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 2019

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 2019:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2019

	Notes	**2019** **HK$'000**	2018 *HK$'000*
CONTINUING OPERATIONS			
Revenue	*4*	**191,436**	105,975
Cost of sales		**(169,017)**	(102,073)
Gross profit		**22,419**	3,902
Other income	*5*	**1,620**	3,972
Other net gains and losses	*6*	**17,370**	(1,954)
Administrative and other expenses		**(66,651)**	(64,967)
Finance costs	*7*	**(235)**	—
Share of losses of an associate		**(5)**	(1)
Loss before tax from continuing operations	*8*	**(25,482)**	(59,048)
Income tax credit	*9*	**3,730**	4,363
Loss for the year from continuing operations		**(21,752)**	(54,685)

	Notes	**2019** **HK$'000**	2018 *HK$'000*
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	*10*	—	106,994
(Loss)/profit for the year		**(21,752)**	52,309
Other comprehensive income, net of tax			
Item that will not be reclassified to profit or loss:			
Fair value changes of equity investments at fair value through other comprehensive income		**47**	(20,343)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(65,074)**	(46,184)
Other comprehensive income for the year, net of tax		**(65,027)**	(66,527)
Total comprehensive income for the year		**(86,779)**	(14,218)

	Notes	**2019**	2018
		HK$'000	*HK$'000*
(Loss)/profit for the year attributable to owners of the Company:			
— Continuing operations		**(21,071)**	(51,601)
— Discontinued operation		**—**	109,127
		(21,071)	57,526
Loss for the year attributable to non-controlling interests:			
— Continuing operations		**(681)**	(3,084)
— Discontinued operation		**—**	(2,133)
		(681)	(5,217)
Total comprehensive income for the year attributable to:			
— Owners of the Company		**(77,735)**	(4,743)
— Non-controlling interests		**(9,044)**	(9,475)
		(86,779)	(14,218)
(Loss)/earning per share – Basic and diluted	*12*		
— Continuing operations		**HK(0.62) cents**	HK(1.71) cents
— Discontinued operation		**HK — cents**	HK3.61 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**2019** **HK$'000**	2018 *HK$'000*
Non-current assets			
Property, plant and equipment		**1,164,103**	1,118,995
Right-of-use assets		**35,507**	—
Prepaid lease payments — non-current portion		**—**	31,531
Exploration and evaluation assets		**1,270,375**	1,281,633
Goodwill	*13*	**597,638**	636,409
Other intangible assets		**119,756**	142,677
Other financial assets		**6,872**	6,600
Interest in an associate		**3,304**	3,383
		3,197,555	3,221,228
Current assets			
Inventories		**16,301**	19,469
Trade and other receivables	*14*	**60,173**	62,450
Prepaid lease payments — current portion		**—**	810
Amount due from an associate		**1,671**	1,712
Bank balances and cash		**90,277**	109,550
		168,422	193,991
Current liabilities			
Other payables	*15*	**384,681**	363,889
Bank and other borrowings		**48,894**	92,046
Contract liabilities	*16*	**9,800**	3,383
Lease liabilities		**3,459**	—
Income tax payable		**151,622**	154,172
		598,456	613,490
Net current liabilities		**(430,034)**	(419,499)
Total assets less current liabilities		**2,767,521**	2,801,729

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Bank and other borrowings		**112,445**	—
Financial liabilities measured at fair value through profit or loss		**51,214**	68,161
Other payables	*15*	**440,331**	473,966
Provision for restoration and environmental costs		**9,560**	8,368
Lease liabilities		**1,065**	—
Deferred tax liabilities		**317,801**	329,350
		932,416	879,845
Net assets		**1,835,105**	1,921,884
Capital and reserves			
Share capital		**339,227**	339,227
Share premium and reserves		**1,383,656**	1,461,391
Equity attributable to owners of the Company		**1,722,883**	1,800,618
Non-controlling interests		**112,222**	121,266
Total equity		**1,835,105**	1,921,884

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"). The Group was also engaged in production and sale of tea products which was discontinued during the year 31 December 2018 (Note 10).

