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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 2023

FINANCIAL HIGHLIGHTS

- Revenue amounted to HK\$17,134.0 million in 2023, representing an increase of 6.9% from HK\$16,031.9 million in 2022.
- Gross profit amounted to HK\$934.1 million in 2023, representing a decrease of 31.9% from HK\$1,372.3 million in 2022. Gross profit margin was 5.5% in 2023, representing a decrease of 3.1 percentage points from 8.6% in 2022.
- Profit attributable to owners of the Company was HK\$64.1 million in 2023 (2022: HK\$336.1 million).
- As at 31 December 2023, net gearing ratio increased to 121.9% (2022: 90.1%).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
REVENUE	3	17,133,960	16,031,885
Cost of sales		<u>(16,199,813)</u>	<u>(14,659,553)</u>
Gross profit		934,147	1,372,332
Other income and gains	3	232,671	183,216
Selling and distribution expenses		(135,504)	(179,406)
Administrative expenses		(644,767)	(623,896)
Impairment losses on property, plant and equipment and intangible assets		–	(119,737)
Impairment losses on financial assets, net		(8,931)	(164)
Finance costs	4	(243,156)	(221,307)
Other expenses, net		(19,723)	(16,770)
Share of profits and losses of associates		<u>(4,807)</u>	<u>611</u>
PROFIT BEFORE TAX	5	109,930	394,879
Income tax expense	6	(37,544)	(52,565)
PROFIT FOR THE YEAR		<u>72,386</u>	<u>342,314</u>
OTHER COMPREHENSIVE INCOME:			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
– Changes in fair value of financial assets at fair value through other comprehensive income, net of tax		1,154	739
– Exchange differences on translation of foreign operations		<u>(77,464)</u>	<u>(277,138)</u>
		<u>(76,310)</u>	<u>(276,399)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>(3,924)</u>	<u>65,915</u>

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Profit for the year attributable to:			
Owners of the Company		64,144	336,091
Non-controlling interests		8,242	6,223
		<u>72,386</u>	<u>342,314</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		(23,145)	42,333
Non-controlling interests		19,221	23,582
		<u>(3,924)</u>	<u>65,915</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
	7		
Basic		<u>HK\$0.0187</u>	<u>HK\$0.0980</u>
Diluted		<u>HK\$0.0187</u>	<u>HK\$0.0980</u>

The Board does not recommend the payment of any dividend for the year ended 31 December 2023 (2022: Nil).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	<i>Note</i>	2023 HK\$'000	2022 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		4,007,729	4,019,433
Investment properties		99,208	104,006
Right-of-use assets		490,541	523,350
Intangible assets		214,033	221,374
Investments in associates		109,713	86,203
Deferred tax assets		11,908	20,980
Prepayments and other assets		92,457	147,813
		<hr/>	<hr/>
Total non-current assets		5,025,589	5,123,159
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		1,681,920	1,849,089
Trade and notes receivables	9	1,532,329	1,484,012
Prepayments, other receivables and other assets		1,832,353	1,380,919
Due from related companies		2,130	–
Tax recoverable		451	7,117
Restricted deposits		26,494	–
Pledged deposits		289,175	430,839
Cash and cash equivalents		975,579	1,175,489
		<hr/>	<hr/>
Total current assets		6,340,431	6,327,465
		<hr/>	<hr/>

	<i>Note</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
CURRENT LIABILITIES			
Trade and notes payables	<i>10</i>	1,448,874	2,148,852
Other payables and accruals		1,537,702	1,521,404
Interest-bearing bank and other borrowings		4,162,856	3,266,892
Due to related companies		1,062	7,505
Tax payables		81,200	129,077
		<u>7,231,694</u>	<u>7,073,730</u>
Total current liabilities		<u>7,231,694</u>	<u>7,073,730</u>
NET CURRENT LIABILITIES		<u>(891,263)</u>	<u>(746,265)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,134,326</u>	<u>4,376,894</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		957,761	1,193,508
Deferred tax liabilities		198,842	180,385
Other long-term liabilities		104,325	106,120
Deferred income		45,036	64,595
		<u>1,305,964</u>	<u>1,544,608</u>
Total non-current liabilities		<u>1,305,964</u>	<u>1,544,608</u>
NET ASSETS		<u>2,828,362</u>	<u>2,832,286</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital		342,846	342,846
Reserves		2,799,304	2,825,232
		<u>3,142,150</u>	<u>3,168,078</u>
Non-controlling interests		<u>(313,788)</u>	<u>(335,792)</u>
TOTAL EQUITY		<u>2,828,362</u>	<u>2,832,286</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2023

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 and financial assets at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2023, the Group had net current liabilities of HK\$891,263,000, out of which HK\$4,162,856,000 represented bank and other borrowings repayable within one year.

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group’s net current liabilities position as at 31 December 2023. Subsequent to the year end, the Group has successfully renewed and obtained new bank loans of HK\$982,115,000 during the period from 1 January 2024 up to 18 March 2024. The directors of the Company have estimated the Group’s cash requirements by preparing a Group cashflow forecast for the next twelve months ending 31 December 2024.

The directors of the Company, after taking into account of internally generated funds from its operations and the successful renewals of the bank loans during the year and after the reporting date, are of the opinion that the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2023. 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 Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

1.2 Changes in accounting policies and disclosures

The Group has applied the following amendments for the first time, which are mandatorily effective for their annual reporting period commencing 1 January 2023 for the preparation of the consolidated financial statements:

Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impact on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies”

The Group has adopted Amendments to HKAS 1 and HKFRS Practice Statement 2 “Disclosure of Accounting Policies” for the first time in the current year. HKAS 1 “Presentation of Financial Statements” is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can 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 also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 “Making Materiality Judgements” (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial position and performance.

Impact on application of Amendments to HKAS 12 “International Tax Reform – Pillar Two Model Rules”

The Group has adopted Amendments to HKAS 12 “International Tax Reform – Pillar Two Model Rules” for the first time in the current year. HKAS 12 is amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the “**Pillar Two legislation**”). The amendments require that entities apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense/income related to Pillar Two income taxes in periods which the Pillar Two legislation is in effect, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current year because the Group’s entities are operating in jurisdictions where the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimated information that helps users of financial statements to understand the Group’s exposure to Pillar Two income taxes in the Group’s consolidated financial statements when the Pillar Two legislation is enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund (“MPF”) – Long Service Payment (“LSP”) offsetting mechanism in Hong Kong

The Group has several subsidiaries operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee’s accrued retirement benefits derived from employers’ MPF contributions was allowed under the Employment Ordinance (Cap. 57). In June 2022, the Government of the HKSAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “**Amendment Ordinance**”) which abolishes the use of the accrued benefits derived from employers’ mandatory MPF contributions to offset severance payment and LSP (the “**Abolition**”). The Abolition will officially take effect on 1 May 2025 (the “**Transition Date**”). In addition, under the Amendment Ordinance, the last month’s salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition.

