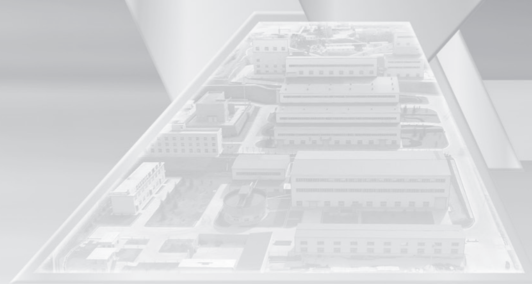
潼關黃金集團有限公司
Tongguan Gold Group Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 340

2020
Annual Report



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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Yeung Kwok Kuen *(Chief Financial Officer)*
Shi Xing Zhi
Shi Sheng Li

Independent Non-executive Directors:

Chu Kang Nam
Liang Xu Shu
Leung Ka Wo

COMPANY SECRETARY

Leung Lai Ming

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1306, 13th Floor
Bank of America Tower
12 Harcourt Road
Admiralty
Hong Kong

AUDITORS

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
4th floor North
Cedar House
41 Cedar Avenue
Hamilton HM12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

PRINCIPAL BANKERS

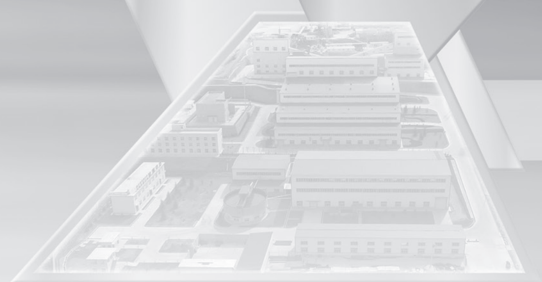
Industrial and Commercial Bank of China (Asia) Limited
Shanghai Pudong Development Bank
Industrial and Commercial Bank of China Limited
Industrial Bank Company Limited

STOCK CODE

00340

COMPANY WEBSITE

www.tongguangold.com



MANAGEMENT DISCUSSION AND ANALYSIS

I am pleased to present to our shareholders, the annual report of Tongguan Gold Group Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2020.

RESULTS

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

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

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

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

Notes:

(i) Gross profit margin is calculated as gross profit divided by revenue.

(ii) Using the number of issued ordinary shares of the Company as at the relevant financial year end date.

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

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

REVIEW OF OPERATIONS

Gold Mining Operation

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

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

Details of the exploration, development and mining production activities and a summary of expenditure incurred on these activities during the year ended 31 December 2020 are as below:

I Exploration

Tongguan County Xiangshun Mining Development Co., Ltd. ("Xiangshun Mining")

During the year ended 31 December 2020, combination of pit drilling and tunnel exploration methods are used to carry out exploration activities.

Luonan Jinhui Mining Co., Ltd. ("Jinhui Mining") and Shaanxi Tongxin Mining Co., Ltd. ("Tongxin Mining")

During the year ended 31 December 2020, Jinhui Mining did not carry out any exploration activities. Tongxin Mining has begun the preliminary preparation work for conversion of exploration right to mining right, the delineation of the mining area and the development and utilization plan of mineral resources have been completed, and the geological environment restoration and management, land reclamation plan and environmental assessment report work have been carried out.

Tongguan County De Xing Mining L.L.C. ("De Xing Mining")

During the year ended 31 December 2020, combination of tunnel exploration and pit drilling methods are used to carry out deep exploration activities.

Tongguan Tongjin Mining Company Limited ("Tongjin Mining")

During the year ended 31 December 2020, Tongjin Mining is performing deep pit exploration planning and the use of drilling engineering to control the peripheral veins.

REVIEW OF OPERATIONS *(CONTINUED)*

Gold Mining Operation *(CONTINUED)*

II Development

Xiangshun Mining, Tongxin Mining, De Xing Mining and Tongjin Mining

During the year ended 31 December 2020, Xiangshun Mining, Tongxin Mining, De Xing Mining and Tongjin Mining have appointed several engineering and technical companies and have completed (i) the pit exploration project of approximately 13,667 meters and (ii) the pit drilling project of approximately 16,896 meters.

Jinhui Mining

During the year ended 31 December 2020, Jinhui Mining did not carry out any development activities.

III Mining Production Activities

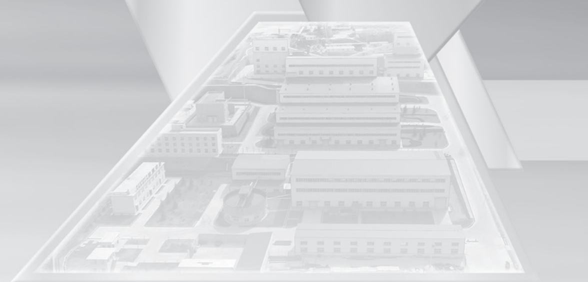
Xiangshun Mining and De Xing Mining

(1) Mining operation

	Year ended 31 December 2020
Underground mining	
Mine production (thousand tonnes)	269.24
Total mine production (thousand tonnes)	269.24
Average gold grade (gram/tonne)	3.23

(2) Ore processing operation — Concentrating

	Year ended 31 December 2020
Concentrate production — Gold (thousand tonnes)	13.66
Average gold grade (gram/tonne)	67.85
Metal in the concentrate (Kilogram)	926.83



REVIEW OF OPERATIONS *(CONTINUED)*

Gold Mining Operation *(CONTINUED)*

III Mining Production Activities *(CONTINUED)*

Jinhui Mining, Tongxin Mining and Tongjin Mining

During the year ended 31 December 2020, there was no mining production.

