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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 2023

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 2023:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2023

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Revenue	4	1,497,236	1,244,864
Cost of sales		(1,329,358)	<u>(1,105,369)</u>
Gross profit		167,878	139,495
Other income	5	2,884	3,115
Other net gains and losses	6	2,906	(1,161)
Administrative and other expenses		(76,341)	(61,599)
Finance costs	7	(22,403)	(9,353)
Share of result of an associate		<u>—</u>	<u>—</u>
Profit before tax	8	74,924	70,497
Income tax expense	9	(14,890)	<u>(13,491)</u>
Profit for the year		60,034	<u>57,006</u>

	2023	2022
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive expense, 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	(2,170)	(7,385)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Release of exchange reserve upon deregistration of subsidiaries	(628)	–
Exchange differences arising on translation of financial statements of foreign operations	(22,413)	(188,640)
Other comprehensive expense for the year, net of tax	(25,211)	(196,025)
Total comprehensive income (expense) for the year	34,823	(139,019)
Profit for the year attributable to:		
– Owners of the Company	51,454	50,340
– Non-controlling interests	8,580	6,666
	60,034	57,006
Total comprehensive income (expense) for the year attributable to:		
– Owners of the Company	28,814	(120,968)
– Non-controlling interests	6,009	(18,051)
	34,823	(139,019)
Earnings per share – Basic and diluted	<i>11</i>	
	HK1.39 cents	HK1.48 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

		2023	2022
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		1,756,902	1,391,712
Right-of-use assets		50,981	29,097
Exploration and evaluation assets		1,323,399	1,305,913
Goodwill		768,452	599,352
Other intangible assets		284,177	104,347
Other financial assets		3,613	5,737
Interest in an associate		3,266	3,313
		<u>4,190,790</u>	<u>3,439,471</u>
Current assets			
Inventories		87,749	25,120
Trade and other receivables, deposits and prepayments	12	116,782	40,785
Amount due from an associate		1,652	1,676
Cash and cash equivalents		157,887	143,105
		<u>364,070</u>	<u>210,686</u>
Current liabilities			
Other payables	13	416,131	419,163
Bank and other borrowings		444,159	130,119
Contract liabilities	14	11,989	32,655
Lease liabilities		1,263	537
Tax payables		157,384	159,899
		<u>1,030,926</u>	<u>742,373</u>
Net current liabilities		<u>(666,856)</u>	<u>(531,687)</u>
Total assets less current liabilities		<u><u>3,523,934</u></u>	<u><u>2,907,784</u></u>

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
Non-current liabilities			
Bank and other borrowings		119,551	30,786
Other payables	<i>13</i>	601,051	515,546
Provision for restoration and environmental costs		16,298	13,290
Lease liabilities		386	94
Deferred tax liabilities		325,229	314,712
		<u>1,062,515</u>	<u>874,428</u>
Net assets		<u>2,461,419</u>	<u>2,033,356</u>
Capital and reserves			
Share capital		407,027	339,227
Share premium and reserves		1,909,464	1,555,210
		<u>2,316,491</u>	<u>1,894,437</u>
Equity attributable to owners of the Company		2,316,491	1,894,437
Non-controlling interests		144,928	138,919
		<u>2,461,419</u>	<u>2,033,356</u>
Total equity		<u>2,461,419</u>	<u>2,033,356</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 is sale of mine-produced gold, including gold concentrate, gold bullion and related products, that contains of gold exploration, mining, processing and/or smelting operations; and (ii) gold recycling, which is purchasing the 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 consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the Group’s annual periods beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
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 disclosed below, the application of the new and 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 HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments 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 positions and performance but has affected the disclosure of the Group’s accounting policies set out in consolidated financial statements.

Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

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

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. 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 (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

Basis of measurement and going concern assumption

The Group had net current liabilities of approximately HK\$666,856,000 at 31 December 2023 (2022: HK\$531,687,000).

Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the directors of the Company have given careful consideration to the current and anticipated future liquidity needs of the Group and is satisfied that the loan facilities from the Group’s financial institutions for its working capital requirement for the next twelve months will be available as and when required, having regard to the following: (i) renewal of financing facilities and (ii) enhancing the Group’s operational efficiency and implementing cost control measures. The Group will actively negotiate with the financial institution for the renewal of the Group’s borrowings when they fall due in order to secure necessary funds to meet the Group’s working capital and financial requirements in the foreseeable future. In the opinion of the directors of the Company, the Group will be able to roll over or refinance the borrowings upon their maturity.

Having taken into account the above, the directors of the Company consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

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 (the “CODM”), 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.

For the gold mining operation, the information reported to the CODM is further categorised into different mining locations within the PRC, each of which is considered as a separate operating segment by the CODM. For the purpose of segment reporting, the CODM considered that the operations of different mining locations are related to the mine-produced gold business, these individual operating segments have been aggregated into a single reportable segment.

During the year, the Group commenced in the business engaging in sale of gold bullion, which contains of gold exploration, mining, processing and smelting operations in the PRC along with the acquisition of Grand Gallant Investments Limited and its subsidiaries (as detailed in Note 15), and it has been aggregated into gold mining operation segment.

Accordingly, the Board reviews the business with the following reportable segments:

1. Gold mining operation – sale of mine-produced gold, including gold concentrate, gold bullion and related products, which contains of gold exploration, mining, processing and/or smelting operations 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 performance 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 expense 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 2023

	Gold mining operation HK\$'000	Gold recycling HK\$'000	Total HK\$'000
Revenue	637,693	859,543	1,497,236
Cost of sales	<u>(470,768)</u>	<u>(858,590)</u>	<u>(1,329,358)</u>
Segment results	<u>166,925</u>	<u>953</u>	<u>167,878</u>

For the year ended 31 December 2022

	Gold mining operation <i>HK\$ '000</i>	Gold recycling <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
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><u>138,385</u></u>	<u><u>1,110</u></u>	<u><u>139,495</u></u>

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

	2023 <i>HK\$ '000</i>	2022 <i>HK\$ '000</i>
Reportable segment results	167,878	139,495
<i>Unallocated income and expenses:</i>		
Other income	2,884	3,115
Other net gains and losses	2,906	(1,161)
Administrative and other expenses	(76,341)	(61,599)
Finance costs	(22,403)	(9,353)
Profit before tax	74,924	70,497
Income tax expense	(14,890)	(13,491)
Profit for the year	<u><u>60,034</u></u>	<u><u>57,006</u></u>

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

	2023 <i>HK\$ '000</i>	2022 <i>HK\$ '000</i>
Revenue from contracts with customers within the scope of HKFRS 15:		
Income from gold mining operation	637,693	406,442
Income from gold recycling	859,543	838,422
	<u><u>1,497,236</u></u>	<u><u>1,244,864</u></u>

The Group recognises revenue on sale of gold products 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:

	2023 HK\$'000	2022 HK\$'000
Customer A	N/A (Note (a))	319,276
Customer B	326,238	792,140
Customer C	272,961	– (Note (b))
Customer D	504,422	– (Note (b))
	<u>504,422</u>	<u>–</u>

Included in revenue, consist of approximately HK\$140,091,000 for the year ended 31 December 2023 (2022: Nil) is derived from selling gold bullion in a trading platform of Shanghai Gold Exchange through a member registered in Shanghai Gold Exchange.

Notes:

- (a) The corresponding revenue for the year ended 31 December 2023 did not contribute over 10% of revenue to the Group.
- (b) The corresponding revenue for the year ended 31 December 2022 was Nil.

