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潼關黃金集團有限公司
Tongguan Gold Group Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 00340)

ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “Board”) of Tongguan Gold Group Limited (the “Company”) hereby announces the consolidated results of the Company and its subsidiaries (collectively known as the “Group”) for the year ended 31 December 2022:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2022

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue	4	1,244,864	681,721
Cost of sales		(1,105,369)	(444,857)
Gross profit		139,495	236,864
Other income	5	3,115	1,308
Other net gains and losses	6	(1,161)	6,980
Administrative and other expenses		(61,599)	(60,032)
Finance costs	7	(9,353)	(6,669)
Share of result of an associate		—	—
Profit before tax	8	70,497	178,451
Income tax charge	9	(13,491)	(23,151)
Profit for the year		57,006	155,300

	2022	2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive (expense) income, net of tax		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value changes of equity investments at fair value through other comprehensive income	(7,385)	6,440
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of financial statements of foreign operations	<u>(188,640)</u>	<u>61,497</u>
Other comprehensive (expense) income for the year, net of tax	<u>(196,025)</u>	<u>67,937</u>
Total comprehensive (expense) income for the year	<u>(139,019)</u>	<u>223,237</u>
Profit for the year attributable to:		
– Owners of the Company	50,340	138,677
– Non-controlling interests	<u>6,666</u>	<u>16,623</u>
	<u>57,006</u>	<u>155,300</u>
Total comprehensive (expense) income for the year attributable to:		
– Owners of the Company	(120,968)	197,628
– Non-controlling interests	<u>(18,051)</u>	<u>25,609</u>
	<u>(139,019)</u>	<u>223,237</u>
Earnings per share – Basic and diluted	<i>11</i>	
	<u>HK1.48 cents</u>	<u>HK4.09 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		1,391,712	1,396,068
Right-of-use assets		29,097	34,813
Exploration and evaluation assets		1,305,913	1,467,151
Goodwill		599,352	654,817
Other intangible assets		104,347	119,355
Other financial assets		5,737	13,636
Interest in an associate		3,313	3,620
		<u>3,439,471</u>	<u>3,689,460</u>
Current assets			
Inventories		25,120	7,287
Other receivables	12	40,785	40,748
Amount due from an associate		1,676	1,832
Bank balances and cash		143,105	157,700
		<u>210,686</u>	<u>207,567</u>
Current liabilities			
Other payables	13	419,163	412,233
Bank and other borrowings		130,119	61,155
Contract liabilities	14	32,655	3,302
Lease liabilities		537	2,110
Tax payables		159,899	183,526
		<u>742,373</u>	<u>662,326</u>
Net current liabilities		<u>(531,687)</u>	<u>(454,759)</u>
Total assets less current liabilities		<u><u>2,907,784</u></u>	<u><u>3,234,701</u></u>

	<i>Notes</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current liabilities			
Bank and other borrowings		30,786	115,864
Other payables	<i>13</i>	515,546	589,703
Provision for restoration and environmental costs		13,290	13,358
Lease liabilities		94	639
Deferred tax liabilities		314,712	342,762
		<u>874,428</u>	<u>1,062,326</u>
Net assets		<u>2,033,356</u>	<u>2,172,375</u>
Capital and reserves			
Share capital		339,227	339,227
Share premium and reserves		1,555,210	1,676,178
		<u>1,894,437</u>	<u>2,015,405</u>
Equity attributable to owners of the Company		1,894,437	2,015,405
Non-controlling interests		138,919	156,970
		<u>2,033,356</u>	<u>2,172,375</u>
Total equity		<u>2,033,356</u>	<u>2,172,375</u>

Notes:

1. GENERAL INFORMATION

Tongguan Gold Group Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its registered office is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is at Room 1306, 13th Floor, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong. The information of shareholders are disclosed in the directors’ report to the annual report. The Company is an investment holding company.

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in (i) gold mining operation, which includes exploration, mining, processing and sale of gold concentrates and related products, and (ii) gold recycling, which is purchasing gold related materials, refining and sale of gold bullion. The Group’s gold mining operation and gold recycling are mainly carried out in the People’s Republic of China (the “PRC”).

