to be approved by different level of management based on the amount involved. Based on the samples obtained by the Independent Internal Control Consultant, it was noted that certain payments were approved by the senior management not according to the written policies. | (2) The management should consider requiring relevant personnel to obtain approval from relevant management by level according to the amount involved. | (2) Recommendations adopted and remedied. |

(g) Human resource and payroll procedure

| Key findings | Rectification recommendations | Company's response and remedial status |
|----------------------------|--------------------------------------|---|
| (1) Certain standard forms | (1) The management | (1) Recommendations |

and reports mentioned in the written policies were not yet prepared. Certain procedure in relation to recruitment and attendance and storage of human resources files were not implemented in accordance with written policies.

should consider re-examining the description of the human resource written policies to ensure that the description of the human resource written policies is consistent with actual operations. The approved written policies should be provided to the responsible departments for strict compliance.

adopted and remedied.

(2) Based on the samples obtained by the Independent Internal Control Consultant, it was noted that a branch company recruited staff not according to its annual recruitment plan. Its relevant written policies did not require re-approval for recruitment out of annual recruitment plan.

(2) The management should consider establishing a process for recruitment out of the annual recruitment plan to ensure that the recruitments are approved.

(2) Recommendations adopted and remedied.

Besides, it was noted from the samples that the resigned staff was not required to sign on the handover checklist in accordance to the approved policies and procedures.

The management should also consider strictly requiring the human resources department to follow the approved policies and procedures during the staff resignation processes.

(h) Information system control management procedure

| Key findings | Rectification recommendations | Company's response and remedial status |
|---|---|---|
| (1) The information technology department did not request other departments to back up documents and staff's computers. | (1) The information technology department should require all departments to back up all documents and maintain separate storage for all backups. | (1) Recommendations adopted and remedied. |
| (2) There was no audit trail for changes to information system. | (2) All changes to the information system should keep proper record. | (2) Recommendations adopted and remedied. |
| (3) There was no separation of authority in the ERP system for the sales department personnel, procurement department personnel, logistics department personnel and manufacturing department personnel of a few subsidiaries. | (3) There should be separate authority within the ERP system according to employee duties. | (3) Recommendations adopted and remedied. |
| (4) The system administrator of the accounting system did not regularly check the authority of system users and keep traces of the checking work. It was noted that the user account of a resigned staff had not been frozen or deactivated. | (4) The information technology department should regularly inspect the accounts in the accounting system and keep records of the inspection work to avoid the risk that the accounts of resigned personnel are not frozen or deactivated in time. | (4) Recommendations adopted and remedied. |

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| <p>(5) The information technology department did not conduct vulnerability scanning, assessment and repair of the system, and did not generate a security operation report.</p> | <p>(5) The information technology department should regularly check the server security and produce security operation report.</p> | <p>(5) The information technology department has purchased an inspection system for system defect detection which was not yet arrived as at the date of the Internal Control Review Report and this announcement. The technology department will conduct vulnerability scanning, assessment and repair the system in writing regularly.</p> |
|---|--|---|

(iii) Internal control review on compliance procedure in relation to certain Listing Rules and other rules and regulations

| Key findings | Rectification recommendations | Company's response and remedial status |
|--|---|--|
| <p>(1) Though the Company has established written policies to monitor its compliance with the Listing Rules and in practice comply with the Listing Rules with its established standard procedures, there was no written policies for standard procedures in relation to connected persons management and notifiable transaction</p> | <p>(1) The management should include the established standard procedures into its written policies.</p> | <p>(1) Recommendations adopted and remedied.</p> |

management.