5. OTHER INCOME

	2023 HK\$'000	2022 HK\$'000
Government grants (Note (a))	238	290
Interest on bank deposits	1,788	1,195
Rental income	821	1,506
Others	37	124
	<u>2,884</u>	<u>3,115</u>

Note:

- (a) Included in government grants consist of approximately HK\$168,000 for the year ended 31 December 2022 (2023: Nil) was recognised in respect of the Employment Support Scheme (“ESS”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group’s employees; while remaining represents subsidies from local government authorities for development scheme and salaries subsidies which were immediately recognised as other income for the year. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

6. OTHER NET GAINS AND LOSSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Net foreign exchange gains (losses)	1,518	(510)
Written off in respect of other receivables	–	(608)
Loss on disposal of property, plant and equipment	(2,479)	–
Write off of property, plant and equipment and exploration and evaluation assets	(37,132)	–
Gain on modification of other borrowing	34,435	–
Gain on reversal of other payables	5,668	–
Gain on deregistration of subsidiaries	628	–
Others	268	(43)
	<u>2,906</u>	<u>(1,161)</u>

7. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on unsecured bank and other borrowings	7,492	20,018
Interest on secured bank borrowings	8,019	–
Interest on promissory note payable at amortised cost	5,981	5,464
Interest expenses on lease liabilities	911	59
	<u>22,403</u>	<u>25,541</u>
<i>Less: Amount capitalised (Note (a))</i>	<u>–</u>	<u>(16,188)</u>
	<u>22,403</u>	<u>9,353</u>

Note:

- (a) Interest expenses capitalised were arising from specific borrowings during the year ended 31 December 2022 (2023: Nil).

8. PROFIT BEFORE TAX

Profit before tax is arrived at after charging:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Director's emoluments	3,105	3,110
Staff's salaries, bonus and allowances	26,155	18,600
Contributions to staff's retirement benefits schemes	2,439	2,163
	<u>31,699</u>	<u>23,873</u>
Total staff costs		
	<u>31,699</u>	<u>23,873</u>
Amortisation of other intangible assets	8,989	4,859
Auditor's remuneration	1,800	1,800
Cost of sales comprise of:		
– Cost of inventories recognised as an expense (<i>Note (a)</i>)	1,282,526	1,077,784
– Documentation transferring fee	13,782	14,402
Depreciation charges		
– property, plant and equipment	52,164	37,702
– right-of-use assets		
– office premise and factories	1,458	2,187
– prepaid lease payments	1,085	846
	<u>1,085</u>	<u>846</u>

Note:

- (a) Costs of inventories recognised as an expense mainly include mining extraction costs and mining ore processing costs of approximately HK\$347,201,000 (2022: HK\$184,523,000); transportation cost of approximately HK\$2,689,000 (2022: HK\$2,172,000); amortisations and depreciation charges of approximately HK\$50,176,000 (2022: HK\$37,303,000) and purchase cost of gold related materials of approximately HK\$858,256,000 (2022: HK\$837,220,000).

9. INCOME TAX EXPENSE

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 2023 and 2022.

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 up to 2030.

* The English translation is for reference only.

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
PRC Enterprise Income Tax		
– Current year	15,259	12,111
– Overprovision in prior years	(401)	–
	<u>14,858</u>	12,111
Deferred tax	32	1,380
	<u><u>14,890</u></u>	<u><u>13,491</u></u>

10. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2023 or since the end of the reporting period (2022: 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:

	2023	2022
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>)	51,454	50,340
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,696,907,837	3,392,272,221
Effect of dilutive potential ordinary shares in respect of outstanding share options	—	4,322,442
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>3,696,907,837</u>	<u>3,396,594,663</u>

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<i>Notes</i>	2023 HK\$'000	2022 <i>HK\$'000</i>
Trade receivables	<i>(a)</i>	10,897	–
Less: allowances		<u>–</u>	<u>–</u>
		10,897	–
Other receivables	<i>(b), (c)</i>	70,472	2,867
Less: allowances		<u>(490)</u>	<u>(490)</u>
		69,982	2,377
Deposits and prepayments		35,642	38,156
Value added tax recoverable		<u>261</u>	<u>252</u>
		116,782	40,785

Notes:

- (a) The following is an aged analysis of trade receivables net of allowance for credited losses presented based on invoice dates/date of delivery of goods:

	2023 HK\$'000	2022 <i>HK\$'000</i>
Within 30 days	10,897	–

- (b) As at 31 December 2023, included in the Group's other receivables balances are debtors with aggregate gross carrying amount of Nil (2022: approximately HK\$608,000) 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.
- (c) As at 31 December 2023, included in the Group's other receivables consist of approximately HK\$31,712,000 (2022: Nil) is pledged by properties held by the guarantors; and HK\$31,074,000 (2022: Nil) representing the cooperation receivables from independent third parties under their respective cooperation agreements for the future exploration of the Group's resources under three exploration sites.