Based on the management’s assessment, there was immaterial impact on the consolidated statement of financial position as at 1 January 2022, 31 December 2022 and 31 December 2023.

2. OPERATING SEGMENT INFORMATION

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

(a) Manganese mining segment (PRC and Gabon)

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

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

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

(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 the mining and production of non-manganese metals and trading business.

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

Segment assets exclude deferred tax assets, tax recoverable, restricted deposits, 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 bank loans, lease liabilities under sales and leaseback arrangements, deferred tax liabilities, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

	Manganese mining		EMM and alloying materials production	Battery materials production	Other business	Total
	PRC	Gabon	PRC	PRC	PRC and HK	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2023						
Segment revenue (note 3)						
Sales to external customers	131,203	1,182,462	2,754,029	1,718,223	11,348,043	17,133,960
Intersegment sales	–	335,259	–	–	–	335,259
Other revenue	28,828	38,317	60,766	43,089	37,968	208,968
	<u>160,031</u>	<u>1,556,038</u>	<u>2,814,795</u>	<u>1,761,312</u>	<u>11,386,011</u>	<u>17,678,187</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						(335,259)
Revenue from operations						<u>17,342,928</u>
Segment results	13,888	146,106	45,758	334,249	(78,736)	461,265
<i>Reconciliation:</i>						
Interest income						23,703
Corporate and other unallocated expenses						(150,319)
Finance costs (other than interest on lease liabilities)						(224,719)
Profit before tax						109,930
Income tax expense						(37,544)
Profit for the year						<u><u>72,386</u></u>
Assets and liabilities						
Segment assets	650,428	591,352	3,347,640	2,318,819	2,775,665	9,683,904
<i>Reconciliation:</i>						
Corporate and other unallocated assets						1,682,116
Total assets						<u><u>11,366,020</u></u>
Segment liabilities	433,424	418,113	853,945	336,920	866,614	2,909,016
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities						5,628,642
Total liabilities						<u><u>8,537,658</u></u>
Other segment information:						
Depreciation and amortisation	9,315	26,514	275,619	125,835	1,432	438,715
Unallocated depreciation and amortisation						12,055
Total depreciation and amortisation						<u>450,770</u>
Capital expenditure [#]	12,751	31,978	285,633	195,315	6,360	532,037
Unallocated capital expenditure						27,024
Total capital expenditure						<u>559,061</u>
Impairment losses recognised in profit or loss	<u>506</u>	<u>–</u>	<u>1,068</u>	<u>5,839</u>	<u>1,518</u>	<u>8,931</u>
Gains/(losses) on disposal of items of property, plant and equipment	<u>(355)</u>	<u>–</u>	<u>6,781</u>	<u>(4,362)</u>	<u>(60)</u>	<u>2,004</u>
Investments in associates	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>109,713</u>	<u>109,713</u>
Share of losses of associates	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(4,807)</u>	<u>(4,807)</u>

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

	Manganese mining		EMM and alloying materials	Battery materials	Other business	Total
	PRC	Gabon	production	production	PRC and HK	
	HK\$ '000	HK\$ '000	PRC	PRC	HK\$ '000	HK\$ '000
Year ended 31 December 2022						
Segment revenue (note 3)						
Sales to external customers	114,167	1,143,053	3,377,047	1,986,662	9,410,956	16,031,885
Intersegment sales	–	216,348	–	–	–	216,348
Other revenue	17,043	30,331	55,667	15,696	51,697	170,434
	<u>131,210</u>	<u>1,389,732</u>	<u>3,432,714</u>	<u>2,002,358</u>	<u>9,462,653</u>	<u>16,418,667</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						<u>(216,348)</u>
Revenue from operations						<u>16,202,319</u>
Segment results	(108,211)	181,648	180,175	575,362	(77,934)	751,040
<i>Reconciliation:</i>						
Interest income						12,782
Corporate and other unallocated expenses						(161,421)
Finance costs (other than interest on lease liabilities)						<u>(207,522)</u>
Profit before tax						394,879
Income tax expense						<u>(52,565)</u>
Profit for the year						<u><u>342,314</u></u>
Assets and liabilities						
Segment assets	626,369	624,211	3,388,932	2,648,178	2,169,617	9,457,307
<i>Reconciliation:</i>						
Corporate and other unallocated assets						<u>1,993,317</u>
Total assets						<u><u>11,450,624</u></u>
Segment liabilities	413,525	339,046	1,190,527	1,043,813	949,737	3,936,648
<i>Reconciliation:</i>						
Corporate and other unallocated liabilities						<u>4,681,690</u>
Total liabilities						<u><u>8,618,338</u></u>
Other segment information:						
Depreciation and amortisation	9,053	24,049	301,268	101,845	1,223	437,438
Unallocated depreciation and amortisation						<u>7,180</u>
Total depreciation and amortisation						<u><u>444,618</u></u>
Capital expenditure [#]	3,135	58,382	568,266	391,098	2,434	1,023,315
Unallocated capital expenditure						<u>217,683</u>
Total capital expenditure						<u><u>1,240,998</u></u>
Impairment losses recognised/(reversed) in profit or loss	<u>119,015</u>	<u>1,666</u>	<u>(2,578)</u>	<u>(9,526)</u>	<u>24,055</u>	<u>132,632</u>
Gains/(losses) on disposal of items of property, plant and equipment	<u>(15)</u>	<u>(2,088)</u>	<u>10,518</u>	<u>(280)</u>	<u>(69)</u>	<u>8,066</u>
Investments in associates	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>86,203</u>	<u>86,203</u>
Share of profits of associates	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>611</u>	<u>611</u>

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

Geographical information

(a) Revenue from external customers

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Mainland China	16,581,604	14,989,718
Asia (excluding Mainland China)	462,770	740,922
Europe	23,100	28,635
North America	66,486	272,610
	<u>17,133,960</u>	<u>16,031,885</u>

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

(b) Non-current assets

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Mainland China	4,904,365	4,995,865
Africa	109,316	106,314
	<u>5,013,681</u>	<u>5,102,179</u>

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

Information about a major customer

The turnover from the Group's largest customer accounted for less than 10% of the Group's total turnover.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue from contracts with customers	<u><u>17,133,960</u></u>	<u><u>16,031,885</u></u>