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

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:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23	Annual Improvements to HKFRSs 2015-2017 Cycle

Other than the below adoption of HKFRS 16, 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.

Impacts and changes in accounting policies of application on HKFRS 16 Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amount equal to the related lease liabilities. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

(i) Key changes in accounting policies resulting from application of HKFRS 16

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;

- variable lease payments that depend on an index or a rate;

- amounts expected to be paid under residual value guarantees;

- the exercise price of a purchase option reasonably certain to be exercised by the Group; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

(ii) Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group recognised additional lease liabilities and right-of-use assets at amount equal to the related lease liabilities. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of factories in the People's Republic of China was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

At the date of transition to HKFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.54%.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	**8,254**
Less: future interest expenses	**(513)**
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	**7,741**
Analysed as	
Current	**3,241**
Non-current	**4,500**
	7,741

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 *(Note (a))*	**7,741**
Reclassifications from prepaid lease payments *(Note (b))*	**32,341**
Total right-of-use assets	**40,082**
By class:	
Office premise and factories	**6,231**
Motor vehicle	**1,510**
Prepaid lease payments	**32,341**
	40,082

Notes:

(a) The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

(b) Upon the initial application of HKFRS 16, as at 1 January 2019, prepaid lease payments under operating lease arrangement with net book value of approximately HK$32,341,000 was reclassified from prepaid lease payments to right-of-use assets.

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

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

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. 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.

For each of the business units, the Group's senior executive management reviews internal management reports on a monthly basis. Segment information below is presented in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

Segment assets include all tangible, intangible assets and current assets with the exception of other financial assets and other corporate assets.

The reportable segments of the Group as described below represents the Group's strategic business units. The following describes the operations in each of the Group's reportable segments:

(a) Segment revenue and results

Reporting segment	**Nature**	**Place of operation**
Continuing operations:		
Gold mining operation	Exploration, mining, processing and sale of gold concentrates and related products	The PRC
Discontinued operation:		
Tea business	Production and sales of tea 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 2019 and 2018.

The tea business operating segment has been disposed of and re-classified as discontinued operation and the related information has been set out in Note 10. The segment information set out below has been restated and does not include any amounts nor balances for the discontinued operation.

The Group reportable segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customer within the scope of HKFRS 15:		
Tea production		
— manufacturing and distribution of tea	**—**	25,933
Gold mining operation		
— exploration, mining, processing and sale of gold concentrates and related products	**191,436**	105,975
Total	**191,436**	131,908

	Year ended 31 December		
	Tea production	**Gold mining**	**Total**
	2019	**2019**	**2019**
	HK$'000	***HK$'000***	***HK$'000***
Timing of revenue recognition under HKFRS 15			
At a point in time	**—**	**191,436**	**191,436**
Total	**—**	**191,436**	**191,436**
	2018	2018	2018
	HK$'000	*HK$'000*	*HK$'000*
Timing of revenue recognition under HKFRS 15			
At a point in time	25,933	105,975	131,908
Total	25,933	105,975	131,908

For the year ended 31 December 2019

	Gold mining operation *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Revenue from external customers and reportable segment revenue	**191,436**	—	**191,436**
Reportable segment results	**(12,179)**	—	**(12,179)**
Interest income	**286**	**906**	**1,192**
Finance costs	**(168)**	**(67)**	**(235)**
Corporate expense	—	**(14,205)**	**(14,205)**
Impairment loss on other receivables	**(47)**	—	**(47)**
Impairment loss on amount due from an associate	**(3)**	—	**(3)**
Share of losses of an associate	**(5)**	—	**(5)**
Loss before income tax expense	**(12,116)**	**(13,366)**	**(25,482)**
Income tax credit	**3,761**	**(31)**	**3,730**
Loss for the year	**(8,355)**	**(13,397)**	**(21,752)**
Assets and liabilities			
Reportable segment assets	**3,301,653**	—	**3,301,653**
Other financial assets	—	**6,872**	**6,872**
Corporate total assets	—	**57,452**	**57,452**
Consolidated total assets	**3,301,653**	**64,324**	**3,365,977**
Reportable segment liabilities	**1,060,593**	—	**1,060,593**
Bank and other borrowings	**161,339**	—	**161,339**
Corporate liabilities	—	**308,940**	**308,940**
Consolidated total liabilities	**1,221,932**	**308,940**	**1,530,872**
Other Segment information			
Depreciation and amortisation	**54,245**	**2,577**	**56,822**
Capital expenditure incurred during the year	**120,642**	**81**	**120,723**