13. OTHER PAYABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Other payables and accruals (<i>Note (a)</i>)	487,844	445,391
Amounts due to related parties (<i>Note (b)</i>)	460,176	426,137
Promissory note payable (<i>Note (c)</i>)	69,162	63,181
	<u>1,017,182</u>	<u>934,709</u>
Analysed for reporting purposes as:		
– Current portion	416,131	419,163
– Non-current portion	601,051	515,546
	<u>1,017,182</u>	<u>934,709</u>

Notes:

- (a) As at 31 December 2023, included in other payables were mainly payable to subcontractors of approximately HK\$329,465,000 (2022: HK\$304,069,000) for mining extraction and construction; and unsecured borrowing from an independent third party of approximately HK\$8,455,000 (2022: HK\$16,792,000) carried at interest free (2022: fixed interest rate of 12% per annum) and repayable on 14 January 2025 (2022: repayable on 14 January 2023). The unsecured borrowing has been settled in full subsequently.
- (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 (2022: 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:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
<i>Contract liabilities arising from:</i>		
Sales of goods	11,989	32,655

The deposit of the Group received on sales of gold products remains as a contract liability until the date the goods are delivered to customer.

Movements in contract liabilities:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Balance as at 1 January	32,655	3,302
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	(32,655)	(3,302)
Increase in contract liabilities as a result of receipt in advance of sales of gold products not yet delivered at year end	11,989	32,655
Balance at 31 December	11,989	32,655

15. ACQUISITION OF SUBSIDIARIES

The acquisition of the subsidiary is determined to be business combinations, and optional centration test is not elected.

On 21 July 2023, the Group acquired 100% equity interest in Grand Gallant Investments Limited and its subsidiaries (“Grand Gallant Group”). Grand Gallant Group is principally engaged in sale of gold bullion, which contains of gold exploration, mining, processing and smelting operations in the PRC and was acquired with the objective of expanding the Group’s gold mining portfolio. The acquisition has been accounted for as acquisition business using the acquisition method.

Consideration transferred

HK\$’000

Consideration shares issued (<i>Note (a)</i>)	393,240
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Note:

- (a) For settlement of consideration of the Group’s acquisition of Grand Gallant Group, the Company issued 678,000,000 ordinary shares with the market price of HK\$0.58 per share on 21 July 2023.

Acquisition-related costs amounting to approximately HK\$795,000 have been excluded from consideration transferred and have been recognised as an expense in the current year, within the “administrative and other expenses” line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition

HK\$’000

Property, plant and equipment	406,953
Right-of-use assets	22,451
Exploration and evaluation assets	53,851
Other intangible assets (i.e. mining licenses)	122,155
Inventories	41,877
Trade and other receivables, deposits and prepayments	86,101
Cash and cash equivalents	94,804
Other payables	(244,254)
Provision for restoration and environmental costs	(795)
Bank borrowings	(294,725)
Tax payables	(19)
Due to a related party	(56,151)
Deferred tax liabilities	(15,088)
Net assets acquired	217,160

Goodwill arising on acquisition:*HK\$'000*

Consideration transferred	393,240
Less: recognised amounts of net assets acquired	<u>(217,160)</u>
Goodwill arising on acquisition	<u><u>176,080</u></u>

Goodwill arose on the acquisition because the acquisition included the assembled workforce and some potential contracts with customers as at the date of the acquisition. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisition is expected to be deductible for tax purposes.