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| <p>(2) The list of connected persons of the Company was only circulated to the directors, shareholders and senior management at the end of each year.</p> | <p>(2) The management should also consider to circulate the list of connected persons to all directors, shareholders and senior management on a regular basis (at least semiannually).</p> | <p>(2) Recommendations adopted and remedied.</p> |
| <p>(3) The Company regularly reviewed its corporate culture, mechanism for directors to obtain independent opinions, anti-money laundering policy, nomination policy, and accounting functions, but did not keep review records.</p> | <p>(3) The management should consider retaining all corporate governance-related documents.</p> | <p>(3) Recommendations adopted and remedied.</p> |

Matters in relation to the Audit Issues and the Manganese Ore Trading Business

The Company was informed by the Independent Internal Control Consultant that, in conducting the Internal Control Review, the Independent Internal Control Consultant would only set out the findings on internal control deficiencies identified in the Internal Control Review Report.

The Independent Internal Control Consultant has reviewed the internal control procedures of the Group in relation to the Audit Issues and the Manganese Ore Trading Business and noted the following deficiencies, details of which have been disclosed above:

1. written policies;
2. conflict of interest declaration mechanism;
3. succession planning for directors and senior management;
4. access right of the accounting system;
5. preparation of sales orders, delivery orders and settlement orders; and
6. segregation of duties on the preparation and approval of purchases orders.

The Independent Internal Control Consultant has reviewed the remediate actions taken by the Group. No further material internal control deficiency has been identified. Other

than the abovementioned findings, the Independent Internal Control Consultant has not identified any material internal control deficiency in relation to the Audit Issues and the Manganese Ore Trading Business.

As a result, no finding on the internal control procedures of the Group in relation to the Audit Issues and the Manganese Ore Trading Business is set out in the Internal Control Review Report.

Based on the information provided by the Independent Internal Control Consultant, the review result of the Independent Internal Control Consultant on the procedures in relation to the Audit Issues and the Manganese Ore Trading Business are summarized below.

Regarding the procedures in relation to determining the pricing with the supplier and the customer, the Independent Internal Control Consultant notes that the Group has complied with the established procedures. After receiving the proposed pricing from the supplier, the Group would negotiate with the customer on the pricing. The Group would formulate a range of reasonable pricing which is determined with reference to (i) the historical price of the Ghana manganese ore; and (ii) the data obtained daily from major website in relation to the market price of the related finished product (such as electrolytic manganese and manganese alloy) and other imported manganese ore. Further, the Group would also analyse and forecast the market trend in the internal meeting held quarterly. The Group would also approach and secure the potential customer(s) who is(are) interested to take up the Ghana Manganese Ore, and the terms thereof (including the quantity and the pricing) before confirming with the supplier on the pricing. After review, the Independent Internal Control Consultant does not identify any deficiency in relation to the procedures in determining the pricing with the supplier and the customer.

Regarding the procedures in relation to the approval of sales agreement and making of prepayment, the Independent Internal Control Consultant notes that the Group has complied with the established procedures. The entering into the sale agreement would be initiated by the sales department, reviewed by the legal department, the head of sales department and the vice president in charge, and approved by the general manager. The making of prepayment would also be initiated by the sales department, reviewed by the head of sales department, the head of finance department and the vice president in charge, and approved by the general manager. After review, the Independent Internal Control Consultant does not identify any deficiency in relation to the procedures in approval of sales agreement and making of prepayment.

Regarding the unusualness noted from the confirmations returned by the Supplier and the Customer, the Independent Internal Control Consultant notes that the Group complies with the established procedures in introducing new suppliers and customers and assessing the existing suppliers and customers. Before the introduction of the Supplier and the Customer, the Group has conducted due diligence exercise, including but not limited to the background and capacity and ascertained whether it is a third party independent of and not connected with the Company, its connected persons and its suppliers and customers. The same procedures have been implemented when the Group assesses the background and performance of the existing suppliers and customers. After review, the Independent Internal Control Consultant does not identify any deficiency in relation to the procedures in introducing new suppliers and customers and assessing the existing suppliers and customers.

