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

(incorporated in Bermuda with limited liability)

(Stock code: 00340)

ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the “Board”) of Tongguan Gold Group Limited (the “Company”) hereby announces the consolidated results of the Company and its subsidiaries (collectively known as the “Group”) for the year ended 31 December 2020:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2020

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue	3	327,710	191,436
Cost of sales		(255,198)	<u>(169,017)</u>
Gross profit		72,512	22,419
Other income	4	2,030	1,620
Other net gains and losses	5	(11,838)	17,370
Administrative and other expenses		(66,761)	(66,651)
Finance costs	6	(166)	(235)
Share of losses of an associate		<u>—</u>	<u>(5)</u>
Loss before tax	7	(4,223)	(25,482)
Income tax credit	8	2,710	<u>3,730</u>
Loss for the year		(1,513)	<u>(21,752)</u>

	Notes	2020 HK\$'000	2019 HK\$'000
Other comprehensive income, net of tax			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value changes of equity investments at fair value through other comprehensive income		15	47
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations		<u>115,531</u>	<u>(65,074)</u>
Other comprehensive income for the year, net of tax		<u>115,546</u>	<u>(65,027)</u>
Total comprehensive income for the year		<u>114,033</u>	<u>(86,779)</u>
Loss for the year attributable to:			
— Owners of the Company		(6,330)	(21,071)
— Non-controlling interests		<u>4,817</u>	<u>(681)</u>
		<u>(1,513)</u>	<u>(21,752)</u>
Total comprehensive income for the year attributable to:			
— Owners of the Company		94,894	(77,735)
— Non-controlling interests		<u>19,139</u>	<u>(9,044)</u>
		<u>114,033</u>	<u>(86,779)</u>
Loss per share – Basic and diluted	10	<u>HK(0.19) cents</u>	<u>HK(0.62) cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Non-current assets			
Property, plant and equipment		1,303,782	1,164,103
Right-of-use assets		33,534	35,507
Exploration and evaluation assets		1,409,990	1,270,375
Goodwill		636,132	597,638
Other intangible assets		147,229	119,756
Other financial assets		6,989	6,872
Interest in an associate		3,517	3,304
		<u>3,541,173</u>	<u>3,197,555</u>
Current assets			
Inventories		61,674	16,301
Other receivables	11	42,912	60,173
Amount due from an associate		1,779	1,671
Bank balances and cash		130,293	90,277
		<u>236,658</u>	<u>168,422</u>
Current liabilities			
Other payables	12	437,588	384,681
Bank and other borrowings		121,791	48,894
Contract liabilities	13	68,700	9,800
Lease liabilities		1,303	3,459
Income tax payable		161,266	151,622
		<u>790,648</u>	<u>598,456</u>
Net current liabilities		<u>(553,990)</u>	<u>(430,034)</u>
Total assets less current liabilities		<u><u>2,987,183</u></u>	<u><u>2,767,521</u></u>

	<i>Notes</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current liabilities			
Bank and other borrowings		117,905	112,445
Financial liabilities measured at fair value through profit or loss		—	51,214
Other payables	<i>12</i>	571,662	440,331
Provision for restoration and environmental costs		12,973	9,560
Lease liabilities		102	1,065
Deferred tax liabilities		335,403	317,801
		<u>1,038,045</u>	<u>932,416</u>
Net assets		<u>1,949,138</u>	<u>1,835,105</u>
Capital and reserves			
Share capital		339,227	339,227
Share premium and reserves		1,478,550	1,383,656
		<u>1,817,777</u>	<u>1,722,883</u>
Equity attributable to owners of the Company		1,817,777	1,722,883
Non-controlling interests		131,361	112,222
		<u>1,949,138</u>	<u>1,835,105</u>
Total equity		<u>1,949,138</u>	<u>1,835,105</u>

Notes:

1. GENERAL INFORMATION

Tongguan Gold Group Limited is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). Its registered office is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is at Room 1306, 13th Floor, Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong. The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are principally engaged in the gold mining operation, which includes exploration, mining, processing and sale of gold and related products. The Group’s gold mining operation are mainly carried out in the People’s Republic of China (the “PRC”).