The functional currency of the Group’s operating subsidiaries is Renminbi (“RMB”), while the consolidated financial statements are presented in Hong Kong dollars (“HK\$”) which is also the Company’s functional currency, for the convenience of the investors as its shares are listed on the Stock Exchange. All values are rounded to the nearest thousand except when otherwise indicated.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to the Group for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020

The application of the amendments to HKFRSs in the current year had no material impact on the Group’s consolidated financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after January 1, 2022. The amendments update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the “Conceptual Framework”) instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010), add a requirement that, for transactions and events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The application of the amendments in the current year has had no impact on the Group’s consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Definition of Accounting Estimates ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or 1 January 2024.

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 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 is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group’s significant accounting policies. The impacts of application, if any, will be disclosed in the Group’s future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty – that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group’s consolidated financial statements.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

4. REVENUE AND SEGMENT REPORTING

Segment revenue and results

Information is reported internally to the board of directors of the Company (the “Board”), being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods delivered or services provided. This is also the basis upon which the Group is organised and specifically focuses on the Group’s operating divisions.

During the second half of the current year, the Group commenced the business engaging in gold recycling in the PRC, and it is considered as a new reportable and operating segment by the Board. Accordingly, the Board reviews the business with the following reportable segments:

1. Gold mining operation – Exploration, mining, processing and sale of gold concentrate and related products in the PRC
2. Gold recycling – purchasing of gold related materials, refining and sale of gold bullion in the PRC

The above segments have been identified on the basis of internal management reports prepared and regularly reviewed by the Board when making decisions about allocating resources and assessing performing of the Group.

The segment results represent the gross profit earned by each segment (segment revenue less segment cost of sales). Other income, other net gains and losses, administrative and other expenses, finance costs and income tax charge are not allocated to each reportable segment. This is the measure reported to the Board for the purpose of resource allocation and assessment of segment performance.

The information of segment results is as follows:

For the year ended 31 December 2022

	Gold mining operation HK\$'000	Gold recycling HK\$'000	Total HK\$'000
Revenue	406,442	838,422	1,244,864
Cost of sales	<u>(268,057)</u>	<u>(837,312)</u>	<u>(1,105,369)</u>
Segment results	<u>138,385</u>	<u>1,110</u>	<u>139,495</u>

For the year ended 31 December 2021

	Gold mining operation HK\$'000	Gold recycling HK\$'000	Total HK\$'000
Revenue	681,721	–	681,721
Cost of sales	<u>(444,857)</u>	<u>–</u>	<u>(444,857)</u>
Segment results	<u>236,864</u>	<u>–</u>	<u>236,864</u>

The reportable segment results are reconciled to profit after tax of the Group as follows:

	2022 HK\$'000	2021 HK\$'000
Reportable segment results	139,495	236,864
Unallocated income and expenses:		
Other income	3,115	1,308
Other net gains and losses	(1,161)	6,980
Administrative and other expenses	(61,599)	(60,032)
Finance costs	<u>(9,353)</u>	<u>(6,669)</u>
Profit before tax	70,497	178,451
Income tax charge	<u>(13,491)</u>	<u>(23,151)</u>
Profit for the year	<u>57,006</u>	<u>155,300</u>

The Group's revenue are derived from contracts with customers recognised at a point in time during the year as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15:		
Exploration, mining, processing and sale of gold concentrates and related products	406,442	681,721
Sale of gold bullion	838,422	—
	1,244,864	681,721

The Group recognises revenue on sale of gold concentrates and related products and gold bullion at a point in time when control of the goods has transferred, being when the goods are delivered to the customer. Transportation and other related activities that occur before customers obtain control of the related goods are considered as fulfilment activities. There is no unsatisfied performance obligation at the end of each of the reporting periods.

As no discrete information in respect of segment assets, segment liabilities and other information is used for the assessment of performance and allocation of resources, thus no analysis of segment assets and segment liabilities is presented.

No geographical analysis is presented as the Group's revenue and profit from operations were primarily derived from operating activities in the PRC.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A – gold mining operation segment	319,276	660,728
Customer B (<i>Note (a)</i>) – gold recycling segment	792,140	—

Note:

(a) The corresponding revenue in the year ended 31 December 2021 for Customer B was Nil.