Revenue from contracts with customers

(a) *Disaggregated revenue information*

For the year ended 31 December 2023

Segments

	Manganese mining <i>HK\$'000</i>	EMM and alloying materials production <i>HK\$'000</i>	Battery materials production <i>HK\$'000</i>	Other business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sale of goods	<u>1,313,665</u>	<u>2,754,029</u>	<u>1,718,223</u>	<u>11,348,043</u>	<u>17,133,960</u>
Geographical markets					
Mainland China	943,967	2,598,918	1,707,177	11,331,542	16,581,604
Asia (excluding Mainland China)	369,698	68,194	11,046	13,832	462,770
Europe	–	20,431	–	2,669	23,100
North America	–	66,486	–	–	66,486
Total revenue from contracts with customers	<u><u>1,313,665</u></u>	<u><u>2,754,029</u></u>	<u><u>1,718,223</u></u>	<u><u>11,348,043</u></u>	<u><u>17,133,960</u></u>
Timing of revenue recognition					
Goods transferred at a point in time with customers	<u><u>1,313,665</u></u>	<u><u>2,754,029</u></u>	<u><u>1,718,223</u></u>	<u><u>11,348,043</u></u>	<u><u>17,133,960</u></u>

For the year ended 31 December 2022

Segments

	Manganese mining <i>HK\$'000</i>	EMM and alloying materials production <i>HK\$'000</i>	Battery materials production <i>HK\$'000</i>	Other business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Sale of goods	<u>1,257,220</u>	<u>3,377,047</u>	<u>1,986,662</u>	<u>9,410,956</u>	<u>16,031,885</u>
Geographical markets					
Mainland China	743,074	2,926,486	1,967,646	9,352,512	14,989,718
Asia (excluding Mainland China)	514,146	162,906	13,627	50,243	740,922
Europe	–	21,137	668	6,830	28,635
North America	–	266,518	4,721	1,371	272,610
Total revenue from contracts with customers	<u><u>1,257,220</u></u>	<u><u>3,377,047</u></u>	<u><u>1,986,662</u></u>	<u><u>9,410,956</u></u>	<u><u>16,031,885</u></u>
Timing of revenue recognition					
Goods transferred at a point in time with customers	<u><u>1,257,220</u></u>	<u><u>3,377,047</u></u>	<u><u>1,986,662</u></u>	<u><u>9,410,956</u></u>	<u><u>16,031,885</u></u>

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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u>206,790</u>	<u>681,603</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 goods 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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Amounts expected to be recognised as revenue:		
Within one year	<u>390,459</u>	<u>206,790</u>

An analysis of other income and gains is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Bank and other interest income	23,703	12,782
Gains on disposal of items of property, plant and equipment	2,004	8,066
Subsidy income*	84,467	41,104
Sale of scraps	20,193	30,149
Gross rental income for operating leases in relation to:		
Investment properties	17,278	18,589
Others	445	414
	<u>17,723</u>	<u>19,003</u>
Foreign exchange gains, net	–	20,960
Others	84,581	51,152
	<u><u>232,671</u></u>	<u><u>183,216</u></u>

* The amount mainly represents 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.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on loans and other payables	183,049	183,359
Finance costs for discounted notes receivable	39,426	22,160
Interest on lease liabilities	18,437	13,785
Interest on discounted provision for rehabilitation	2,226	1,821
Other finance costs	18	182
	<u><u>243,156</u></u>	<u><u>221,307</u></u>

5. PROFIT BEFORE TAX

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Cost of inventories sold ^{#**}	16,099,731	14,434,290
Depreciation of property, plant and equipment	410,541	405,370
Depreciation of right-of-use assets	36,037	36,620
Amortisation of intangible assets	4,192	2,628
Research and development costs	116,799	84,025
Lease payments not included in the measurement of lease liabilities	8,875	9,125
Auditor's remuneration:		
Current	5,831	11,270
Under-provision	2,384	193
	<u>8,215</u>	<u>11,463</u>
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	577,551	580,975
Pension scheme contributions	92,048	81,795
Other employee welfare	77,322	86,702
	<u>746,921</u>	<u>749,472</u>
Gains on disposal of items of property, plant and equipment*	(2,004)	(8,066)
Foreign exchange differences, net*	10,123	(20,960)
Share of losses/(profits) of associates	4,807	(611)
Provision for inventories, net [#]	3,939	1,117
Impairment losses on financial assets, net:		
Impairment/(reversal of impairment) of trade receivables, net	8,134	(217)
Impairment of financial assets included in prepayments, other receivables and other assets	797	381
	<u>8,931</u>	<u>164</u>
Impairment loss on intangible assets	–	119,737
Impairment loss on non-financial assets included in prepayments, other receivables and other assets*	–	12,731
Fair value losses on investment properties*	2,328	1,498

- # Included in “Cost of sales” in the consolidated statement of profit or loss and other comprehensive income.
- * HK\$2,004,000 (2022: HK\$29,026,000) included in “Other income and gains” and HK\$12,451,000 (2022: HK\$14,229,000) included in “Other expenses” in the consolidated statement of profit or loss and other comprehensive income.
- ** Cost of inventories sold included HK\$804,912,000 (2022: HK\$768,359,000) relating to depreciation, amortisation, lease charges and employee benefit, which are included in the amount disclosed separately above for each of these types of expenses.

6. INCOME TAX EXPENSE

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Current – Charge for the year		
– PRC	21,406	38,156
– Hong Kong	10,102	5,405
– Gabon	20,981	23,931
Over-provision in prior years*	(45,660)	(56,015)
Deferred	30,715	41,088
	<u>37,544</u>	<u>52,565</u>
Total tax expense for the year	<u>37,544</u>	<u>52,565</u>

- * For the year ended 31 December 2023, a reversal of income tax expense amounting to HK\$45,660,000 (2022: HK\$56,015,000), mainly related to the statute of limitation, has been recognised in the profit and loss for the year.

Hong Kong profits tax

Provision for Hong Kong profits tax for 2023 and 2022 is calculated at 16.5% of the estimated assessable profit for the year.

PRC corporate income tax (“CIT”)

Pursuant to the PRC income Tax Law and the respective regulations, South Manganese Group, Qinzhou New Materials and Huiyuan Manganese are recognised as High and New Technology Enterprises and are entitled to a preferential CIT rate of 15% up to 2025, 2025 and 2026 respectively.

Guangxi Start is entitled to a preferential CIT rate of 15% for Developing Western China for which the policy will expire in 2030 and the related benefit will be subject to review by tax authorities every year thereafter.

Huiyuan New Energy is entitled to an exemption of 40% CIT for Developing Guangxi North Bay for which the policy will expire in 2025.