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new/revised HKFRSs — effective 1 January 2020

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material
Conceptual Framework for Financial Reporting 2018	Conceptual Framework for Financial Reporting (Revised)

The application of other amendments to HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁵
Amendments to HKAS 16	Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract ³
HKFRS 17	Insurance Contracts ⁵
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁴
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁶
Amendments to HKFRS 16	Covid-19-Related Rent Concessions ¹
Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ²
Amendments to HKFRS Standards	Annual Improvements to HKFRSs 2018-2020 ³

- ¹ Effective for annual periods beginning on or after 1 June 2020
- ² Effective for annual periods beginning on or after 1 January 2021
- ³ Effective for annual periods beginning on or after 1 January 2022
- ⁴ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022
- ⁵ Effective for annual periods beginning on or after 1 January 2023
- ⁶ The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined

The directors anticipate that the application of the new or revised standards will not have material impact on the Group's consolidated financial statements or accounting policies.

The Group has not applied any amendment, new standard or interpretation that is not yet effective for the current accounting year.

3. REVENUE AND SEGMENT REPORTING

Information is reported internally to the board of directors of the Company (the "Board"), being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods delivered or services provided. This is also the basis upon which the Group is organised and specifically focuses on the Group's operating divisions. No operating segments identified by the Board have been aggregated in arriving at the reporting segments of the Group.

Segment revenue and results

Reporting segment	Nature	Place of operation
Gold mining operation	Exploration, mining, processing and sale of gold concentrates and related products	The PRC

The principal activity of the Group is the production and sale of gold concentrates and related products for the years ended 31 December 2020 and 2019.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customer within the scope of HKFRS 15:		
Sales of gold concentrates and related products	<u>327,710</u>	<u>191,436</u>

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

Information about major customer

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

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Customer A	232,388	152,787
Customer B	95,322	—
	<u>232,388</u>	<u>152,787</u>

4. OTHER INCOME

	2020	2019
	HK\$'000	HK\$'000
Government grant (<i>Note (a)</i>)	477	—
Interest on bank deposits	990	1,192
Others	563	428
	<u>2,030</u>	<u>1,620</u>

Note:

- (a) Included in profit or loss is HK\$298,000 (2019: Nil) of government grants obtained from Employment Support Scheme (“ESS”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group’s employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have other unfulfilled obligations relating to this program.

5. OTHER NET GAINS AND LOSSES

	2020	2019
	HK\$'000	HK\$'000
Net foreign exchange gains	276	325
Fair value (loss)/gain of a contingent consideration payable	(13,074)	16,947
Impairment loss in respect of other receivables	(265)	(47)
Impairment loss in respect of amount due from an associate	—	(3)
Reversal of impairment loss written off/recognised in respect of other receivables	1,225	102
Gain on disposal of property, plant and equipment	—	46
	<u>(11,838)</u>	<u>17,370</u>

6. FINANCE COSTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Unsecured interest on bank and other borrowings	16,627	13,404
Secured interest on bank borrowings	331	437
Secured interest on other borrowing	1,172	—
Less: Amount capitalised (<i>Note (a)</i>)	(18,130)	(13,841)
Interest expenses on leases liabilities	<u>166</u>	<u>235</u>
	<u><u>166</u></u>	<u><u>235</u></u>

Note:

- (a) Borrowing costs capitalised during the year arose on the general borrowing pool and specific borrowing and are calculated by applying a capitalisation rate of 7.65% and 1.86% respectively (2019: 11.92% and 2.61%) to expenditure on qualifying assets.

7. LOSS BEFORE TAX

Loss before tax is arrived at after charging/(crediting):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Director's emoluments	3,371	4,219
Other staff's salaries, bonus and allowances	16,743	13,762
Other staff's contribution to retirement benefits schemes	<u>1,670</u>	<u>1,642</u>
Total staff costs	<u>21,784</u>	<u>19,623</u>
Impairment loss recognised in respect of other receivables	265	47
Impairment loss recognised in respect of amount due from an associate	—	3
Reversal of impairment loss previously written off/recognised in respect of other receivables	(1,225)	(102)
Amortisations		
— other intangible assets	20,511	20,125
Auditor's remuneration	1,850	1,806
Costs of inventories recognised as an expense (<i>Note (a)</i>)	241,399	164,704
Depreciation charges		
— property, plant and equipment	32,796	32,775
— right-of-use assets		
— office premise and factories	3,248	2,550
— motor vehicle	525	530
— office equipment	34	17
— prepaid lease payments	818	825
Interest on leases liabilities	<u>166</u>	<u>235</u>