Net cash inflow on acquisition*HK\$'000*

Cash and cash equivalents balances acquired	<u><u>94,804</u></u>
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Impact of acquisition on the results of the Group

Included in the profit for the year is approximately HK\$10,697,000 attributable to the additional business generated by Grand Gallant Group. Revenue for the year includes approximately HK\$194,970,000 generated from Grand Gallant Group.

Had the acquisition of Grand Gallant Group been completed on 1 January 2023, revenue for the year of the Grand Gallant Group would have been approximately HK\$545,658,000, and profit for the year of the Grand Gallant Group would have been approximately HK\$71,108,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2023, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Grand Gallant Group been acquired at the beginning of the current year, the directors of the Company calculated depreciation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

16. 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) 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. The banking facilities guaranteed by the Group to the Borrower has been matured during the year ended 31 December 2023.

FINAL DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 28 May 2024 to Friday, 31 May 2024, 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, 27 May 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the year ended 31 December 2023, the Group's revenue was approximately HK\$1,497,236,000, representing an increase of approximately 20% as compared to revenue of approximately HK\$1,244,864,000 for the corresponding year in 2022. The increase in revenue was mainly attributable to (i) the increase in average selling price of concentrate gold by upward trend of gold; and (ii) including revenue contributed by Grand Gallant Investments Limited and its subsidiaries (the "Grand Gallant Group"), which acquired in July 2023. Detailed analysis is set out in below "Review of Operations" section.

Cost of Sales

During the year ended 31 December 2023, the Group's cost of sales was approximately HK\$1,329,358,000 representing an increase of approximately 20% as compared to cost of sales of approximately HK\$1,105,369,000 for the corresponding year in 2022. The increase in cost of sales was mainly attributable to (i) the decrease in average gold of ore mined for processing of concentrate gold; and (ii) including cost of sales contributed by Grand Gallant Group in year 2023. Detailed analysis is set out in below "Review of Operations" section.

Gross Profit

During the year ended 31 December 2023, the Group's gross profit was approximately HK\$167,878,000, representing an increase of approximately 20% as compared to gross profit of approximately HK\$139,495,000 for the corresponding year in 2022. The increase in gross profit was mainly attributable to the inclusion of the gross profit contributed by Grand Gallant Group in 2023. Detailed analysis is set out in below "Review of Operations" section.

Other Income

During the year ended 31 December 2023, the Group's other income was decreased by approximately HK\$231,000 as compared to other income of approximately HK\$3,115,000 for the corresponding year in 2022. The decrease was mainly due to a decrease in rental income.

Other Net Gains and Losses

During the year ended 31 December 2023, the Group's other net gains was approximately HK\$2,906,000 whilst there was other net losses of approximately HK\$1,161,000 in year 2022. The change was mainly attributable from the gain on modification of other borrowing offsetting against the write off of property, plant and equipment and exploration and evaluation assets in year 2023.

Administrative and other Expenses

During the year ended 31 December 2023, the Group's administrative and other expenses was increased by approximately HK\$14,742,000 as compared to administrative and other expenses of approximately HK\$61,599,000 for the corresponding year in 2022. The increase was primarily due to the inclusion of the administrative and other expenses incurred by the Grand Gallant Group in year 2023.

Finance Costs

During the year ended 31 December 2023, the Group's finance costs was increased by approximately HK\$13,050,000 as compared to finance costs of approximately HK\$9,353,000 for the corresponding year in 2022. The increase was mainly due to the consolidation of Grand Gallant Group's interest expense on bank borrowings in year 2023.

Income Tax Charge

During the year ended 31 December 2023, the Group's income tax expense was increased by approximately HK\$1,399,000 as compared to income tax expense of approximately HK\$13,491,000 for the corresponding year in 2022. The increase was mainly due to an increase in the overall gross profit in year 2023.

Profit for the Year Attributable to Owners of the Company

During the year ended 31 December 2023, the Group's profit for the year attributable to owners of the Company was approximately HK\$51,454,000, representing an increase of approximately 2% from approximately HK\$50,340,000 in year 2022.

Net Asset Value Per Share*

The Group's net asset value per share increased by 1% from HK\$59.9 cents in year 2022 to HK\$60.5 cents in year 2023.