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 CIT

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.

Tax charges on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company and the weighted average number of ordinary shares of 3,428,459,000 (2022: 3,428,459,000) in issue during the year.

No diluted earnings per share has been presented as the Group had no potentially dilutive ordinary shares outstanding during the years ended 31 December 2023 and 2022.

The calculations of basic earnings per share are based on:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Earnings		
Earnings attributable to owners of the Company, used in the basic earnings per share calculation	<u>64,144</u>	<u>336,091</u>

Number of shares

Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>3,428,459,000</u>	<u>3,428,459,000</u>

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2023 (2022: Nil).

9. TRADE AND NOTES RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables	736,663	1,065,902
Less: Impairment	<u>(267,877)</u>	<u>(268,116)</u>
	468,786	797,786
Notes receivable	<u>1,063,543</u>	<u>686,226</u>
	<u>1,532,329</u>	<u>1,484,012</u>

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:

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	232,695	560,460
One to two months	113,945	153,434
Two to three months	60,973	32,745
Over three months	61,173	51,147
	<u>468,786</u>	<u>797,786</u>

10. TRADE AND NOTES PAYABLES

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

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one month	571,437	1,003,397
One to two months	139,896	378,559
Two to three months	96,379	39,302
Over three months	641,162	727,594
	<u>1,448,874</u>	<u>2,148,852</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

	2023	2022	Increase/(decrease)	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Revenue	<u>17,133,960</u>	<u>16,031,885</u>	<u>1,102,075</u>	<u>6.9</u>
Gross profit	934,147	1,372,332	(438,185)	(31.9)
Gross profit margin	<u>5.5%</u>	<u>8.6%</u>	<u>N/A</u>	<u>(3.1)</u>
Operating profit	123,668	514,169	(390,501)	(75.9)
Impairment losses on property, plant and equipment and intangible assets	–	(119,737)	(119,737)	(100.0)
Impairment losses on financial assets, net	(8,931)	(164)	8,767	5,345.7
Share of profits and losses of associates	<u>(4,807)</u>	<u>611</u>	<u>(5,418)</u>	<u>(886.7)</u>
Profit before tax	109,930	394,879	(284,949)	(72.2)
Income tax expense	<u>(37,544)</u>	<u>(52,565)</u>	<u>(15,021)</u>	<u>(28.6)</u>
Profit for the year	<u>72,386</u>	<u>342,314</u>	<u>(269,928)</u>	<u>(78.9)</u>
Profit for the year attributable to owners of the Company	64,144	336,091	(271,947)	(80.9)
Profit for the year attributable to non-controlling interests	<u>8,242</u>	<u>6,223</u>	<u>2,019</u>	<u>32.4</u>
	<u>72,386</u>	<u>342,314</u>	<u>(269,928)</u>	<u>(78.9)</u>

Overview

In 2023, the global economy remained relatively stagnant. Western countries and enterprises were adapting to new norms from post-pandemic era with high borrowing costs, rising costs of productions and expecting more cautious consumptions from people. To contain inflation, the prolonged and higher-than-expected interest rate increase in Western countries delayed the economic recovery. The regional outbreak of Israel-Hamas war and the Red Sea crisis by the end of the year 2023 added further uncertainties in political and economic aspects globally. All these factors increased the burdens of corporations and the pace of economic recovery becomes more uncertain.

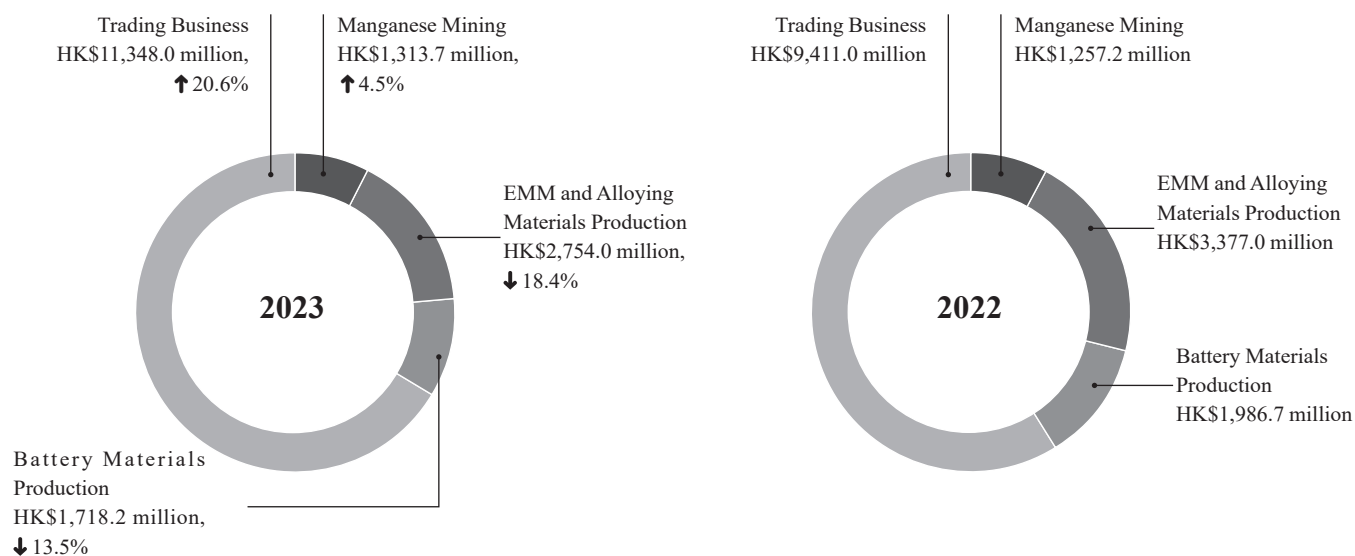
Steel sector is our major downstream industry, its demand for our EMM Products largely arising from consumptions within China. In 2023, owing to the credit crisis of certain property developers in China, the property development sector remained stagnant and the demand for steels was at low level amid the PRC government has added stimulus to the economy by easing the interest rate, removing purchase restrictions on properties in certain areas and encouraging consumptions. Therefore, the average selling price of our EMM Products for 2023 decreased by 33.3% to HK\$13,556 per tonne (2022: HK\$20,322 per tonne). The gross profit ratio of EMM Products decreased by 3.6 percentage points to 12.4% in 2023 (2022: 16.0%) and the gross profit contribution of EMM Products decreased by 32.8% to HK\$259.4 million in 2023 (2022: HK\$385.8 million).