For the year ended 31 December 2018

	Continuing operations			Discontinued operation	
	Gold mining operation	Unallocated	Subtotal	Tea business	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue from external customers and reportable segment revenue	105,975	—	105,975	25,933	131,908
Reportable segment results	(32,572)	—	(32,572)	(8,725)	(41,297)
Interest income	2,229	698	2,927	1,121	4,048
Finance costs	—	—	—	(1,341)	(1,341)
Corporate expense	—	(28,015)	(28,015)	—	(28,015)
Impairment loss on trade receivables	(1,387)	—	(1,387)	(1,897)	(3,284)
Reversal of impairment loss on trade receivables	—	—	—	175	175
Gain on disposal of subsidiaries	—	—	—	117,661	117,661
Share of losses of an associate	(1)	—	(1)	—	(1)
(Loss)/profit before income tax expense	(31,731)	(27,317)	(59,048)	106,994	47,946
Income tax credit	4,363	—	4,363	—	4,363
(Loss)/profit for the year/period	(27,368)	(27,317)	(54,685)	106,994	52,309
Assets and liabilities					
Reportable segment assets	3,340,391	—	3,340,391	—	3,340,391
Other financial assets	—	6,600	6,600	—	6,600
Corporate total assets	—	68,228	68,228	—	68,228
Consolidated total assets	3,340,391	74,828	3,415,219	—	3,415,219
Reportable segment liabilities	1,329,016	—	1,329,016	—	1,329,016
Bank and other borrowings	92,046	—	92,046	—	92,046
Corporate liabilities	—	72,273	72,273	—	72,273
Consolidated total liabilities	1,421,062	72,273	1,493,335	—	1,493,335
Other Segment information					
Depreciation and amortisation	29,357	23	29,380	602	29,982
Capital expenditure incurred during the year/period	188,695	21	188,716	3,791	192,507

(b) Geographical information

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	
	2019	2018
	HK$'000	*HK$'000*
Customer A#	**152,787**	105,975

Relating to gold business

4. REVENUE

All the Group's revenue is derived from contracts with customers.

	2019	2018
	HK$'000	*HK$'000*
Continuing operations		
Sales of gold and related products	**191,436**	105,975

5. OTHER INCOME

	2019	2018
	HK$'000	*HK$'000*
Continuing operations		
Interest on bank deposits	**1,192**	1,090
Interest from loans receivable	—	1,837
Others	**428**	1,045
	1,620	3,972

6. OTHER NET GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
Continuing operations		
Net foreign exchange gains/(losses)	**325**	(563)
Fair value gain of a contingent consideration payable	**16,947**	—
Impairment loss in respect of trade and other receivables	**(47)**	(1,387)
Impairment loss in respect of amount due from an associate	**(3)**	—
Reversal of impairment loss recognised in respect of other receivables	**102**	—
Gain/(loss) on disposal of property, plant and equipment	**46**	(4)
	17,370	(1,954)

7. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Unsecured interest on bank and other borrowings	**13,404**	10,353
Secured interest on bank borrowings	**437**	—
Less: Amount capitalised *(Note (a))*	**(13,841)**	(10,353)
Interest expenses on leases liabilities	**235**	—
	235	—

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 11.92% and 2.61% respectively (2018: 11.57% and nil) to expenditure on qualifying assets.

8. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

	2019	2018
	HK$'000	*HK$'000*
Continuing operations		
Director's emoluments	**3,981**	13,147
Other staff's salaries, bonus and allowances	**14,000**	12,786
Other staff's contribution to retirement benefits schemes	**1,642**	1,724
Total staff costs	**19,623**	27,657
Impairment loss recognised in respect of trade and other receivables	**47**	1,387
Impairment loss recognised in respect of amount due from an associate	**3**	—
Reversal of impairment loss previously recognised in respect of other receivables	**(102)**	—
Amortisations		
— other intangible assets	**20,125**	10,945
— prepaid lease payments	**—**	891
Auditor's remuneration	**1,806**	1,935
Costs of inventories recognised as an expense *(Note (a))*	**164,704**	100,339
Depreciation charges		
— property, plant and equipment	**32,775**	17,544
— right-of-use assets included within *(Note (b))*		
— office premise and factories	**2,550**	—
— motor vehicle	**530**	—
— office equipment	**17**	—
— prepaid lease payments	**825**	—
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**—**	7,044
Interest on leases expenses	**235**	—

Notes:

(a) Costs of inventories recognised as an expense mainly include mining extraction costs, documentation transferring fee and amortisations and depreciation charges of HK$74,950,000 (2018: HK$55,440,000), HK$14,094,000 (2018: HK$6,120,000) and HK$41,481,000 (2018: HK$20,837,000) respectively.

(b) The Group recognised additional lease liabilities and right-of-use assets at amount equal to the lease liabilities. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. See Note 2.

9. 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 2019 and 2018.

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, 財政部國家税務總局海關總署關於深入實施西部大開發戰略有關税收政策問題的通知(財税〔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 2019 and 2018, 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:

	2019	2018
	HK$'000	*HK$'000*
Continuing operations		
Current tax — PRC Enterprise Income Tax		
— Current year	**678**	—
— Over provision in respect of prior year	**—**	(2,520)
Deferred tax	**(4,408)**	(1,843)
	(3,730)	(4,363)

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:

	2019	2018
	HK$'000	*HK$'000*
Continuing operations		
Loss before tax	**(25,482)**	(59,048)
Notional tax on loss before tax, calculated at 25% (2018: 25%)	**(6,371)**	(14,762)
Differential tax rates	**(660)**	1,287
Expenses not deductible for tax purposes	**5,736**	(2,247)
Income not taxable for tax purposes	**(6,295)**	(1,644)
Tax losses and temporary differences not recognised	**3,860**	15,523
Over provision in respect of prior year	**—**	(2,520)
Income tax credit	**(3,730)**	(4,363)

10. DISCONTINUED OPERATION/DISPOSAL OF SUBSIDIARIES

(a) Discontinued operation

On 6 April 2018, the Company entered into a sale and purchase agreement with Mr. Zhou Xue Long ("Mr. Zhou"), an independent third party, pursuant to which the Company agreed to sell and Mr. Zhou agreed to purchase 100% equity interest in King Gold Investments Limited with the related assignment of shareholders' account at an aggregate consideration of HK$121,071,664 (the "King Gold Disposal"). The King Gold Disposal was completed on 16 April 2018.

The results from the discontinued operation were as follows:

	Year ended 31 December 2018
	HK$'000
Loss for the period	(10,667)
Gain on disposal of subsidiaries	117,661
	106,994

	Year ended 31 December 2018 *HK$'000*
Profit for the period from discontinued operation	
Revenue	25,933
Cost of sales	(21,868)
Other income	4,285
Selling and distribution expenses	(8,614)
Administrative and other expenses	(9,062)
Finance costs — Interest on bank borrowings	(1,341)
Gain on disposal of subsidiaries	117,661
Profit before tax	106,994
Income tax expense	—
Profit for the period	106,994
Profit/(loss) for the period attributable to	
— Owners of the Company	109,127
— Non-controlling interests	(2,133)
	106,994

	Year ended 31 December 2018 *HK$'000*
Other income from discontinued operation included the following:	
Interest on bank deposits	16
Interest from advances to suppliers	1,105
Government grants	2,970
Others	194
	4,285

Profit before tax from a discontinued operation is arrived at after charging/(crediting):