* 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 operations is sale of mine-produced gold, including gold concentrate, gold bullion and related products, that contains of gold exploration, mining, processing and/or smelting operations.

For the financial year ended 31 December 2023, the Group's revenue from this operation amounted to approximately HK\$637,693,000, representing an increase of approximately 57% from approximately HK\$406,442,000 for the year 2022 and was primarily contributed by (i) an increase in average selling price of concentrate gold by upward trend of gold from RMB380 per gram for the year 2022 to RMB454 per gram for the year 2023; and (ii) the inclusion of revenue amounted of approximately HK\$194,970,000 contributed from Grand Gallant Group in year 2023.

The cost of sales from this operation amounted to approximately HK\$470,768,000, representing an increase of approximately 76% from approximately HK\$268,057,000 for the year 2022. The increase in cost of sale was mainly attributed by (i) a decrease in average gold grade of ore mined for processing of concentrate gold from 5.15 gram per tonne for the year 2022 to 3.60 gram per tonne for the year 2023, which directly reduced the gross profit and its margin; and (ii) the inclusion of cost of sales amount of approximately HK\$147,113,000 generated from Grand Gallant Group in year 2023.

As results, gross profit from this operation amounted to approximately HK\$166,925,000 (gross profit margin 26.2%), representing an increase in approximately 21% as compared with gross profit of approximately HK\$138,385,000 (gross profit margin 34.0%) for the year 2022.

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 2023, the volume of sale of gold bullion was approximately 1.95 tonnes (2022: 2.05 tonnes). Approximately HK\$859,543,000 (2022: HK\$838,422,000) of revenue and approximately HK\$858,590,000 (2022: HK\$837,312,000) of cost of sales were contributed from this operation in year 2023. Gross profit from this operation was thin and amounted to approximately HK\$953,000 (2022: HK\$1,110,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2023, the Group had total assets and net assets amounted of approximately HK\$4,554,860,000 (2022: HK\$3,650,157,000) and approximately HK\$2,461,419,000 (2022: HK\$2,033,356,000), respectively. The current ratio was 0.35 as compared to 0.28 as of last year end date.

As at 31 December 2023, the Group had cash and cash equivalents of approximately HK\$157,887,000 (2022: HK\$143,105,000), and most of which were denominated in Renminbi and Hong Kong dollars.

As at 31 December 2023, the Group had bank and other borrowings of approximately HK\$563,710,000 (2022: HK\$160,905,000) which were denominated in Renminbi. For the bank and other borrowings under fixed rates of approximately HK\$106,309,000 (2022: HK\$90,377,000) carried at fixed rates at 4% (2022: fixed rate at 12%) per annum. For the bank and other borrowings under variable rates of approximately HK\$457,401,000 (2022: HK\$70,528,000), the interest rates are loan prime rate ("LPR")+0.47%, LPR+1.55%, LPR+1.75%, LPR+1.85%, LPR+1.95%, LPR+2.05%, LPR+2.30%, LPR+2.60%, and LPR+2.95% per annum (2022: LPR+2.025%, LPR+2.60% and LPR+2.95% per annum). The increase in total borrowings is mainly resulting from the consolidation of Grand Gallant Group's bank and other borrowings for its gold mining operation in year 2023. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 24.3% (2022: 8.5%).

As at 31 December 2023, the Group has pledged certain property, plant and equipment, prepaid lease payments and other intangible assets with carrying amounts of approximately HK\$57,255,000 (2022: Nil), HK\$21,518,000 (2022: Nil) and HK\$119,115,000 (2022: Nil) respectively to secure bank borrowings granted to the Group.

As at 31 December 2023, the Group had promissory note of approximately HK\$69,162,000 (2022: HK\$63,181,000). 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

On 21 July 2023, the Company issued 678,000,000 new ordinary shares as the consideration paid for the acquisition of the entire equity interests in Grand Gallant Investments Limited (as stated in heading "Material acquisitions and disposals of subsidiaries, associated companies and joint ventures" as below).