In 2023, our production of major battery materials, EMD had achieved an encouraging result. After years of development, the supply chain for battery materials especially for electric vehicles in China became well established, complete and irreplaceable. The Group began investing in battery materials since more than a decade ago, now being the largest EMD manufacturer in China, was benefitting from the boost of demands for electric vehicles in recent years. Also, as supported by our self-owned ore resources, the Group continued to enjoy the costs advantage from our internal supply of manganese ores from our Gabon Bembélé Manganese Mine. In the long term, the Group remains optimistic about this business segment and will continue to focus on seizing market share, securing raw materials supplies, strengthening product research and development, further upgrading our EMD production plants and expanding our production to other battery material products. In 2023, the average selling price of EMD decreased by 5.5% to HK\$15,725 per tonne (2022: HK\$16,644 per tonne), the gross profit ratio decreased by 2.6 percentage points to 44.4% (2022: 47.0%) and the gross profit contribution of EMD recorded a decrease of 11.0% to HK\$549.7 million (2022: HK\$617.4 million). On the other hand, our production of lithium manganese oxide recorded a gross loss of HK\$80.7 million in 2023 (2022: gross profit of HK\$82.3 million) because of decrease of the selling price in 2023 which in line with sharp decrease in price of its major raw material lithium carbonate.

In summary, mainly due to decrease in gross profit contribution from EMM Products, EMD and lithium manganese oxide, the Group's operating profit for 2023 decreased by 75.9% to HK\$123.7 million (2022: HK\$514.2 million). All in all, the earnings before interest, taxes, depreciation and amortisation (“**EBITDA**”) for 2023 decreased by 41.0% to HK\$780.2 million (2022: HK\$1,323.0 million) and the profit attributable to owners of the Company in 2023 was HK\$64.1 million (2022: HK\$336.1 million).

Comparison with 2022

Revenue by segment



In 2023, the Group's revenue was HK\$17,134.0 million (2022: HK\$16,031.9 million), representing an increase of 6.9% as compared with 2022. The increase was mainly due to (a) increase in sales volume from Gabon ore; and (b) increase in sales revenue from trading business.

In 2023, the revenue of our EMM Products accounted for 12.3% (2022: 15.0%) of our total revenue.

Manganese mining segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/tonne)	Cost of Sales (HK\$'000)	Gross Profit (HK\$'000)	Gross Profit Margin (%)
Year 2023							
Gabon ore	1,379,676	857	1,182,462	743	1,025,556	156,906	13.3
Manganese concentrate	288,739	379	109,375	316	91,347	18,028	16.5
Natural discharging manganese powder and sand	8,374	2,607	21,828	609	5,103	16,725	76.6
Total	1,676,789	783	1,313,665	669	1,122,006	191,659	14.6
Year 2022							
Gabon ore	1,077,246	1,061	1,143,053	865	932,349	210,704	18.4
Manganese concentrate	240,023	422	101,400	317	76,058	25,342	25.0
Natural discharging manganese powder and sand	3,795	3,364	12,767	642	2,438	10,329	80.9
Total	1,321,064	952	1,257,220	765	1,010,845	246,375	19.6

In 2023, revenue of manganese mining segment increased by 4.5% to HK\$1,313.7 million (2022: HK\$1,257.2 million) mainly attributable to increase in sales volume of Gabon ore as the Group has ramped up the mining operations of Bembélé Manganese Mine. The gross profit of manganese mining segment amounted to HK\$191.7 million in 2023 (2022: HK\$246.4 million).

During the year 2023, manganese mining segment recorded a profit of HK\$160.0 million (2022: HK\$73.4 million). The increase was mainly because impairment losses on mining rights of HK\$119.7 million was recognised in 2022 while nil was recorded in 2023.

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/(Loss) (HK\$'000)	Gross Profit/(Loss) Margin (%)
Year 2023							
EMM	141,577	13,495	1,910,649	11,840	1,676,225	234,424	12.3
Manganese briquette	13,323	14,196	189,129	12,318	164,117	25,012	13.2
	154,900	13,556	2,099,778	11,881	1,840,342	259,436	12.4
Alloy Products	80,782	7,820	631,676	8,136	657,238	(25,562)	(4.0)
Others	65,000	347	22,575	345	22,426	149	0.7
Total	300,682	9,159	2,754,029	8,381	2,520,006	234,023	8.5
Year 2022							
EMM	105,835	19,588	2,073,148	16,968	1,795,843	277,305	13.4
Manganese briquette	12,665	26,453	335,028	17,885	226,511	108,517	32.4
	118,500	20,322	2,408,176	17,066	2,022,354	385,822	16.0
Alloy Products	106,612	8,491	905,260	8,456	901,469	3,791	0.4
Others	9,574	6,644	63,611	5,949	56,956	6,655	10.5
Total	234,686	14,390	3,377,047	12,701	2,980,779	396,268	11.7

Revenue of EMM and alloying materials production segment decreased by 18.4% to HK\$2,754.0 million in 2023 (2022: HK\$3,377.0 million) mainly attributable to the followings:

- (a) EMM Products continued to be our major products in terms of revenue and its average selling price recorded a decrease of 33.3% to HK\$13,556 per tonne (2022: HK\$20,322 per tonne). The sales volume of EMM Products increased by 30.7% to 154,900 tonnes in 2023 (2022: 118,500 tonnes). Both the sales volume and average selling price were restoring to a more reasonable level as the logistics and productions resumed to normal from pandemic in 2022.
- (b) The revenue of Alloy Products decreased by 30.2% to HK\$631.7 million (2022: HK\$905.3 million) mainly attributable to decrease in sales volume by 24.2% to 80,782 tonnes in 2023 (2022: 106,612 tonnes). A gross loss was incurred in 2023 mainly because the Group transformed certain of its production lines of silicomanganese alloy to manufacture ferromanganese in 2023, which increased the unit cost of production in the initial setup period.

As a result of decrease in average selling prices of EMM Products and Alloy Products, the gross profit contribution of EMM and alloying materials production segment decreased by 40.9% to HK\$234.0 million (2022: HK\$396.3 million) and the EMM and alloying materials production segment recorded a profit of HK\$45.8 million (2022: HK\$180.2 million), representing a decrease of 74.6%.