Regarding the substance of the trade with the Supplier and the Customer, the Independent Internal Control Consultant has reviewed the underlying agreements between the Group and the Supplier, and between the Group and the Customer, the delivery orders from the Supplier to the freight forwarding agent, and from the Group to the freight forwarding agent and considers that the same are all confirmed by the Group, the Supplier and the Customer and supported by the underlying documents. After review, the Independent Internal Control Consultant does not identify any deficiency in relation to the procedures in this regard.

The Independent Internal Control Consultant has not identified any material internal control deficiency in relation to the Audit Issues and the Manganese Ore Trading Business. Having reviewed the results of the Internal Control Review, the Independent Internal Control Consultant has not identified any material internal control weakness after the follow-up review. The Independent Internal Control Consultant is of the view that nothing has come to its attention that would reasonably cause it to cast doubt on the adequacy and effectiveness of the enhanced internal control system of the Group to prevent and detect internal control issues in relation to the Manganese Ore Trading Business, according to the samples and documents received from the Group.

The Group has an established internal policy, namely “Working Capital Plan Management Policy”, which governs the working capital of the Group. The basic principle of the said policy is to keep the cash outflow within the limits of cash inflows. Based on the said policy, the working capital is managed from bottom to top and each of the subsidiaries is required to prepare its monthly budget which lists out the cash inflow and outflow items. The monthly budget of all subsidiaries would then be

submitted to the finance department for approval. In approving the monthly budget, the finance department will take into account many factors, including but not limited to liquidity level, capital expenditure, and daily production and operation. It aims to break even and priority may be given to subsidiary(ies) and/or project(s) which has(ve) significant impact on the performance of the Group or strategic importance to the future operation of the Group. The monthly budget will be submitted to the general manager for final approval. The finance department will then allocate the requested funds to subsidiaries based on the approved working capital budget. In the following months, the finance department will follow up the execution of the working capital plan of each subsidiary of the preceding months.

Regarding the Manganese Ore Trading Business, upon receipt of the Supplier's request for prepayment, in determining whether to include the prepayment to the Supplier in its relevant monthly budget, the relevant Group member would consider a range of factors which includes but not limited to the contract requirement to the Supplier in accordance with the annual framework sales agreement and its working capital level. The prepayments made were based on the approved budget.

The Independent Internal Control Consultant has reviewed the above internal control policy and has not identified any material internal control weakness.

VIEWS OF THE BOARD

The Board has reviewed the Internal Control Review Report prepared by the Independent Internal Control Consultant and considers that (i) the Internal Control Review Report has adequately assessed the effectiveness of the internal controls of the Group and ascertained certain internal control deficiencies; (ii) the identified internal control deficiencies have been remediated; and (iii) the remedial actions and improvement measures implemented by the Group are adequate and sufficient to address the identified internal control deficiencies.

Having carefully reviewed the rectification recommendations and the follow-up review conducted by the Independent Internal Control Consultant, the Board is of the view that the Group's internal control systems and financial reporting procedures are sufficient to meet the obligations under the Listing Rules.

The Board considers that the internal audit department of the Group is required to prepare and submit Internal Control and risk management assessment report to the Board annually which covers, among others, the liquidity risk of the Group. Further, the Company has also strengthened its internal approval requirement by requiring a

dual approval process by the relevant governing body of the relevant subsidiary of the Company and the Board in determining the pricing with the supplier and the customer, approval of sales agreement, making of prepayment if the amount involved exceeds RMB500 million or the amount involved plus outstanding balance exceeds 8% of the total assets of the Group.

Based on the foregoing, the Board is of the view that the Company has adequately fulfilled Resumption Guidance (3).