As at 31 December 2023, the Company had 4,070,272,221 ordinary shares in issue with total shareholders' fund of the Group amounting to approximately HK\$407,027,000.

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

On 21 July 2023, the Group acquired the entire equity interests in Grand Gallant Investments Limited, which was satisfied by the issue and allotment of 678,000,000 ordinary shares of the Company. The details are set out in Note 15.

Saved as disclosed above, there were no other material acquisitions or disposals of subsidiaries and associated companies and joint ventures during the year ended 31 December 2023.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any contingent liabilities (2022: the Group had a contingent liability and detail is set out in Note 16).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group had approximately 8 and 412 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\$31,699,000 (2022: HK\$23,873,000) for the year ended 31 December 2023.

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

In 2023, challenges such as persistent geopolitical and macro-economic uncertainties impacted the global economy, while Mainland China's economy showed signs of recovery from the impact of the COVID-19 pandemic. Against this backdrop, the Group's priority for 2023 remained to explore investment opportunity to enhance our gold mining portfolio and expand our market share. As part of a major development milestone, the Group acquired the entire equity interest in Grand Gallant Investments Limited and its subsidiaries (the "Grand Gallant Group") on 21 July 2023. As published in the announcement dated 7 July 2023, Grand Gallant Group is principally engaged in the exploration and mining of gold and related minerals in Subei County and Guazhou County by undergrounds mining method and operates its own processing plants in Subei County.

In response to foreseeable demand and in compliance with new government requirements, the Group suspends the processing plant's operation in Tongguan County in March 2024 and begins the construction of a new tailings plant in Tongguan County. It is estimated to be completed in about six months. Mining activities in Tongguan County will continue during the suspension of the operation at the processing plant. After the new tailings plant is completed, the processing plant will be resumed at that time and process concentrate gold for sale, thereby minimising the impact on operation. Nevertheless, the production and results of gold mining operation in Tongguan County will be affected by the suspension in year 2024. Moreover, driven by the gold mining business operated by Grand Gallant Group, the Company's management expects that overall performance of the Group has entered a growth stage in year 2024.

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 United States (U.S.) interest rate, global economic environment and stability. As of middle of March 2024, the gold prices hit a record high. According to a report released by World Gold Council, 2023 is another strong year for central bank gold demand. It proved that central banks' enthusiasm for gold has not stopped, especially amid the intensification of international geopolitical and economic uncertainties, and gold still serves its solid role as a safe-haven asset. In addition, the outbreak and persistence of systemic risks in small and medium-sized banks in the U.S. have exposed the stability of the financial system to risks and uncertainties, prompting investors to reconsider gold's investment value amid financial market fluctuations. At the same time, the market consensus on the peak of U.S. interest rates and expectations of an interest rate cut in year 2024 will continue to be a support point for gold prices. 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 donation and community activities.

Looking forward, the Company's management is optimistic about the Group's operating performance in future, while staying vigilant of various ongoing uncertainties. As always, the Group will continue to explore various long-term value-added investment opportunities for shareholders and reiterate its commitment to maximizing shareholder value.

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 2023. 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 2023, the Company has applied the principles and code provisions of the Corporate Governance Code as set out in Appendix 14 (which has been re-numbered as Appendix C1 with effect from 31 December 2023) 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 2023, 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 2023. 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 2 June 2023 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 (which has been re-numbered as Appendix C3 with effect from 31 December 2023) to the Listing Rules. The Company has made specific enquiry of all directors of the Company regarding any non-compliance with the Model Code and its code of conduct regarding directors' securities transaction during the year ended 31 December 2023, 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 2023 have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF MESSRS. CL PARTNERS 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 2023 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. CL Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. CL Partners 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 Messrs. CL Partners 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 2023 annual report of the Company will be made available on the above websites in due course.

The 2023 annual financial information set out above does not constitute the Group's statutory financial statements for the financial year ended 31 December 2023. Instead, it has been derived from the Group's audited consolidated financial statements for the financial year ended 31 December 2023, which will be included in the Company's 2023 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, 25 March 2024

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.