Battery materials production segment

	Sales Volume (tonnes)	Average Selling Price (HK\$/Tonne)	Revenue (HK\$'000)	Unit Cost of Sales (HK\$/Tonne)	Cost of Sales (HK\$'000)	Gross Profit/ (Loss) (HK\$'000)	Gross Profit/ (Loss) Margin (%)
Year 2023							
EMD	78,779	15,725	1,238,795	8,747	689,084	549,711	44.4
Manganese sulfate	30,054	3,119	93,728	2,391	71,847	21,881	23.3
Lithium manganese oxide	5,618	68,654	385,700	83,018	466,396	(80,696)	(20.9)
NCM	-	-	-	-	-	-	-
Total	114,451	15,013	1,718,223	10,724	1,227,327	490,896	28.6
Year 2022							
EMD	78,981	16,644	1,314,574	8,828	697,208	617,366	47.0
Manganese sulfate	17,967	3,999	71,855	4,417	79,365	(7,510)	(10.5)
Lithium manganese oxide	6,020	99,597	599,574	85,933	517,314	82,260	13.7
NCM	3	219,667	659	101,667	305	354	53.7
Total	102,971	19,293	1,986,662	12,569	1,294,192	692,470	34.9

Revenue of battery materials production segment decreased by 13.5% to HK\$1,718.2 million (2022: HK\$1,986.7 million) and gross profit of this segment decreased by 29.1% to HK\$490.9 million (2022: HK\$692.5 million) mainly attributable to the followings:

- (a) EMD continued to be our major battery materials product and the average selling price of EMD decreased by 5.5% to HK\$15,725 per tonne (2022: HK\$16,644 per tonne). The sales volume of EMD remained relatively constant at 78,779 tonnes (2022: 78,981 tonnes).
- (b) In 2023, the average selling price of lithium manganese oxide decreased by 31.1% to HK\$68,654 per tonne (2022: HK\$99,597 per tonne) in line with sharp decrease in price of its major raw material lithium carbonate. This leads to a gross loss of lithium manganese oxide with in 2023.

As a result, the battery materials production segment recorded a profit of HK\$334.2 million (2022: HK\$575.4 million), representing a decrease of 41.9%.

Other business segment

	Revenue <i>(HK\$'000)</i>	Cost of Sales <i>(HK\$'000)</i>	Gross Profit <i>(HK\$'000)</i>	Gross Profit Margin <i>(%)</i>
Year 2023				
Trading	<u>11,348,043</u>	<u>11,330,474</u>	<u>17,569</u>	<u>0.2</u>
Year 2022				
Trading	<u>9,410,956</u>	<u>9,373,737</u>	<u>37,219</u>	<u>0.4</u>

Revenue of other business segment increased to HK\$11,348.0 million (2022: HK\$9,411.0 million), representing an increase of 20.6%.

Cost of Sales

Total cost of sales increased by 10.5% to HK\$16,199.8 million in 2023 (2022: HK\$14,659.6 million) in line with the increase of revenue.

Gross Profit

In 2023, the Group recorded a gross profit of HK\$934.1 million (2022: HK\$1,372.3 million), which represented a decrease of HK\$438.2 million from 2022, or 31.9%. The Group's overall gross profit margin was 5.5%, representing a decrease of 3.1 percentage points from 8.6% in 2022. Decreased overall gross profit margin was mainly attributable to decrease in gross profit margin of EMM Products, EMD and lithium manganese oxide.

Other Income and Gains

Other income and gains increased by 27.0% to HK\$232.7 million in 2023 (2022: HK\$183.2 million) mainly due to (a) increase in subsidy income; and (b) compensation income from our downstream customers of lithium manganese oxide for cancelling their purchase orders in 2023.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 24.5% to HK\$135.5 million in 2023 (2022: HK\$179.4 million) mainly attributable to decrease in storage charges.

Administrative Expenses

Administrative expenses increased by 3.3% to HK\$644.8 million in 2023 (2022: HK\$623.9 million) mainly attributable to increase in research and development expenses on battery materials products and Alloy Products.

Impairment Losses on Property, Plant and Equipment and Intangible Assets

Impairment losses on property, plant and equipment and intangible assets decreased in 2023 because in 2022 there were alternations of investment and expansion plans of Changgou Manganese Mine and Waifu Manganese Mine, impairment losses on mining rights of HK\$119.7 million were recognised while nil was recorded in 2023.

Impairment Losses on Financial Assets, Net

Impairment losses on financial assets amounted to HK\$8.9 million in 2023 (2022: HK\$0.2 million) mainly arising from our long-aged battery materials products customers.

Finance Costs

In 2023, the Group's finance costs increased by 9.9% to HK\$243.2 million (2022: HK\$221.3 million) mainly attributed to (a) increase in interest on notes receivable discounting; and (b) increase in overall borrowings.

Other Expenses, Net

Other expenses, net mainly represents foreign exchange loss and donations.

Share of Profits and Losses of Associates

In 2023, share of losses of associates of HK\$4.8 million (2022: profits of HK\$0.6 million) mainly represents share of losses of 16.00%-owned associate Qingdao Manganese.

Income Tax Expense

In 2023, the effective tax rate was 34.2% (2022: 13.3%), which is higher than the statutory preferential corporate income tax rate of China in which the Group mainly operates because certain subsidiaries recording losses in the year did not recognise deferred tax arising from such losses for prudence.

Profit Attributable to Owners of the Company

For 2023, the Group's profit attributable to owners of the Company was HK\$64.1 million (2022: HK\$336.1 million).

Earnings per Share

For 2023, earnings per share attributable to owners of the Company was HK\$0.0187 (2022: HK\$0.0980).

Final Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2023 (2022: Nil).

Use of Proceeds from IPO

Up to 31 December 2023, we utilised the net proceeds raised from the IPO in accordance with the designated uses set out in the Prospectus as follows:

Description	Amount	Amount	% utilised	Amount	% utilised
	designated in Prospectus (HK\$ Million)	utilised up to 31.12.2023 (HK\$ Million)		utilised up to 31.12.2022 (HK\$ Million)	
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	315	79.3%	308	77.6%
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	<u>1,983</u>	<u>1,901</u>	<u>95.9%</u>	<u>1,894</u>	<u>95.5%</u>

As at 31 December 2023, proceeds from IPO designated for acquisition of mines and mining rights to the extent of HK\$82.0 million was not yet utilised. According to the Prospectus, the proceeds shall be used for the acquisition of mines, mining rights in relation to mines with identified mining resources or related production facilities. During the year 2023, HK\$6.9 million was utilised and paid to the PRC government to extend the mining right of Changgou Manganese Mine. Annual progress payment of approximately RMB6.2 million from the year 2024 to 2032 are required to pay to the PRC government for the extension of Changgou Manganese Mine. Therefore, the unutilised proportion of IPO proceeds of HK\$82.0 million is expected to be fully utilised on or before the year ending 31 December 2032. 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 2023, the currency denomination of the Group's cash and bank balances including pledged deposits and restricted deposits were as follows:

Currency Denomination	2023	2022
	<i>HK\$ million</i>	<i>HK\$ million</i>
Denominated in:		
RMB	1,259.7	1,552.2
HKD	2.6	0.9
USD	25.9	49.4
XAF	2.9	3.7
EUR	0.1	0.1
	1,291.2	1,606.3

As at 31 December 2023, our cash and bank balances including pledged deposits and restricted deposits were HK\$1,291.2 million (2022: HK\$1,606.3 million) while the Group's borrowings amounted to HK\$5,120.6 million (2022: HK\$4,460.4 million). The Group's borrowings net of cash and bank balances amounted to HK\$3,829.4 million (2022: HK\$2,854.1 million).