Resumption Guidance (4) - demonstrate the Company's compliance with Rule 13.24

Sufficient Operations

As disclosed in the 2022 Annual Report, the total revenue of the Group increased from approximately HK\$12,831 million for the year ended 31 December 2021 to approximately HK\$16,032 million for the year ended 31 December 2022, which was mainly attributable to the increase in revenue generated from our other business segment as the Group cautiously expanded its trading business of manganese ore and non-manganese metals to build up the supply chain operations in Guangxi, Shanghai and Hong Kong. As disclosed in the 2023 Interim Report, the total revenue decreased from approximately HK\$9,009 million for the six months ended 30 June 2022 to approximately HK\$7,733 million for the six months ended 30 June 2023, which was mainly due to (a) the decrease in average selling prices of EMM products and alloy products; (b) decrease in sales volume of alloy products and EMD; and (c) decrease in sales revenue from trading business.

The gross profit of the Group decreased from approximately HK\$2,339 million for the year ended 31 December 2021 to approximately HK\$1,372 million for the year ended 31 December 2022, which was mainly attributable to the decrease in gross profit from EMM products primarily resulting from the increase in unit cost of sales due to the slowing down of productions caused by production plants upgrade and the production halts due to the lockdowns in the PRC to contain to spread of COVID-19. The gross profit of the Group decreased from approximately HK\$1,134 million for the six months ended 30 June 2022 to approximately HK\$655 million for the six months ended 30 June 2023, which was in line with the decrease in total revenue during the period.

Despite the decrease in gross profit as mentioned above, the Group maintained a relatively stable net profits of approximately HK\$356 million and HK\$342 million for the years ended 31 December 2021 and 2022, respectively, and recorded net profit of approximately HK\$134 million for the six months ended 30 June 2023.

Looking forward, the Group will continue to focus on five business segments, i.e. ore

and traditional manganese-related products, new energy materials, alloying materials, supply chain logistics and integrated solid waste recycling. The Group will also continue to improve internal efficiency and management skills to reduce costs and increase productivity and competitiveness, so as to carry on the good momentum in the following years.

Sufficient Assets

As disclosed in the 2023 Interim Report, as at 30 June 2023, the Group's assets primarily consist of, among others, property, plant and equipment in the amount of approximately HK\$3,903 million, inventories in the amount of approximately HK\$1,842 million, prepayments, other receivables and other assets in the amount of approximately HK\$1,675 million, trade and notes receivables in the amount of approximately HK\$1,163 million, cash and cash equivalents in the amount of approximately HK\$950 million and pledged deposits in the amount of approximately HK\$756 million.

As disclosed in the 2022 Annual Report and the 2023 Interim Report, the Group has maintained stable total assets value of approximately HK\$10,984 million as at 31 December 2021, HK\$11,451 million as at 31 December 2022 and HK\$11,366 million as at 30 June 2023. The Group's net assets remained relatively stable at approximately HK\$2,736 million, HK\$2,832 million and HK\$2,834 million as at 31 December 2021 and 2022 and 30 June 2023 respectively.

Based on the above, the business of the Group remains the same as before with a clear, viable and sustainable business model and operation. The Group has maintained its level of operations in the past with sizable assets, both are in compliance with the requirement of Rule 13.24 under the Listing Rule.

Based on the foregoing, the Board is of the view that the Company has adequately fulfilled Resumption Guidance (4).

Resumption Guidance (5) - inform the market of all material information for the Company's shareholders and other investors to appraise the Company's position

Up to the date of this announcement, the Company has disclosed material information and the latest developments of the Company to its Shareholders, the market and the public.

Based on the foregoing, the Board is of the view that the Company has adequately fulfilled Resumption Guidance (5).

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 30 March 2023. As the Resumption Guidance has been satisfied in full, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9: 00 a.m. on 5 February 2024.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 2 February 2024

As at the date of this announcement, the executive Directors are Mr. Li Weijian, Mr. Zhang He, Mr. Xu Xiang and Mr. Li Junji; the non-executive Directors are Ms. Cui Ling and Mr. Pan Shenghai; and the independent non-executive Directors are Mr. Zhang Yupeng, Mr. Yuan Mingliang and Mr. Lo Sze Hung.

for identification purposes only