Prospective [REDACTED] should read this section in conjunction with the consolidated financial statements, including the notes thereto, as set out in the Accountants' Report in Appendix I to this document. We have included in this document the Accountants' Report for FY2020, FY2021, FY2022 and 6M2023, which has been prepared in accordance with IFRSs. Prospective [REDACTED] are advised to read the whole of the Accountants' Report set out in Appendix I to this document and do not rely solely on the information provided in this section.

The following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. We caution you that our business and financial performance are subject to substantial risks and uncertainties some of which are beyond our control. Our actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information provided under the sections headed "Risk factors" and "Forward-looking statements" in this document.

OVERVIEW

We are a gold exploration, mining and processing company established in 2005 and located in Yantai city of the Shandong Province in China. We explore and mine gold-containing ore, process it into gold concentrate, and sell gold bullion of Au99.95 refined by third party smelters derived from gold concentrate processed by us. We sell the gold bullion to the gold smelters or their subsidiaries, who are registered with the Shanghai Gold Exchange, for their subsequent sales on the Shanghai Gold Exchange.

During the Track Record Period, our revenue amounted to approximately RMB361.0 million, RMB247.9 million, RMB418.4 million and RMB196.7 million, respectively, while our net profit amounted to approximately RMB114.4 million, RMB58.7 million, RMB121.0 million and RMB52.8 million, respectively. The following discussion and analyses are based on the financial results of our Group during the Track Record Period as presented in the Accountants' Report contained in Appendix I to this document.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that key factors affecting our results of operations and financial position include the following:

Gold price

Our revenue during the Track Record Period is derived from the sale of gold bullion to the gold smelters or their subsidiaries, who are registered with the Shanghai Gold Exchange, for their subsequent sales on the Shanghai Gold Exchange. The sales prices of gold bullion are primarily determined by us on the date of placing a sales order with reference to the prevailing Au (T+D) spot prices quoted on the Shanghai Gold Exchange, which in turn have historically correlated with international gold prices. Historically, while the gold price has increased in value over time, it has fluctuated widely and there can be no assurance that the gold price will not continue to fluctuate in the future or that such prices will otherwise remain at sufficiently high levels to support our profitability and cash flow. As such, fluctuations in gold price directly affect our results of operations.

In addition, the average selling price of our gold bullion sales recognised during the Track Record Period was also affected by the timing effect on delivery of gold bullion over a long settlement period. Since there is no restriction imposed on the settlement period of gold bullion under the sales contract and the sale price is fixed when we place a sales order, our Group may record an average selling price in a year which is higher or lower than the PRC gold spot price when we delivered the gold bullion to our customer. During the Track Record Period, our Group recorded average selling price of RMB365.6 per gram, RMB384.0 per gram, RMB385.7 per gram and RMB420.1 per gram, respectively, while the average gold spot price in the PRC was RMB387.1 per gram in FY2020, RMB374.3 per gram in FY2021, RMB392.1 per gram in FY2022 and RMB433.8 per gram in 6M2023, according to the F&S Report. For further details, please see the section headed “Industry overview — Gold industry in China and Shandong — Gold price” in this document.

Fluctuations in gold price are inherently difficult to predict, being dependent on numerous factors such as (i) global macro-economic and political events and sentiments; (ii) supply and demand for gold; (iii) interest rate and inflation rate expectations; (iv) actual and predicted behavior of central banks in relation to gold acquisition and disposals; and (v) performance of exchange traded gold funds and speculative trading in gold. If the gold price should fall below or remain below our cost of production for any sustained period, our business and results of operations would be materially and adversely affected. Please refer to paragraph headed “Sensitivity analysis” below in this section to the document for further details.

Production and sales volume

Our revenue is directly affected by our production and sales volume of gold because all of our revenue is derived from the sales of gold we produced. As all of the gold we produced is sold with reference to the spot price as quoted on the Shanghai Gold Exchange, our sales volume of gold is substantially the same as our production volume of gold with small discrepancies due to a number of factors, including the timing of revenue recognition and the gold inventory. During the Track Record Period, our ore mined volume was approximately 1,589.1 kt, 970.7 kt, 1,989.2 kt and 659.4 kt, and ore processed volume was approximately 1,590.1 kt, 1,023.8 kt, 1,990.9 kt and 996.7 kt, respectively. Further, during the Track Record Period, our gold production volume was approximately 991.4 kg, 576.9 kg, 1,072.5 kg and 472.5 kg, and sales volume of gold bullion of Au99.95 was approximately 987.4 kg, 645.5 kg, 1,084.9 kg and 468.1 kg, respectively. For further details, please refer to the section headed “Business — Our operations — Mining” in this document.

Our gold production and sales volumes are, among others, predominantly subject to the capacity, efficiency and stable production of our mining and processing operations. As at 30 June 2023, our ore processing plant has an annual ore processing capacity of approximately 2,000 kt, which is sufficient to support our planned production growth in near future. However, any interruption of our mining operation or breakdown of our ore processing plant or failure in sourcing third party ore processing subcontractor when required could materially and adversely affect our gold production and sales volume and in turn affect our business, financial conditions and results of operation. Our production and sales volume may also be affected by changes in gold prices because a decrease in gold prices may cause current economical reserves to become less economical or uneconomical to mine. In addition, fatal accidents, injuries and natural phenomena that are beyond our control, such as weather conditions, floods and rocks slides, may temporarily suspend part of our mining operations and affect our gold production volume.

Cost of sales

While we experienced growth in revenue during the Track Record Period, our gross profit margin increased, mainly as a result of the increase in average selling price of our gold bullion from approximately RMB365.6 per gram in FY2020 to RMB384.0 per gram in FY2021, RMB385.7 per gram in FY2022 and further to RMB420.1 per gram in 6M2023. Nevertheless, if the gold price falls which is beyond our control, our ability to control cost of sales will be an important factor in maintaining or increasing our gross profit margins and our overall profitability. For FY2020, FY2021, FY2022 and 6M2023, our cost of sales was approximately RMB166.0 million, RMB107.8 million, RMB199.8 million and RMB104.3 million, respectively. According to Frost & Sullivan, the total production cost of gold mining in China has increased continuously in recent years due to the increase in various costs such as raw material costs, labour costs and energy costs. Further, our average production cost was RMB167.4 per gram, RMB186.8 per gram, RMB186.3 per gram and RMB220.7 per gram during the Track Record Period, while the industry average of which was RMB233.2 per gram, RMB279.6 per gram and RMB298.0 per gram for FY2020, FY2021 and FY2022, respectively. According to Frost & Sullivan, the fluctuations in the average production costs of various gold producers during the Track Record Period are generally related to (1) the continuous increase in various costs of production, such as raw material costs, depreciation and amortisation, labour costs and energy consumption costs, primarily as a result of COVID-19 pandemic; and (2) the changes in gold production volume since, for example, an increase in production volume would reduce the fixed costs shared by each unit of gold produced and hence, reducing the average production cost. Our average production cost increased in FY2021, which was in line with the industry trend. Such increase was mainly attributable to the decrease in production volume of our Group and other gold producers in Shandong Province due to suspension of operation as ordered by the PRC government for safety inspection. In addition, our Directors believe that the production costs and cost structures of different gold mining companies are, however, different because of the following:

(a) different gold mining companies have their own portfolio of open-pit and/or underground gold mines, which could affect the overall cost structure and capital required in running the gold mines;

(b) the operating costs of an open-pit mine are relatively lower than those of an underground mine, mainly attributable to the fact that the underground mine requires more capital expenditure (and hence, greater depreciation charges), to construct the mining infrastructure underground and procure the equipment for conducting excavation activities underground, construct the facilities to bring up the ore, and other structure and fixed costs for safety measures and prevention of uncertainties in underground situation;

(c) difference in level of technical expertise, structure and characteristics of gold mines will lead to difference in efficiency of gold grade control and hence, the feed grade and processing costs vary among gold mining companies;

(d) the nature and mix of ore deposits are different for each mine. Among open-pit mines in China, the processing costs will be much higher for mine having more than one kind of ore which have negative chemical reaction in separating them from gold;

(e) the variation in extent on utilisation of gold reserves among gold mining companies because of different scale of operation. According to Frost & Sullivan, industry peers with sizable operating scale typically do not process ore rocks with relatively low gold grade except when they could achieve economies of scale in production, our Group managed to extract and process low-grade ore rocks with feed grades ranging from 0.54 to 0.70 g/t Au during the Track Record Period. Hence, as our Group was permitted to produce more gold with renewed mining licence in FY2020, the increase in our Group's gross profit was relatively higher than industry peers as we fully utilised resources; and

(f) the cost structure is different at different stages of development in the gold mines.

In light of the foregoing and the fact that the business of a gold mining company is entirely based on the number of gold mines and amount of gold reserves, it would not be uncommon for gold mining companies to experience fluctuation in cost of sales and different proportion of cost structure at different stage of development in the gold mines. The cost of sales may increase significantly due to increase in mining and production volume, major infrastructure development in gold mines or substantial increase in labour costs.

Please refer to paragraph headed "Sensitivity analysis" below in this section to the document for further details.

Our mine developments and capital expenditures

According to the F&S Report, the gold industry is a capital-intensive industry that requires significant investment for a large number of equipment, land resources, compliance with stringent requirements for safety production and environmental protection; to adopt resource exploration, recycle procedure and merger and acquisition activities to ensure sustainable and sufficient mine reserves; and to invest in advanced technology to cope with the rising difficulty and complexity of gold mining procedure due to the decrease in gold grade and the increase in mining depth. From 2011 and up to 2019, we conducted substantially all of our mining operations at our Songjiagou Open-Pit Mine. In February 2016, we have obtained the mining licence for our Songjiagou Underground Mine and spent approximately RMB97.7 million for the construction of the underground mine, including the installation of all ancillary infrastructure where full production capacity of 300 tonnes of ore is being achieved on a daily basis. Songjiagou Underground Mine commenced its commercial production since September 2019. We expect that these two mines will continue to be our principal operating mines in the next few years. In the event that we decide to construct additional mining infrastructure or refurbish our aging mining and processing equipment or we are required to replace these equipment due to wear and tear, we may incur substantial capital expenditure. During the Track Record Period, our total capital expenditures on plant, properties and equipment were approximately RMB16.6 million, RMB35.4 million, RMB44.4 million and RMB39.6 million, respectively.

Apart from the intensive capital expenditure that may be required for maintaining the operations of our two existing mines, we will continue to invest in expanding our scale of operations. As part of our growth strategies, we intend to, among others, acquire one gold mining asset. For more details, please refer to the section headed "Business — Business strategies" in this document. In addition to the acquisition cost of such gold mining asset, the amount of additional capital expenditure to be incurred for its operation would depend on our assessment of the status and condition of its plant and equipment, which could be material.

Capital expenditures today will increase our future depreciation costs, which will lead to an increase in our future cost of sales. Therefore, our management needs to consider, on an ongoing basis, the capital expenditures necessary to achieve our sustainable production objectives and additional contribution to revenue growth against other demands on cash as well as the additional future increase in cost of sales attributable to the additional depreciation costs. In addition, acquisitions and strategic investments involve numerous risks, including difficulties in the assimilation of operations, corporate culture and personnel of the acquired business, diversion of management's attention from other business concerns, risks of entering into new markets and the potential loss of key employees of the acquired business. All of these factors may materially and adversely affect our business, financial condition and results of operations.

PRC government control and policies on the gold mining industry

The PRC local, provincial and central authorities exercise a substantial degree of control over the gold and mining industry in China. Our operations are subject to a range of PRC laws, regulations, policies, standards and requirements in relation to, among other things, exploration, mining, production, taxation, labour standards, occupational health and safety, waste treatment and environmental protection and operation management. The PRC government has full authority to grant, renew and terminate the permits and licences in respect of exploration, mining and production activities. While we expect to be able to renew our licences and permits, if for any reasons we are unable to do so, our business and results of operations would be materially and adversely affected.

SENSITIVITY ANALYSIS

Our financial performance is principally affected by gold price, raw materials costs and utilities expenses, which are interlinked. The following sensitivity analysis illustrates the impact of hypothetical changes on our profit before tax in relation to the percentage changes to average selling price of gold, raw materials costs, utilities expenses, direct labour costs and subcontracting costs, assuming all other factors remain unchanged, based on the historical fluctuations of the average selling price of gold, raw materials costs, utilities expenses and subcontracting costs, respectively, during the Track Record Period:

Impact on profit before tax by fluctuation of average selling price of gold	**FY2020**	**FY2021**	**FY2022**	**6M2023**
		(RMB in thousands)		
+/–1%	3,610	2,479	4,184	1,967
+/–5%	18,050	12,394	20,921	9,833
+/–10%	36,100	24,787	41,841	19,666

Impact on profit before tax by fluctuation of raw materials costs	**FY2020**	**FY2021**	**FY2022**	**6M2023**
		(RMB in thousands)		
+/–1%	306	190	396	180
+/–5%	1,532	952	1,981	899
+/–10%	3,065	1,905	3,963	1,798

Impact on profit before tax by fluctuation of utilities expenses	**FY2020**	**FY2021**	**FY2022**	**6M2023**
		(RMB in thousands)		
+/–1%	300	164	338	171
+/–5%	1,502	820	1,692	857
+/–10%	3,004	1,640	3,383	1,715

Impact on profit before tax by fluctuation of direct labour costs	**FY2020**	**FY2021**	**FY2022**	**6M2023**
		(RMB in thousands)		
+/–1%	150	111	291	162
+/–5%	749	553	1,456	808
+/–10%	1,498	1,106	2,912	1,616

Impact on profit before tax by fluctuation of subcontracting costs	**FY2020**	**FY2021**	**FY2022**	**6M2023**
		(RMB in thousands)		
+/–1%	267	126	256	95
+/–5%	1,333	629	1,280	477
+/–10%	2,666	1,259	2,561	953

Prospective [REDACTED] should note that the above analysis on the historical financial information is based on assumptions and is for reference only and should not be viewed as actual effect.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the International Accounting Standards Board. All IFRSs effective for the accounting period commencing from 1 January 2022, together with the relevant transitional provisions, have been early adopted by our Group in the preparation of the historical financial information throughout the relevant periods. The historical financial information has been prepared under the historical cost convention. All intra-group transactions and balances have been eliminated on consolidation.

Possible impact of amendments, new standards and interpretations issued but not yet effective for the Track Record Period

Our Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in our audited consolidated financial statements.

Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[1,3]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[1]

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

2 No mandating effective date yet determined but available for adoption.

3 As a consequence of 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024.

We anticipate that the application of the new and revised IFRSs will have no material impact on our Group's financial position and financial performance in the foreseeable future.

SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgments relating to accounting items. The estimates and assumptions we use and the judgments we make in applying our accounting policies have a significant impact on our financial position and operating results. Our management continually evaluates such estimates, assumptions and judgments based on past experience and other factors, including industry practices and expectations of future events that are believed to be reasonable under the circumstances. There has not been any material deviation between our management's estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

When reviewing our consolidated financial statements, you should consider (i) our significant accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, including any changes in accounting policy and disclosures, are set forth in detail in Notes 2.3, 2.4 and 3 to the Accountants' Report in Appendix I to this document.

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income for the periods indicated, details of which are set out in the Accountants' Report in Appendix I to this document.

	FY2020	FY2021	FY2022	6M2022	6M2023
				(unaudited)	
	(RMB in thousands)				
REVENUE	360,999	247,872	418,413	217,331	196,659
Cost of sales	(166,013)	(107,767)	(199,823)	(99,981)	(104,277)
GROSS PROFIT	194,986	140,105	218,590	117,350	92,382
Other income and gains	3,973	3,613	13,403	8,392	5,428
Administrative expenses	(21,480)	(22,490)	(33,711)	(14,569)	(16,655)
Other expenses	(2,930)	(30,194)	(10,419)	(1,036)	—
Finance costs	(5,236)	(3,824)	(2,955)	(1,428)	(1,657)
PROFIT BEFORE TAX	169,313	87,210	184,908	108,709	79,498
Income tax expenses	(54,890)	(28,494)	(63,918)	(36,237)	(26,729)
PROFIT FOR THE YEAR	114,423	58,716	120,990	72,472	52,769
Profit attributable to:					
Owners of the parent	82,403	41,624	83,214	51,438	37,261
Non-controlling interests	32,020	17,092	37,776	21,034	15,508
	114,423	58,716	120,990	72,472	52,769
OTHER COMPREHENSIVE INCOME					
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	17,651	7,614	(19,407)	(13,437)	(9,266)
Other comprehensive income/(loss) that may be not reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of financial statements of the Company	(16,430)	(8,895)	29,543	13,500	10,459
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	1,221	(1,281)	10,136	63	1,193
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	115,644	57,435	131,126	72,535	53,962
Total comprehensive income attributable to:					
Owners of the parent	83,624	40,343	93,350	51,501	38,454
Non-controlling interests	32,020	17,092	37,776	21,034	15,508
	115,644	57,435	131,126	72,535	53,962

DESCRIPTION OF PRINCIPAL COMPONENTS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We generate all of our revenue from the sale of gold bullion to two smelters (or in respect of one of them, its subsidiary) in the PRC, which are Independent Third Parties. After ores are mined from our Songjiagou Open-Pit Mine and Songjiagou Underground Mine, they are processed into gold concentrates in our processing plant. The gold concentrates are then transported to the smelters for refining into gold bullion. These gold bullions are sold to the smelters or their subsidiaries for their subsequent sale on the Shanghai Gold Exchange during the Track Record Period, which is in line with industry practice according to the F&S Report, at the agreed sales price determined by us on the date of placing the relevant sales order with reference to the prevailing Au (T+D) spot price as quoted on the Shanghai Gold Exchange.

We recognise revenue from the sales of gold bullion when the gold bullion is delivered to our customers, being the selling division of our gold smelters. Given that our customers generally settle the sales amount of the gold bullion shortly after the delivery of gold bullion as aforementioned, we do not have trade receivables at the end of each reporting periods during the Track Record Period. For details, please see the section headed "Business — Sales and customers" in this document.