	Year ended 31 December 2018 *HK$'000*
Staff costs	
— Other staff's salaries, bonus and allowances	3,076
— Other staff's contribution to retirement benefits schemes	602
Impairment loss recognised in respect of trade and other receivables	1,897
Reversal of impairment loss recognised in respect of trade and other receivables	(175)
Amortisation of other intangible assets	78
Amortisation of prepaid lease payments	130
Costs of inventories recognised as an expense	21,577
Depreciation of property, plant and equipment	394
Minimum lease payments under operating lease in respect of office premises and tea plantation	3,535

The analysis of the cash flows of discontinued operation is as follows:

	Year ended 31 December 2018 *HK$'000*
Cash flows used in operating activities	(5,478)
Cash flows used in investing activities	(756)
Cash flows from financing activities	9,121
Net cash inflows	2,887

(b) Disposal of Subsidiaries

The net assets being disposed by the Group is as follows:

	HK$'000
Property, plant and equipment	33,021
Prepaid lease payments	15,409
Other intangible assets	5,718
Inventories	63,734
Trade and other receivables	63,292
Amount due from the Group	51,072
Bank balances and cash	30,538
Trade and other payables	(93,445)
Tax payables	(14,135)
Bank borrowings	(106,837)
Deferred income	(2,434)
Net assets disposed of	45,933
Non-controlling interests	14,843
Release of reserves upon disposal	
— Statutory surplus reserve	(10,067)
— Translation reserve	(47,298)
	3,411
Gain on disposal	117,661
	121,072
Satisfied by:	
Cash consideration received	70,000
Assumption of amount due from the Group	51,072
	121,072

Analysis of the net inflow of cash and cash equivalents in respect of disposal of subsidiaries

Cash considerations received	70,000
Cash and bank balances disposed of	(30,538)
Net inflow	39,462

11. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2019 or since the end of the reporting period (2018: HK$Nil).

12. (LOSS)/EARNING PER SHARE

The calculation of basic (loss)/earning per share is based on the (loss)/profit for the year attributable to owners of the Company of approximately HK$21,071,000 (2018: a profit of HK$57,526,000) which represented by the loss from continuing operations of approximately HK$21,071,000 (2018: HK$51,601,000) and the profit or loss from the discontinued operation of HK$Nil (2018: a profit of HK$109,127,000), and the weighted average number of ordinary shares of approximately 3,392,272,000 (2018: 3,024,094,000, as adjusted to reflect the effect of the Share Consolidation) 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 2019 and 2018.

13. GOODWILL

	2019	2018
	HK$'000	*HK$'000*
Cost		
At 1 January	**688,611**	1,115,763
Acquired through business combinations	—	84,229
Disposal of subsidiaries	—	(511,381)
Exchange adjustment	**(42,262)**	—
At 31 December	**646,349**	688,611
Accumulated impairment		
At 1 January	**52,202**	563,583
Impairment loss recognised	—	—
Disposal of subsidiaries	—	(511,381)
Exchange adjustment	**(3,491)**	—
At 31 December	**48,711**	52,202
Carrying amount		
At 31 December	**597,638**	636,409

Impairment testing

For the purpose of impairment testing, goodwill is allocated to the CGUs under gold mining operation segment. The CGUs were identified as follows:

	Segment	2019 HK$'000	2018 HK$'000
One Champion Group	Gold mining operation	**362,375**	388,345
Perfect Major Group	Gold mining operation	**78,150**	83,751
Pride Success Group	Gold mining operation	**74,729**	80,084
Best Income and Max Paramount Group	Gold mining operation	**82,384**	84,229
Carrying amount		**597,638**	636,409

Impairment testing:

Valuations were carried out by an independent valuer, JP Assets Consultancy Limited ("JP Assets") (2018: JP Assets) to assess the recoverable amount of the goodwill arising from the acquisitions. Each of these acquired subsidiaries is a separate cash-generating unit. Management considered that there were synergies expected to arise from the combination of the acquired businesses with the existing operations of the Group, however, in performing the impairment test, the goodwill generated from each acquisition is allocated to corresponding subsidiary acquired.