IV Exploration, development and mining production cost of the Group

Expenses of exploration, development and mining production activities of the Group for the year ended 31 December 2020 are set out as below:

	Mine produced Gold *(HK$'000)*
Exploration and Mining activities	
Exploration and development construction	87,965
Mining ore	131,744
Total	219,709

(Concentrating not included)

Information of the mineral resources and reserves of the gold for the gold mines of the Group as at 31 December 2020 are as below:

JORC Mineral Resources Category	**Inventory** (kt)	**Grade** (g/t Au)	**Contained Metal** (t)	**Contained Metal** (koz)
Indicated	4,071.5	7.27	29.6	1,044
Inferred	1,054.7	6.89	7.3	256

REVIEW OF OPERATIONS *(CONTINUED)*

Gold Mining Operation *(CONTINUED)*

Notes:

1. The resources and reserves stated as above are adjusted by internal geological department based on the consumption deducted from the JORC resources and reserves previously disclosed for respective projects.

2. Mineral reserves were estimated using the following mining and economic factors:

   i. The mining loss rates of 13.8%.

   ii. The dilution rates of 5.5%.

   iii. A 3.5 g/t Au cut-off grade has been applied for mineral reserves and 1.0 g/t Au cut-off grade has been applied for mineral resources.

   iv. Mineral reserves are inclusive of mineral resources.

   v. Gold price of USD1,307.8/oz.

   vi. Rounding might cause some computational discrepancies in totals.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

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

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

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

FOREIGN EXCHANGE RISK MANAGEMENT

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

SHARE CAPITAL

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

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

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

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had a contingent liability and detail is set out in Note 45 to the consolidated financial statements (2019: Nil).

EMPLOYEES AND REMUNERATION POLICIES

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial conditions, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. Key risks and uncertainties affecting the Group are set out as below.

Global Economic and Macro-Economic Conditions

The Group is engaged in exploration, mining, processing, and sale of gold and related products in China. The Group is facing the fluctuation in the gold price for gold mining business. The affecting factors including but not limited to the stability of the international economic situation and the fluctuation of the global political and social condition and the global gold reserves, all of which are beyond the control of the Group. Decline in gold price may cause pressure on the Company's production and operation. To ensure a stable production, the Company would fully leverage on its technological and managerial strength to raise efficiency and control costs strictly, monitor closely the commodity market and align its production plan and growth strategy.

Investment Risk

Balancing risk and return across investment types and geographic location are key considerations of investment framework. Risk assessment is an important aspect of the investment decision process. Management would regularly review and monitor the progress of the investments of the Group and submit to the board of directors of the Company.

Financial Risk

The Group's major financial instruments include financial assets measured at fair value through other comprehensive income, other receivables, bank balances and cash, other payables, lease liabilities, bank and other borrowings and contingent consideration payable. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. Particulars of financial risk management of the Group for the year ended 31 December 2020 and the policies on how to mitigate these risks are set out in Note 38 to the consolidated financial statements. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group encourages environmental protection and complies with environmental legislation and promote awareness towards environmental protection to the employees.

Further information on environmental policy and performance of the Group is set out under the section headed "Environmental, Social and Governance Report" of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2020, there has been no claim that the Group has breached any law or regulation, or indeed has exceeded its authority.

KEY RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group understands that it is important to maintain good relationship with its customers and suppliers to fulfil its immediate and long-term goals. During the year ended 31 December 2020, there was no material and significant dispute between the Group and its customers. The Group maintains good relationships with its customers and suppliers during the year ended 31 December 2020. The Group never stops perfecting its procurement process and mechanism. It also insists on the business principles of integrity and trustworthiness to enhance communications with suppliers by all available means, with the goal of seeking mutual benefit and prosperity for all.

PROSPECTS

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

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

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

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

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

APPRECIATION

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

By Order of the Board
Tongguan Gold Group Limited

Yeung Kwok Kuen
Executive Director and Chief Financial Officer

Hong Kong, 24 March 2021

EXECUTIVE DIRECTORS

YEUNG Kwok Kuen

Mr. Yeung Kwok Kuen ("Mr. Yeung"), aged 47, was appointed as an executive director of the Company on 1 December 2014. Mr. Yeung is also the chief financial officer of the Company and a director of several subsidiaries of the Company.