The following table sets forth the breakdown of our revenue and sales volume for the periods indicated.

	FY2020		**FY2021**		**FY2022**		**6M2022**		**6M2023**	
	Revenue	**Volume**	**Revenue**	**Volume**	**Revenue**	**Volume**	**Revenue**	**Volume**	**Revenue**	**Volume**
	RMB'000	*kg*	*RMB'000*	*kg*	*RMB'000*	*kg*	*RMB'000*	*kg*	*RMB'000*	*kg*
Gold sales	360,999	987.4	247,872	645.5	418,413	1,084.9	217,331	568.2	196,659	468.1

The following table sets forth our ore mined volume, ore processed volume and gold production volume for the period indicated:

	FY2020	FY2021	FY2022	6M2023
Permitted annual production volume				
Songjiagou Open-Pit Mine (kt)	900.0	900.0	900.0	900.0 *(Note 1)*
Songjiagou Underground Mine (kt)	90.0	90.0	90.0	90.0 *(Note 1)*
Total (kt)	990.0	990.0	990.0	990.0
Permitted annual ore stripping volume				
Songjiagou Open-Pit Mine (kt) *(Note 4)*	8,100.0	8,100.0	8,100.0	8,100.0
Songjiagou Underground Mine (kt)	90.0	90.0	90.0	90.0
Total (kt)	8,190.0	8,190.0	8,190.0	8,190.0
Ore mined volume				
Songjiagou Open-Pit Mine (kt)	1,499.2	960.0	1,899.2	615.1
Songjiagou Underground Mine (kt)	89.9	10.7	90.0	44.3
Total (kt)	1,589.1	970.7	1,989.2	659.4
Ore processed volume				
Songjiagou Open-Pit Mine (kt)	1,500.2 *(Note 3)*	1,013.1 *(Note 3)*	1,900.9 *(Note 3)*	952.4 *(Note 3)*
Songjiagou Underground Mine (kt)	89.9	10.7	90.0	44.3
Total (kt)	1,590.1	1,023.8	1,990.9	996.7
Gold production volume				
Songjiagou Open-Pit Mine (kg)	935.3	570.7	1,024.0	451.5
Songjiagou Underground Mine (kg)	56.1	6.2	48.5	21.0
Total *(Note 2)* (kg)	991.4	576.9	1,072.5	472.5

Notes:

1. This is annual volume for FY2023.

2. Actual volume of gold realised after smelting.

3. The total ore processed volume from the Songjiagou Open-Pit Mine was more than its total ore mined volume in each FY2020, FY2021, FY2022 and 6M2023 because of ore stockpile from the previous period.

4. The permitted annual ore stripping volume is equivalent to the permitted annual production volume times the average stripping ratio of 9.00 according to the utilisation plan as submitted by Yantai Zhongjia and approved by the government. The permitted annual ore stripping volume is observed by us as the limit to the volume of ores that we can send to the processing plant for processing, as indicated by the ore processed volume.

Our Directors confirmed that our Group's production activities, as indicated by the permitted annual production volume, had not exceeded any of the permitted annual ore stripping volume that would lead to over-production as prohibited under relevant PRC laws and regulations during the Track Record Period and up to the Latest Practicable Date.

The following table sets forth the key statistic of our gold sales for the periods indicated.

	FY2020	**FY2021**	**FY2022**	**6M2022**	**6M2023**
				(unaudited)	
Revenue from gold sales (RMB in million)	361.0	247.9	418.4	217.3	196.7

	FY2020	**FY2021**	**FY2022**	**6M2022**	**6M2023**
Sales volume (kg)	987.4	645.5	1,084.9	568.2	468.1
Our average selling price (RMB/gram)(1)	365.6	384.0	385.7	382.5	420.1
Average gold spot price in the PRC (RMB/gram)(2)					
— From January to June	369.1	377.2	391.7	391.7	433.8
— From July to December	403.6	372.0	392.4	—	—
— From January to December	387.1	374.3	392.1	—	—

Notes:

(1) Calculated as our revenue from gold sales divided by sales volume.

(2) The monthly average gold spot price was extracted from the Shanghai Gold Exchange for the periods indicated, according to the F&S Report. For reference, the minimum and maximum monthly average gold spot price during the Track Record Period was RMB347.0 per gram in January 2020 and RMB455.7 per gram in August 2023.

Our sales volume decreased from approximately 987.4 kg (or 31,745.6 ounces) in FY2020 to approximately 645.5 kg (or 20,753.3 ounces) in FY2021, mainly due to (i) the decrease in ore processed from 1,590.1 kt in FY2020 to 1,023.8 kt in FY2021 as a result of the Temporary Operation Suspension to enable government authority to carry out safety inspection in accordance with the requirements of local authorities following two safety incidents occurred in Shandong in January and February 2021; and (ii) the decrease in feed grade of our ore processed from 0.70 g/t Au in FY2020 to 0.62 g/t Au in FY2021. The decrease in feed grade was mainly because our Songjiagou Underground Mine, which has higher feed grade than our Songjiagou Open-Pit Mine, was suspended from operation during most of the time of FY2021 as discussed above.

Our sales volume increased from approximately 645.5 kg (or 20,753.3 ounces) in FY2021 to approximately 1,084.9 kg (or 34,880.3 ounces) in FY2022 mainly due to the increase in gold production from 576.9 kg in FY2021 to 1,072.5 kg in FY2022 as we operated in the ordinary and usual circumstances in absence of the Temporary Operation Suspension that affected our production volume in FY2021.

Our sales volume decreased from approximately 568.2 kg (or 18,268.1 ounces) in 6M2022 to 468.1 kg (or 15,049.8 ounces) in 6M2023 mainly due to the decrease in gold production volume of approximately 16.3% from approximately 564.3 kg in 6M2022 to approximately 472.5 kg in 6M2023 due to the FY2023 Temporary Pause of Mining Activities.

Our selling price of gold bullion was determined with reference to the prevailing Au (T+D) spot price quoted on the Shanghai Gold Exchange. When we decide to sell our gold, we will place a sales order to our customers which specifies the volume of gold bullion to be sold and the selling price of the gold bullion to be sold under such sales order. The sales orders are delivered to and confirmed by our customers. We do not fix a delivery date at the time as the sales prices for the gold bullion were fixed upon the placement of sales orders. Nevertheless, based on the mutual understanding between Shandong Guoda and Shandong Humon and us, the sales orders placed by us are typically fulfilled within one year. In practice, we will also provide an expectation to our customers regarding the expected time for completing the sales order (i.e. the timing of delivering the gold bullion) through our routine communication with our customers. The selling prices as specified in the sales orders are determined with reference to the prevailing Au (T+D) spot price as quoted on the Shanghai Gold Exchange on the day of the sales order. The Au (T+D) spot price is adopted even if the date of the sales order and the date of actual delivery to customers were the same. During the Track Record Period, the variance between the agreed prices on sales orders and the average Au (T+D) spot prices on the dates of sales orders are all less than ±2%. Accordingly, our sales pursuant to each sales order are concluded in batches such that revenue is recognised each time when our gold bullion is delivered from the smelting division of the gold smelters (where our gold bullions are kept after smelting) to the division in-charge of selling of gold bullion (i.e., our customers) and accepted by our customers. Respective settlements are also received in batches after the delivery of gold bullion in batches within the same sales order. In particular, the smelting fees and sales proceeds of gold bullion with Shandong Guoda and Shandong Humon are settled separately in gross. Please refer to the section headed "Business — Sales and customers" on the factors we consider in placing a sales order. During the Track Record Period, the monthly average gold spot price generally exhibited an upward trend despite the fact that price drops occurred in the fourth quarter of FY2020 and first quarter of FY2021. In FY2020, our average selling price was approximately RMB365.6 per gram which was in line with the increasing gold spot price in the PRC during the period. In FY2020, we placed sales orders and hence, fixed the selling price of most our gold bullion sales during the first half of a year. As such, the time of placing our sales orders is more relevant to the average selling price of gold realised by us, than the actual sales of gold (i.e. upon our delivery of gold and the acceptance by our customers) made by us. Therefore, our average selling prices during FY2020 were close to the average gold spot price during the first half of FY2020. While gold mining businesses, in particular their operation, are generally not subject to seasonality as confirmed by Frost & Sullivan, our sales orders placed in FY2020 were concentrated in the first half of the year. This was primarily because we were satisfied with the prevailing market prices of gold in the first half of FY2020 and hence, decided to secure the revenue and profit to be realised by placing the relevant sales orders with sale price of gold fixed at the said market prices. Although it is a normal market practice for mining companies to fix the sale price of gold in sales order placed, different mining companies may have different business strategies and therefore, may not exhibit the same pattern of placement of sales orders as us. The volume of sales orders placed in the first half of a year represented approximately 99.9% of the total volume of sales orders placed during FY2020.

In FY2021, our average selling price continued to increase to approximately RMB384.0 per gram despite the fact that the average gold spot price decreased year-on-year. We were able to record an average selling price higher than the average PRC gold spot price during FY2021, mainly due to our success in fixing a high selling price in two batches of gold bullion sales near the end of May and July 2021, respectively which were close to the highest gold spot price in FY2021. Further, we recognised certain amount of gold bullion sales in the first quarter of FY2021 of which the sales order was placed and hence, the selling price was fixed back in May 2020 when the PRC's gold spot price was in a period approaching to the peak during the Track Record Period. The sales volume of the abovementioned gold bullion sales represented approximately 78% of our total sales volume during FY2021.

Our average selling price for FY2022 increased slightly to approximately RMB385.7 per gram as compared to RMB384.0 per gram for FY2021 mainly because of the PRC's gold spot price remained relative high during 2022 primarily due to the recent Russia-Ukraine tensions and the concern of economy recession. Such average selling price of gold realised by us during FY2022 was slightly lower than the average gold spot price in the PRC during FY2022, mainly attributable to the sales orders placed by us in January and early February 2022 when the gold spot price was relatively low.

Our average selling price increased from approximately RMB382.5 per gram in 6M2022 to RMB420.1 per gram in 6M2023, representing an increase of approximately 9.8%. Such increase was mainly because of the PRC's gold spot price remained relative high during the first half of 2023 due to increase in demand for safe-haven products.

Cost of sales

The following table sets forth the components of our cost of sales and their respective percentages in the total cost of sales for the periods indicated.

	FY2020		FY2021		FY2022		6M2022		6M2023	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
							(unaudited)			
	(RMB in thousands, except percentages)									
Depreciation and amortisation	37,556	22.6	17,350	16.1	45,130	22.6	22,383	22.4	23,231	22.3
Subcontracting costs	26,660	16.1	12,589	11.7	25,608	12.8	13,876	13.9	9,535	9.1
Utilities expenses	30,042	18.1	16,400	15.2	33,831	16.9	17,424	17.4	17,149	16.4
Raw materials costs	30,649	18.5	19,048	17.7	39,628	19.8	19,480	19.5	17,979	17.2
Direct labour costs	14,978	9.0	11,062	10.3	29,119	14.6	15,213	15.2	16,157	15.5
Other production overheads(1)	12,286	7.4	11,924	11.1	9,681	4.9	2,767	2.8	6,015	5.8
Other taxes(2)	12,863	7.7	8,875	8.2	15,065	7.5	7,804	7.8	7,061	6.8
Changes in inventories of finished goods and work in progress(3)	979	0.6	10,519	9.8	1,761	0.9	1,034	1.0	7,150	6.9
Total	166,013	100.0	107,767	100.0	199,823	100.0	99,981	100.0	104,277	100.0

Notes:

1. Other production overheads mainly include (i) safety production costs; (ii) repair and maintenance costs; (iii) environmental and reclamation costs; (iv) village distribution cost; and (v) other miscellaneous costs.

2. Other taxes mainly includes mineral resource taxes which represent the amounts paid to the government authorities for mining activities and are charged at a fixed rate on the sales amount.

3. Changes in inventories of finished goods and work in progress represent the unallocated raw materials costs, direct labour costs and other production overheads. In FY2021, the amount was mainly attributable to the sales of gold produced from prior year since we have less gold production during the year as a result of the Temporary Operation Suspension.

Depreciation and amortisation

Our depreciation and amortisation mainly include (i) depreciation of mining infrastructure, which is calculated using the units of production basis according to the extraction of the proven and probable mineral reserves; (ii) depreciation of buildings, plant and machinery relating to our mining and processing operations and right-of-use assets, which are calculated using the straight-line basis over the respective estimated useful lives of assets; and (iii) amortisation of mining rights over the useful lives of the mines.

Our depreciation and amortisation decreased from approximately RMB37.6 million for FY2020 to approximately RMB17.4 million in FY2021 compared to approximately RMB37.6 million in FY2020, representing a decrease of approximately RMB20.2 million or 53.8% mainly due to the decrease in volume of ore mined during the period by approximately 38.9% as a result of the Temporary Operation Suspension to enable government authority to carry out safety inspection.

Our depreciation and amortisation increased from approximately RMB17.4 million in FY2021 to approximately RMB45.1 million in FY2022, representing an increase of approximately RMB27.7 million or 159.2% mainly due to the increase in production activities of our mines and processing plant in FY2022 while our operation in FY2021 was affected by the Temporary Operation Suspension and hence, a portion of depreciation and amortisation was recognised as suspension costs in FY2021. In particular, our mining infrastructure is depreciated based on unit of production method and our ore mined volume for FY2022 increased by approximately 97.8% for Songjiagou Open-Pit Mine and 741.1% for Songjiagou Underground Mine as compared to FY2021.

Our depreciation and amortisation remained relatively stable at approximately RMB22.4 million in 6M2022 and approximately RMB23.2 million in 6M2023. In particular, in respect of the depreciation of our mining infrastructure, which is depreciated based on unit of production method, the continuous increase in the construction of mining infrastructure during second half of 2022 and first half of 2023 resulted in the increase of incurred depreciation. However, this increase was partially offset by the decrease in ore mined volume, which amounted to approximately 32.6% for 6M2023 as compared to 6M2022.

For FY2020, FY2021 and FY2022, our Group's depreciation and amortisation on average represented approximately 20.4% of the total cost of sales, which was lower than the overall industry average of 28% in China in 2022 but in line with the industry average of 21% for open-pit mining industry in China in 2022.

Subcontracting costs

Our subcontracting costs mainly comprise mining subcontracting costs, logistics subcontracting costs, smelting subcontracting costs and equipment leasing subcontracting costs, which represent our payments to subcontractors relating to our mining works, logistics works and smelting works and for leasing of equipment used for mining operations. Please refer to the section headed "Business — Suppliers and subcontractors — Subcontractors" in this document for further details of our subcontracting arrangement. A breakdown of our subcontracting costs by activities for the periods indicated is set forth below:

	FY2020	**FY2021**	**FY2022**	**6M2022**	**6M2023**
				(unaudited)	
			(RMB in thousands)		
Mining subcontracting costs	13,725	1,445	631	631	—
Logistics subcontracting costs	7,229	4,790	9,054	4,483	3,763
Smelting subcontracting costs	5,706	4,067	13,655	7,247	5,382
Equipment leasing subcontracting costs	—	2,287	2,268	1,515	390
	26,660	12,589	25,608	13,876	9,535

Our subcontracting costs decreased from approximately RMB26.7 million in FY2020 to approximately RMB12.6 million in FY2021, representing a decrease of approximately 52.8%. Such decrease was mainly due to the combined effect of (i) the decrease in mining subcontracting costs of approximately 89.5% mainly because we terminated the mining subcontracting arrangements in respect of our Songjiagou Open-Pit Mine with Liaoyuan Zhuoli in September 2020 and our Songjiagou Underground Mine with Shandong Zhangjian in January 2021 as we conducted the mining activities ourselves seeking to reduce the costs of mining; (ii) the decrease in smelting subcontracting costs of approximately 28.7% as a result of the net effect of (a) the increase in the average smelting unit price per tonne charged by the smelter from approximately RMB121.9 per tonne in FY2020 to RMB141.9 per tonne as we had renegotiated with them in October 2021 to separately receive compensation for sulfuric acid, a chemical by-product generated during the smelting process of gold concentrates at the smelter, at RMB150 per tonne of gold concentrate processed and they had increased the smelting charges to RMB200 per tonne with effect from October 2021; and (b) the decrease in gold production volume; (iii) the decrease in logistic subcontracting costs of approximately 33.7% mainly due to the decrease in ore mined volume; and offset by (iv) the increase in equipment leasing subcontracting costs as we leased certain drilling equipment from an Independent Third Party to support our mining operation.

Our subcontracting costs increased from approximately RMB12.6 million in FY2021 to approximately RMB25.6 million in FY2022, representing an increase of approximately 103.2%. Such increase was mainly due to the combined effect of (i) the increase in smelting subcontracting costs of approximately 234.1% primarily as a result of (a) the increase in ore processed volume by approximately 94.5% from 1,023.8 kt in FY2021 to 1,990.9 kt in FY2022; and (b) the increase in the smelting price per tonne charged by Shandong Guoda from RMB100 to RMB120 per tonne in FY2021 to RMB200 per tonne in FY2022, representing an increase of approximately 66.7% to 100.0%; (ii) the increase in equipment leasing subcontracting costs as we started leasing equipment since August 2021; and (iii) the increase in logistics subcontracting costs of approximately 89.6% mainly due to (a) the increase in ore mined volume of approximately 104.9%, partially offset by (b) the decrease in use of logistics subcontracting service for transporting ore from ore stockpile to our warehouse in FY2022; and (iv) the decrease in mining subcontracting costs of approximately 57.1% as we conducted mining activities ourselves.