Note:

- (a) Costs of inventories recognised as an expense mainly include mining extraction costs, documentation transferring fee and amortisations and depreciation charges of HK\$174,149,000 (2019: HK\$74,950,000), HK\$26,621,000 (2019: HK\$14,094,000) and HK\$46,958,000 (2019: HK\$41,481,000) respectively.

8. INCOME TAX CREDIT

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2020 and 2019.

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

Pursuant to the Notice of the Ministry of Finance, 財政部國家稅務總局海關總署關於深入實施西部大開發戰略有關稅收政策問題的通知(財稅〔2011〕58號) (transliterated as General Administration of Customs and the State Administration of Taxation on the Issues of Preferential Taxation Policies for Further Implementing the Western Development Strategy (Cai Shui 2011 No. 58)*), from 1 January 2011 to 31 December 2020, the enterprises in the western region, which engaged in encouraged industries as indicated in the 西部地區鼓勵類產業目錄 (transliterated as Catalogue of Encouraged Industries of Western Region*) and 產業結構調整指導目錄(2011年本)(修正) (transliterated as Catalogue of Industrial Structure Adjustment Guidance (2011 Revised)*) (國家發改委令2013年第21號) (transliterated as National Development and Reform Commission Order 2013 No. 21*) and which derive 70% of their operating income from the encouraged industries could apply for a tax incentive. After getting in-charge tax bureau’s approval, those enterprises could enjoy a reduced EIT rate of 15% from the statutory EIT rate of 25%.

For the years ended 31 December 2020 and 2019, 潼關縣祥順礦業發展有限公司 and 潼關縣德興礦業有限責任公司 (transliterated as Tongguan County Xiangshun Mining Development Co., Ltd.*) (“Xiangshun Mining”) and Tongguan County De Xing Mining LLC (“De Xing Mining”), the operating subsidiaries of One Champion and Pride Success respectively, obtained the in-charge tax bureau’s approval and were granted a reduced EIT rate of 15%.

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax — PRC Enterprise Income Tax		
— Current year	—	678
Deferred tax	<u>(2,710)</u>	<u>(4,408)</u>
	<u><u>(2,710)</u></u>	<u><u>(3,730)</u></u>

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Loss before tax	<u>(4,223)</u>	<u>(25,482)</u>
Notional tax on loss before tax, calculated at 25% (2019: 25%)	(1,056)	(6,371)
Differential tax rates	796	(660)
Expenses not deductible for tax purposes	4,189	5,736
Income not taxable for tax purposes	(2,566)	(6,295)
Tax losses and temporary differences not recognised	<u>(4,073)</u>	<u>3,860</u>
Income tax credit	<u>(2,710)</u>	<u>(3,730)</u>

9. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2020 or since the end of the reporting period (2019: HK\$Nil).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of approximately HK\$6,330,000 (2019: HK\$21,071,000) and the weighted average number of ordinary shares of approximately 3,392,272,000 (2019: 3,392,272,000) in issue during the year.

Diluted loss per share equals to basic loss per share, as the exercise prices of the Company's outstanding options were higher than the average market price for the year and there were no other potential shares in issue during the years ended 31 December 2020 and 2019.

11. OTHER RECEIVABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other receivables	11,184	7,372
Less: allowances	<i>(a)</i> <u>(268)</u>	<u>(104)</u>
	<u>10,916</u>	<u>7,268</u>
Deposits and prepayments	29,986	50,790
Value added tax recoverable	<u>2,010</u>	<u>2,115</u>
	<u>42,912</u>	<u>60,173</u>

Note:

(a) Other receivables

Movement in impairment loss on other receivables:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At 1 January	104	159
Reversal of impairment loss previously recognised	(101)	(102)
Impairment loss recognised	<u>265</u>	<u>47</u>
At 31 December	<u>268</u>	<u>104</u>

Included in the Group's allowance for doubtful debts are individually impaired other receivables in which the directors consider that it is unlikely to recover these debts as they are long outstanding balances. The Group does not hold any collateral over these balances.

12. OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Other payables and accruals (<i>Note (a)</i>)	539,718	362,355
Amounts due to related parties (<i>Note (b)</i>)	<u>469,532</u>	<u>462,657</u>
	<u>1,009,250</u>	<u>825,012</u>
Analysed for reporting purposes as:		
— Current portion	437,588	384,681
— Non-current portion	<u>571,662</u>	<u>440,331</u>
	<u>1,009,250</u>	<u>825,012</u>

Notes:

- (a) Included in other payables were amounts payable to subcontractors of HK\$306 million (2019: HK\$222 million) for mining extraction and construction and promissory note payable of HK\$64 million (2019: Nil).
- (b) The amounts are due to certain beneficial owners of the shareholders of the Company and are non-trade in nature, unsecured, interest-free and repayable after one year at the end of reporting period.

13. CONTRACT LIABILITIES

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

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
<i>Contract liabilities arising from:</i>		
Sale of goods	<u>68,700</u>	<u>9,800</u>

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

Movements in contract liabilities:

	2020 HK\$'000	2019 HK\$'000
Balance as at 1 January	9,800	3,383
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(9,800)	(3,383)
Increase in contract liabilities as a result of receipt in advance of sales of gold concentrate not yet delivered at year end	<u>68,700</u>	<u>9,800</u>
Balance at 31 December	<u>68,700</u>	<u>9,800</u>

14. CONTINGENT LIABILITIES

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

As at 31 December 2020, the banking facility guaranteed by the Group to the Borrower was utilised to the extent of RMB88,000,000 (equivalent to HK\$104,561,000) by pledging the Borrower’s properties and machineries of approximately RMB25,000,000 and RMB55,600,000 respectively to the Bank. The directors considered the fair value of the financial guarantee contract at initial recognition was to be insignificant based on the fair value of the pledged properties of the Borrower.

15. SUBSEQUENT EVENTS

The directors of the Company are continuing to assess the implications of Covid-19 pandemic to the business in which the Group operates. Depending on the duration of the Covid-19 pandemic and continued negative impact on economic activity, the Group might experience further negative results, and liquidity restraints and incur additional impairments on its assets in 2021. However, the exact impact in the remainder of 2021 and thereafter cannot be predicted.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2020 (2019: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting of the Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong no later than 4:00 p.m. on Monday, 24 May 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the financial year ended 31 December 2020, the Group recorded a loss attributable to owners of the Company amounted to HK\$6,330,000 (2019: HK\$21,071,000). Loss from operations decreased by HK\$20,239,000 to approximately HK\$1,513,000 in 2020 from approximately HK\$21,752,000 for the corresponding period in 2019, which is primarily due to the improvement in gross profit margins from a favourable trend of gold price and increase in overall sales volumes.

Key Performance Indicators (Financial Ratio) ("KPI")

The management considers the following key performance indicators are relevant to the management of its business segments, through evaluating, controlling and setting strategies to improve performance:

		Gold mining operation	
		Year ended 31 December	
	Note	2020	2019
Revenue (HK\$'000)		327,710	191,436
Gross profit margin (%)	(i)	22%	12%
Net asset value per share (HK cents)	(ii)	57.5	54.1

Notes:

- (i) Gross profit margin is calculated as gross profit divided by revenue.
- (ii) Using the number of issued ordinary shares of the Company as at the relevant financial year end date.

The increase in gross profit margin in gold mining operation is mainly due to the increase in average selling price by upward trend of gold. The Group's net asset value per share increased from HK54.1 cents in 2019 to HK57.5 cents in 2020 as resulted from addition in property, plant and equipment. Detailed analysis of other KPI is set out in below section.

Administrative and other expenses amounted to approximately HK\$66,761,000, representing an increase of approximately 0.17% from approximately HK\$66,651,000 for the year 2019 and is primarily due to increase in staff cost and one off expenses.