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

Other major changes in working capital

- (a) At 31 December 2023, prepayments, other receivables and other assets classified under current assets increased by 32.7% to HK\$1,832.4 million (2022: HK\$1,380.9 million). It was mainly attributable to (i) increase in purchase deposits for manganese ores; and (ii) increase in value-added tax receivables in China.
- (b) At 31 December 2023, trade and notes payables decreased by 32.6% to HK\$1,448.9 million (2022: HK\$2,148.9 million) mainly attributable to settlement of trade and notes payables balance due by the end of the year 2023.

Net current liabilities

As at 31 December 2023, the Group's net current liabilities increased to HK\$891.3 million (2022: HK\$746.3 million). The increase in net current liabilities as more long-term loans become due within one year and classified as current liabilities.

Bank and other Borrowings

As at 31 December 2023, the Group's borrowing structure and maturity profile were as follows:

Borrowing structure	2023	2022
	<i>HK\$ million</i>	<i>HK\$ million</i>
Secured borrowings (including lease liabilities)	813.1	841.3
Unsecured borrowings	4,307.5	3,619.1
	<u>5,120.6</u>	<u>4,460.4</u>
Maturity profile	2023	2022
	<i>HK\$ million</i>	<i>HK\$ million</i>
Repayable:		
On demand or within one year	4,162.8	3,266.9
After one year and within two years	260.4	735.7
After two years and within five years	697.4	457.8
	<u>5,120.6</u>	<u>4,460.4</u>
Currency denomination	2023	2022
	<i>HK\$ million</i>	<i>HK\$ million</i>
Denominated in:		
RMB	5,117.1	4,147.4
USD	0.4	312.0
HK\$	3.1	1.0
	<u>5,120.6</u>	<u>4,460.4</u>

As at 31 December 2023, borrowings as to the amounts of HK\$4,704.9 million (2022: HK\$3,534.7 million) and HK\$415.7 million (2022: HK\$925.7 million), carry fixed and floating rate interest respectively. The fixed rate borrowings carry interest at rates ranging from 0.8% to 6.3%. The floating rate borrowings comprise RMB denominated loans carrying interest at a premium up to 260 basis points above the China Loan Prime Rate.

Overall, aggregate borrowings increased to HK\$5,120.6 million (2022: HK\$4,460.4 million). The Group is continuing to explore various means including short-term or medium-term notes to improve borrowing structure in terms of interest rate level and repayment terms.

Charge on group assets

As at 31 December 2023, (a) right-of-use assets of HK\$29.0 million (2022: HK\$40.7 million) related to property, plant and equipment were held under leases; (b) bank balances of HK\$289.2 million (2022: HK\$430.8 million) were pledged to secure certain of the Group's bank acceptance notes payable and bank borrowings; (c) property, plant and equipment and leasehold lands of HK\$579.9 million (2022: HK\$616.5 million) and trade receivables of HK\$45.8 million (2022: HK\$42.4 million) were pledged to secure certain of the Group's bank and other borrowings; and (d) bank balances of HK\$26.5 million (2022: Nil) were restricted to secure certain potential claims from disputes with customers.

Major Guarantees

As at 31 December 2023, the outstanding bank loan of an associate, in which the Group has a 33% equity interest, was secured by the associate's lands and property, plant and equipment and guaranteed by the Group and the associate's holding company, according to their respective shareholding percentage on a several basis.

As at 31 December 2023, the associate's banking facilities guaranteed by the Group and the associate's holding company amounted to RMB800.0 million (equivalent to HK\$882.8 million) (2022: RMB800.0 million, equivalent to HK\$904.4 million) and were utilised to the extent of RMB552.4 million (equivalent to HK\$609.6 million) as at 31 December 2023 (2022: RMB554.9 million, equivalent to HK\$627.3 million).

Key Financial Ratios of the Group

	2023	2022
Current ratio	0.88	0.89
Quick ratio	0.64	0.63
Net gearing ratio	<u>121.9%</u>	<u>90.1%</u>

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 Company. Net debt is defined as the sum of interest-bearing bank and other borrowings less cash and cash equivalents, pledged deposits and restricted deposits

At 31 December 2023, current ratio and quick ratio remained relatively constant as compared with 2022. Net gearing ratio increased as more cash was utilised to settle trade and notes payables due by the end of the year 2023.

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\$891.3 million as at 31 December 2023. Subsequent to the year end, the Group has successfully renewed and obtained new bank loans of HK\$982.1 million during the period from 1 January 2024 up to 18 March 2024. The directors of the Company, also after taking into account of internally generated funds from its operations and the successful renewals of bank loans during the year and after the reporting date, are of the opinion that the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Credit risk

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

As at 31 December 2023, the customer with largest balance of trade and notes receivables of the Group was a customer together with its subsidiaries ("**Customer A**") which is principally engaged in manganese ferroalloy production and manganese ore trading in China. As at 31 December 2023, trade receivables from Customer A was HK\$232.0 million (2022: HK\$232.5 million) and represented 31.5% (2022: 21.8%) of the Group's total trade receivables. The balance was totally overdue and fully provided at 31 December 2023. In September 2023, the Group made a claim to Customer A in the High Court of Hong Kong to request the payment due from it and in January 2024, the High Court of Hong Kong issued the judgement in favour of the Group. The Group continues to negotiate with Customer A and take legal actions when necessary to speed up collections of the debts.

Interest rate risk

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

Foreign exchange risk

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

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

The Group imported manganese ores for self-use from overseas suppliers which are denominated in United States dollars to cope with its production of alloy materials and trading purpose. In addition, certain of our purchases was financed by bank borrowings denominated in United States dollars. In order to contain the foreign currency risk in association with such purchases, the Group may enter into forward currency contracts for selected major purchases at the time of entering into the relevant purchase contracts or loan contracts to secure against exchange rate movements.

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

Business Model and Strategy

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

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

Future Development and Outlook

In 2023, the global inflationary pressures carried from the year 2022 still existed. Western countries prolonged and strengthened the high interest policy to contain inflation, which on the other hand cooling down investing activities globally. In China, the PRC government aimed at stimulating demand to boost its economies in order to recover from the pandemic while the credit crisis from the property development sector in China hinders both the recovery of economies and capital markets. As such, the markets were shadowed from the above uncertainties and full of challenges ahead.