Our subcontracting costs decreased from approximately RMB13.9 million in 6M2022 to approximately RMB9.5 million in 6M2023, representing a decrease of approximately 31.7%. Such decrease was mainly due to the combined effect of (i) the decrease in smelting subcontracting costs of approximately 25.7% primarily as a result of the decrease in gold production volume of approximately 16.3% from approximately 564.3 kg in 6M2022 to approximately 472.5 kg in 6M2023 due to lower gold grade from 0.65 g/t in 6M2022 to 0.54 g/t in 6M2022; (ii) the decrease in equipment leasing subcontracting costs from approximately RMB1.5 million in 6M2022 to RMB0.4 million in 6M2023, representing a decrease of approximately 73.3%; and (iii) the decrease in logistics subcontracting costs of approximately 16.1% due to the FY2023 Temporary Pause of Mining Activities to facilitate the safety inspection for our newly expanded mining area.

Utilities expenses

Our utilities expenses mainly include the cost of electricity we consumed during our mining and processing activities. For further details, please see the section headed "Business — Our operations — Power supply" in this document.

Unlike most industry peers with sizable operating scale that do not process low-grade ore rocks, we managed to also extract and process low-grade ore rocks with feed grades ranging from 0.54 to 0.70 g/t Au during the Track Record Period. As a result, our Group requires more energy consumption in crushing and grinding process than that of the industry peers. During the Track Record Period, our Group's energy costs on average represented approximately 16.7% of the total cost of sales, which was higher than the overall industry average of 9% in China and 13% for open-pit mining industry in China in 2022.

Our utilities expenses decreased from approximately RMB30.0 million in FY2020 to approximately RMB16.4 million in FY2021 mainly due to the decrease in our ore processed volume of approximately 35.6% in FY2021 as compared to FY2020 as a result of the Temporary Operation Suspension. Our utilities expenses increased from approximately RMB16.4 million in FY2021 to approximately RMB33.8 million in FY2022 mainly due to (i) the increase in production activities of our processing plant in FY2022, in particular, our ore processed volume increased by approximately 94.5% in FY2022 as compared to FY2021, while our production in FY2021 was affected by the Temporary Operation Suspension and hence, a portion of utilities expenses was recognised as suspension costs in FY2021. Our utilities expenses remained relatively stable at approximately RMB17.4 million in 6M2022 and approximately RMB17.1 million in 6M2023 in spite of the FY2023 Temporary Pause of Mining Activities mainly because our ore processed volume remained relatively stable at approximately 996.7 kt in 6M2023 and approximately 1,000.7 kt in 6M2022.

Raw materials costs

Our raw materials costs mainly include explosives, steel grinding balls and chemical reagents used during our ore processing operation. All of these materials are sourced from multiple suppliers in the PRC at competitive market prices. The amount of raw materials we use are generally in proportion with the volume of the ore we mined or processed. For further details, please see the section headed "Business — Raw materials" in this document.

Our raw material costs for FY2020, FY2021 and FY2022 on average represented approximately 18.7% of the total cost of sales were lower than the overall industry average of 37% and lower than the industry average for open-pit mining of 27% in 2022 according to the F&S Report mainly due to different classification of costs such as the explosive costs in our subcontracting costs were classified by the industry peers as raw material costs.

Our raw materials costs decreased from approximately RMB30.6 million in FY2020 to approximately RMB19.0 million in FY2021, representing a decrease of approximately RMB11.6 million or 37.9%. Such decrease was mainly due to the decrease in our ore processed volume from 1,590.1 kt in FY2020 to 1,023.8 kt in FY2021. Our raw materials costs increased from approximately RMB19.0 million in FY2021 to approximately RMB39.6 million in FY2022, representing an increase of approximately RMB20.6 million or 108.4%. Such increase was mainly due to the increase in production activities of our processing plant, in particular, our ore processed volume increased by approximately 94.5% from 1,023.8 kt in FY2021 to 1,990.9 kt in FY2022, while our operation in FY2021 was affected by the Temporary Operation Suspension and hence, a portion of raw materials costs incurred primarily for maintenance purpose was recognised as suspension costs in FY2021. Our raw materials costs decreased from RMB19.5 million in 6M2022 to approximately RMB18.0 million in 6M2023, representing a decrease of approximately RMB1.5 million or 7.7%. Such decrease was mainly due to the lesser consumption of various raw materials and consumables and parts and replacements for machinery while our ore processed volume remained relatively stable in 6M2023 as compared to 6M2022. For further details of our ore processed volume, please refer to the section headed "Business — Our operations — Our ore processing facilities — Utilisation rate" in this document.

Direct labour costs

Our direct labour mainly costs consist of wages, salaries and social insurance contributions that we pay to our employees engaged in mining, production and processing activities.

Our direct labour costs decreased from approximately RMB15.0 million in FY2020 to approximately RMB11.1 million in FY2021, representing a decrease of approximately RMB3.9 million or 26.1%. Such decrease was mainly due to (i) the decrease in wages and salaries of approximately RMB3.5 million; (ii) the decrease in staff messing and welfare expenses of approximately RMB1.2 million; and partially offset by (iii) the increase in contribution to social insurance and housing provident funds of approximately RMB0.8 million. The decreases in wages and salaries and staff messing and welfare expenses were mainly due to the Temporary Operation Suspension. The increase in contribution to social insurance and housing provident funds was because the enterprise relief measures by the PRC government in response to the outbreak of COVID-19 was no longer given in FY2021. Our direct labour costs increased from approximately RMB11.1 million in FY2021 to approximately RMB29.1 million in FY2022, representing an increase of approximately RMB18.0 million or 162.2%. Such increase was mainly due to (i) the increase in production activities of our mines and processing plant in FY2022 while our operation in FY2021 was affected by the Temporary Operation Suspension and hence, a portion of direct labour cost was recognised as suspension costs in FY2021; and (ii) the increase in the number of staff involved in mining operations of approximately 33.3% in FY2022 as compared to FY2021 for expanding our mining capacity. Our direct labour costs increased from approximately RMB15.2 million in 6M2022 to approximately RMB16.2 million in 6M2023, representing an increase of approximately RMB1.0 million or 6.6%. Such increase was mainly due to the increase in the number of staff involved in mining operations of approximately 5.9% in 6M2023 as compared to 6M2022 for expanding our mining capacity.

Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin for sales of gold for the periods indicated.

	FY2020		FY2021		FY2022		6M2022		6M2023	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
							(unaudited)			
	(RMB in thousands, except percentages)									
Gold sales	194,986	54.0%	140,105	56.5%	218,590	52.2%	117,350	54.0%	92,382	47.0%

Our gross profit margin increased from approximately 54.0% in FY2020 to approximately 56.5% in FY2021, mainly because of (i) the increase in average gold selling price of approximately 5.0%; and (ii) the decrease in mining subcontracting fees as we conduct most of mining activities by our own labour force in FY2021. Our gross profit margin decreased from approximately 56.5% in FY2021 to approximately 52.2% in FY2022, mainly attributable to the increase in production costs (excluding the impact of changes in inventories of finished goods and work in progress) incurred along with our increase in production activities in FY2022 while our production in FY2021 was mostly affected by the Temporary Operation Suspension. Our gross profit margin decreased from approximately 54.0% in 6M2022 to approximately 47.0% in 6M2023. Such decrease was mainly attributable to the increase in our cost of sales while there was a decrease in gold production and sales volume during 6M2023, primarily due to the fact that (i) certain components in the cost of sales such as depreciation and amortisation, utilities expenses, direct labour costs and other taxes were semi-variable costs which did not decrease proportionally to the decrease in gold production and sales volume. In particular, while our sales volume decreased by approximately 17.6%, (a) our depreciation and amortisation increased by approximately 3.8%, mainly attributable to the additions in property, plant and equipment during the second half FY2022 and 6M2023 and the fact the depreciation and amortization relating to right of use of assets is relatively fixed; (b) our utilities expenses decreased by only approximately 1.6%, mainly due to the fact that the utility consumptions of our processing plant and machines do not decrease proportionally to the decrease in processing volume; (c) our raw material costs decreased by only approximately 7.7%, mainly due to the fact that we have used similar amount of raw materials, for example, crushing materials and steel grind balls, for the level of operation in 6M2022 and 6M2023; (d) our direct labour costs increased by approximately 6.2%, mainly attributable to increase in staff for blasting work and safety production; and (e) our other production overheads increased by 117.4%, mainly attributable to the expenses incurred for safety production; and (ii) our ore processed volume remained relatively stable during the period notwithstanding the decrease in gold production and sales volume. However, these negative effects on the gross profit margin were partially offset by the increase in average gold selling price of approximately 9.8% from RMB382.5 per gram in 6M2022 to RMB420.1 per gram in 6M2023. For details on the increase of our cost of sales, please refer to the paragraphs headed "Period to period comparison of results of operations" in this section.

Other income and gains

The following table sets forth the components of our other income and gains and their respective percentages for the periods indicated.

	FY2020		**FY2021**		**FY2022**		**6M2022**		**6M2023**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
							(unaudited)			
	(RMB in thousands, except percentages)									
Investment income	2,673	67.3	—	—	—	—	—	—	—	—
Sales of sulfuric acid	—	—	1,408	39.0	10,503	78.4	7,202	85.8	2,381	43.9
Government grants	281	7.1	292	8.0	237	1.8	—	—	92	1.7
Interest income	928	23.4	1,664	46.1	2,243	16.7	929	11.1	1,976	36.4
Gains on disposal of property, plant and equipment	—	—	—	—	12	0.1	—	—	59	1.1
Others	91	2.2	249	6.9	408	3.0	261	3.1	920	16.9
Total	3,973	100.0	3,613	100.0	13,403	100.0	8,392	100.0	5,428	100.0

We generated investment income amounted to approximately RMB2.7 million in FY2020 from the gold forward contracts we entered into with Shandong Humon and Shandong Guoda. There is no actual delivery of gold in such gold forward contracts. For details, please refer to "Business — Sales and customers — Gold forward contracts entered into with out customers" in this document.

During FY2021, FY2022 and 6M2023, we received compensation from Shandong Guoda in respect of sulfuric acid generated during the smelting process amounted to approximately RMB1.4 million, RMB10.5 million and RMB2.4 million, respectively. The trend of compensation price of sulfuric acid received by us are in line with the trend of industrial price of sulfuric acid since March 2022. Prior to that and since October 2021, Shandong Guoda has fixed the compensation unit price at RMB150 sulfuric acid generated per tonne of gold concentrates processed. From 16 March 2022, the compensation for sulfuric acid was further revised to be (i) if the external selling price of sulfuric acid as achieved by our smelting subcontractor exceeds RMB400 per tonne, 35% of such external selling price minus RMB400 per tonne, plus RMB100, for each tonne of gold concentrates processed; (ii) if the external selling price of sulfuric acid achieved by our smelting subcontractor is equal to or below RMB400 per tonne, RMB100 for each tonne of gold concentrates processed; or (iii) if the external selling price of sulfuric acid achieved by our smelting subcontractor exceeds RMB1,000 per tonne, then the compensation for sulfuric acid will be renegotiated by the parties. There was no such arrangement during FY2020.

For details, please refer to "Business — Suppliers and subcontractors — Subcontractors — Refining works" in this document.

We received various government grants, including the subsidies for the purchase of machinery in FY2020, FY2021, FY2022 and 6M2023. For the government grants recognised as other income and gains in profit or loss during the Track Record Period, there were no unfulfilled conditions.

We also generated interest income of approximately RMB0.9 million, RMB1.7 million, RMB2.2 million and RMB2.0 million in FY2020, FY2021, FY2022 and 6M2023, respectively, arising from the restricted and pledged deposits.

Administrative expenses

The following table sets forth the components of our administrative expenses and their respective percentages for the periods indicated.

	FY2020		FY2021		FY2022		6M2022		6M2023	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in thousands, except percentages)									
Salaries and wages	5,075	23.6	5,872	26.1	7,609	22.6	3,339	22.9	4,719	28.3
Research and development expenses	4,921	22.9	4,960	22.1	9,156	27.2	2,246	15.4	3,229	19.4
Travelling	2,176	10.1	1,985	8.8	1,665	4.9	886	6.1	785	4.7
Depreciation	1,637	7.6	2,039	9.1	2,024	6.0	1,246	8.6	971	5.8
Other tax expenses	1,332	6.2	1,763	7.8	1,839	5.4	927	6.4	907	5.4
Entertainment	437	2.0	323	1.4	508	1.5	103	0.7	465	2.8
Rent and utilities	342	1.6	581	2.6	566	1.7	323	2.2	1	0
Office expenses	1,104	5.1	1,019	4.5	1,900	5.6	1,040	7.1	1,357	8.1
Repair and maintenance	54	0.3	106	0.5	295	0.9	33	0.2	38	0.2
[REDACTED]	[REDACTED]		[REDACTED]		[REDACTED]		[REDACTED]		[REDACTED]	
Total	21,480	100.0	22,490	100.0	33,711	100.0	14,569	100.0	16,655	100.0

Please also refer to the section headed "Business — Research and development" in this document for details of our research and development activities.

Other expenses

The following table sets forth the components of our other expenses and their respective percentages for the periods indicated.

	FY2020		FY2021		FY2022		6M2022		6M2023	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
							(unaudited)			
	(RMB in thousands, except percentages)									
Suspension cost	—	—	28,728	95.1	—	—	—	—	—	—
Donation	2,090	71.3	83	0.3	1,000	9.6	1,000	96.5	—	—
Losses on disposal of property, plant and equipment	—	—	975	3.2	—	—	—	—	—	—
Exchange loss	807	27.5	30	0.1	9,399	90.2	—	—	—	—
Others	33	1.2	378	1.3	20	0.2	36	3.5	—	—
Total	2,930	100.0	30,194	100.0	10,419	100.0	1,036	100.0	—	—

During the Track Record Period, we made donations of approximately RMB2.1 million, RMB83,000, RMB1.0 million and nil, respectively, to local public charity institutions and governmental agencies and helped those in need in the communities. We incurred exchange loss of approximately RMB9.4 million in FY2022 mainly attributable to the dividend of RMB120.0 million received by Majestic Yantai BVI from Yantai Zhongjia which was denominated in RMB, i.e. being the foreign currency of Majestic Yantai BVI, while RMB depreciated during the period.

During FY2021, we incurred suspension cost of approximately RMB28.7 million, primarily represented depreciation and amortisation charges, labour costs, spare parts and utilities incurred during the Temporary Operation Suspension. Given that during the Temporary Operation Suspension we had no mining operation, the expenses (such as depreciation and amortisation charges, labour costs) incurred during the period were not directly related to our production, the relevant amount should not be included in the inventory cost and then transferred into cost of sales. The following table sets forth the components of our suspension cost incurred in FY2021.

	FY2021
	(RMB in thousands)
Direct labour costs	12,034
Depreciation and amortisation	7,461
Utilities expenses	3,077
Repair and maintenance	5,696
Others	460
Total	28,728

Finance costs

The following table sets forth the components of our finance costs and their respective percentages for the periods indicated.

	FY2020		**FY2021**		**FY2022**		**6M2022**		**6M2023**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
							(unaudited)			
	(RMB in thousands, except percentages)									
Interest on borrowings	4,059	77.5	2,643	69.1	937	31.7	430	30.1	717	43.3
Increase in discounted amounts of provisions and other long-term liabilities arising from the passage of time	1,177	22.5	1,181	30.9	2,018	68.3	998	69.9	940	56.7
Total	5,236	100.0	3,824	100.0	2,955	100.0	1,428	100.0	1,657	100.0

Our increase in discounted amounts of provisions and other long-term liabilities arising from the passage of time incurred on our short-term interest-bearing borrowings during the Track Record Period was approximately RMB4.1 million, RMB2.6 million, RMB0.9 million and RMB0.7 million, respectively. For further details of our bank borrowing, please see the paragraph headed "Indebtedness" in this section.

Our interest on provisions and other long-term liabilities during the Track Record Period primarily represented the interest or accretion expenses recognised for the discounted present value of our provision for rehabilitation, payables for compensation to villagers and mining rights, which remained relatively stable at approximately RMB1.2 million and RMB1.2 million for FY2020 and FY2021, and approximately RMB1.0 million and RMB0.9 million for 6M2022 and 6M2023, respectively. Such amount increased significantly from approximately RMB1.2 million for FY2021 to approximately RMB2.0 million for FY2022, mainly attributable to the accretion expense for mining rights of approximately RMB0.9 million for FY2022, which was absent for FY2021. For further details, please refer to the paragraphs headed "Principal components of our non-current assets and non-current liabilities — Provision" and "Principal components of our non-current assets and non-current liabilities — Other long-term liabilities" in this section.

Income tax expenses

We are subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of our Group are domiciled and operate. We are incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Act and, accordingly, are exempted from payment of the Cayman Islands income tax. We have a subsidiary incorporated as a BVI business company under the BVI Business Companies Act and is exempted from payment of income tax of the BVI.

Our operating subsidiary, Yantai Zhongjia, is established in the PRC and taxes on profits assessable in the PRC have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. We were generally subject to a uniform EIT rate of 25% during FY2020, FY2021, FY2022 and 6M2023. Being accredited as High-tech enterprise in December 2020, Yantai Zhongjia enjoyed the preferential tax rate of 15% for FY2020 in its PRC statutory tax filings. In arriving at the current tax provision for Yantai Zhongjia for FY2020, FY2021, FY2022 and 6M2023, we have prudently adopted, among others, the uniform EIT rate of 25% to avoid the potential impact on our financial statements during the Track Record Period should the tax authority hold a different view on the preferential tax rate we enjoyed. Nevertheless, we have obtained a confirmation from the Yantai Muping Branch of State Taxation Administration* (國家稅務總局煙台市牟平區稅務局) confirming that no irregularities were discovered by the tax authority in respect of the adoption of the preferential tax rate of 15% in the PRC statutory tax filings.

In addition to the applicable EIT rate, our effective tax rate may be affected by, among other things, expenses not deductible for taxation purposes, utilisation of previously unrecognised tax losses and non-recognition of deductible temporary differences. Our effective tax rates remained relatively stable at approximately 32.4% in FY2020, approximately 32.7% in FY2021, approximately 34.6% in FY2022, approximately 33.3% in 6M2022 and approximately 33.6% in 6M2023.