(a) One Champion Group

As at 31 December 2019 and 2018, the recoverable amounts of the CGU has been determined from value in use calculations based on cash flow projections which are based on long term mine plans covering the expected life of 10 years of the operation and are in line with normal practice in the mining industry. Therefore, the projections cover periods well in excess of five years. Management determined budgeted gross margin based on past performance and the future gold price outlook. The discount rate reflects the specific risks relating to the CGUs. Gold price and exchange rate used are with reference to current market information available at the time of impairment assessment.

	2019	2018
Pre-tax discount rate	**17.11%**	18.81%
Spot price of Gold	**USD1,517/Oz**	USD1,282/Oz
Exchange rate (RMB:US$)	**RMB6.9632: US$1**	RMB6.8785: US$1
Growth rate	**2%**	3%

No impairment is recognised as a result of the annual impairment testing of goodwill for the years ended 31 December 2019 and 2018. The directors of the Group believe that any reasonably possible further change in key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

(b) *Perfect Major Group, Pride Success Group and Best Income and Max Paramount Group*

As at 31 December 2019 and 2018, the Group assessed the recoverable amounts of these CGUs and the recoverable amounts of these CGUs have been determined based on their estimated fair value less costs of disposal, using market approach essentially for the Exploration license of Gold Mine. The fair value on which the recoverable amount is categorized as a level 3 measurement. Several companies with business scopes and operations similar to those of holding Mining license or Exploration license of Gold mine were adopted as comparable companies. Application of Comparable Transaction Method is subject to the following requirements:

— Existence of historical (and recent) comparable transactions;

— Quoted selling price of the Gold Mine with similar characteristics to the CGUs;

— Availability of public information on comparable transactions of relevant or similar assets; and

— Arm's length transactions between the independent uncontrolled parties.

No impairment is recognised as a result of the annual impairment testing of goodwill was at years ended 31 December 2019 and 2018.

For Perfect Major, any reasonably possible further change in key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount as at 31 December 2019.

The determination of the recoverable amount of the CGU was particularly sensitive to changes in the following key assumption for the year ended 31 December 2018:

— The recoverable amount of the CGU exceeded its carrying amount by HK$22,549,000 and the recoverable amount of the CGU would equal its carrying amount (while other parameters remain constant) if the gold price was decreased by approximately 6%.

— A decrease of 10% in gold price adjusted would result in the reduction of recoverable amount such that an impairment loss of HK$16,012,000 would result.

For Pride Success, any reasonably possible further change in key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount for the years ended 31 December 2019 and 2018.

For Best Income and Max Paramount Group, the determination of the recoverable amount of the CGU was particularly sensitive to changes in the following key assumption for the years ended 31 December 2019 and 2018.

— The recoverable amount of the CGU exceeded its carrying amount by HK$36,254,000 (2018: HK$2,022,000) and the recoverable amount of the CGU would equal its carry amount (while other parameters remain constant) if the gold price was decreased by approximately 1%.

— A decrease of 10% in gold price adjusted would result in reduction of recoverable amount and an impartment loss of HK$6,696,000 (2018: HK$38,199,000) would result.

14. TRADE AND OTHER RECEIVABLES

	Notes	2019 HK$'000	2018 HK$'000
Trade receivables	*(a)*	**—**	—
Less: allowances		**—**	—
		—	—
Other receivables	*(b)*	**7,372**	18,607
Less: allowances		**(104)**	(159)
		7,268	18,448
Deposits and prepayments		**50,790**	41,337
Value added tax recoverable		**2,115**	2,665
		60,173	62,450

Notes:

(a) Trade receivables

The Group normally allows credit period of 60-90 days to its trade customers. The aged analysis of trade receivables net of allowance for doubtful debts presented based on the delivery date which approximated the respective dates on which revenue was recognised at the end of the reporting period is as follows:

	2019 HK$'000	2018 HK$'000
0 – 30 days	**—**	—
31 – 60 days	**—**	—
61 – 90 days	**—**	—
Over 90 days	**—**	—
	—	—

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed once a year.

