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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 2021

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 2021:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Revenue	4	681,721	327,710
Cost of sales		(444,857)	(255,198)
Gross profit		236,864	72,512
Other income	5	1,308	2,030
Other net gains and losses	6	6,980	(11,838)
Administrative and other expenses		(60,032)	(66,761)
Finance costs	7	(6,669)	(166)
Share of result of an associate		—	—
Profit (loss) before tax	8	178,451	(4,223)
Income tax (charge) credit	9	(23,151)	2,710
Profit (loss) for the year		155,300	(1,513)

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
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		6,440	15
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations		<u>61,497</u>	<u>115,531</u>
Other comprehensive income for the year, net of tax		<u>67,937</u>	<u>115,546</u>
Total comprehensive income for the year		<u>223,237</u>	<u>114,033</u>
Profit (loss) for the year attributable to:			
– Owners of the Company		138,677	(6,330)
– Non-controlling interests		<u>16,623</u>	<u>4,817</u>
		<u>155,300</u>	<u>(1,513)</u>
Total comprehensive income for the year attributable to:			
– Owners of the Company		197,628	94,894
– Non-controlling interests		<u>25,609</u>	<u>19,139</u>
		<u>223,237</u>	<u>114,033</u>
Earnings (loss) per share – Basic and diluted	<i>11</i>	<u>HK4.09 cents</u>	<u>HK(0.19) cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

		2021	2020
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		1,396,068	1,303,782
Right-of-use assets		34,813	33,534
Exploration and evaluation assets		1,467,151	1,409,990
Goodwill		654,817	636,132
Other intangible assets		119,355	147,229
Other financial assets		13,636	6,989
Interest in an associate		3,620	3,517
		<u>3,689,460</u>	<u>3,541,173</u>
Current assets			
Inventories		7,287	61,674
Other receivables	12	40,748	42,912
Amount due from an associate		1,832	1,779
Bank balances and cash		157,700	130,293
		<u>207,567</u>	<u>236,658</u>
Current liabilities			
Other payables	13	412,233	437,588
Bank and other borrowings		61,155	121,791
Contract liabilities	14	3,302	68,700
Lease liabilities		2,110	1,303
Tax payables		183,526	161,266
		<u>662,326</u>	<u>790,648</u>
Net current liabilities		<u>(454,759)</u>	<u>(553,990)</u>
Total assets less current liabilities		<u><u>3,234,701</u></u>	<u><u>2,987,183</u></u>

	<i>Notes</i>	2021 HK\$'000	2020 <i>HK\$'000</i>
Non-current liabilities			
Bank and other borrowings		115,864	117,905
Other payables	<i>13</i>	589,703	571,662
Provision for restoration and environmental costs		13,358	12,973
Lease liabilities		639	102
Deferred tax liabilities		342,762	335,403
		<u>1,062,326</u>	<u>1,038,045</u>
Net assets		<u>2,172,375</u>	<u>1,949,138</u>
Capital and reserves			
Share capital		339,227	339,227
Share premium and reserves		1,676,178	1,478,550
		<u>2,015,405</u>	<u>1,817,777</u>
Equity attributable to owners of the Company		2,015,405	1,817,777
Non-controlling interests		156,970	131,361
		<u>2,172,375</u>	<u>1,949,138</u>
Total equity		<u>2,172,375</u>	<u>1,949,138</u>

Notes:

1. GENERAL INFORMATION

Tongguan Gold Group Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “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 gold mining operation, which includes exploration, mining, processing and sale of gold and related products. The Group’s gold mining operation is mainly carried out in the People’s Republic of China (the “PRC”).

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to the Group for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the “Committee”) of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and the related Amendments ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 ²

¹ Effective for annual periods beginning on or after 1 April 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ Effective for annual periods beginning on or after a date to be determined

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

Amendments to HKAS 1 “Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)”

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 "Financial Instruments: Presentation".

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

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

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

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

Amendments to HKAS 8 "Definition of Accounting Estimates"

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

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

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

3. BASIS OF PREPARATION

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

4. REVENUE AND SEGMENT REPORTING

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 2021 and 2020.