REVIEW OF OPERATIONS

Gold Mining Operation

The principal activity of the Group's gold mining operation is the production and sale of gold concentrates and related products. For the financial year ended 31 December 2020, the Group's revenue from gold mining operation amounted to approximately HK\$327,710,000, representing an increase of approximately 71% from approximately HK\$191,436,000 for the year 2019 and is primarily contributed by increase in gold price and sale volumes.

The cost of sales amounted to HK\$255,198,000, representing an increase of approximately 51% from approximately HK\$169,017,000 for the year 2019 and is in line with the increase in revenue. Gross profit from operations amounted to approximately HK\$72,512,000, representing an increase in 223% as compared with approximately HK\$22,419,000 for the year 2019. Increase in gross profit margin was mainly attributable to the increase in average selling price by upward trend of gold.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2020, the Group had total assets and net assets amounted to approximately HK\$3,777,831,000 (2019: HK\$3,365,977,000) and approximately HK\$1,949,138,000 (2019: HK\$1,835,105,000), respectively. The current ratio was 0.3, as compared to 0.28 as of last year end date.

As at 31 December 2020, the Group had bank balances and cash of approximately HK\$130,293,000 (2019: HK\$90,277,000), and most of which were denominated in Renminbi and Hong Kong dollars.

As at 31 December 2020, the Group had bank and other loans of approximately HK\$239,696,000 (2019: HK\$161,339,000) which were denominated in Renminbi including the fixed rates ranged from 6%-12% (2019: 12%) per annum. For the borrowings under variable rate, the interest rates are loan prime rate ("LPR") +0.95%, LPR +2.025% and LPR +2.088% per annum (2019: RMB benchmark loan interest rate +1.05% per annum). The increase in total borrowings is to cope with daily operation and the future development demands. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 13.2% (2019: 9.4%).

As at 31 December 2020, the Group had promissory note of approximately HK\$64,288,000 (2019: HK\$51,214,000). The promissory note with principal amount of HK\$80,000,000 carries zero interest and to be due on 9 October 2023.

FOREIGN EXCHANGE RISK MANAGEMENT

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

SHARE CAPITAL

As at 31 December 2020, the Company had 3,392,272,221 ordinary shares in issue with total shareholders' fund of the Group amounting to approximately HK\$339,227,000.

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

There were no material acquisitions or disposals of subsidiaries, associated companies or joint ventures during the year ended 31 December 2020.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had a contingent liability and detail is set out in note 14 (2019: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had approximately 10 and 194 employees in Hong Kong and Mainland China respectively.

The staff cost of the Group (including directors' emoluments in form of salary and other benefits, share-based payments, performance related incentive payments and retirement benefit contributions) was approximately HK\$21,784,000 for the year ended 31 December 2020 (2019: HK\$19,623,000).

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

Employees of the Group are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund for Hong Kong employees, social insurance packages for Mainland China employees, performance bonus and share option scheme.

According to the share option scheme adopted by the Company on 25 May 2012, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

PROSPECTS

The outbreak of coronavirus pandemic (the “COVID-19 pandemic”) since 2020 has brought tremendous impacts and posed severed challenges to the global economy in varying degrees. Nonetheless, the Group is able to deliver a resilient performance for FY2020. The operation has been resumed in early April 2020 amid the economic recovery of China and the production has also been significantly improved with the operation of the new processing plant.

The production of the Group has achieved considerable breakthrough in scale. In July 2020, the trial run for phase one of new processing plant commenced and the maximum production capacity is 1,500 tonnes per day. In 2020, the profitability is affected by applying low grade ores during the trial production. The management believed that more high grade ores would be applied after the trial production and the profitability would improve gradually in the coming year. Leveraging the advantage of mining resources and capacity in enhancing the production, the Group would continue to take proactive steps to expand the gold mining portfolio. The Board is confident that the economies of scale brought by the new processing plant can lead to a turnaround performance in the foreseeable future.

The profitability of the Group is highly dependent on the gold price in domestic and international markets. The market prices of gold (and other precious metals) are correlated to the global economic environment and stability. Looking forward to the year of 2021, with a variety of favorable factors including the prolonged low interest rate environment, concern on the global economic recovery due to the uncertain effectiveness of vaccination programmes and the intensifying China-U.S. relations, it is expected that the gold price will continue to grow despite having fluctuations and the gold will continue to serve as a safe haven. The Group will closely monitor the market trends in commodity prices, pay attention to the timing of sales and take necessary actions to control any potential risks.