Our Directors confirmed that as at the Latest Practicable Date: (i) our Group has made all required tax filings under the relevant tax laws and regulations in PRC and has paid all outstanding tax liabilities due; and (ii) that our Group is not subject to any dispute or potential dispute with the tax authorities in PRC as at the Latest Practicable Date.

Non-controlling interests

Non-controlling interests represent minority interests held by Dahedong. For further details of interests of Dahedong in Yantai Zhongjia, please see the section headed "History, Reorganisation and corporate structure" in this document. For FY2020, FY2021, FY2022 and 6M2023, profit attributable to our non-controlling interests amounted to approximately RMB32.0 million, RMB17.1 million, RMB37.8 million and RMB15.5 million, respectively.

Other comprehensive income/(expense)

Our other comprehensive income/(expense) represented the exchange differences on translation of group companies with functional currency different from the presentation currency of our Group's consolidated financial statements (i.e. RMB). Such exchange difference was mainly attributable to Majestic Yantai BVI, which was incorporated in BVI with CAD as the functional currency and was subsequently changed to HKD as the functional currency in FY2020. Majestic Yantai BVI primarily held certain balances due to Majestic Gold, being shareholder's advances from Majestic Gold to Majestic Yantai BVI, which were monetary liabilities denominated in CAD. Majestic Gold had conditionally agreed to waive such balances due to it by us pursuant to a deed of waiver dated 4 June 2020 entered into between our Company and Majestic Gold. For further details, please see the paragraph headed "Related party transactions — (e) Balances due to Majestic Gold" in this section and the section headed "Relationship with our Controlling Shareholders — Financial independence" in this document. In respect of the exchange difference of approximately RMB1.2 million in FY2020, it was mainly attributable to the remaining un-waived balance of the shareholder's advances from Majestic Gold on the book of our Company (with HKD as the functional currency) with a depreciation of HKD against RMB during FY2020. In FY2021, we recorded exchange difference of approximately RMB(1.3) million notwithstanding that there was a depreciation of HKD against RMB in FY2021, mainly due to the significant increase in monetary assets of Majestic Yantai BVI as mostly represented by cash and cash equivalents and dividend receivable, primarily as a result of dividends declared by Yantai Zhongjia during the period. The exchange difference of approximately RMB10.1 million in FY2022 and RMB1.2 million in 6M2023 was mainly attributable to the monetary assets held by our Company and Majestic Gold and the appreciation of HKD against RMB during the period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

FY2021 compared to FY2020

Revenue

Our revenue decreased from approximately RMB361.0 million for FY2020 to approximately RMB247.9 million for FY2021, representing a decrease of approximately RMB113.1 million, or approximately 31.3%, primarily due to the decrease in our gold sales volume by approximately 34.6% from approximately 987.4 kg (or 31,745.6 ounces) in FY2020 to approximately 645.5 kg (or 20,753.3 ounces) in FY2021, which was partially offset by the increase in the average selling price of our gold from approximately RMB365.6 per gram in FY2020 to approximately RMB384.0 per gram in FY2021. The decrease in our gold sales volume was mainly due to the decrease in our gold production volume caused by the Temporary Operation Suspension to enable government authority to carry out safety inspection in accordance with the requirements of local authorities for all mines in Shandong, including ours, as a result of two safety incidents occurred in January and February 2021 at Qixia Hushan Gold Mine (棲霞市笏山金礦) of Shandong Wucailong Investment Company Limited (山東五彩龍投資有限公司) and Caojiawa Gold Mine (曹家窪金礦) of Zhaoyuan Caojiawa Gold Mine (招遠市曹家窪金礦), two local enterprises which are owned by Independent Third Parties. For further details on the PRC gold price, please refer to the section headed "Industry overview" in this document.

Cost of sales

Our cost of sales decreased from approximately RMB166.0 million for FY2020 to approximately RMB107.8 million for FY2021, representing a decrease of approximately RMB58.2 million, or approximately 35.1%, primarily due to the net effect of: (i) the decrease in subcontracting expenses of approximately RMB14.1 million due to (a) the decrease in mining subcontracting costs of approximately 89.5% mainly because we terminated the mining subcontracting arrangements in respect of our Songjiagou Open-Pit Mine with Liaoyuan Zhuoli in September 2020 and our Songjiagou Underground Mine with Shandong Zhangjian in January 2021 as we conducted the mining activities ourselves seeking to reduce the costs of mining; (b) the decrease in smelting subcontracting costs of approximately 28.7% as a result of the net effect of (1) the increase in the average smelting unit price per tonne charged by the smelter from approximately RMB121.9 per tonne to RMB141.9 per tonne as we had renegotiated with them in October 2021 to separately receive compensation for sulfuric acid, a chemical by-product generated during the smelting process of gold concentrate at the smelter at RMB150 per tonne of gold concentrate processed and they had increased the smelting charges to RMB200 per tonne with effect from October 2021; and (2) the decrease in gold production volume; (c) the decrease in logistic subcontracting costs of approximately 33.7% mainly due to the decrease in ore mined volume; and offset by (d) the increase in equipment leasing subcontracting costs as we leased certain mine equipment from an Independent Third Party after termination of mining subcontracting arrangements; (ii) the decrease in our depreciation and amortisation of approximately RMB20.2 million due to the decrease in volume of ore mined during the period by approximately 38.9%; (iii) the decrease in utilities costs of approximately RMB13.6 million; and (iv) the decrease in cost of raw materials of approximately RMB11.6 million in line with the decrease in our processing volume due to the Temporary Operation Suspension.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased from approximately RMB195.0 million for FY2020 to approximately RMB140.1 million for FY2021, representing a decrease of approximately RMB54.9 million or approximately 28.1%. Our gross profit margin further increased from approximately 54.0% for FY2020 to approximately 56.5% for FY2021, primarily due to (i) the increase in average gold selling price of approximately 5.0%; and (ii) the decrease in mining subcontracting fees as we conduct most of mining activities by our own labour force in FY2021.

Other income and gains

Our other income and gains decreased from approximately RMB4.0 million in FY2020 to approximately RMB3.6 million in FY2021, representing a decrease of approximately RMB0.4 million or approximately 9.1%, primarily due to (i) the decrease in investment income of approximately RMB2.7 million as we did not engage in any gold forward contracts in FY2021, and partially offset by (ii) the increase in compensation income from the sale of sulfuric acid in gold concentrate generated during the smelting process of approximately RMB1.4 million; and (iii) the increase in interest income of approximately RMB0.7 million mainly from fixed deposits placed in banks.

Administrative expenses

Our administrative expenses increased from approximately RMB21.5 million in FY2020 to approximately RMB22.5 million in FY2021, representing an increase of approximately RMB1.0 million, or approximately 4.7%. Such increase was primarily attributable to the increase in salaries and wages of approximately RMB0.8 million due to the increase in headcounts for our senior management.

Other expenses

Our other expenses increased from approximately RMB2.9 million in FY2020 to approximately RMB30.2 million in FY2021, representing an increase of approximately RMB27.2 million, or approximately 930.5%, mainly due to the suspension costs of approximately RMB28.7 million incurred in FY2021 during the Temporary Operation Suspension and offset by the decrease in donation amount of approximately RMB2.0 million. Such suspension costs primarily represented depreciation and amortisation charges, labour costs, spare parts and utilities incurred during the suspension period.

Finance costs

Our finance costs decreased from approximately RMB5.2 million in FY2020 to approximately RMB3.8 million in FY2021, representing a decrease of approximately RMB1.4 million, or approximately 26.9%. Such decrease was mainly attributable to the decrease in bank borrowings.

Income tax expenses

Our income tax expenses decreased from approximately RMB54.9 million for FY2020 to approximately RMB28.5 million for FY2021, representing a decrease of approximately RMB26.4 million, or approximately 48.1%, primarily due to the decrease in the profit before tax during the year. The effective tax rate remained relatively stable at approximately 32.7% in FY2021 as compared to 32.4% in FY2020.

Profit and net profit margin for the year

For the reasons described above, our profit for the year decreased from approximately RMB114.4 million in FY2020 to approximately RMB58.7 million in FY2021, representing a decrease of approximately RMB55.7 million, or approximately 48.7%. Our net profit margin decreased from approximately 31.7% in FY2020 to approximately 23.7% in FY2021.

Non-controlling interests

Our profit attributable to non-controlling interests decreased from approximately RMB32.0 million in FY2020 to approximately RMB17.1 million in FY2021, representing a decrease of approximately RMB14.9 million, or approximately 46.6%, primarily due to the overall decrease in profit and net profit margin for the year.

FY2022 compared to FY2021

Revenue

Our revenue increased from approximately RMB247.9 million for FY2021 to approximately RMB418.4 million for FY2022, representing an increase of approximately RMB170.5 million, or approximately 68.8%, primarily due to the increase in our gold sales volume by approximately 68.1% from approximately 645.5 kg (or 20,753.3 ounces) in FY2021 to approximately 1,084.9 kg (or 34,880.3 ounces) in FY2022, and the increase in the average selling price of our gold from approximately RMB384.0 per gram in FY2021 to approximately RMB385.7 per gram in FY2022. The increase in our gold sales volume was mainly due to the increase in our gold production volume as we operated in the ordinary and usual circumstances in absence the Temporary Operation Suspension which affected our operations in most of FY2021.

Cost of sales

Our cost of sales increased from approximately RMB107.8 million for FY2021 to approximately RMB199.8 million for FY2022, representing an increase of approximately RMB92.0 million, or approximately 85.3%, primarily due to (i) the increase in depreciation and amortisation of approximately RMB27.7 million or 159.2%, mainly due to the increase in production activities of our mines and processing plant in FY2022 while our operation was affected by the Temporary Operation Suspension in FY2021 and hence, a portion of depreciation and amortisation was recognised as suspension costs in FY2021; (ii) the increase in raw material costs of approximately RMB20.6 million, or 108.4%, mainly due to the increase in production activities of our processing plant in FY2022, in particular, our ore processing volume increased by approximately 94.5% from 1,023.8 kt in FY2021 to 1,990.9 kt in FY2022, while our operation was affected by the Temporary Operation Suspension and hence, a portion of raw material costs incurred primarily for maintenance purpose; (iii) the increase in direct labour costs of approximately RMB18.0 million, or 162.2%, mainly due to (a) the increase in production activities of our mines and processing plant in FY2022 while our operation in FY2021 was affected by the Temporary Operation Suspension and hence, a portion of direct labour cost was recognised as suspension costs in FY2021; and (b) the increase in the average number of staff involved in mining operation of approximately 33.3% in FY2022 as compared to FY2021 for expanding our mining capacity; (iv) the increase in utilities expenses of approximately RMB17.4 million, or 106.1%, mainly due to the increase in production activities of our processing plant in FY2022, in particular, our ore processed volume increased by approximately 94.5% in FY2022 as compared to FY2021, while our production in FY2021 was affected by the Temporary Operation Suspension and hence, a portion of utilities expenses was recognised as suspension costs in FY2021; and (v) the increase in subcontracting costs of approximately RMB13.0 million, or 103.2%, mainly due to the combined effect of (a) the increase in smelting subcontracting costs of approximately 234.1% primarily as a result of (1) the increase in ore processed volume of approximately 94.5%, from 1,023.8 kt in FY2021 to 1,990.9 kt in FY2022; and (2) the increase in the smelting price per tonne charged by the Shandong Guoda from RMB100 to RMB120 per tonne in FY2021 to RMB200 per tonne in FY2022, representing an increase of approximately 66.7% to 100.0%; (b) the increase in equipment leasing subcontracting costs as we started leasing equipment since August 2021; (c) the increase in logistics subcontracting costs of approximately 89.6%, mainly due to (1) the increase in ore mined volume of approximately 104.9%, partially offset by (2) the decrease in use of logistics services of transporting ore from ore stockpile to our warehouse in FY2022; and (d) the decrease in mining subcontracting costs of approximately 57.1% as we conducted mining activities ourselves in FY2022.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased from approximately RMB140.1 million for FY2021 to approximately RMB218.6 million for FY2022, representing an increase of approximately RMB78.5 million or approximately 56.0%. Our gross profit margin decreased from approximately 56.5% for FY2021 to approximately 52.2% for FY2022, primarily due to (i) the increase in production costs (excluding the impact of changes in inventories of finished goods and work in progress) incurred along with our increase in production activities in FY2022 while our production in FY2021 was mostly affected by the Temporary Operation Suspension.

Other income and gains

Our other income and gains increased from approximately RMB3.6 million in FY2021 to approximately RMB13.4 million in FY2022, representing an increase of approximately RMB9.8 million or approximately 272.2%, primarily due to the increase in compensation income from the sale of sulfuric acid in gold concentrate generated during the smelting process of approximately RMB10.5 million as compared to approximately RMB1.4 million in FY2021.

Administrative expenses

Our administrative expenses increased from approximately RMB22.5 million in FY2021 to approximately RMB33.7 million in FY2022, representing an increase of approximately RMB11.2 million, or approximately 49.8%. Such increase was primarily attributable to the increase in research and development expenses of approximately RMB4.2 million and the increase in the [REDACTED] of approximately [REDACTED] in preparation for the [REDACTED].

Other expenses

Our other expenses decreased from approximately RMB30.2 million in FY2021 to approximately RMB10.4 million in FY2022, representing a decrease of approximately RMB19.8 million, or approximately 65.6%, mainly due to the suspension costs of approximately RMB28.7 million incurred in FY2021 during the Temporary Operation Suspension, partially offset by the exchange loss of approximately RMB9.4 million incurred in FY2022 mainly attributable to the dividend of RMB120 million received by Majestic Yantai BVI from Yantai Zhongjia. Such suspension costs primarily represented depreciation and amortisation charges, labour costs, spare parts and utilities incurred during the suspension period.

Finance costs

Our finance costs decreased from approximately RMB3.8 million in FY2021 to approximately RMB3.0 million in FY2022, representing a decrease of approximately RMB0.8 million, or approximately 21.1%. Such decrease was mainly attributable to the decrease in bank borrowings, partially offset by the increase in accretion expense arising from mining rights.

Income tax expenses

Our income tax expenses increased from approximately RMB28.5 million for FY2021 to approximately RMB63.9 million for FY2022, representing an increase of approximately RMB35.4 million, or approximately 124.2%, primarily due to the increase in the profit before tax during the year. The effective tax rate increased from approximately 32.7% in FY2021 to approximately 34.6% in FY2022.

Profit and net profit margin for the period

For the reasons described above, our profit for the period increased from approximately RMB58.7 million in FY2021 to approximately RMB121.0 million in FY2022, representing an increase of approximately RMB62.3 million, or approximately 106.1%. Our net profit margin increased from approximately 23.7% in FY2021 to approximately 28.9% in FY2022.

Non-controlling interests

Our profit attributable to non-controlling interests increased from approximately RMB17.1 million in FY2021 to approximately RMB37.8 million in FY2022, representing an increase of approximately RMB20.7 million, or approximately 121.1%, primarily due to the overall increase in profit and the increase in net profit margin for the period.

6M2023 compared to 6M2022

Revenue

Our revenue decreased from approximately RMB217.3 million for 6M2022 to approximately RMB196.7 million for 6M2023, representing a decrease of approximately RMB20.6 million, or approximately 9.5%, primarily due to the decrease in our gold sales volume by approximately 17.6% from approximately 568.2 kg (or 18,268.1 ounces) in 6M2022 to approximately 468.1 kg (or 15,049.8 ounces) in 6M2023, which was partially offset by the increase in the average selling price of our gold of approximately 9.8% from approximately RMB382.5 per gram in 6M2022 to approximately RMB420.1 per gram in 6M2023. The decrease in our gold sales volume was mainly due to the decrease in our gold production volume.

Cost of sales

Our cost of sales increased from approximately RMB100.0 million for 6M2022 to approximately RMB104.3 million for 6M2023, representing an increase of approximately RMB4.3 million, or approximately 4.3%, primarily due to (i) the increase in changes in inventories of finished goods and work in progress of approximately RMB6.1 million or approximately 591.5%, mainly represented the increase in utilisation of inventories in prior period; (ii) the increase in other production overheads of approximately RMB3.2 million or approximately 117.4%; (iii) the increase in depreciation and amortisation of approximately RMB0.8 million or 3.6%, mainly due to the effect of continuous increase in the construction of mining infrastructure during second half of 2022 and first half of 2023 resulting in the increase of incurred depreciation which was partially offset by the effect of decrease in ore mined volume of approximately 32.6% for 6M2023 as compared to 6M2022; (iv) the increase in direct labour costs of approximately RMB1.0 million, or 6.6%, mainly due to the increase in the number of staff involved in mining operation of approximately 5.9% in 6M2023 as compared to 6M2022 for expanding our mining capacity and partially offset by (v) the decrease in raw material costs of approximately RMB1.5 million, or 7.7% mainly due to the lesser consumption of raw materials and consumables and parts and replacements for machinery while our ore processed volume remained relatively stable in 6M2023 as compared to 6M2022; and (vi) the decrease in subcontracting costs of approximately RMB4.4 million, or 31.7%, mainly due to the combined effect of (a) the decrease in smelting subcontracting costs of approximately 25.7% primarily as a result of the decrease in gold production volume of approximately 16.3% from approximately 564.3 kg in 6M2022 to approximately 472.5 kg in 6M2023 due to lower gold grade from 0.65 g/t in 6M2022 to 0.54 g/t in 6M2023; and (b) the decrease in equipment leasing subcontracting costs of approximately 73.3% and the decrease in logistics subcontracting costs of approximately 16.1% as we paused our mining activities during May to mid-July 2023 to facilitate the safety inspection for our newly expanded mining area.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased from approximately RMB117.4 million for 6M2022 to approximately RMB92.4 million for 6M2023, representing a decrease of approximately RMB25.0 million or approximately 21.3%. Our gross profit margin decreased from approximately 54.0% for 6M2022 to approximately 47.0% for 6M2023. Such decrease was mainly attributable to the increase in cost of sales while there was a decrease in gold production and sales volume during 6M2023, primarily due to the fact that (i) certain components in cost of sales were semi-variable costs which did not decrease directly proportional to the decrease in gold production and sales volume; and (ii) our ore processed volume remained relatively stable during the period notwithstanding the decrease in gold production and sales volume; partially offset by the increase in average gold selling price of approximately 9.8% from RMB382.5 per gram in 6M2022 to RMB420.1 per gram in 6M2023.

