

# INDEPENDENT AUDITOR'S REPORT

# Deloitte.

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## TO THE MEMBERS OF MMG LIMITED (incorporated in Hong Kong with limited liability)

### OPINION

We have audited the consolidated financial statements of MMG Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 97 to 182, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and. have been properly prepared in compliance with the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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## TO THE MEMBERS OF MMG LIMITED - CONTINUED

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### KEY AUDIT MATTERS - CONTINUED

KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTERS
<b>Refinancing and continued availability of debt facilities</b>	
<p>We have identified the ability which the Group management has to refinance its existing debt facilities as well as the availability of additional debt facilities as a key audit matter as the management of these key financing activities are essential to the cash flow forecasts prepared for the Group for the 12 months following the approval of the annual financial statements. The Group management prepares a cash flow forecast which involves inherently complex and subjective management judgements and estimates based on management's input of key variables and market conditions.</p>	<p>Our procedures in relation to the refinancing and continued availability of debt facilities included:</p> <ul style="list-style-type: none"><li>– Reviewing management's internal assessment of the impact of COVID-19 on the Group;</li><li>– Testing key controls over the cash flow forecasts performed and associated disclosures;</li><li>– Challenging the key assumptions in management's forecast cash flows for the next 12 months;</li><li>– Assessing the consistency of the cash flow forecasts against the budget approved by the board of directors of the Company;</li><li>– Assessing consistency between the cash flow forecasts used to test the Group's going concern basis and those used in the asset impairment assessment including forecast commodity prices and third party data;</li><li>– Assessing the historical accuracy of forecasts prepared by Group management;</li><li>– Agreeing the Group's committed debt facilities to supporting documents;</li><li>– Performing stress tests for a range of reasonably possible scenarios (including changes in commodity prices) on management's cash flow and covenant compliance forecasts for the 12 months following the approval of the annual financial statements;</li><li>– Challenging management's plans for mitigating any identified exposures, including their ability to amend the terms of their existing financing arrangements or obtain additional sources of financing to comply with covenants;</li><li>– Obtaining and reviewing a letter from its major shareholder which confirmed their financial support to the Group should the Group be unable to pay its debts; and</li><li>– Assessing the appropriateness of the related disclosures included in note 2.1(a) to the consolidated financial statements.</li></ul>
<p>As set out in note 2.1(a) to the consolidated financial statements, the Group expects to continue to generate positive operating cash flows for the 12 months following the approval of the annual financial statements, with the benefit of recent and forecast improvements in commodity prices. However, the Group's ability to transfer cash generated in certain regions to the rest of the Group is subject to satisfying certain conditions. As set out in note 24, the Group has debts with an aggregate principal amount of US\$879.5 million maturing within the next 12 months which will need to be refinanced or repaid and replaced.</p>	
<p>As set out in notes 2.1(a) and 32.1(e), the Group has various funding options available to it should a need arise, including the financial support from its major shareholder.</p>	

## INDEPENDENT AUDITOR'S REPORT CONTINUED

### TO THE MEMBERS OF MMG LIMITED - CONTINUED

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#### KEY AUDIT MATTERS - CONTINUED

##### Impairment of goodwill and other non-current assets

We identified the impairment of goodwill and other non-current assets as a key audit matter due to the significance of these balances in the Group's consolidated statement of financial position and the estimation of recoverable amount of each cash generating unit ("CGU") involves complex and subjective management estimates based on management's judgement of key variables and market conditions such as future commodity prices, future exchange rates, future operating performance, the timing and approval of future capital and operating expenditure, and the discount rate.

As at 31 December 2020, the Group has property, plant and equipment of US\$10,075.9 million and goodwill of US\$528.5 million, accounting for approximately 81.9% and 4.3% of the Group's total assets as at 31 December 2020 respectively, contained within its CGUs as disclosed in notes 2.7, 3.1(d), 12 and 14 to the consolidated financial statements.