Against the backdrop of maintaining competitiveness and sustainable development, the Group strives to fulfill its corporate social responsibility to achieve a win-win situation. The new processing plant is designed in an eco-friendly basis with the aim of reducing the wastes and pollutants the production may generate. With regard to workplace safety, various workshops and trainings are provided to equip workers with better knowledge and standards. The Group will continue to fulfill its corporate social responsibility to encourage and incentivize employees and promote the overall efficiency of the Group.

Looking forward, the Group will strive to improve its operational efficiency and explore the investment opportunities to enhance the portfolio and maximum returns to the shareholders of the Company.

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

The Company has not redeemed any of its listed securities during the year ended 31 December 2020. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s listed securities during the year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Company has a policy of seeking to comply with the established best practice in corporate governance. The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of its shareholders. For the year ended 31 December 2020, the Company has applied the principles of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) (the “Code”), and the associated Listing Rules. During the year ended 31 December 2020, the Company has complied with the code provisions of the Code (“Code Provision(s)”), except for certain deviations as specified and explained below with considered reasons for such deviations.

1. Under Code Provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same person.

Since the resignation of Dr. You Xian Sheng as the chairman and the executive director of the Company on 31 January 2014, the Company has not appointed a new chairman of the Board (the “Chairman”). Until the appointment of the new Chairman, the Board collectively focuses on the overall strategic planning and development of the Group and effective functioning of the Board.

Since the resignation of Mr. Wang Hui as the chief executive officer of the Company (the “Chief Executive Officer”) on 1 June 2016, the Company has not appointed a new Chief Executive Officer. Until the appointment of the new Chief Executive Officer, the executive directors of the Company, possessing extensive relevant industry knowledge, collectively oversee the day-to-day management of the business and operations of the Group.

The Board believes that this arrangement still enables the Company to make and implement decisions promptly, and thus achieve the Company’s objectives efficiently and effectively in response to the changing environment.

The Board will review the current situation from time to time and shall make necessary arrangements when the Board considers appropriate.

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

Since the resignation of Dr. You Xian Sheng as the chairman and the executive director of the Company on 31 January 2014, the Company has not appointed a new Chairman, no meeting was held between the Chairman and the independent non-executive directors of the Company without the presence of other directors of the Company during the year ended 31 December 2020.

3. Under Code Provision E.1.2 of the Code, the Chairman should attend the annual general meeting. Since the new Chairman has not been appointed following the resignation of Dr. You Xian Sheng as the Chairman on 31 January 2014, Mr. Yeung Kwok Kuen, the executive director of the Company, has been elected by other directors of the Company present to act as the chairman of the annual general meeting of the Company held on 29 May 2020 in accordance with the Bye-laws of the Company.
4. Under Code Provision F.1.3 of the Code, the company secretary should report to the board chairman and/or the chief executive officer. Since the new Chairman has not been appointed following the resignation of Dr. You Xian Sheng as the Chairman on 31 January 2014 and the new Chief Executive Officer has not been appointed following the resignation of Mr. Wang Hui as the Chief Executive Officer on 1 June 2016, the company secretary of the Company reported to the executive directors of the Company since 1 June 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code and its code of conduct regarding directors’ securities transaction during the year ended 31 December 2020, and they all confirmed that they had fully complied with the required standards set out in the Model Code.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee of the Company comprises Mr. Leung Ka Wo, Mr. Chu Kang Nam and Mr. Liang Xu Shu, all of them are independent non-executive directors. The consolidated financial results of the Group for the year ended 31 December 2020 have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2020 as set out in the preliminary announcement have been agreed by the Group's auditors, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The 2020 annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

The 2020 annual financial information set out above does not constitute the Group's statutory financial statements for the financial year ended 31 December 2020. Instead, it has been derived from the Group's audited consolidated financial statements for the financial year ended 31 December 2020, which will be included in the Company's 2020 annual report.

APPRECIATION

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

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

Executive Director and Chief Financial Officer

Hong Kong, 24 March 2021

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