Other income and gains

Our other income and gains decreased from approximately RMB8.4 million in 6M2022 to approximately RMB5.4 million in 6M2023, representing a decrease of approximately RMB3.0 million or approximately 35.7%, primarily due to the decrease in compensation income from the sale of sulfuric acid in gold concentrate generated during the smelting process of approximately 66.7% from approximately RMB7.2 million to approximately RMB2.4 million due to the drop in the market price of sulfuric acid in 6M2023. The average monthly market price of sulfuric acid experienced a significant decrease from RMB859.2 per tonne in 6M2022 to RMB133.7 per tonne in 6M2023, representing a decrease of approximately 84.4%. As per our agreement with Shandong Guoda, the compensation income from sulfuric acid sales was fixed at RMB100 per tonne if the external selling price of sulfuric acid was equal to or below RMB400 per tonne. Consequently, our recorded compensation income from sulfuric acid sales in 6M2023 was relatively lower compared to 6M2022, when the average monthly market price of sulfuric acid was below RMB400. For detailed information on the calculation formula for sulfuric acid compensation, please refer to the paragraph headed "Description of principal components in the consolidated statements of profit or loss and other comprehensive income — Other income and gains" in this section of the document.

Administrative expenses

Our administrative expenses increased from approximately RMB14.6 million in 6M2022 to approximately RMB16.7 million in 6M2023, representing an increase of approximately RMB2.1 million, or approximately 14.4%. Such increase was primarily attributable to the increase in the salaries and wages of approximately RMB1.4 million and the increase in research and development costs of approximately RMB1.0 million.

Other expenses

Our other expenses decreased from approximately RMB1.0 million in 6M2022 to nil in 6M2023, representing a decrease of approximately RMB1.0 million, or approximately 100%, mainly due to the absence of donation incurred in 6M2022.

Finance costs

Our finance costs increased from approximately RMB1.4 million in 6M2022 to approximately RMB1.7 million in 6M2023, representing an increase of approximately RMB0.3 million, or approximately 21.4%. Such increase was mainly attributable to the increase in bank borrowings.

Income tax expenses

Our income tax expenses decreased from approximately RMB36.2 million for 6M2022 to approximately RMB26.7 million for 6M2023, representing a decrease of approximately RMB9.5 million, or approximately 26.2%, primarily due to the decrease in the profit before tax during the year. The effective tax rate increased from approximately 33.3% in 6M2022 to approximately 33.6% in 6M2023.

Profit and net profit margin for the period

For the reasons described above, our profit for the period decreased from approximately RMB72.5 million in 6M2022 to approximately RMB52.8 million in 6M2023, representing a decrease of approximately RMB19.7 million, or approximately 27.2%. Our net profit margin decreased from approximately 33.3% in 6M2022 to approximately 26.8% in 6M2023.

Non-controlling interests

Our profit attributable to non-controlling interests decreased from approximately RMB21.0 million in 6M2022 to approximately RMB15.5 million in 6M2023, representing a decrease of approximately RMB5.5 million, or approximately 26.2%, primarily due to the overall decrease in profit and the decrease in net profit margin for the period.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

During the Track Record Period, we funded our operations primarily with net cash generated from our operations, bank borrowings and capital injection from shareholders, and our funds were primarily used for purchase of raw materials, various operating expenses and capital expenditure. The following table sets forth a summary of our consolidated statements of cash flows for the periods indicated.

	FY2020	FY2021	FY2022	6M2022	6M2023
				(unaudited)	
			(RMB in thousands)		
Profit before tax	169,313	87,210	184,908	108,709	79,498
Adjustments for non-cash items	42,545	31,651	49,980	25,045	26,053
Operating cash flows before movements in working capital	211,858	118,861	234,888	133,754	105,551
Changes in working capital	11,301	5,180	(3,605)	(6,994)	(32)
Cash generated from operations	223,159	124,041	231,283	126,760	105,519
Tax paid	(36,403)	(10,086)	(31,993)	(9,138)	(9,299)
Net cash flows from operating activities	186,756	113,955	199,290	117,622	96,220
Net cash flows (used in) investing activities	(60,906)	(87,797)	(56,060)	(16,581)	(28,353)
Net cash flows generated from/ (used in) financing activities	(58,055)	(45,130)	(54,793)	(30,550)	(1,260)
Net increase (decrease) in cash and cash equivalents	67,795	(18,972)	88,437	70,491	66,607
Cash and cash equivalents at beginning of year	134,696	202,907	182,398	182,398	282,187
Effect of exchange rate changes	416	(1,537)	11,352	667	1,207
Cash and cash equivalents at end of year	202,907	182,398	282,187	253,556	350,001

Operating activities

Our net cash flows generated from operating activities in FY2020 amounted to approximately RMB186.8 million, reflecting mainly profit before tax of approximately RMB169.3 million, net of income tax paid of approximately RMB36.4 million; adjusted by non-cash items including mainly the depreciation of property, plant and equipment and right-of-use assets of approximately RMB37.5 million and finance cost of approximately RMB5.2 million; and further adjusted by movement in working capital including mainly (i) the decrease in prepayments, other receivables and other assets of approximately RMB8.2 million in respect of the settlement of security deposits to Shandong Humon; (ii) the increase in trade payables of approximately RMB5.7 million due to longer settlement period for certain suppliers and subcontractors; and (iii) the increase in restricted and pledged bank deposits of approximate RMB5.0 million.

Our net cash flows generated from operating activities in FY2021 amounted to approximately RMB114.0 million, reflecting mainly profit before tax of approximately RMB87.2 million, net of income tax paid of approximately RMB10.1 million; adjusted by non-cash items including mainly the depreciation of property, plant and equipment and right-of-use assets of approximately RMB23.5 million and finance cost of approximately RMB3.8 million; and further adjusted by movement in working capital including mainly (i) the decrease in inventories of approximately RMB9.2 million due to the decrease in gold concentrate and ore stockpile which our mining and processing work were temporarily suspended in certain months of FY2021; (ii) increase in trade payables of approximately RMB2.0 million mainly due to increase in payables to our equipment leasing subcontractors and payables to Shandong Guoda due to timing difference in settling the payable to Shandong Guoda; (iii) the decrease in other payables and accruals of approximately RMB4.0 million mainly due to decrease in other tax payables; (iv) the increase in prepayments, other receivables and other assets of approximately RMB1.5 million mainly due to increase in prepayment for [REDACTED]; and (v) the increase in restricted and pledged bank deposits of approximate RMB1.4 million. Our net cash generated from operating activities decreased from approximately RMB186.8 million for FY2020 to approximately RMB114.0 million for FY2021, representing a decrease of approximately RMB72.8 million. Such decrease was mainly due to (i) the decrease in profit before tax after adjustments for non-cash items of approximately RMB93.0 million as a result of the Temporary Operation Suspension to enable government authority to carry out safety inspection; (ii) changes in working capital of approximately RMB6.0 million; and partially offset by (iii) the decrease in income tax paid of approximately RMB26.3 million.

Our net cash flows generated from operating activities in FY2022 amounted to approximately RMB199.3 million, reflecting mainly profit before tax of approximately RMB184.9 million, net of income tax paid of approximately RMB32.0 million; adjusted by non-cash items including mainly the depreciation of property, plant and equipment and right-of-use assets and amortisation of intangible assets of approximately RMB47.0 million and finance cost of approximately RMB3.0 million; and further adjusted by movement in working capital including mainly (i) the decrease in trade payables of approximately RMB3.4 million mainly due to decrease in payables to our top suppliers and subcontractors; (ii) the increase in prepayments, other receivables and other assets of approximately RMB1.5 million mainly due to increase in prepayment for [REDACTED] and prepayments for research and development activities; and (iii) the increase in restricted and pledged bank deposits of approximate RMB1.9 million. Our net cash generated from operating activities increased from approximately RMB114.0 million for FY2021 to approximately RMB199.3 million for FY2022, representing an increase of approximately RMB85.3 million. Such increase was mainly due to (i) the increase in profit before tax after adjustments for non-cash items of approximately RMB116.0 million as our profit before tax after adjustments for non-cash items for FY2021 was affected by the Temporary Operation Suspension to enable government to carry out safety inspection; and offset by (ii) the increase in income tax paid of approximately RMB21.9 million.

Our net cash flows generated from operating activities in 6M2022 amounted to approximately RMB117.6 million, reflecting mainly profit before tax of approximately RMB108.7 million, net of income tax paid of approximately RMB9.1 million; adjusted by non-cash items including mainly the depreciation of property, plant and equipment and right-of-use assets and amortisation of intangible assets of approximately RMB23.6 million and finance cost of approximately RMB1.4 million; and further adjusted by movement in working capital including mainly (i) the decrease in trade payables of approximately RMB3.6 million mainly due to decrease in payables to our top suppliers; (ii) the increase in prepayments, other receivables and other assets of approximately RMB2.2 million mainly due to increase in prepayment for [REDACTED] and receivable from Shandong Guoda; and (iii) the increase in restricted and pledged bank deposits of approximate RMB1.3 million.

Our net cash flows generated from operating activities in 6M2023 amounted to approximately RMB96.2 million, reflecting mainly profit before tax of approximately RMB79.5 million, net of income tax paid of approximately RMB9.3 million; adjusted by non-cash items including mainly the depreciation of property, plant and equipment and right-of-use assets and amortisation of intangible assets of approximately RMB24.5 million and finance cost of approximately RMB1.7 million; and further adjusted by movement in working capital including mainly (i) the decrease in inventories of approximately RMB7.3 million mainly due to decrease in ore stockpile as we paused our mining activities during May to mid-July 2023 to facilitate the safety inspection for our newly expanded mining area; (ii) the increase in prepayments, other receivables and other assets of approximately RMB2.8 million mainly due to increase in prepayment for [REDACTED] and research and development expenses; and (iii) the increase in restricted and pledged bank deposits of approximate RMB1.6 million. Our net cash generated from operating activities decreased from approximately RMB117.6 million for 6M2022 to approximately RMB96.2 million for 6M2023, representing a decrease of approximately RMB21.4 million. Such decrease was mainly due to the decrease in profit before tax after adjustments for non-cash items of approximately RMB28.2 million.

For details of year on year comparison of our Group's items of assets and liabilities, please refer to the paragraphs headed "Principal components of our current assets and current liabilities" and "Principal components of non-current assets and non-current liabilities" below in this section.

Investing activities

Our net cash used in investing activities in FY2020 was approximately RMB60.9 million, which was attributable to (i) the addition of mining rights of approximately RMB30.2 million; (ii) the cash used for the purchase of property, plant and equipment of approximately RMB17.5 million comprising mainly mining infrastructure; (iii) advances of loan to third parties of approximately RMB12.1 million; and partially offset by the proceeds from the gold forward contract of approximately RMB2.7 million.

Our net cash used in investing activities in FY2021 was approximately RMB87.8 million, which was attributable to (i) the cash used for the purchase of property, plant and equipment of approximately RMB34.6 million comprising mainly plant and machinery; (ii) the addition of mining rights of approximately RMB27.0 million; (iii) the addition of right-of-use assets of approximately RMB2.5 million; and partially offset by the proceeds from the repayment of loans from third parties of approximately RMB31.9 million. Our net cash used in investing activities increased from approximately

RMB60.9 million for FY2020 to approximately RMB87.8 million for FY2021, representing an increase of approximately RMB27.0 million. Such increase was mainly due to net effect of (i) the repayment of loans from third parties in FY2021 compared to loan advance to third party in FY2020; and (ii) the increase in purchase of items of property, plant and equipment in FY2021.

Our net cash used in investing activities in FY2022 was approximately RMB56.1 million, which was attributable to (i) the cash used for the purchase of property, plant and equipment of approximately RMB48.4 million comprising mainly plant and machinery; and (ii) the addition of intangible assets of approximately RMB7.7 million. Our net cash used in investing activities decreased from approximately RMB87.8 million for FY2021 to approximately RMB56.1 million for FY2022, representing a decrease of approximately RMB31.7 million. Such decrease was mainly due to (i) our advances of loans to related parties of approximately RMB31.9 million in FY2021 which was absent in FY2022; and (ii) the decrease in additions to intangible assets of approximately RMB19.3 million in FY2022.

Our net cash used in investing activities in 6M2022 was approximately RMB16.6 million, which was attributable to (i) the cash used for the purchase of property, plant and equipment of approximately RMB15.2 million comprising mainly plant and machinery; and (ii) the addition of mining rights of approximately RMB1.4 million.

Our net cash used in investing activities in 6M2023 was approximately RMB28.4 million, which was attributable to the cash used for the purchase of property, plant and equipment of approximately RMB28.4 million comprising mainly plant and machinery. Our net cash used in investing activities increased from approximately RMB16.6 million for 6M2022 to approximately RMB28.4 million for 6M2023, representing an increase of approximately RMB11.8 million. Such increase was mainly due to the purchases of property, plant and equipment of approximately RMB28.4 million in 6M2023.

Financing activities

Our net cash used in financing activities in FY2020 was approximately RMB58.1 million, which was mainly attributable to (i) repayment of interest bearing bank borrowings of approximately RMB90.0 million; (ii) the interest paid of approximately RMB4.2 million; and partially offset by (iii) the new bank loans obtained of RMB30.0 million; and (iv) increase in amount due to related parties of approximately RMB6.9 million.

Our net cash used in financing activities in FY2021 was approximately RMB45.1 million, which was mainly attributable to (i) the dividends paid of approximately RMB40.0 million; (ii) repayment of bank loans of RMB30.0 million; (iii) interest paid of approximately RMB2.7 million; and partially offset by (iv) the new bank loans obtained of RMB30.0 million; and (v) the increase in amount due to related parties of approximately RMB0.9 million. Our net cash used in financing activities decreased from approximately RMB58.1 million for FY2020 to approximately RMB45.1 million for FY2021, representing a decrease of approximately RMB13.0 million. Such decrease was mainly due to (i) the increase in the total dividends paid of approximately RMB40.0 million; (ii) the decrease in the amounts due to related companies of approximately RMB6.1 million; and partially offset by (iii) the decrease in repayment of bank borrowings of approximately RMB60.0 million.

Our net cash used in financing activities in FY2022 was approximately RMB54.8 million, which was mainly attributable to (i) the dividends paid of approximately RMB38.9 million; and (ii) the repayment of advance from related parties of approximately RMB14.8 million. Our net cash used in financing activities increased from approximately RMB45.1 million for FY2021 to approximately RMB54.8 million for FY2022 representing an increase of approximately RMB9.7 million. Such increase was mainly due to the increase in advances to a related party of approximately RMB14.8 million in FY2022.

Our net cash used in financing activities in 6M2022 was approximately RMB30.6 million, which was mainly attributable to the repayment of bank loans of RMB30.0 million.

Our net cash used in financing activities in 6M2023 was approximately RMB1.3 million, which was mainly attributable to repayment of other long-team liabilities and interest paid. Our net cash used in financing activities decreased from approximately RMB30.6 million for 6M2022 to approximately RMB1.3 million for 6M2023, representing an decrease of approximately RMB29.3 million. Such decrease was mainly due to the absence of repayment of loan of RMB30.0 million in 6M2023.

PRINCIPAL COMPONENTS OF OUR CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets forth the details of our current assets and current liabilities as of the dates indicated.

	As at 31 December			As at 30 June	As at 31 October
	2020	**2021**	**2022**	**2023**	**2023**
					(unaudited)
	(RMB in thousands)				
Current assets					
Inventories	28,989	19,788	18,652	11,310	17,534
Prepayments, other receivables and other assets	2,786	4,364	5,845	8,632	7,729
Due from related parties	1	—	7,200	7,200	7,200
Restricted and pledged deposits	14,290	15,645	17,594	19,212	19,222
Cash and cash equivalents	202,907	182,398	282,187	350,001	372,990
Current portion of other long-term assets	—	1,000	400	400	350
Total current assets	**248,973**	**223,195**	**331,878**	**396,755**	**425,025**
Current liabilities					
Trade payables	13,839	15,871	12,426	9,576	17,679
Other payables and accruals	92,965	20,455	20,897	33,106	18,241
Due to related parties	59,649	60,255	447	456	302
Provisions	1,912	1,351	1,305	1,305	1,305
Deferred income	680	510	340	255	198
Tax payable	25,911	45,484	73,647	87,305	91,275
Interest-bearing bank borrowings	30,000	30,000	30,000	30,000	30,000
Lease liabilities	—	—	—	—	—
Current portion of other long-term liabilities	1,065	7,369	7,369	7,369	7,369
Total current liabilities	**226,021**	**181,295**	**146,431**	**169,372**	**166,369**
Net current assets	**22,952**	**41,900**	**185,447**	**227,383**	**258,656**

Our net current assets increased from approximately RMB23.0 million as at 31 December 2020 to approximately RMB41.9 million as at 31 December 2021, representing an increase of approximately RMB18.9 million. Such increase was mainly attributable to profit for the year of approximately RMB58.7 million; and partially offset by the dividend declared of approximately RMB40.0 million.

Our net current assets increased from approximately RMB41.9 million as at 31 December 2021 to approximately RMB185.4 million as at 31 December 2022, representing an increase of approximately RMB143.5 million. Such increase was mainly attributable to profit for the year of approximately RMB121.0 million.

Our net current assets increased from approximately RMB185.4 million as at 31 December 2022 to approximately RMB227.4 million as at 30 June 2023, representing an increase of approximately RMB42.0 million. Such increase was mainly attributable to the profit for period of approximately RMB52.8 million, partially offset by increase in property, plant and equipment of approximately RMB23.6 million.

Based on our unaudited consolidated financial information as at 31 October 2023, our net current assets increased from approximately RMB227.4 million as at 30 June 2023 to approximately RMB258.7 million as at 31 October 2023, representing an increase of approximately RMB31.3 million. Such increase was mainly attributable to the profit generated during the period.