5. OTHER INCOME

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Government grants (<i>Note (a)</i>)	290	121
Interest on bank deposits	1,195	959
Rental income	1,506	—
Others	124	228
	<u>3,115</u>	<u>1,308</u>

Note:

- (a) Included in profit or loss is approximately HK\$168,000 (2021: Nil) of government grants obtained from Employment Support Scheme (“ESS”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group’s employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. There are no unfulfilled obligations relating to this program.

6. OTHER NET GAINS AND LOSSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Net foreign exchange (loss) gains	(510)	186
Gain on modification of financial liabilities (<i>Note (a)</i>)	—	9,124
Written off in respect of other receivables	(608)	(1,802)
Impairment loss of other receivables	—	(222)
Loss on disposal of property, plant and equipment	—	(60)
Others	(43)	(246)
	<u>(1,161)</u>	<u>6,980</u>

Note:

- (a) During the year ended 31 December 2021, the maturity date of the promissory note was extended from 36 months to 60 months. The original promissory note payable was derecognised and a new financial liability with the modified maturity date was recognised at fair value at the date of such modification. As a result, a gain on modification of financial liabilities of approximately HK\$9,124,000 was recognised in the year ended 31 December 2021 (2022: Nil).

7. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on unsecured bank and other borrowings	20,018	18,790
Interest on secured other borrowing	–	1,211
Interest on promissory note payable at amortised cost	5,464	2,552
Interest expenses on lease liabilities	59	101
	<u>25,541</u>	<u>22,654</u>
<i>Less: Amount capitalised (Note (a))</i>	<u>(16,188)</u>	<u>(15,985)</u>
	<u><u>9,353</u></u>	<u><u>6,669</u></u>

Note:

- (a) Borrowing costs capitalised during the year arose on the Group's general borrowing pool calculated by applying a capitalisation rate of Nil (2021: 8.06%) to expenditure on qualifying assets. Interest expenses capitalised in current year are arising from specific borrowings.

8. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Director's emoluments	3,110	3,098
Staff's salaries, bonus and allowances	18,600	18,951
Contributions to staff's retirement benefits schemes	2,163	2,302
	<u>23,873</u>	<u>24,351</u>
Amortisation of other intangible assets	4,859	47,218
Auditor's remuneration	1,380	1,441
Cost of sales comprise of:		
– Cost of inventories recognised as an expense (<i>Note (a)</i>)	1,077,784	405,758
– Documentation transferring fee	14,402	19,013
Depreciation charges		
– property, plant and equipment	37,702	33,612
– right-of-use assets		
– office premise and factories	2,187	2,660
– motor vehicle	–	469
– office equipment	–	17
– prepaid lease payments	846	876
	<u><u>846</u></u>	<u><u>876</u></u>

Note:

- (a) Costs of inventories recognised as an expense mainly include mining extraction costs and mining ore processing costs of approximately HK\$184,523,000 (2021: HK\$311,756,000); transportation cost of approximately HK\$2,172,000 (2021: HK\$3,521,000); amortisations and depreciation charges of approximately HK\$37,303,000 (2021: HK\$73,756,000) and purchase cost of gold related materials of approximately HK\$837,220,000 (2021: Nil).

9. INCOME TAX CHARGE

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2022 and 2021.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

Pursuant to the Notice of the Ministry of Finance, 財政部國家稅務總局海關總署關於深入實施西部大開發戰略有關稅收政策問題的通知 (財稅〔2011〕58號) (transliterated as General Administration of Customs and the State Administration of Taxation on the Issues of Preferential Taxation Policies for Further Implementing the Western Development Strategy (Cai Shui 2011 No. 58)*), from 1 January 2011, the enterprises in the western region, which engaged in encouraged industries as indicated in the 西部地區鼓勵類產業目錄 (transliterated as Catalogue of Encouraged Industries of Western Region*) and 產業結構調整指導目錄 (2011年本) (修正) (transliterated as Catalogue of Industrial Structure Adjustment Guidance (2011 Revised)*) (國家發改委令2013年第21號) (transliterated as National Development and Reform Commission Order 2013 No. 21*) and which derive 70% of their operating income from the encouraged industries could apply for a tax incentive. After getting in-charge tax bureau’s approval, those enterprises could enjoy a reduced EIT rate of 15% from the statutory EIT rate of 25%.