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

	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Revenue from contracts with customer within the scope of HKFRS 15: Exploration, mining, processing and sale of gold concentrates and related products	<u>681,721</u>	<u>327,710</u>

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

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

Information about major customers

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

	Year ended 31 December	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A (<i>Note (a)</i>)	N/A	232,388
Customer B	660,728	95,322

Note:

- (a) The corresponding revenue in the year ended 31 December 2021 for Customer A did not contribute over 10% of the total revenue of the Group.

5. OTHER INCOME

	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grants (<i>Note (a)</i>)	121	477
Interest on bank deposits	959	990
Others	228	563
	1,308	2,030

Note:

- (a) Included in profit or loss is nil (2020: HK\$298,000) 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.

6. OTHER NET GAINS AND LOSSES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Net foreign exchange gains	186	276
Gain on modification of financial liabilities (<i>Note (a)</i>)	9,124	–
Fair value loss of a contingent consideration payable	–	(13,074)
Written off in respect of other receivables	(1,802)	–
Impairment loss of other receivables	(222)	(265)
Reversal of impairment loss written off in respect of other receivables	–	1,225
Loss on disposal of property, plant and equipment	(60)	–
Others	(246)	–
	<u>6,980</u>	<u>(11,838)</u>

Note:

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

7. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest on unsecured bank and other borrowings	17,291	16,627
Interest on secured bank borrowings	2,710	331
Interest on secured other borrowing	–	1,172
Interest on promissory note payable at amortised cost	2,552	–
<i>Less: Amount capitalised (Note (a))</i>	(15,985)	(18,130)
Interest expenses on leases liabilities	101	166
	<u>6,669</u>	<u>166</u>

Note:

- (a) Borrowing costs capitalised during the year arose on the general borrowing pool calculated by applying a capitalisation rate of 8.06% (2020: general borrowing pool and specific borrowing at a capitalisation rate of 7.65% and 1.86%, respectively) to expenditure on qualifying assets.

8. PROFIT (LOSS) BEFORE TAX

Profit (loss) before tax is arrived at after charging:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Director's emoluments	3,098	3,371
Staff's salaries, bonus and allowances	18,951	16,743
Contributions to staff's retirement benefits schemes	2,302	1,670
	<hr/>	<hr/>
Total staff costs	24,351	21,784
	<hr/>	<hr/>
Amortisation of other intangible assets	47,218	20,511
Auditor's remuneration	1,441	1,850
Costs of inventories recognised as an expense (<i>Note (a)</i>)	440,106	241,399
Depreciation charges		
– property, plant and equipment	33,612	32,796
– right-of-use assets		
– office premise and factories	2,660	3,248
– motor vehicle	469	525
– office equipment	17	34
– prepaid lease payments	876	818
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (a) Costs of inventories recognised as an expense mainly include mining extraction costs, documentation transferring fee, transportation cost and amortisations and depreciation charges of HK\$251,794,000 (2020: HK\$174,149,000), HK\$19,013,000 (2020: HK\$26,621,000), HK\$3,521,000 (2020: HK\$3,548,000) and HK\$52,109,000 (2020: HK\$46,958,000) respectively.

9. INCOME TAX (CHARGE) 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 2021 and 2020.

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 2021 and 2020, 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 International Limited and its subsidiaries and Pride Success Investment Limited and its subsidiaries 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:

	2021 <i>HK\$’000</i>	2020 <i>HK\$’000</i>
Current tax – PRC Enterprise Income Tax	24,652	–
Deferred tax	<u>(1,501)</u>	<u>(2,710)</u>
	<u><u>23,151</u></u>	<u><u>(2,710)</u></u>

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

	2021	2020
	HK\$'000	HK\$'000
Profit (loss) before tax	178,451	(4,223)
Notional tax on profit (loss) before tax, calculated at 25% (2020: 25%)	44,613	(1,056)
Differential tax rates	(16,027)	796
Tax effect of expenses not deductible for tax purposes	4,574	4,189
Tax effect of income not taxable for tax purposes	(2,415)	(2,566)
Tax losses and temporary differences not recognised	(7,594)	(4,073)
Income tax charge (credit)	23,151	(2,710)

10. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2021 or since the end of the reporting period (2020: Nil).

11. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit for the year attributable to owners of the Company of approximately HK\$138,677,000 (2020: loss for the year of approximately HK\$6,330,000) and the weighted average number of ordinary shares of approximately 3,392,272,000 (2020: 3,392,272,000) in issue during the year.

Diluted earnings (loss) per share equals to basic earnings (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 2021 and 2020.