Working capital sufficiency statement

Taking into account our cash generating capabilities, financial resources available to us and the [REDACTED] from the [REDACTED] (after a possible [REDACTED] setting the final [REDACTED] up to 10% below [REDACTED], being the [REDACTED] of the indicative [REDACTED] range), our Directors are of the opinion, and the Sole Sponsor concurs, that we have sufficient working capital required for our operation at present for 125% of our present requirements for at least next 12 months from the date of this document.

Inventories

Our inventories consist of (i) gold concentrate; (ii) ore stockpile; and (iii) raw materials used in our mining and processing operations. The following table sets forth the components of our inventories as at the dates indicated.

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Gold concentrate	11,916	2,565	836	1,268
Ore stockpile	11,068	9,899	9,868	2,285
Raw materials	6,005	7,324	7,948	7,757
Total	28,989	19,788	18,652	11,310

Our inventories decreased from approximately RMB29.0 million as at 31 December 2020 to approximately RMB19.8 million as at 31 December 2021. Our inventories decreased in FY2021 mainly due to the decrease in gold concentrate and ore stockpile because our mining and processing work were temporarily suspended in certain months of FY2021. Our inventories remained relatively stable at approximately RMB18.7 million as at 31 December 2022 but decreased to approximately RMB11.3 million as at 30 June 2023. In light of the fact that our mining activities were paused during May to mid-July to facilitate the safety inspection in the newly expanded mining area of Songjiagou Open-Pit Mine, we had utilised additional ore stockpile for our ore processing activities in 6M2023.

Our management performs regular review on ageing analysis of our inventories and the condition of our inventories, and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use in the production. The following table sets forth the ageing analysis of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Within one year	27,003	16,296	15,777	7,665
One to two years	821	1,610	566	1,507
Two to three years	299	708	706	490
Over three years	866	1,174	1,603	1,648
Total	**28,989**	**19,788**	**18,652**	**11,310**

Our inventories with age of over one year were solely represented by our raw materials. These aged raw materials mainly comprised of metal consumables or spare parts which have long shelf life. Our Group had regularly conducted review or maintenance work on these metal consumables or spare parts and ensured that they are in usable condition. Our management confirmed that, after performing the abovementioned analysis, there is no recoverability issue regarding inventories and no provision for impairment of inventories was required during the Track Record Period.

The following table sets forth our average inventory turnover days for the Track Record Period:

	FY2020	FY2021	FY2022	6M2023
Average inventory turnover days *(Note)*	65.3	82.6	35.1	26.0

Note: Average inventory turnover days is derived by dividing the arithmetic mean of the opening and ending balance of inventories by the cost of sales for the respective year and multiplied by the number of days in the year/period.

Our average inventory turnover days increased from approximately 65.3 days in FY2020 to approximately 82.6 days in FY2021 mainly due to the decrease in cost of sales recognised during the period as a result of the Temporary Operation Suspension. Our average inventory turnover days decreased to approximately 35.1 days in FY2022 mainly due to the fact that our average balance of inventories in FY2022 was lower than that in FY2021. Our average inventory turnover days decreased to approximately 26.0 days in 6M2023 mainly due to the decrease in ore stockpile as we utilised additional ore stockpile during May to mid-July 2023 when we paused our mining activities to facilitate the safety inspection in the newly expanded mining area of Songjiagou Open-Pit Mine.

As at 31 October 2023, approximately RMB5.7 million or approximately 50.5%, of our total inventories as at 30 June 2023 of approximately RMB11.3 million were utilised.

Prepayments, other receivables and other assets

Our prepayments primarily relate to prepayments of [REDACTED] and prepayments made to vendors, subcontractors and suppliers for the procurement of raw materials and consumables, parts and replacements of machinery. Our deposits and other receivables mainly represent security deposits paid to Shandong Humon for the committed gold bullion sales. For details of committed gold bullion sales, please refer to the paragraphs "Business — Sales and customers — Salient terms of the sales contracts with customers" in this document. The following table sets forth the components of our prepayments, other receivables and other assets as at the dates indicated.

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	(RMB in thousands)			
Prepayments				
— [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
— Others	697	707	1,371	2,917
Deposits and other receivables	—	682	483	442
Interest receivables	—	10	—	—
Total	2,786	4,364	5,845	8,632

Our prepayments, other receivables and other assets increased from approximately RMB2.8 million as at 31 December 2020 to approximately RMB4.4 million as at 31 December 2021, representing an increase of approximately RMB1.6 million, mainly due to (i) the increase in prepayments of [REDACTED] of approximately [REDACTED]; and (ii) the increase in deposits and other receivables of approximately RMB0.7 million mainly in relation to the receivables from Shandong Guoda for the compensation income of sale of sulfuric acid. Our prepayments, other receivables and other assets increased to approximately RMB5.8 million as at 31 December 2022, representing an increase of approximately RMB1.4 million, mainly due to (i) the increase in prepayments of [REDACTED] of approximately [REDACTED]; and (ii) the increase in other prepayments of approximately RMB0.7 million mainly in relation to the research and development of certain systems for our Songjiagou Underground Mine and the techniques in analysing the gold grade in ores. Our prepayments, other receivables and other assets increased to approximately RMB8.6 million as at 30 June 2023, representing an increase of approximately RMB2.8 million mainly due to (i) the increase in prepayments of [REDACTED] of approximately [REDACTED]; and (ii) the increase in other prepayments of approximately RMB1.5 million including an amount of approximately RMB1.1 million paid for a research and development contract for intelligent despatching and monitoring system for transportation in ramps.

Restricted and pledged deposits

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our restricted and pledged deposits amounted to approximately RMB14.3 million, RMB15.6 million, RMB17.6 million and RMB19.2 million, respectively, mainly represented environmental rehabilitation deposits placed in banks for environmental rehabilitation of land we developed for our mine as required under the relevant PRC laws and regulations.

Trade payables

Our trade payables mainly represent the outstanding amounts payable by us to our suppliers for the procurement of raw materials and utilities and to subcontractors for the procurement of subcontracting services. The following table sets forth the balance of our trade payables as at the dates indicated.

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Trade payables	13,839	15,871	12,426	9,576

Our trade payables increased from approximately RMB13.8 million as at 31 December 2020 to approximately RMB15.9 million as at 31 December 2021, representing an increase of approximately RMB2.0 million or 14.7%. Such increase was mainly due to (i) the increase in payable to Yantai Haitai Machinery Leasing Co., Ltd.* (煙台海泰機械租賃有限公司), the equipment leasing subcontractor we engaged since 2021 for conducting mining work by ourselves, of approximately RMB2.3 million; (ii) the increase in payable to Shandong Guoda of approximately RMB1.9 million due to the timing difference in settling the payable to Shandong Guoda; and partially offset by (iii) the settlement of amount due to Liaoyuan Zhuoli of approximately RMB1.5 million. Our trade payables decreased from approximately RMB15.9 million as at 31 December 2021 to approximately RMB12.4 million as at 31 December 2022, representing a decrease of approximately RMB3.5 million or 22.0%. Such decrease was mainly due to (i) the decrease in payable to Yantai Haitai Machinery Leasing Co., Ltd.* (煙台海泰機械租賃有限公司) of approximately RMB2.2 million as we began to engage another equipment leasing subcontractor since October 2022; and (ii) the decrease in payables to certain of our other top suppliers and subcontractors, including Shandong Guoda and Yantai Ruihe Group, of approximately RMB2.4 million due to the timing difference in settlement, partially offset by the increase in payable to Yantai Wangjin Machinery Leasing Co., Ltd.* (煙台旺金機械租賃有限公司) of approximately RMB1.8 million, which is our new machine leasing subcontractor.

Our trade payables decreased from approximately RMB12.4 million as at 31 December 2022 to approximately RMB9.6 million as at 30 June 2023 representing a decrease of approximately RMB2.8 million or 22.6%. Such decrease was mainly due to (i) the decrease in payable to Yantai Wangjin Machinery Leasing Co., Ltd.* of approximately RMB1.8 million since we ceased to have business with them in 6M2023; (ii) the decrease in payables to certain of our top five suppliers, including Shandong Shengshida and Yantai Ruihe of approximately RMB1.7 million due to timing difference in settlement, partially offset by the increase in payables to Shandong Guoda of approximately RMB0.7 million due to timing difference in settlement.

Our suppliers and subcontractors typically grant us a credit period of 30 to 90 days. The following table sets forth the ageing analysis of our trade payables based on the invoice date as at the dates indicated.

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Within one month	7,774	9,022	9,152	6,207
One to two months	2,889	3,764	2,174	2,074
Two to three months	676	2,272	357	339
Over three months	2,500	813	743	956
Total	13,839	15,871	12,426	9,576

The following table sets forth our average trade payables turnover days for the Track Record Period:

	FY2020	FY2021	FY2022	6M2023
	(RMB in thousands)			
Average trade payables turnover days *(Note)*	45.7	96.9	46.2	39.3

Note: Average trade payables turnover days is derived by dividing the arithmetic mean of the opening and ending balance of trade payables by the total purchase for the respective year and multiplied by the number of days in the year/period.

Our average trade payables turnover days were relatively stable at approximately 45.7 days in FY2020, 46.2 days in FY2022 and 39.3 days in 6M2023. Our average trade payable turnover days were exceptionally high, amounting to approximately 96.9 days in FY2021, mainly because of the increase in our trade payables near the end of the year, mainly attributable to increase in payables to Yantai Haitai Machinery Leasing Co., Ltd.* (煙台海泰機械租賃有限公司) and Shandong Guoda, partially offset by the settlement of amount due to Liaoyuan Zhuoli and the decrease in total purchase in FY2021 compared to FY2020 as a result of the Temporary Operation Suspension.

As at 31 October 2023, approximately RMB8.6 million, or approximately 90.2%, of our trade payables outstanding as at 30 June 2023 of approximately RMB9.6 million had been settled.

Other payables and accruals

The following table sets forth the components of our other payables and accruals as of the dates indicated.

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	(RMB in thousands)			
Mining rights payables	71,136	—	—	—
Other payables	7,998	8,840	9,115	21,267
Other tax payables	9,900	7,671	7,618	7,844
Accrued salaries	3,879	3,908	4,124	3,959
Interest payable	52	36	40	36
Total	92,965	20,455	20,897	33,106

Our other payables and accruals decreased from approximately RMB93.0 million as at 31 December 2020 to approximately RMB20.5 million as at 31 December 2021, representing a decrease of approximately RMB72.5 million. Such decrease was mainly attributable to (i) price adjustment to the consideration of mining rights of RMB30.2 million; (ii) the settlement of mining rights payable of approximately RMB6.3 million during the year; and (iii) the reclassification of remaining mining rights payables of approximately RMB34.6 million to other long-term liabilities pursuant to the supplementary agreement entered into with Yantai Municipal Bureau of Natural Resources and Planning in December 2021 to set out the settlement schedules. In April 2020, our Group entered into an agreement of transfer of mining rights ("**Mining Rights Agreement**") with Yantai Municipal Natural Resources and Planning Bureau for renewing the mining licence of our Songjiagou Open-Pit Mine at an initial consideration of approximately RMB101.1 million (the "**Initial Consideration**"). Such Initial Consideration was just a preliminary and rough estimation while both parties mutually agreed, also as set out in the Mining Rights Agreement, to enter into a supplemental agreement to finalise the consideration based on a valuation report. We paid RMB30.0 million of the Initial Consideration in 2020 and the remaining balance of RMB71.1 million was recognised as our current liability since the balance was not expected to be settled in more than one year as at 31 December 2021. The final consideration of approximately RMB74.1 million (the "**Final Consideration**") was determined in December 2021 based on a valuation report prepared by a valuation firm entrusted by Yantai Municipal Natural Resources and Planning Bureau, and the supplemental agreement was entered into between the Group and the bureau. Pursuant to the supplemental agreement, the remaining balance of the Final Consideration (i.e. RMB74.1 million less RMB30.0 million) shall be paid in seven annual instalments. The difference between the Initial Consideration of RMB101.1 million and the present value of Final Consideration of approximately RMB70.9 million was adjusted against the cost of the mining right and mining rights payables in 2021. In respect of the remaining balance of such mining rights payables, the first instalment of approximately RMB6.3 million was paid in 2021, the second instalment of RMB6.3 million was recognised as current portion of other long-term liabilities and the remaining instalments of RMB28.3 million were recognised as other long-term liabilities as at 31 December 2021 in accordance with the payment term as set out in the supplemental agreement. Our other payables and accruals remained relatively stable at approximately RMB20.9 million as at 31 December 2022. Our other payables and accruals increased to approximately RMB33.1 million as at 30 June 2023 mainly due to the increase in other payables of approximately RMB12.2 million, mainly attributable to the payables to the contractors for the construction of the mining infrastructure.

The following table sets forth the components of our other payables as of the dates indicated.

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	(RMB in thousands)			
Capital expenditure and equipment payables	4,945	7,471	6,057	18,649
Entrusted research and development expenses payables	2,176	—	—	—
Village distribution payables	334	484	345	351
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Others	522	762	1,470	481
	7,998	8,840	9,115	21,267

Our other payables increased from approximately RMB8.0 million as at 31 December 2020 to approximately RMB8.8 million as at 31 December 2021, representing an increase of approximately RMB0.8 million. Such increase was mainly due to the increase in capital expenditure payables of approximately RMB2.5 million in relation to certain renovation and facilities improvement for our processing plants and ancillary buildings, and partially offset by the settlement of entrusted research and development expenses payables. Our other payables remained relatively stable at approximately RMB9.1 million as at 31 December 2022. Our other payables increased to approximately RMB21.3 million as at 30 June 2023 mainly attributable to the increase in payables to contractors for the construction of the mining infrastructure.

Due to related parties

Please refer to the paragraphs headed "Related party transactions — (c) Balances due to Dahedong" and "Related party transactions — (e) Balances due to Majestic Gold" in this section for further details.

Provisions

The following table sets forth the components of our provisions as at the dates indicated.

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	(RMB in thousands)			
Provision for relocation	1,662	981	935	935
Provision for penalties	250	370	370	370
Total	1,912	1,351	1,305	1,305

Provision for relocation

Our provision for relocation mainly represents the provisions for construction costs of the residential buildings and other infrastructures for the relocation of villages surrounding our Songjiagou Open-Pit Mine. For details, please refer to the section headed "Business — Environmental, social and corporate governance — B. Social — Community investment" in this document. Our provision for relocation decreased from approximately RMB1.7 million as at 31 December 2020 to approximately RMB1.0 million, RMB0.9 million and RMB0.9 million as at 31 December 2021, 31 December 2022 and 30 June 2023, respectively mainly due to the settlement of construction costs during the respective years.

Provision for penalties

Our provision for penalties mainly represents the provision for penalties for arising from the late application for construction work planning permit in respect of the buildings constructed on the land owned by us of approximately RMB250,000, RMB370,000, RMB370,000 and RMB370,000 as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively. For details, please refer to the section headed "Business — Properties" in this document.

Deferred income

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our Group recorded deferred income of approximately RMB0.7 million, RMB0.5 million, RMB0.3 million and RMB0.3 million, respectively. The deferred income represented government subsidies granted to our Group for our production facilities or expense items but yet to be recognised as income. The deferred income is released to the statement of profit or loss over the expected useful lives of the facilities by equal annual instalments.

Tax payable

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our tax payable of approximately RMB25.9 million, RMB45.5 million, RMB73.6 million and RMB87.3 million, respectively, represent income tax payable to the government authority of the PRC.

Our tax payable increased from approximately RMB25.9 million as at 31 December 2020 to approximately RMB45.5 million as at 31 December 2021, representing an increase of approximately RMB19.6 million. Such increase was mainly due to (i) income tax expenses of approximately RMB28.5 million, and offset by (ii) income tax paid of approximately RMB10.1 million.

Our tax payable increased from approximately RMB45.5 million as at 31 December 2021 to approximately RMB73.6 million as at 31 December 2022, representing an increase of approximately RMB28.1 million. Such increase was mainly due to (i) income tax expenses of approximately RMB63.9 million, and offset by (ii) income tax paid of approximately RMB32.0 million.

Our tax payable increased from approximately RMB73.6 million as at 31 December 2022 to approximately RMB87.3 million as at 30 June 2023, representing an increase of approximately RMB13.7 million. Such increase was mainly due to (i) income tax expenses of approximately RMB26.7 million, and offset by (ii) income tax paid of approximately RMB9.3 million.

Our tax payments for FY2020 and FY2022 were significantly larger than that of FY2019 and FY2021 mainly because higher profit before tax during the year.

PRINCIPAL COMPONENTS OF OUR NON-CURRENT ASSETS AND NON-CURRENT LIABILITIES

The following table sets forth a summary of our non-current assets and non-current liabilities as at the date indicated.

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Non-current assets				
Property, plant and equipment	262,409	282,083	296,929	320,578
Intangible assets	145,238	132,322	125,090	121,110
Right-of-use assets	134,998	128,627	119,720	115,243
Deferred tax assets	5,432	5,408	5,906	6,321
Other long-term assets	12,100	3,954	6,526	7,538
Total non-current assets	560,177	552,394	554,171	570,790
Non-current liabilities				
Provisions	21,971	23,316	23,913	24,258
Other long-term liabilities	8,693	36,158	30,066	30,127
Deferred tax liabilities	6,464	5,275	9,535	13,722
Total non-current liabilities	37,128	64,749	63,514	68,107

Property, plant and equipment

The following table sets forth the net carrying amounts of our property, plant and equipment as at the dates indicated.