For the years ended 31 December 2022 and 2021, 潼關縣祥順礦業發展有限公司 and 潼關縣德興礦業有限公司 (transliterated as Tongguan County Xiangshun Mining Development Co., Ltd.*) (“Xiangshun”) and Tongguan County De Xing Mining LLC (“De Xing”), the operating subsidiaries of One Champion International Limited and its subsidiaries (“One Champion Group”) and Pride Success Investment Limited and its subsidiaries (“Pride Success Group”) respectively, obtained the in-charge tax bureau’s approval and were granted a reduced EIT rate of 15%.

The amount of taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
Current tax – PRC Enterprise Income Tax	12,111	24,652
Deferred tax	1,380	(1,501)
	<u>13,491</u>	<u>23,151</u>

The income tax charge for the year can be reconciled to the profit before tax in the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit before tax	<u>70,497</u>	<u>178,451</u>
Notional tax on profit before tax, calculated at 25% (2021: 25%)	17,624	44,613
Differential tax rates	(11,859)	(16,027)
Tax effect of expenses not deductible for tax purposes	6,176	4,574
Tax effect of income not taxable for tax purposes	(2,747)	(2,415)
Tax losses and temporary differences not recognised	<u>4,297</u>	<u>(7,594)</u>
Income tax charge	<u>13,491</u>	<u>23,151</u>

10. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2022 or since the end of the reporting period (2021: Nil).

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2022	2021
Earnings figures are calculated as follows:		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share (<i>HK\$'000</i>)	50,340	138,677
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,392,272,221	3,392,272,221
Effect of dilutive potential ordinary shares in respect of outstanding share options	<u>4,322,442</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>3,396,594,663</u>	<u>3,392,272,221</u>

12. OTHER RECEIVABLES

	<i>Notes</i>	2022 HK\$'000	2021 <i>HK\$'000</i>
Other receivables	(a)	2,867	2,995
<i>Less: allowances</i>	(b)	(490)	(490)
		2,377	2,505
Deposits and prepayments		38,156	36,614
Value added tax recoverable		252	1,629
		40,785	40,748

Notes:

- (a) As at 31 December 2022, included in the Group's other receivables balances are debtors with aggregate carrying amount of approximately HK\$608,000 (2021: HK\$1,802,000) which are past due over 90 days or more and is considered as credit-impaired. The Group writes off these other receivables in full as there is no realize prospect of recovery.
- (b) Movement in impairment loss on other receivables:

	2022 HK\$'000	2021 <i>HK\$'000</i>
At 1 January	490	268
Impairment loss recognised	—	222
At 31 December	490	490

The Group does not hold any collateral over these balances.

13. OTHER PAYABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Other payables and accruals (<i>Note (a)</i>)	445,391	446,924
Amounts due to related parties (<i>Note (b)</i>)	426,137	497,296
Promissory note payable (<i>Note (c)</i>)	63,181	57,716
	<u>934,709</u>	<u>1,001,936</u>
Analysed for reporting purposes as:		
– Current portion	419,163	412,233
– Non-current portion	515,546	589,703
	<u>934,709</u>	<u>1,001,936</u>

Notes:

- (a) Included in other payables were mainly payable to subcontractors of approximately HK\$304,069,000 (2021: HK\$314,709,000) for mining extraction and construction; and unsecured borrowing from an independent third party of approximately HK\$16,792,000 (2021: Nil) carried at fixed interest rate of 12% per annum and repayable on 14 January 2023.
- (b) The amounts are due to certain beneficial owners of the shareholders of the Company and are non-trade in nature, unsecured, interest-free and repayable one year after the end of the reporting period.
- (c) Promissory note payable carried at zero interest rate, unsecured and repayable on 9 October 2025 (2021: repayable on 9 October 2025). It is measured at amortised cost at effective interest rate of 9.08% per annum.

14. CONTRACT LIABILITIES

The Group has recognised the following revenue – related contract liabilities:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<i>Contract liabilities arising from:</i>		
Sale of goods	<u>32,655</u>	<u>3,302</u>

The deposit of the Group received on sales of gold concentrate remains as a contract liability until the date the goods are delivered to customer. The increase in contract liabilities in the current year was mainly due to the increase in deposit received from customers in relation to the sale of gold concentrate.