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

As the second largest EMM manufacturer and supplier in China, we integrate the aims and requirements of the government to achieve “carbon peak and carbon neutrality”, work with the initiatives and plans of working committee of Metallurgical Mines’ Association of China EMM Innovation Alliance (“中國冶金礦山企業協會電解金屬錳創新聯盟”), strengthen the synergies of the industry with common objectives to improve and upgrade our industry, accelerate eco-friendly development and achieving sustainable development, which are achieving notable progress. The sector outlook is expected to be challenging in the year 2024 as steel manufacturers continue to face challenges, such as oversupply and rising production costs which weaken their demand for our EMM Products. To weather the storm, major players in EMM sector jointly promote and launch out measures such as production restriction to cut EMM supply and technical upgrades. The Group, pursuing our business model and strategy, continues to enhance our strategic control over manganese resources by sourcing more high grade manganese ores from overseas suppliers.

As the largest EMD manufacturer in China, we are optimistic about the development of battery materials production segment and continue to strengthen our leading position and carry out technical research and development to upgrade the quality of our battery material products including EMD and lithium manganese oxide to enhance their value and further extend the applications in electric vehicles and other electric tools and equipment. The Group will actively respond to carbon reduction targets initiated by the PRC government for the 14th Five-Year Plan period and pave the way to seize opportunities brought by such targets, including the optimization of industry structure and energy structure as well as the upgrade and replacement in the industry and the improvement of energy efficiency. It announced the “Green stimulus package” with a scale close to US\$195 billion focusing on accelerating the development of industries with established development foundation, such as new energy and electric vehicles. The rapid development of green manufacturing industries, such as new materials and new energy vehicles, will provide a vastly broad market and opportunities for one of the Group’s major businesses - cathode materials for batteries (including EMD, lithium manganese oxide and high purity manganese sulfate).

OTHER INFORMATION

Annual General Meeting

The annual general meeting of the Company is tentatively scheduled to be held on 21 June 2024 (“2024 AGM”). Notice of the 2024 AGM will be published and issued to shareholders in due course.

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 and one non-executive Director 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 2023.

Financial Information

The financial information set out in this announcement does not constitute the Group’s audited accounts for the year ended 31 December 2023, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee, approved by the Board.

Scope of auditor's work on annual results announcement

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditors, RSM Hong Kong, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by RSM Hong Kong on the preliminary announcement.

Corporate Governance

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

The Board is of the view that the Company has, for the year ended 31 December 2023, save for the deviation from the code provision C.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 C.2.1

Chairman and Chief Executive Officer

As detailed in the Corporate Governance Report in our 2021 Annual Report, since 22 December 2020, the posts of Chairman and Chief Executive Officer were combined and Mr. Li Weijian assumed both the Chairman and the Chief Executive Officer of the Company and such practice deviates from code provision C.2.1 of the CG Code as set forth in Appendix 14 to Listing Rules. The Board believes that vesting the roles of both the Chairman and the Chief Executive Officer in the same person can facilitate the execution of the Group’s business strategies and boost effectiveness of its operation. The Board further believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by the current Board which comprises experienced and high caliber individuals with sufficient number thereof being independent non-executive Directors, which can provide sufficient checks to protect the interests of the Company and the Shareholders. The Board is keeping this situation under review and will separate the role of Chairman and Chief Executive Officer when it is in the Company’s best interests to do so.

Model Code for Securities Transactions by Directors

The Company has adopted the rules of no less stringent than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Securities Dealings Code**”) as its code of conduct for dealings in securities of the Company by the Directors.

All Directors confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Securities Dealings Code throughout the year.

Publication of Final Results and Annual Report on the Stock Exchange

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

Our Appreciation

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

PAST PERFORMANCE AND FORWARD LOOKING STATEMENTS

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

GLOSSARY OF TERMS

Alloy Products	silicomanganese alloy and ferromanganese
Audit Committee	audit committee of the Company
Bembélé Manganese Mine	a manganese mine located in Bembélé, Moyen-Ogooue Province, Gabon, the exploration rights and mining rights of which are owned by Compagnie Industrielle et Commerciale des Mines de Huazhou (Gabon) (華州礦業(加蓬)工貿有限公司), a company in which we indirectly hold 51% equity interest
Board or Board of Directors	our board of directors
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

Company or our Company	South Manganese Investment Limited, which is listed on the Stock Exchange (Stock Code: 1091.HK)
Daxin EMD Plant	an EMD production plant located in Daxin county, Guangxi, owned and operated by a wholly owned subsidiary of the Group
Director(s)	the director(s) of our Company
EMD	electrolytic manganese dioxide
EMM	electrolytic manganese metal
EMM Products	EMM and manganese briquette
Gabon	the Gabonese Republic
Group, we or us	the Company and its subsidiaries
Guangxi	Guangxi Zhuang Autonomous Region, the PRC
Guangxi Start	廣西斯達特錳材料有限公司 (Guangxi Start Manganese Materials Co., Ltd.)
Hong Kong or HK	the Hong Kong Special Administrative Region of the PRC
Huiyuan Manganese	廣西滙元錳業有限公司 (Guangxi Huiyuan Manganese Industry Co., Ltd)
Huiyuan New Energy	廣西大新滙元新能源科技有限責任公司 (Guangxi Daxin Huiyuan New Energy Technology Co., Ltd.)
IPO	the initial public offering and listing of Shares of the Company on the main board of the Stock Exchange on 18 November 2010
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

NCM	Lithium Nickel Cobalt Manganese Oxide
Prospectus	the prospectus of the Company dated 8 November 2010
Qingdao Manganese	青島錳系投資合夥企業(有限合夥)(Qingdao Manganese Investment Cooperative Enterprise (Limited Partnership)), a limited partnership in which we indirectly hold 16.00% equity interest
Qinzhou New Materials	欽州大錳新材料有限公司(Qinzhou Dameng New Materials Co., Ltd.)
Shares	ordinary shares in the share capital of the Company, with a nominal value of HK\$0.10 each
South Manganese Group	南方錳業集團有限責任公司(South Manganese Group Limited)
Stock Exchange	the Stock Exchange of Hong Kong Limited
tonne	metric tonne
Waifu Manganese Mine	大新大錳錳業集團有限公司外伏錳礦(Daxin Dameng Manganese Co., Ltd Waifu Manganese Mine)
XAF	Central African CFA franc

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, 19 March 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.