12. OTHER RECEIVABLES

	2021	2020
	HK\$'000	HK\$'000
Other receivables	2,995	11,184
Less: allowances	(490)	(268)
	2,505	10,916
Deposits and prepayments	36,614	29,986
Value added tax recoverable	1,629	2,010
	40,748	42,912

Note:

(a) Movement in impairment loss on other receivables:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At 1 January	268	104
Reversal of impairment loss previously recognised	–	(101)
Impairment loss recognised	<u>222</u>	<u>265</u>
At 31 December	<u><u>490</u></u>	<u><u>268</u></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.

13. OTHER PAYABLES

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Other payables and accruals (<i>Note (a)</i>)	446,924	475,430
Promissory note payable	57,716	64,288
Amounts due to related parties (<i>Note (b)</i>)	<u>497,296</u>	<u>469,532</u>
	<u><u>1,001,936</u></u>	<u><u>1,009,250</u></u>
Analysed for reporting purposes as:		
– Current portion	412,233	437,588
– Non-current portion	<u>589,703</u>	<u>571,662</u>
	<u><u>1,001,936</u></u>	<u><u>1,009,250</u></u>

Notes:

- (a) Included in other payables were (i) amounts payable to subcontractors of HK\$264 million (2020: HK\$306 million) for mining extraction and construction and (ii) retention payable for mining extraction and construction of HK\$51 million (2020: HK\$52 million).
- (b) The amounts are due to certain beneficial owners of the shareholders of the Company and are non-trade in nature, unsecured, interest-free and repayable one year after the end of the reporting period.

14. CONTRACT LIABILITIES

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

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
<i>Contract liabilities arising from:</i>		
Sale of goods	<u>3,302</u>	<u>68,700</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:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Balance as at 1 January	68,700	9,800
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	(68,700)	(9,800)
Increase in contract liabilities as a result of receipt in advance of sales of gold concentrate not yet delivered at year end	<u>3,302</u>	<u>68,700</u>
Balance at 31 December	<u>3,302</u>	<u>68,700</u>

15. CONTINGENT LIABILITIES

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

As at 31 December 2021, the banking facility guaranteed by the Group to the Borrower was utilised to the extent of RMB40,000,000 (equivalent to HK\$50,000,000) (31 December 2020: 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.

FINAL DIVIDEND

The Board does not recommend the payment of a dividend for the year ended 31 December 2021 (2020: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 7 June 2022 to Friday, 10 June 2022, 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, 6 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the financial year ended 31 December 2021, the Group recorded a profit for the year amounted to HK\$155,300,000 (2020: loss of HK\$1,513,000), profit increased by HK\$156,813,000 in 2021 from loss of approximately HK\$1,513,000 for the corresponding period in 2020. Such an increase in profit is primarily due to increase in overall sales volumes, as well as the improvement on gross profit margins from the increase in grade of ore for production.

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	2021	2020
Revenue (HK\$'000)		681,721	327,710
Gross profit margin (%)	(i)	35%	22%
Net asset value per share (HK cents)	(ii)	64.0	57.5

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 grade of ore mined. The Group's net asset value per share increased from HK\$57.5 cents in 2020 to HK\$64.0 cents in 2021 as resulted from increase in gross profit margin. Detailed analysis of other KPI is set out in below section.

Administrative and other expenses amounted to approximately HK\$60,032,000, representing an decrease of approximately 10% from approximately HK\$66,761,000 for the year 2020 and is primarily due to decrease in preliminary expenses incurred in new processing plant in 2021.

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 2021, the Group's revenue from gold mining operation amounted to approximately HK\$681,721,000, representing an increase of approximately 108% from approximately HK\$327,710,000 for the year 2020 and is primarily contributed by increase in grade in ores mined and sale volumes following the operation of the new processing plant.

The cost of sales amounted to HK\$444,857,000, representing an increase of approximately 74% from approximately HK\$255,198,000 for the year 2020 and is in line with the increase in revenue. Gross profit from operations amounted to approximately HK\$236,864,000, representing an increase in 227% as compared with approximately HK\$72,512,000 for the year 2020. Increase in gross profit margin was mainly attributable to the increase in average grade of ore from 3.23 gram/tonne for the corresponding period in 2020 to 4.87 gram/tonne in 2021.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2021, the Group had total assets and net assets amounted to approximately HK\$3,897,027,000 (2020: HK\$3,777,831,000) and approximately HK\$2,172,375,000 (2020: HK\$1,949,138,000), respectively. The current ratio was 0.31, as compared to 0.3 as of last year end date.