Movements in contract liabilities:

	2022 HK\$'000	2021 HK\$'000
Balance as at 1 January	3,302	68,700
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(3,302)	(68,700)
Increase in contract liabilities as a result of receipt in advance of sale of gold concentrate not yet delivered at year end	<u>32,655</u>	<u>3,302</u>
Balance at 31 December	<u>32,655</u>	<u>3,302</u>

15. CONTINGENT LIABILITIES

During the year ended 31 December 2020, a subsidiary of the Group has provided a corporate guarantee in respect of a banking facility of RMB200,000,000 (equivalent to HK\$237,640,000) granted by a bank to a company established in the PRC, an independent third party (the “Borrower”). Pursuant to the terms of the guarantee arrangement, in case of default on payments by the Borrower, the Group is responsible for repaying the outstanding loans together with any accrued interest and penalty owed by the Borrower to the bank. The Group’s guarantee period has commenced from the date of grant of the relevant banking facility for 3 years.

As at 31 December 2022, the banking facility guaranteed by the Group to the Borrower was utilised to the extent of RMB80,000,000 (equivalent to HK\$89,560,000) (31 December 2021: RMB40,000,000 (equivalent to HK\$48,924,000)) by pledging the Borrower’s properties and machineries of approximately RMB25,000,000 and RMB55,600,000 respectively to the bank. The Directors considered the fair value of the financial guarantee contract at initial recognition was insignificant taking into account the fair value of the pledged properties of the Borrower.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2022 (2021: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 30 May 2023 to Friday, 2 June 2023, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting of the Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong no later than 4:00 p.m. on Monday, 29 May 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2022, the Group's revenue was approximately HK\$1,244,864,000, representing an increase of approximately 83% as compared to revenue of approximately HK\$681,721,000 for the corresponding year in 2021. The increase in revenue was mainly attributable to the new gold recycling business segment, which involves the sale of physical gold bullion by purchasing gold related materials from other supply chain players, and refining by subcontractors. This new business segment contributed approximately HK\$838,422,000 in revenue to year 2022. It was partially offset against a decrease in the revenue of gold mining operation. Detailed analysis is set out in below "Review of Operations" section.

Cost of Sales

During the year ended 31 December 2022, the Group's cost of sales was approximately HK\$1,105,369,000, representing an increase of approximately 148% as compared to cost of sales of approximately HK\$444,857,000 for the corresponding year in 2021. The increase in cost of sales was mainly attributable to new gold recycling business. This new business segment contributed approximately HK\$837,312,000 in cost of sales to year 2022. It was partially offset against a decrease in the cost of sales of gold mining operation. Detailed analysis is set out in below "Review of Operations" section.

Gross Profit

During the year ended 31 December 2022, the Group's gross profit was approximately HK\$139,495,000, representing a decrease of approximately 41% as compared to gross profit of approximately HK\$236,864,000 for the corresponding year in year 2021. Even though the Group's expansion of new business segment in year 2022, the gross profit of new gold recycling business is thin. Thus, the decrease in gross profit was mainly resulting from gold mining operation. The decrease in gross profit of gold mining operation was mainly attributable to the decrease in production and sale volumes of gold concentrates and related products. Detailed analysis is set out in below "Review of Operations" section.

Other Income

During the year ended 31 December 2022, the Group's other income was increased by approximately HK\$1,807,000 as compared to other income of approximately HK\$1,308,000 for the corresponding year in 2021. The increase was mainly due to an increase in rental income.

Other Net Gains and Losses

During the year ended 31 December 2022, the Group's other net losses was approximately HK\$1,161,000 whilst there was other net gain of approximately HK\$6,980,000 in year 2021. The change was attributable from a one-off gain, which was gain on modification of financial liabilities, was recognised in year 2021.

Administrative and other Expenses

During the year ended 31 December 2022, the Group's administrative and other expenses was increased by approximately HK\$1,567,000 as compared to administrative and other expenses of approximately HK\$60,032,000 for the corresponding year in 2021. The increase was primarily due to an increase in one-off expenses, such as invalid exploration costs.