Goodwill and indefinite life intangible assets are required to be tested for impairment annually. As a result, management completed impairment testing for the Las Bambas CGU as at 31 December 2020. In addition, given the impairment recognised for Kinsevere during the prior year as well as the reliance placed on the Kinsevere Development Project, impairment assessment procedures were also performed for the Kinsevere CGU. Following management's assessment, no impairment reversal or impairment has recognised been against these CGUs for the year ended 31 December 2020.

Our procedures in relation to the impairment assessment of goodwill and other non-current assets included:

- Testing key controls over the valuation of the Group's non-financial assets and goodwill, including those to determine asset impairments or reversals;
- Working with valuation specialists to:
  - Evaluate the appropriateness of the model used by management to calculate the fair value less cost of disposal of the individual CGUs;
  - Assess and challenge the reasonableness of the key assumptions such as forecast commodity prices, discount rates and country specific risk rates used including agreeing them to external market data;
  - Review and assess the appropriateness of mining-based assumptions, including dilution and recovery rates, ore grades and ramp-up profiles included within the models; and
  - Challenge management's sensitivity analysis on key variables (e.g. commodity pricing).
- Analysing the future projected cash flows used in the model to determine whether they are reasonable and supportable given the current macroeconomic climate and expected future performance of the CGU;
- Evaluating the competence and objectivity of management's experts who assisted in the valuation, including those who prepared the resource and reserve estimates;
- Evaluate comparable market transactions that support the valuation of exploration potential value included in the relevant CGU; and
- Assessing the appropriateness of the related disclosures included in note 12 to the consolidated financial statements.

## TO THE MEMBERS OF MMG LIMITED - CONTINUED

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### KEY AUDIT MATTERS - CONTINUED

#### Accounting for uncertain tax matters

We identified the accounting for uncertain tax matters as a key audit matter due to the Group's related party relationships and associated tax implications of substantial transactions, the significant judgement involved in the determination of the tax positions and the relevant estimates and assumptions in light of the number of jurisdictions in which the Group operates, including judgement concerning residency of key operations and holding companies, application of transfer pricing rules, the recognition of deferred income tax assets, the taxation impacts of any corporate restructurings and the recognition and measurement of provisions for tax exposures that may arise and associated disclosures.

This gives rise to complexity and uncertainty in respect of the calculation of income taxes and deferred taxation and consideration of contingent liabilities associated with tax years open to audit.

As at 31 December 2020, the Group operates across a number of jurisdictions and is subject to periodic challenges by local tax authorities on a range of tax matters during the normal course of business, including transfer pricing, indirect taxes, change of taxation laws, and transaction related tax matters as disclosed in notes 3.2(a), 8, 18, 19 and 36 to the consolidated financial statements.

Our procedures in relation to the accounting for uncertain tax matters included:

- Testing key controls relating to the accounting for and the disclosure of tax related transactions and matters;
- Working with tax specialists in Australia, Peru and Democratic Republic of Congo to evaluate the Group's tax obligations, review tax computations of the Group, obtain an understanding of the current status of tax assessments and investigations and to evaluate developments in ongoing tax disputes, if any;
- Assessing the recognition and measurement of any relevant deferred tax assets, deferred tax liabilities and current provisions for tax;
- Reading recent rulings, correspondence with local tax authorities and the advices from management's external tax advisors with the assistance from our tax specialists, to satisfy ourselves that the tax provisions recognised or contingent liabilities disclosed have been appropriately recorded or adjusted to reflect the latest external developments;
- Assessing the Group's related party relationships for any transactions and associated tax implications outside the normal course of business; and
- Assessing the appropriateness of the related disclosures included in notes 3.2(a), 8, 18, 19 and 36 to the consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT CONTINUED

### TO THE MEMBERS OF MMG LIMITED - CONTINUED

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#### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

#### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tsang Yiu Chung.



**Deloitte Touche Tohmatsu**

Certified Public Accountants  
Hong Kong

3 March 2021