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Mining infrastructure	171,110	175,839	190,237	216,602
Plant and machinery	88,110	97,708	97,340	94,865
Buildings	1,294	2,414	2,253	2,172
Office equipment and electronic and other devices	1,086	1,134	718	540
Motor vehicles	809	934	2,531	2,754
Leasehold improvements	—	4,054	3,850	3,645
Total	262,409	282,083	296,929	320,578

Our net carrying amounts of property, plant and equipment increased from approximately RMB262.4 million as at 31 December 2020 to approximately RMB282.1 million as at 31 December 2021, representing an increase of approximately RMB19.7 million or approximately 7.5%, mainly due to the addition of plant and machinery of approximately RMB20.5 million mainly for our underground mining operations. The net carrying amounts of property, plant and equipment increased to approximately RMB296.9 million as at 31 December 2022, representing an increase of approximately RMB14.9 million or approximately 5.3%, mainly due to the addition of mining infrastructure of approximately RMB30.2 million mainly for the Songjiagou Open-Pit Mine. Our net carrying amounts of property, plant and equipment increased to approximately RMB320.6 million as at 30 June 2023 mainly due to the addition of mining infrastructure of approximately RMB23.6 million primarily attributable to the construction of new benches of our Songjiagou Open-Pit Mine, the expansion of tailing dam and the repair work performed on the road connecting our Open-Pit Mine and the processing plant.

Intangible assets

Our intangible assets with net book value of approximately RMB145.2 million, RMB132.3 million, RMB125.1 million and RMB121.1 million, as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, mainly represent our mining rights for our Songjiagou Open-Pit Mine and Songjiagou Underground Mine.

The following table sets forth the breakdown of net carrying amounts of our intangible assets as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	(RMB in thousands)			
Mining rights				
Songjiagou Open-Pit Mine				
— Opening balance	46,217	144,853	111,313	106,740
— Additions	101,136	—	—	—
— Price adjustment	—	(30,214)	—	—
— Amortisation provided during the year/period	(2,500)	(3,326)	(4,573)	(1,974)
Net carrying amount	144,853	111,313	106,740	104,766
Songjiagou Underground Mine				
— Opening balance	248	385	21,009	17,254
— Additions	180	20,632	—	—
— Amortisation provided during the year/period	(43)	(8)	(3,755)	(1,870)
Net carrying amount	385	21,009	17,254	15,384
Software	—	—	1,096	960
	145,238	132,322	125,090	121,110

The net book value of our intangible assets decreased from approximately RMB145.2 million as at 31 December 2020 to RMB132.3 million as at 31 December 2021, representing a decrease of approximately RMB12.9 million. Such decrease was mainly attributable to (i) the price adjustment to our mining rights of approximately RMB30.2 million for our Songjiagou Open-Pit Mine, the basis of adjustment is as elaborated in the paragraph headed "Other payables and accruals" in this section of the document; (ii) the amortisation provided during the year of approximately RMB3.3 million; and partially offset by (iii) the additions mining rights for our Songjiagou Underground Mine of approximately RMB20.6 million for the renewal of mining licence.

The net book value of our intangible assets decreased from approximately RMB132.3 million as at 31 December 2021 to RMB125.1 million as at 31 December 2022, representing a decrease of approximately RMB7.2 million. Such decrease mainly attributable to the amortisation provided during the period of approximately RMB8.5 million and offset by the addition of software of approximately RMB1.3 million.

The net book value of our intangible assets decreased from approximately RMB125.1 million as at 31 December 2022 to RMB121.1 million as at 30 June 2023, representing a decrease of approximately RMB4.0 million. Such decrease mainly attributable to the amortisation provided during the period of approximately RMB4.0 million.

Right-of-use assets

Our right-of-use assets represent the costs of land use rights in respect of our Group's leasehold land in the PRC and buildings erected on land leased by us for our ancillary mining activities and administrative activities. The carrying amount of our right-of-use assets as at 31 December 2020, 2021 and 2022 and 30 June 2023 was approximately RMB135.0 million, RMB128.6 million, RMB119.7 million and RMB115.2 million, respectively. The year-on-year differences were mainly due to depreciation charges incurred during the relevant years.

Deferred tax assets

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our net deferred tax assets of approximately RMB5.4 million, RMB5.4 million, RMB5.9 million and RMB6.3 million, respectively, mainly arose from the accrued liabilities relating to our provisions for rehabilitation and other long-term liabilities, as well as the temporary differences between the tax bases and the carrying amounts in respect of our Group's mining infrastructure.

Other long-term assets

The following table sets forth the components of our other long-term assets as at the dates indicated:

	As at 31 December			As at 30 June
	2020	**2021**	**2022**	**2023**
	(RMB in thousands)			
Loan to an Independent Third Party	10,000	—	—	—
Loan to an Independent Third Party farmers cooperation	2,100	4,000	4,000	4,000
Advance payments for purchase of property, plant and equipment	—	954	2,926	3,938
Total	12,100	4,954	6,926	7,938
Analysed into:				
Current portion	—	1,000	400	400
Non-current portion	12,100	3,954	6,526	7,538
	12,100	4,954	6,926	7,938

As at 31 December 2020, our other long-term assets comprised of (i) an interest-free loan of RMB10.0 million granted to an Independent Third Party, which is wholly-owned by an ex-employee of our Group, on 1 August 2020 for its working capital needs. The loan is unsecured, interest free and repayable by no later than 24 July 2022. Such loan was repaid in full in November 2021; and (ii) an interest-free loan of RMB2.0 million granted to an Independent Third Party farmers cooperation on 18 September 2020 for the construction of a greenhouse to support the agricultural economic development, social well being and stability of the local communities comprising mainly villagers and farmers in the Muping District of Yantai. The loan is unsecured, interest free and repayable by 17 September 2025. Our other long-term assets decreased from approximately RMB12.1 million as at 31 December 2020 to approximately RMB4.0 million as at 31 December 2021, mainly due to (i) repayment of the interest-free loan of RMB10.0 million from the Independent Third Party, which is wholly-owned by an ex-employees of our Group in November 2021; (ii) additional loan granted to the Independent Party farmers cooperation of RMB2.0 million; and (iii) the prepayments to three Independent Third Party companies in the aggregate amount of approximately RMB954,000 for the acquisition of safety management systems for our mining operation. Our other long-term assets increased to approximately RMB6.9 million as at 31 December 2022 mainly because of the consideration of approximately RMB1.5 million paid for purchase of six buildings for commercial use. Our other long-term assets increased to approximately RMB7.9 million as at 30 June 2023 due mainly to the increase in advance payments for the purchase of property, plant and equipment.

Provisions

Our provisions classified as non-current liabilities represent the estimated costs for complying with our Group's obligations on final land rehabilitation and mine closure in accordance with the rules and regulations of the PRC, based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required works, as well as the impact of inflation, changes in discount rates for time value of money and the risk specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. These costs are expected to be incurred upon mine closure.

The following table sets forth the movements of the provision for rehabilitation during the Track Record Period:

	2020	2021	2022	2023
	(RMB in thousands)			
As at 1 January	21,303	21,791	23,316	23,913
Interest increment	681	714	664	345
Change in discount rate	(187)	631	(67)	—
Change in estimated rehabilitation cost	174	—	—	—
As at 31 December/30 June	21,791	23,316	23,913	24,258

Other long-term liabilities

The following table sets forth the components of our other long-term liabilities as at the dates indicated:

	As at 31 December			As at 30 June
	2020	2021	2022	2023
	(RMB in thousands)			
Instalment of the purchase of mining rights	—	34,602	29,142	29,534
Village distribution payables	9,527	8,925	8,293	7,962
Retention money	231	—	—	—
Total	9,758	43,527	37,435	37,496
Analysed into:				
Current portion	1,065	7,369	7,369	7,369
Non-current portion	8,693	36,158	30,066	30,127
	9,758	43,527	37,435	37,496

For details of our payables for the compensation to villagers, please refer to the section headed "Business — Our relationship with villagers" in this document. The decreasing balance during the Track Record Period was mainly due to settlement in the respective year.

For details of our payables for mining rights, please refer to the paragraphs under "other payables and accruals" in this subsection.

Deferred tax liabilities

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our deferred tax liabilities of approximately RMB6.5 million, RMB5.3 million, RMB9.5 million and RMB13.7 million, respectively, mainly arose from withholding tax on the distributable profits of our PRC subsidiaries.

INDEBTEDNESS

The following table sets forth the components of our indebtedness as of the date indicated:

	As at 31 December			As at 30 June	As at 31 October
	2020	**2021**	**2022**	**2023**	**2023**
					(unaudited)
	(RMB in thousands)				
Amounts due to related parties	59,649	60,255	447	456	302
Interest-bearing bank borrowings	30,000	30,000	30,000	30,000	30,000
Lease liabilities	—	—	—	—	—
Total	89,649	90,255	30,447	30,456	30,302

Amounts due to related parties

Please refer to the paragraphs headed "Related party transactions — (c) Balances due to Dahedong" and "Related party transactions — (e) Balances due to Majestic Gold" in this section for further details.

Interest-bearing bank borrowings

The following table sets forth the information of guarantors and pledged assets of our interest-bearing bank borrowings as at the dates indicated:

		As at 31 December			As at 30 June	As at 31 October
		2020	2021	2022	2023	2023
	Notes					*(unaudited)*
		(RMB in thousands)				
Bank borrowings — secured:						
Guaranteed by (i) Dahedong, (ii) Baiheng and (iii) Mr. Kong Fanzhong, and (iv) spouse of Mr. Kong Fanzhong	*(1), (2), (3)*	—	30,000	—	—	—
Guaranteed by (i) Dahedong, (ii) Mr. Kong Fanzhong and (iii) two Independent third party companies	*(1), (2), (3)*	10,000	—	—	—	—
Guaranteed by (i) Dahedong, (ii) Mr. Kong Fanzhong and (iii) spouse of Mr. Kong Fanzhong	*(1), (2), (3)*	10,000	—	—	—	—
Guaranteed by (i) Dahedong, (ii) Mr. Kong Fanzhong, (iii) Mr. Kong Fanbo, (iv) Baiheng, and (v) a former shareholder of Baiheng	*(1), (2), (3), (4)*	10,000	—	—	—	—
Guaranteed by (i) Dahedong, (ii) Baiheng, (iii) Mr. Zhou Shufeng and (iv) spouse of Mr. Zhou Shufeng	*(1), (2), (5)*	—	—	30,000	30,000	30,000
Total bank borrowings — secured		30,000	30,000	30,000	30,000	30,000

Notes:

(1) Our Group has also provided corporate guarantees to Shandong Eastern, Dahedong and Baiheng. For details, please refer to the paragraphs headed "Indebtedness — Contingent liabilities" in this section.

(2) Immediately following the [REDACTED], the guarantees provided by Dahedong, Baiheng and Mr. Zhou Shufeng and the spouse of Mr. Zhou Shufeng to our Group constitute fully-exempt continuing connected transactions of our Company. For details, please refer to the section headed "Connected transactions" in this document.

(3) Mr. Kong Fanzhong is a former director of Yantai Zhongjia.

(4) Mr. Kong Fanbo is a director of Yantai Zhongjia.

(5) Mr. Zhou Shufeng is the chairman of the board of directors of Yantai Zhongjia and general manager of Yantai Zhongjia.

Our short-term interest-bearing bank borrowings are repayable within one year, denominated in RMB and with fixed interest rates. The effective interest rates for these loans were 4.80% to 7.70% in FY2020, 4.35% in FY2021, 4.80% in FY2022 and 4.80% in 6M2023.

As at 31 October 2023, being the latest practicable date for the purpose of determining indebtedness, our Group had one bank loan amounted to RMB30.0 million, which was fully utilised and was secured by guarantees from Dahedong, Baiheng, Mr. Zhou Shufeng and the spouse of Mr. Zhou Shufeng. Such guarantees will not be released prior to the [REDACTED] and are expected to continue after [REDACTED]. Our Directors and the Sole Sponsor believe that the impact of the guarantees provided by Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying on our Group's financial independence from its connected persons is not significant. For details of the above, please refer to section headed "Connected transactions" in this document. During the Track Record Period and up to the Latest Practicable Date, we did not have unutilised banking facility.

During the Track Record Period, the bank borrowing agreements that we entered into with banks and financial institutions were subject to general and customary covenants commonly found in lending arrangements with financial institutions. If our Group were to breach the covenants, the loans would become payable on demand. Our Group regularly monitors its compliance with these covenants. Agreements for our bank borrowings do not contain any material covenants that may have a material adverse effect on our ability to obtain additional borrowings or issue debt or equity securities in the future. Our Directors confirmed that we have not defaulted in the repayment of the principal bank borrowings and relevant interest expenses during the Track Record Period.

Contingent liabilities

Guarantees issued

The following table sets forth the guarantees granted by our Group as at the dates indicated.

				As at	**As at**
	As at 31 December			**30 June**	**30 September**
	2020	**2021**	**2022**	**2023**	**2023**
	(RMB in thousands)				
					(unaudited)
Baiheng[(1)]	50,000	—	—	—	—
Shandong Eastern[(2)]	50,000	—	—	—	—
Total	100,000	—	—	—	—

Notes:

(1) Our Group provided a corporate guarantee in the sum of RMB50.0 million for the period from December 2016 to December 2023 in favour of a bank in the PRC, for the banking facilities obtained by Baiheng. We have received a sum of RMB15.0 million in terms of loan from Baiheng which we recorded as security deposits from Baiheng in 2016 in consideration of our provision of such corporate guarantee for the benefit of Baiheng. Such security deposit was returned in two tranches to Baiheng in 2018 and 2019 of RMB10.0 million and RMB5.0 million, respectively. In addition, as security, Baiheng agreed to transfer its mining permits to Yantai Zhongjia in the event that Baiheng was unable to repay the loan. Further, Dahedong has provided a back-to-back guarantee to Yantai Zhongjia and will become liable to pay for the entire amounts that Yantai Zhongjia will pay on behalf of Baiheng in the event of default. If Dahedong is unable to repay the liabilities, it will transfer 5% out of its 25% equity interest in Yantai Zhongjia to Majestic Yantai. As at 31 December 2021, Baiheng had fully settled the outstanding bank loans.

(2) Our Group provided a corporate guarantee amounted to RMB50.0 million for the period from January 2019 to December 2021 in favour of a financial institution in the PRC for the financing facilities obtained by Shandong Eastern, an Independent Third Party. The debt was also secured by a pledge of shares in a listed company owned by Shandong Eastern and a pledge of certificate of deposit of RMB50.0 million provided by an Independent Third Party. In August 2018, we were involved in a dispute with this financial institution in connection with the guaranteed liabilities. For further details of this litigation, please refer to the section headed "Business — Litigation — Legal proceedings relating to a corporate guarantee" in this document. In March 2021, the financial institution sold and transferred its debts to another company, which is an Independent Third Party. In August 2021, the Independent Third Party has released our Group from all liabilities and obligations under the corporate guarantee.

Save as disclosed above in this section, and apart from intra-group liabilities, as at 31 October 2023, being the latest practicable date for the purpose of the indebtedness statement, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities. Our Directors confirmed that there has not been any material change in our Group's indebtedness since the Latest Practicable Date and up to the date of this document.

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditures amounted to approximately RMB120.4 million, RMB58.5 million, RMB45.7 million and RMB39.6 million, respectively, primarily relating to the renewal of our mining rights, the construction of mining infrastructure, purchase of plant and machinery and additions in right-of-use assets. We have financed our capital expenditure primarily through cash generated from operating activities and bank borrowings.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed "Future plans and [REDACTED]" in this document for further details. We expect to fund our contractual commitments and expenditures principally through the [REDACTED] we receive from the [REDACTED], cash generated from our operating activities and proceeds from borrowings.

COMMITMENTS

Our capital commitments outstanding amounted to approximately RMB670,000, RMB320,000, RMB5.3 million and RMB6.5 million as at 31 December 2020, 2021 and 2022 and 30 June 2023, respectively, were mainly related to the construction of mining infrastructure for our Songjiagou Open-Pit Mine.

RELATED PARTY TRANSACTIONS

With respect to the material related party transactions set forth in the Accountants' Report in Appendix I to this document, our Directors confirmed that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole and would not distort our results for the Track Record Period or make our historical results not reflective of our future performance. For details, please refer to Note 34 to the Accountants' Report in Appendix I to this document. Certain related party transactions entered into by our Group during the Track Record Period and the balances with related parties at the end of each reporting period are set out below.

(a) Guarantees provided to our Group

During the Track Record Period, our banking facilities in the amount of RMB30.0 million, RMB30.0 million, RMB30.0 million and RMB30.0 million, respectively were guaranteed by, among others, Dahedong, Baiheng, Mr. Kong Fanbo (a director of Yantai Zhongjia), Mr. Kong Fanzhong (a former director of Yantai Zhongjia), Ms. Jiang Yunuo (the spouse of Mr. Kong Fanzhong), Mr. Zhou Shufeng (the chairman of the board of directors of Yantai Zhongjia and general manager of Yantai Zhongjia), and/or Ms. Xu Shaoying (the spouse of Mr. Zhou Shufeng). The banking facility in the amount of RMB30.0 million obtained in August 2022 which was guaranteed by Dahedong, Baiheng, Mr. Zhou Shufeng and his spouse will not be released prior to the [REDACTED]. Immediately following the [REDACTED], the guarantees provided by Dahedong, Baiheng, Mr. Zhou Shufeng and his spouse for our Group constitute fully-exempted continuing connected transactions of our Company. Our Directors and the Sole Sponsor believe that the impact of the guarantees provided by Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying on our Group's financial independence from its connected persons is not significant. For details of the above, please refer to the section headed "Connected transactions" in this document.

(b) Guarantee provided by our Group to Baiheng

In FY2020, our Group has provided corporate guarantees amounted to RMB50.0 million in favour of a bank in the PRC for banking facilities obtained by Baiheng. Such guarantees had been released in December 2021. For details, please refer to the paragraph headed "Indebtedness — Contingent liabilities" in this section.

(c) Balances due to Dahedong

As at 31 December 2020, 2021 and 2022 and 30 June 2023, we had balances due to Dahedong amounted to approximately RMB36.3 million, RMB36.3 million, nil and nil, respectively. The balances due to Dahedong were non-trade, unsecured, interest-free and repayable on demand, which were waived by Dahedong in October 2022.