Finance Costs

During the year ended 31 December 2022, the Group's finance costs was increased by approximately HK\$2,684,000 as compared to finance costs of approximately HK\$6,669,000 for the corresponding year in 2021. The increase was mainly due to increase in interest on promissory note payable.

Income Tax Charge

During the year ended 31 December 2022, the Group's income tax charge was decreased by approximately HK\$9,660,000 as compared to income tax charge of approximately HK\$23,151,000 for the corresponding year in 2021. The decrease was in line with the decrease in the gross profit.

Profit for the Year Attributable to Owners of the Company

During the year ended 31 December 2022, the Group's profit for the year attributable to owners of the Company was approximately HK\$50,340,000, representing a decrease of approximately 64% from approximately HK\$138,677,000 in year 2021.

Net Asset Value Per Share*

The Group's net asset value per share decreased from HK\$64.0 cents in year 2021 to HK\$59.9 cents in year 2022 as resulted from depreciation of the exchange rate of Renminbi against Hong Kong dollars.

* Using the number of issued ordinary shares of the Company as at the relevant financial year end date.

REVIEW OF OPERATIONS

A. Gold Mining Operation

The activity of the Group's gold mining operation is the production and sale of gold concentrates and related products. For the financial year ended 31 December 2022, the Group's revenue from gold mining operation amounted to approximately HK\$406,442,000, representing a decrease of approximately 40% from approximately HK\$681,721,000 for the year 2021 and was primarily contributed by a decrease in production and sales volumes following strict COVID-19 prevention and control measures and other policies implemented in the PRC, which had to suspension of production for various periods.

The cost of sales amounted to approximately HK\$268,057,000, representing a decrease of approximately 40% from approximately HK\$444,857,000 for the year 2021 and was in line with the decrease in revenue. Gross profit from this operation amounted to approximately HK\$138,385,000 (gross profit margin 34.0%), representing a decrease in approximately 42% as compared with gross profit of approximately HK\$236,864,000 (gross profit margin 34.7%) for the year 2021. The decrease in gross profit was in line with the decrease in revenue as a result of lower production volume and sale volume during the reporting period.

B. Gold Recycling Business

The activity of the Group's gold recycling business is involving sale of physical gold bullion by purchasing gold related materials from other supply chain players, and refining by subcontractors. For the year ended 31 December 2022, the volume of sale of gold bullion was approximately 2.05 tonnes. Approximately HK\$838,422,000 of revenue and approximately HK\$837,312,000 of cost of sales were contributed from this operation in 2022. Gross profit from this operation was thin and amounted to approximately HK\$1,110,000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2022, the Group had total assets and net assets amounted of approximately HK\$3,650,157,000 (2021: HK\$3,897,027,000) and approximately HK\$2,033,356,000 (2021: HK\$2,172,375,000), respectively. The current ratio was 0.28 as compared to 0.31 as of last year end date.

As at 31 December 2022, the Group had bank balances and cash of approximately HK\$143,105,000 (2021: HK\$157,700,000), and most of which were denominated in Renminbi and Hong Kong dollars.

As at 31 December 2022, the Group had bank and other loans of approximately HK\$160,905,000 (2021: HK\$177,019,000) which were denominated in Renminbi. For the bank and other borrowings under fixed rates of approximately HK\$90,377,000 (2021: approximately HK\$98,741,000) carried at fixed rates at 12% (2021: fixed rate at 12%) per annum. For the bank and other borrowings under variable rates of approximately HK\$70,528,000 (2021: approximately HK\$78,278,000), the interest rates are loan prime rate (“LPR”) +2.025%, LPR +2.60% and LPR+2.95% per annum (2021: LPR+2.025%, LPR+2.088% and LPR+2.95% per annum). The decrease in total borrowings is mainly resulting from the depreciation of the exchange rate of Renminbi against Hong Kong dollars. The gearing ratio, as a ratio of total borrowings to shareholders’ fund was 8.5% (2021: 8.8%).

As at 31 December 2022, the Group had promissory note of approximately HK\$63,181,000 (2021: HK\$57,716,000). The promissory note with principal amount of HK\$80,000,000 carries zero interest and to be due on 9 October 2025.