Movement in the impairment loss on trade receivables:

	2019	2018
	HK$'000	*HK$'000*
At 1 January	—	11,728
Exchange adjustment	—	—
Reversal of impairment loss previously recognised	—	(175)
Impairment loss recognised	—	792
Disposal of subsidiaries	—	(12,345)
At 31 December	—	—

(b) Other receivables

Movement in impairment loss on other receivables:

	2019	2018
	HK$'000	*HK$'000*
At 1 January	**159**	6,320
Reversal of impairment loss previously recognised	**(102)**	—
Impairment loss recognised	**47**	2,492
Written off	—	(1,228)
Disposal of subsidiaries	—	(7,425)
At 31 December	**104**	159

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.

15. OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Other payables and accruals *(Note (a))*	**362,355**	363,889
Amounts due to related parties *(Note (b))*	**462,657**	473,966
	825,012	837,855
Analysed for reporting purposes as:		
— Current portion	**384,681**	363,889
— Non-current portion	**440,331**	473,966
	825,012	837,855

Notes:

(a) Included in other payables were mainly payable to subcontractors of HK$222 million (2018: HK$227 million) for mining extraction and construction.

(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 the amount was repayable after one year after the reporting period.

16. CONTRACT LIABILITIES

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

	31 December 2019	31 December 2018
	HK$'000	*HK$'000*
Contract liabilities arising from:		
Sale of goods	**9,800**	3,383

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:

	2019	2018
	HK$'000	*HK$'000*
Balance as at 1 January	**3,383**	40,397
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(3,383)**	(40,397)
Increase in contract liabilities as a result of receipt in advance of sales of gold concentrate not yet delivered at year end	**9,800**	3,383
Balance at 31 December	**9,800**	3,383

17. SUBSEQUENT EVENTS

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and other countries. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. Up to the date on which these consolidated financial statements are issued, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2019 (2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020, 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, 25 May 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the financial year ended 31 December 2019, the Group recorded a loss attributable to owners of the Company amounted to HK$21,071,000 (2018: profit of HK$57,526,000) as a result of the effect of an one-off gain of approximately HK$117,661,000 in respect of the disposal of tea business for the year 2018. Loss from continuing operations decreased by HK$32,933,000 to approximately HK$21,752,000 in 2019 from approximately HK$54,685,000 for the corresponding period in 2018, 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		**Tea business**		**Overall**	
		Year ended 31 December					
	Note	**2019**	2018	**2019**	2018	**2019**	2018
Revenue *(HK$'000)*		**191,436**	105,975	**N/A**	25,933	**191,436**	131,908
Gross profit margin *(%)*	*(i)*	**12%**	4%	**N/A**	16%	**12%**	6%
Net asset value per share *(HK cents)*	*(ii)*					**54.1**	56.7

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.

(iii) The tea business was disposal of in April 2018.

The increase in gross profit margin in gold mining operation is mainly due to the upward trend of gold price. The Group's net asset value per share decreased from HK56.7 cents in 2018 to HK54.1 cents in 2019 as resulted from an increase in external borrowings. Detailed analysis of other KPI is set out in below section.

Administrative and other expenses amounted to approximately HK$66,651,000, representing an increase of approximately 3% from approximately HK$64,697,000 for the year 2018 and is primarily contributed by an increase in administrative expenses from newly aquired companies.

REVIEW OF OPERATIONS

Continuing 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 2019, the Group's revenue from gold mining operation amounted to approximately HK$191,436,000, representing an increase of approximately 81% from approximately HK$105,975,000 for the year 2018. In 2018, the sale was seriously affected by the temporary suspension of the gold mining operations for environmental upgrade, maintenance and inspections. There was no such impact for the year of 2019 which contributed to the increase in sale volumes. The cost of sales amounted to HK$169,017,000, representing an increase of approximately 66% from approximately HK$102,073,000 for the year 2018 which is in line with the increase in sales. Gross profit from continuing operations amounted to approximately HK$22,419,000, representing an increase in 8% respectively as compared with approximately HK$3,902,000 for the year 2018. Increase in gross profit margin was mainly attributable to the increase in gold prices.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2019, the Group had total assets and net assets amounted to approximately HK$3,365,977,000 (2018: HK$3,415,219,000) and approximately HK$1,835,105,000 (2018: HK$1,921,884,000), respectively. The current ratio was 0.28, as compared to 0.32 as of last year end date.