(d) Balances due from Dahedong

As at 31 December 2020, 2021 and 2022 and 30 June 2023, we had balances due from Dahedong amounted to nil, nil, RMB7.2 million and RMB7.2 million, respectively. The balances due from Dahedong was relating to unpaid capital contribution by Dahedong to Yantai Zhongjia, which amounts were non-trade, unsecured, interest-free and repayable on demand. Such balances were fully settled on 13 November 2023.

(e) Balances due to Majestic Gold

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our amounts due to Majestic Gold related to non-trade activities amounted to approximately RMB23.3 million, RMB23.9 million, RMB0.4 million and RMB0.5 million, respectively, mainly represent shareholder's advances provided by Majestic Gold to our Group. The balances due to Majestic Gold were unsecured, interest-free and repayable on demand. On 5 June 2020, our Group has entered into a deed of waiver with Majestic Gold to waive the debt amounted to CAD62.1 million (equivalent to approximately RMB322.8 million) due to Majestic Gold. Majestic Gold had further waived the debt amounted to approximately RMB10.8 million in October 2022 and the remaining balance of approximately RMB13.5 million as at 31 December 2022 was fully settled by January 2023. We have further settled the outstanding balance due to Majestic Gold as at 30 June 2023 of approximately RMB0.5 million in July 2023. For further details, please refer to the paragraph headed "Relationship with our Controlling Shareholders — Financial independence" in this document.

(f) Purchase of bank acceptance notes from Dahedong and Qingjia

In 2020 and up to May 2020, our Group purchased certain bank acceptance bills from Dahedong and Qingjia by cash for the equivalent value as described under the section headed "Business — Compliance with laws and regulations — Non-compliant bill arrangements". In FY2020, the purchases of such bank acceptance bills from Dahedong and Qingjia were approximately RMB10.0 million and RMB0.2 million, respectively. For details, please refer to the "Business — Compliance with laws and regulations — Non-compliant bill arrangements" in this document.

(g) Payment made by Majestic Gold on behalf of our Company

During the Track Record Period, payments made by Majestic Gold on behalf of our Company amounted to approximately RMB881,000, RMB874,000, RMB887,000 and RMB456,000, respectively. Such payment represents mainly (i) [REDACTED] and other professional fees paid by Majestic Gold on behalf of our Company mainly in relation to the [REDACTED] amounted to approximately RMB5.7 million, nil, nil and nil during the Track Record Period respectively; and (ii) management fees paid to

Majestic Gold for services rendered by Dr. Shao and Mr. Mackie, our Executive Directors amounted to approximately RMB0.9 million, RMB0.9 million, RMB0.9 million and RMB0.5 million, during the Track Record Period respectively.

RETAINED PROFITS

Our retained profits amounted to approximately RMB19.8 million, RMB88.9 million, RMB92.4 million, RMB122.4 million and RMB153.4 million, as at 1 January 2020, 31 December 2020, 31 December 2021, 31 December 2022 and 30 June 2023, respectively. The significant improvement in our financial performance during the Track Record Period was mainly attributable to (1) the increase in production scale of our Songjiagou Open-Pit Mine following the renewal of respective mining licence which reduced the unit production cost of our product; (2) the significant increase in gold prices during the Track Record Period, leading to the increase in our Group's profit margin; and (3) the absence of significant non-operating costs in relation to the settlement with villagers since our operation has been on track.

CASH OPERATING COSTS

Cash operating costs for our mines primarily consist of mining operation costs and processing costs. A majority of these costs relate to the costs of workforce employment, consumables and fuel, electricity, water and other services. During the Track Record Period, our cash operating costs per gram of gold produced was approximately RMB144.64, RMB183.31, RMB165.00 and RMB194.55, respectively.

The tables below set forth a summary of historical and forecast of the cash operating costs per gram of gold produced of our Songjiagou Open-Pit Mine and Songjiagou Underground Mine, respectively, for the years indicated, based on the SRK Report.

Songjiagou Open-Pit Mine

		Historical				Forecast				
Cost item	**Unit**	**2020**	**2021**	**2022**	**1H2023**	**2H2023**	**2024**	**2025**	**2026**	**2027**
Workforce employment	RMB/gram	22.47	26.89	28.63	35.44	34.53	37.53	18.97	8.88	8.60
Consumables	RMB/gram	45.16	40.02	38.85	35.16	53.64	58.07	34.80	37.14	35.95
Fuel, electricity, water and other services(Note)	RMB/gram	49.13	72.11	59.45	82.00	45.21	48.75	30.02	13.94	13.58
On and off-site administration	RMB/gram	6.88	11.27	10.71	9.48	1.63	1.78	0.89	0.42	0.41
Environmental protection and monitoring	RMB/gram	0.04	0.00	0.00	0.10	0.01	0.02	0.01	—	—
Transportation of workforce	RMB/gram	0.72	0.82	0.30	0.61	0.76	0.83	0.42	0.20	0.19
Product marketing and support	RMB/gram	—	—	—	—	—	—	—	—	—
Non-income taxes, royalties and other government charges	RMB/gram	17.88	20.24	19.87	21.93	20.25	20.34	17.31	15.41	15.03
Contingency allowances	RMB/gram	8.75	9.02	4.54	7.04	5.89	6.44	3.13	1.51	1.47
Total	RMB/gram	**151.05**	**180.36**	**162.36**	**191.66**	**161.92**	**174.03**	**105.65**	**77.50**	**75.21**

Note: Include smelting and refining costs.

Songjiagou Underground Mine

		Historical				Forecast				
Cost item	**Unit**	**2020**	**2021**	**2022**	**1H2023**	**2H2023**	**2024**	**2025**	**2026**	**2027**
Workforce employment	RMB/gram	6.70	6.81	54.92	70.89	51.11	52.23	52.16	55.47	78.57
Consumables	RMB/gram	74.69	53.84	49.60	58.79	60.28	60.66	60.58	64.42	91.25
Fuel, electricity, water and other services*(Note)*	RMB/gram	17.78	155.21	56.12	54.29	47.94	48.25	48.19	51.07	71.22
On and off-site administration	RMB/gram	2.53	3.85	3.39	2.50	0.52	0.53	0.53	0.56	0.79
Environmental protection and monitoring	RMB/gram	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01
Transportation of workforce	RMB/gram	0.27	0.28	0.10	0.16	0.24	0.25	0.25	0.26	0.37
Product marketing and support	RMB/gram	—	—	—	—	—	—	—	—	—
Non-income taxes, royalties and other government charges	RMB/gram	1.05	1.49	1.22	1.16	18.17	18.00	16.46	15.71	15.81
Contingency allowances	RMB/gram	2.21	57.18	17.34	23.15	2.63	2.69	2.69	2.86	4.05
Total	RMB/gram	**105.25**	**278.67**	**182.67**	**210.92**	**180.88**	**182.61**	**180.85**	**190.37**	**262.08**

Note: Include smelting subcontracting costs.

As a result of the Temporary Operation Suspension, the cash operating costs per gram of gold produced of our mines for FY2021 were distorted and hence, were not comparable to those for FY2020, FY2022 and 6M2023.

In FY2020, the cash operating costs per gram of gold produced of our Songjiagou Underground Mine were generally lower than our Songjiagou Open-Pit Mine during the Track Record Period (except for FY2021), since our Songjiagou Underground Mine has a higher gold grade which reduces the operating costs shared by each unit of gold produced. Such situation was reversed in FY2022 and 6M2023, mainly due to the increase in mining cost of our Songjiagou Underground Mine, primarily as a result of (i) the increase in compliance cost of stringent safety requirements imposed by the government following the mine accident happened in Shandong Province in 2021; and (ii) the increase in blasting activities in response to the progress of mining work in our Songjiagou Underground Mine.

Further, the cash operating costs per gram of gold produced of our mines decrease when the volume of gold produced increases, or vice versa, mainly attributable to the effect of economies of scale. From FY2024 to FY2027, the cash operating costs per gram of gold produced of our Songjiagou Open-Pit Mine are expected to decrease significantly, mainly attributable to the expected increase in (i) gold production volume which amplifies the effect of economies of scale; and (ii) gold grade pursuant to the model of calculating the life of mine of our Songjiagou Open-Pit Mine. However, since our Songjiagou Underground Mine has reached its maximum production capacity in FY2022, such effect of economies of scale or a significant reduction in cash operating costs is not expected. On the contrary, an increasing trend is expected for the cash operating costs per gram of gold produced of our Songjiagou Underground Mine, mainly attributable to the expected decrease in gold grade from 1.66 g/t in FY2024 to 1.10 g/t in FY2027.

Please refer to section headed "19. Capital investment and operating costs" in the SRK Report as set out in Appendix III to this document for details of the cash operating costs and the relevant assumptions.

KEY FINANCIAL RATIOS

The table below sets forth certain of our key financial ratios as of and for the periods indicated.

	FY2020	FY2021	FY2022	6M2023
Gross profit margin (%)(1)	54.0	56.5	52.2	47.0
Net profit margin (%)(2)	31.7	23.7	28.9	26.8
Return on equity (%)(3)	21.0	11.1	17.9	7.2
Return on assets (%)(4)	14.1	7.6	13.7	5.5
Interest coverage (times)(5)	42.7	34.0	198.3	111.9

	As at 31 December			As at 30 June
	2020	2021	2022	2023
Current ratio (times)(6)	1.1	1.2	2.3	2.3
Quick ratio (times)(7)	0.9	1.0	2.0	2.1
Gearing ratio (%)(8)	5.5	5.7	4.4	4.1

Notes:

(1) Gross profit margin is calculated based on the gross profit for the year/period divided by the total revenue for the respective year/period and multiplied by 100%. Please refer to the paragraphs headed "Period to Period Comparison of Results of Operations" above in this section for more details on our gross profit margins.

(2) Net profit margin is calculated based on the profit for the year/period divided by the total revenue for the respective year/period and multiplied by 100%. Please refer to the paragraphs headed "Period to Period Comparison of Results of Operations" above in this section for more details on our net profit margins.

(3) Return on equity is calculated based on the profit for the year divided by the total equity at the end of the year, then multiplied by 100%. For 6M2023, the calculation of return on equity is calculated with reference to our Group's half-year profit, which cannot be directly compared to the return on equity calculated with reference to our Group's full-year profit in previous years.

(4) Return on assets is calculated based on the profit for the year divided by the total assets at the end of the year, then multiplied by 100%. For 6M2023, the calculation of return on assets is calculated with reference to our Group's half-year profit, which cannot be directly compared to the return on assets calculated with reference to our Group's full-year profit in previous years.

(5) Interest coverage is calculated based on the profit before interest on borrowings and tax for the year/period divided by the interest expenses for the respective year/period.

(6) Current ratio is calculated based on the current assets at the end of the year divided by current liabilities at the end of the year/period.

(7) Quick ratio is calculated based on the aggregate of cash and cash equivalents and deposits and other receivables at the end of the year divided by current liabilities at the end of the year.

(8) Gearing ratio is calculated based on the total debts divided by total equity and multiplied by 100% as at the end of respective year/period. Total debts refer to all interest-bearing bank borrowings of our Group as at 31 December 2020, 2021 and 2022 and 30 June 2023.

Return on equity

Our return on equity decreased from approximately 21.0% in FY2020 to approximately 11.1% in FY2021 mainly due to the decrease in profit for the year of approximately 48.7% from approximately RMB114.4 million in FY2020 to approximately RMB58.7 million in FY2021.

Our return on equity increased to approximately 17.9% in FY2022 mainly due to substantial increase in our net profit for FY2022 of approximately 106.1% from approximately RMB58.7 million in FY2021 to approximately RMB121.0 million in FY2022 as our operations in FY2021 was affected by the Temporary Operation Suspension.

Return on assets

Our return on assets decreased from approximately 14.1% in FY2020 to approximately 7.6% in FY2021 mainly due to substantial decrease in our net profit for FY2021 of approximately 48.7% from approximately RMB114.4 million in FY2020 to approximately RMB58.7 million in FY2021, partially offset by the decrease in total assets in FY2021. Such decrease was mainly due to the decreases in inventories and cash and cash equivalents. The decrease in cash and cash equivalents was mainly due to increase in cash used in investing and financing activities.

Our return on asset increased to approximately 13.7% in FY2022 mainly due to substantial increase in our net profit for FY2022 of approximately 106.1% from approximately RMB58.7 million in FY2021 to approximately RMB121.0 million in FY2022, partially offset by the increase in total assets in FY2022.

Interest coverage

Our interest coverage decreased from approximately 42.7 times in FY2020 to approximately 34.0 times for FY2021 mainly due to the decrease in profit before tax and interests for the year. Our interest coverage increased to approximately 198.3 times for FY2022 mainly due to the increase in profit before tax and interests and decrease in interest expenses for the year. Our interest coverage decreased to approximately 111.9 times for 6M2023 mainly due to the decrease in profit before tax and interests for the period.

Current ratio and quick ratio

Our current ratio increased from approximately 1.1 times as at 31 December 2020 to approximately 1.2 times as at 31 December 2021 mainly due to the decreases in decrease in other liabilities mainly attributable to decrease in other payables for mining rights. Our current ratio further increased to approximately 2.3 times as at 31 December 2022 and approximately 2.3 times as at 30 June 2023 mainly due to the increase in cash and cash equivalent generated from operations. The fluctuation of our quick ratio was similar to our current ratio.

Gearing ratio

Our gearing ratio increased from approximately 5.5% as at 31 December 2020 to approximately 5.7% as at 31 December 2021 because of the decrease in total equity for the period. Our gearing ratio decreased from approximately 5.7% as at 31 December 2021 to approximately 4.4% as at 31 December 2022 as a result of the increase in total equity for the period. Our gearing ratio remained relatively stable at approximately 4.1% as at 30 June 2023.

OFF-BALANCE SHEET ARRANGEMENTS

Saved as disclosed in the paragraphs headed "Indebtedness — Contingent liabilities" and "Commitments" in this section of the document, we have not entered into any off-balance sheet arrangements.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to a variety of financial risks such as interest rates risk, credit risk and liquidity risk. Details of such risks which we are exposed are set out in Note 38 to the Accountants' Report set out in Appendix I to this document.

DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DISTRIBUTABLE RESERVES

Our Company was incorporated in Cayman Islands and is an investment holding company. As at 30 June 2023, we had distributable reserves of approximately RMB4.5 million.

DIVIDEND

All dividends were declared to the then shareholders of our Company and of Yantai Zhongjia pro rata in accordance with their shareholdings. In FY2020, Yantai Zhongjia declared dividends amounted to RMB20.0 million to its then shareholders, of which RMB5.0 million were declared and paid to Dahedong and RMB15.0 million were declared to and settled with the capital injection from Majestic Yantai BVI.

In FY2021, our Company declared dividends of approximately RMB33.9 million to its then shareholders of which were fully settled as at the Latest Practicable Date. In the same year, Yantai Zhongjia declared dividends amounted to RMB160.0 million to its then shareholders, of which RMB40.0 million were declared and paid to Dahedong and RMB120.0 million were declared to Majestic Yantai BVI. The dividend of RMB120.0 million declared to Majestic Yantai BVI has been settled in full in September 2022. In FY2022, our Company declared and paid dividends of approximately RMB38.9 million to our Shareholders. In November 2023, Yantai Zhongjia declared dividends amounted to RMB36.0 million to its then shareholders, of which RMB9.0 million were declared and paid to Dahedong and RMB27.0 million were declared and paid to Majestic Yantai BVI, which were fully settled. Majestic Yantai BVI then declared and paid dividend amounted to HK$26.0 million to our Company, which was fully settled in November 2023 and our Company declared and paid dividends of approximately HK$26.0 million to our shareholders, which were fully settled. As at the Latest Practicable Date, our Company did not have any dividend payables.

Our Company does not have a dividend policy or any pre-determined dividend distribution ratio. The declaration of dividends is subject to the discretion of our Board. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment of the dividends will be subject to the Articles of Association and the laws of the Cayman Islands. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

[REDACTED]

Assuming an [REDACTED] of [REDACTED] per [REDACTED] (being the [REDACTED] of the indicative [REDACTED] range) and that the [REDACTED] is not exercised, the total estimated [REDACTED] in relation to the [REDACTED] (including [REDACTED]), which are payable by us are estimated to be approximately [REDACTED] (equivalent to approximately [REDACTED]), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED]. These [REDACTED] mainly comprise (i) [REDACTED] related expenses payable to the [REDACTED] of approximately [REDACTED]; and (ii) non-[REDACTED]-related expenses, comprising (a) fees and expenses of legal advisers and accountants of approximately [REDACTED]; and (b) other fees and expenses of approximately [REDACTED]. [REDACTED] incurred prior to the Track Record Period were approximately [REDACTED] (equivalent to approximately [REDACTED]). [REDACTED] charged to profit or loss for FY2020, FY2021, FY2022 and 6M2023 were approximately [REDACTED], [REDACTED], [REDACTED] and [REDACTED], (equivalent to approximately [REDACTED], [REDACTED], [REDACTED] and [REDACTED]), respectively. We expect to charge the remaining estimated [REDACTED] of approximately [REDACTED] (equivalent to approximately [REDACTED]) to profit or loss in the period subsequent to the Track Record Period and upon [REDACTED] and to deduct the [REDACTED] directly attributable to the issuance of shares of approximately [REDACTED] (equivalent to approximately [REDACTED]) from equity upon [REDACTED].

Our Directors would like to emphasise that the amount of the [REDACTED] stated above is a current estimate for reference only and the final amount to be recognised in the consolidated financial statements of our Group for the year ending 31 December 2023 is subject to adjustment based on audit and possible changes in variables and assumptions.

NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, our Directors confirmed that, up to the date of this document, save for the recent developments as described in "Summary — Recent development" and the impact of the [REDACTED] on the financial performance of our Group for the year ending 31 December 2023, there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects since 30 June 2023, being the end date of the periods reported in the Accountant's Report set out in Appendix I, and there is no event since 30 June 2023 that would materially affect the information shown in the Accountant's Report set out in Appendix I.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

[REDACTED]