FOREIGN EXCHANGE RISK MANAGEMENT

As part of the Group’s assets and liabilities are denominated in Hong Kong dollars and Canadian dollars, in order to minimise the foreign currency risk, the Group aims to utilise the fund for transactions that are denominated in the same currency.

SHARE CAPITAL

As at 31 December 2022, the Company had 3,392,272,221 ordinary shares in issue with total shareholders’ fund of the Group amounting to approximately HK\$339,227,000.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

There were no material acquisitions or disposals of subsidiaries, associated companies or joint ventures during the year ended 31 December 2022.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group had a contingent liability and detail is set out in Note 15 (2021: detail is set out in Note 15).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had approximately 8 and 191 employees in Hong Kong and Mainland China respectively.

The staff cost of the Group (including directors' emoluments in form of salary and other benefits, share-based payments, performance related incentive payments and retirement benefit contributions) was approximately HK\$23,873,000 for the year ended 31 December 2022 (2021: HK\$24,351,000).

Directors' emoluments were fixed with reference to their duties and responsibilities with the Company as well as the Company's remuneration policy.

Employees of the Group are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund for Hong Kong employees, social insurance packages for Mainland China employees, performance bonus and share option scheme. The Group is also dedicated to providing training programs for new employees and regular trainings to employees to enhance their skills and know-how.

According to the share option schemes adopted by the Company on 13 June 2022, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

PROSPECTS

Stepping into year of 2022, due to the combined impact from the recurring COVID-19 pandemic (the "Pandemic"), the international geopolitical crises and persistent inflationary pressure have hit the global economy hard. To control the Pandemic continuing spreading, the government of Mainland China has implemented a series of preventive measures throughout the year, such as mobility restrictions and quarantines, which led to suspension of gold concentrate production for varying periods, as a result, a decline in our production volume and sale volume. With the gradual easing of the Pandemic and the optimization of the anti-pandemic policies announced by the government of Mainland China, the Group strives to gradually resume to its normal production and expand the exploration and mining activities in 2023.

In addition, in the face of the above challenges, the Group continues to pursue long-term business growth and sustainable profit growth, and successfully extended its gold related business in Mainland China in second half of year 2022, which is sale of physical gold bullion by purchasing gold related materials from other supply chain players, and refining by subcontractors (the “Gold Recycling”). Despite the margin of Gold Recycling is relatively lower, it could broaden our income stream, explore our market share and enhance our reputation in the gold industry in the Mainland China.

The profitability of the Group is highly dependent on the gold price in domestic and international markets. The market prices of gold (and other precious metals) are correlated to the global economic environment and stability. Gold price has held steady despite strong headwinds from rising interest rates and a strong US dollar through most of the year in 2022. According to World Gold Council, 2022 is the strongest year for gold demand in over a decade. It proved that gold still serves its solid role as a safe-haven asset. Looking ahead, inflation continues to fall with the weakness of US dollar, increasing recession risk and geopolitical risk will serve as support points for gold price in 2023. The above factors have stimulated the interest of investors and global central banks in purchasing of gold, and we expect that the demand and price of the gold will likely to rise. The Group will closely monitor the market trends in commodity prices and take necessary actions to control any potential risks.

The Group is committed to being a responsible corporate citizen and to fulfilling its corporate social responsibility while remaining competitive and sustainable in its business development. Environmental sustainability, safety production and supporting local communities would continue to be the priority tasks of the Group. In response to safety production, the Group adhered to provide safe and healthy working environment, and carried out trainings to all workers and employees to enhance their safety management and technical knowledge skills. To ensure environmental sustainability, the Group continues to monitor and review waste and pollution reduction measures at all of the operating plants to comply with the relevant regulations and requirements. To support the local community, the Group continues to participate in various community activities and donate to charities.

To conclude, under the global market uncertainties, the Group would remain vigilant and responsive in a timely manner and strive to achieve stable performance. In addition, the Group will proactively explore other investment opportunities to expand the existing gold mining portfolio, thereby maximizing the value for the shareholders of the Company.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year ended 31 December 2022. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s listed securities during the year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Company has a policy of seeking to comply with the established best practice in corporate governance. The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of its shareholders. For the year ended 31 December 2022, the Company has applied the principles and code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) (the “Code”), and the associated Listing Rules. During the year ended 31 December 2022, the Company has complied with the code provisions of the Code (“Code Provision(s)”), except for certain deviations as specified and explained below with considered reasons and explanation for such deviations.