As at 31 December 2021, the Group had bank balances and cash of approximately HK\$157,700,000 (2020: HK\$130,293,000), and most of which were denominated in Renminbi and Hong Kong dollars.

As at 31 December 2021, the Group had bank and other loans of approximately HK\$177,019,000 (2020: HK\$239,696,000) which were denominated in Renminbi including the fixed rates ranged from 6%-12% (2020: 6%-12%) per annum. For the borrowings under variable rate, the interest rates are loan prime rate ("LPR") +2.025%, LPR +2.088% and LPR +2.95% per annum (2020: LPR+0.95%, LPR+2.025% and LPR+2.088% per annum). The decrease in total borrowings is due to the completion of certain construction projects. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 8.8% (2020: 13.2%).

As at 31 December 2021, the Group had promissory note of approximately HK\$57,716,000 (2020: HK\$64,288,000). The promissory note with principal amount of HK\$80,000,000 carries zero interest and to be due on 9 October 2025.

FOREIGN EXCHANGE RISK MANAGEMENT

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

SHARE CAPITAL

As at 31 December 2021, 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 2021.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group had a contingent liability and detail is set out in Note 15 (2020: detail is set out in Note 14).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had approximately 11 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\$24,351,000 for the year ended 31 December 2021 (2020: HK\$21,784,000).

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

During the financial year under review, the coronavirus pandemic has continued to linger on in Hong Kong and in different parts of the world and the global economy was still adversely affected. Despite the challenging operating environment, our Group has strived to maintain normal operation in most of the time during the period and continued to pursue long-term business growth with sustainable profit growth. The Group has recorded improved profitability in the financial year of 2021 with the momentum of steady growth and the resilient nature of our business amid economic uncertainties.

After the trial running phase in the second half of 2020, the phase one of new processing plant has been fully operated in 2021 which provide the maximum processing capacity at 1,500 tonnes daily. With such increase in application of high-grade ores and the economies of scale brought about by the new processing plant, profitability in 2021 has improved significantly. The Board is confident that this positive trend will continue in the year ahead as production continues to ramp up.

In addition to the above, profitability of the Group also depends on the gold prices in domestic and international markets. The outlook on interest rates and inflation rates have significant roles to play in the global economic environment and stability and in turn, the trend of gold prices ahead. In the previous financial year, the Group sailed through a season of uncertainties in the global economy and we expect this to continue in the year ahead. Looking forward to 2022, the intensifying China-U.S. relations and prospective U.S. monetary policy measures will continue to fuel volatility in the choppy path of global economic recovery. We believe gold's role as a safe haven and store of value will be further enhanced. Therefore, we are confident that the trend of international gold prices will work in our Group's favour. The Group will continue to closely monitor market trends in commodity prices, stay alert and take any actions, if necessary, to control any potential risk.

The Group is committed to being a responsible corporate citizen and to fulfilling its corporate social responsibility while remaining competitive and sustainable in its business development. We have put in place measures in waste and pollution reduction in all our operating plants and strive to ensure workplace safety. We have also provide adequate training to all our workers and employees to improve their knowledge on relevant regulations and standards on environmental issues. To fulfill our corporate social responsibility, the Group continues to encourage and incentivize employees and promote the overall efficiency in our operations.

To conclude, the Group will maintain cautious in view of the ongoing uncertainties in the global market and strive to achieve a stable performance. Also, the Group will continue to seek for optimal investment opportunities to expand the existing gold mining portfolio.

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 2021. 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 2021, 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 2021, 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 2021.

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 28 May 2021 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 2021, 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 2021 have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF CCTH CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditors, CCTH CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by CCTH CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by CCTH CPA Limited on the preliminary announcement.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The 2021 annual report of the Company will be dispatched to the shareholders of the Company and available on the above websites in due course.

The 2021 annual financial information set out above does not constitute the Group's statutory financial statements for the financial year ended 31 December 2021. Instead, it has been derived from the Group's audited consolidated financial statements for the financial year ended 31 December 2021, which will be included in the Company's 2021 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, 28 March 2022

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.