As at 31 December 2019, the Group had bank balances and cash of approximately HK$90,277,000 (2018: HK$109,550,000), and most of which were denominated in Renminbi and Hong Kong dollars.

As at 31 December 2019, the Group had bank and other loans of approximately HK$161,339,000 (2018: HK$92,046,000) which were denominated in Renminbi were interest-bearing ranged from 5.13% – 12% (2018: 12%) 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 9.4% (2018: 5.1%).

As at 31 December 2019, the Group had promissory note of approximately HK$51,214,000 (2018: HK$68,161,000).

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 2019, 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 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no contingent liability (2018: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had approximately 9 and 157 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$19,623,000 for the year ended 31 December 2019 (2018: HK$27,657,000). There was no share-based payment arising from grant of share options to directors and employees of the Group for the year ended 31 December 2019 (2018: HK$10,235,000).

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

Despite of the outbreak of a coronavirus (COVID-19) disease and the global uncertainties it brings, the Group is well poised to keep the momentum of steadily growth. As disclosed in 2017 and 2018 annual report, the Group has completed various acquisitions in the gold businesses. For the mines which have completed the exploration stages, it is in the process of applying for mining licenses during the year. In the long term, the production capacity will gradually improve as the operation of new processing plant commences together with the comprehensive mining portfolio.

The new processing plant was scheduled to operate in March 2020. However, the plant is located in Shaanxi province where the government has imposed certain restrictions in working and transportation to suppress the transmission of coronavirus. For the sake of public health and safety, the commencement of new plant has been postponed to around June 2020 and the operations have been suspended for around two months, the management would keep an eye on the situation in Shaanxi province.

The profitability of the Group is highly correlated to the gold price in domestic and international markets. The market prices of gold (and other precious metals) are sensitive to the global economic environment and stability. The Directors are of the view that the recent outbreak of the coronavirus has a certain impact on China economy which net off the effect of Sino-US "phase 1" trade deal. As a result, the gold market would be continued to serve as a safe haven for global investors. The gold price in AU99.95 has been increased from RMB286/g to RMB341/g in China during the year of 2019. It is expected that the favorable trend of gold price would continue to create a conducive environment to the Group.

Workplace safety and environmental topics are of high priorities and matters of great importance to the Group. The management are committed to achieving a high standard of occupational safety and health for all our staff. During the year, the Group has provided various workshops, training and guidelines to our staff especially those who are working in the processing plant and mines to ensure they are competent to perform their duties in a safe and healthy manner. In respect of environmental protection, the new processing plant has been designed as environmental friendly as one of its major characteristics which aim to reduce the wastes and promote sustainable developments.

In summary, the Group would remain cautiously optimistic in the face of continued macroeconomic headwinds. The management would proactively manage the existing portfolio, seek for optimal investment opportunities and deliver long-term 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 2019. 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 2019, 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 2019, 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 2019.

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 17 May 2019 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 2019, 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, Mr. Ngai Sai Chuen 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 2019 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 2019 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 2019 annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

The 2019 annual financial information set out above does not constitute the Group's statutory financial statements for the financial year ended 31 December 2019. Instead, it has been derived from the Group's audited consolidated financial statements for the financial year ended 31 December 2019, which will be included in the Company's 2019 annual report.

APPRECIATION

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

By Order of the Board
Tongguan Gold Group Limited
Yeung Kwok Kuen
Executive Director and Chief Financial Officer

Hong Kong, 25 March 2020

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. Ngai Sai Chuen, Mr. Liang Xu Shu and Mr. Leung Ka Wo as independent non-executive directors.