1. Under Code Provision C.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Since the resignation of Dr. You Xian Sheng as the chairman and the executive director of the Company on 31 January 2014, the Company has not appointed a new chairman of the Board (the “Chairman”). Until the appointment of the new Chairman, the Board collectively focuses on the overall strategic planning and development of the Group and effective functioning of the Board. The Board considers that the principle of balance of power and authority is achieved by the check and balance between the executive directors and the independent non-executive directors of the Company. Since the resignation of Mr. Wang Hui as the chief executive officer of the Company (the “CEO”) on 1 June 2016, the Company has not appointed a new CEO. Until the appointment of the new CEO, the executive directors of the Company, possessing extensive relevant industry knowledge, collectively oversee the day-to-day management of the business and operations of the Group.

The Board believes that this arrangement still enables the Company to make and implement decisions promptly, and thus achieve the Company’s objectives efficiently and effectively in response to the changing environment. The Board will review the current structure from time to time and as and when appropriate if candidate with suitable leadership, knowledge, skills and experience is identified, the Company may make the necessary modification to the management structure.

2. Under Code Provision C.2.7 of the Code, the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors.

Since the resignation of Dr. You Xian Sheng as the chairman and the executive director of the Company on 31 January 2014, the Company has not appointed a new Chairman, no meeting was held between the Chairman and the independent non-executive directors of the Company without the presence of other directors of the Company during the year ended 31 December 2022. Although such meeting was not held during the year, the executive directors of the Company have delegated the company secretary of the Company to gather any concerns and/or questions that the independent non-executive directors of the Company might have and report to them for setting up follow-up meetings, whenever necessary.

3. Under Code Provision F.2.2 of the Code, the Chairman should attend the annual general meeting. Since the Company currently does not have any officer with the title of the Chairman, Mr. Yeung Kwok Kuen, the executive director of the Company, has been elected by other directors of the Company present to act as the chairman of the annual general meeting of the Company held on 10 June 2022 in accordance with the Bye-laws of the Company. Mr. Yeung Kwok Kuen has sufficient calibre and knowledge for communication with the shareholders of the Company at the annual general meeting of the Company.
4. Under Code Provision C.6.3 of the Code, the company secretary should report to the board chairman and/or the chief executive officer. Since the Company currently does not have any officer with the title of the Chairman or CEO, the company secretary of the Company reported to the executive directors of the Company since 1 June 2016.

The Board will continue to regularly review and monitor the Company's corporate governance practices to ensure compliance with the relevant provisions under the Listing Rules and to maintain a high standard of corporate governance practices of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code and its code of conduct regarding directors' securities transaction during the year ended 31 December 2022, and they all confirmed that they had fully complied with the required standards set out in the Model Code.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company comprises Mr. Leung Ka Wo, Mr. Chu Kang Nam and Mr. Liang Xu Shu, all of them are independent non-executive directors. The consolidated financial results of the Group for the year ended 31 December 2022 have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF CCTH CPA LIMITED

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 2022 as set out in the preliminary announcement have been agreed by the Group's auditors, CCTH CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by CCTH CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCTH CPA Limited on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Company (www.tongguangold.com) and the designated website of the Stock Exchange (www.hkexnews.hk).

The 2022 annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

The 2022 annual financial information set out above does not constitute the Group's statutory financial statements for the financial year ended 31 December 2022. Instead, it has been derived from the Group's audited consolidated financial statements for the financial year ended 31 December 2022, which will be included in the Company's 2022 annual report.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my appreciation to the continuous support of our shareholders and hard work and dedication of all our staff over the past year.

By Order of the Board
Tongguan Gold Group Limited
Yeung Kwok Kuen

Executive Director and Chief Financial Officer

Hong Kong, 27 March 2023

As at the date hereof, the board of directors of the Company comprises Mr. Yeung Kwok Kuen, Mr. Shi Xing Zhi and Mr. Shi Sheng Li as executive directors and Mr. Chu Kang Nam, Mr. Liang Xu Shu and Mr. Leung Ka Wo as independent non-executive directors.