Mr. Yeung graduated from The Chinese University of Hong Kong with a bachelor degree in Professional Accountancy and obtained a master degree in Corporate Finance from The Hong Kong Polytechnic University. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Mr. Yeung has over 20 years of experience in handling accounting and finance matters. Mr. Yeung, was previously an executive director of the Company for the period from 17 January 2007 to 28 February 2014, and also held the position as the qualified accountant and chief financial officer of the Company during that period. From 2004 to 2006, Mr. Yeung was the chief financial officer of a trading and manufacturing group and prior to this, Mr. Yeung was the manager of an international accounting firm.

SHI Xing Zhi

Mr. Shi Xing Zhi ("Mr. Shi"), aged 65, was appointed as an executive director of the Company on 21 February 2017. Mr Shi is also a senior technical consultant of a subsidiary of the Company.

Mr. Shi graduated from the Chang An University（長安大學）in 1979. Mr. Shi is a senior geological engineer certified by the State Land and Resources Bureau. From 1980 to 2004, Mr. Shi has held various positions including geological technician, project team leader, project manager, deputy manager of technical department, head engineer, in Shaanxi Province and Guangzhou, the People's Republic of China. From 2005 to 2015, Mr. Shi held various positions at an exploration company in Shaanxi Province including the deputy manager and deputy general manager (technical). From June 2015 to September 2016, Mr. Shi was the head geological engineer of a gold mining company in Gansu Province. Immediately before his appointment as executive director of the Company, Mr. Shi was the senior technical consultant of Tongguan County Xiangshun Mining Development Co., Ltd.（潼關縣祥順礦業發展有限公司）, a company which became a subsidiary of the Company since 27 January 2017.

SHI Sheng Li

Mr. Shi Sheng Li ("Mr. Shi SL"), aged 57, was appointed as an executive director of the Company on 14 June 2017. Mr. Shi SL is also a head engineer of a subsidiary of the Company.

Mr. Shi SL graduated from the China University of Geosciences (Beijing)（中國地質大學（北京））. Mr. Shi SL is a senior geological engineer certified by the Senior Professional Qualification of Shaanxi Provincial People's Government（陝西省人民政府高級專業技術任職資格）. From 1985 to 2011, Mr. Shi SL has held various positions including geological technician, project team leader and project manager in Northwest Nonferrous Geological Bureau Team 712 in the PRC. From November 2011 to November 2013, Mr. Shi SL was the head engineer of a gold mining company in Tongguan County of Shaanxi Province. Immediately before his appointment as the executive director of the Company, Mr. Shi SL was the senior geological engineer of Tongguan County Xiangshun Mining Development Co., Ltd.（潼關縣祥順礦業發展有限公司）, a company which became a subsidiary of the Company since 27 January 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHU Kang Nam

Mr. Chu Kang Nam ("Mr. Chu"), aged 64, was appointed as an independent non-executive director of the Company on 16 May 2007.

Mr. Chu graduated from Xiamen University with a Bachelor of Arts degree, and thereafter, has lectured at the Xiamen University. Mr. Chu has worked in government departments of the Fujian Province of the PRC for the period from June 1984 to November 1989, responsible for research and management positions in economics and foreign trade areas. Mr. Chu has also assumed senior management positions at various trading and retail companies since December 1989. In September 1995, he was employed as a research analyst at the Fujian Provincial Government Development Research Centre. Mr. Chu has over 20 years of management and operation experience in the areas of economics and trading. During the period from 1 August 2007 to 17 October 2012, Mr. Chu was an independent director of Gushan Environmental Energy Limited, a company whose shares were listed on the New York Stock Exchange and delisted since 17 October 2012.

LIANG Xu Shu

Mr. Liang Xu Shu ("Mr. Liang"), aged 54, was appointed as an independent non-executive director of the Company on 14 June 2017.

Mr. Liang graduated from University of Science and Technology Beijing（北京科技大學）. Mr. Liang has also obtained a master's degree and a doctorate degree in Engineering from University of Science and Technology Beijing（北京科技大學）. Mr. Liang has over 20 years of management and operation experience in the gold mining industry. From 1993 to 2000, Mr. Liang held various positions at China National Gold Group Corporation（中國黃金集團公司）including the supervisor, deputy manager and senior engineer. From 2001 to 2007, Mr. Liang was a deputy head engineer and production technology manager in Zhongjin Gold Corporation Limited（中金黃金股份有限公司）. From 2007 to 2014, Mr. Liang was a general manager of two mining investment companies in the PRC. From 2015 to 2016, Mr Liang was a general manager of Zhongjin Golden Valley Fund Management Co., Ltd.（中金金谷基金管理有限公司）. Currently, he is a vice secretary of China Occupational Safety and Health Association（中國職業安全健康協會）and the chairman of China Occupation Safety and Health (Beijing) Technology Development Co., Ltd.（中職安健(北京)科技發展有限公司）.

LEUNG Ka Wo

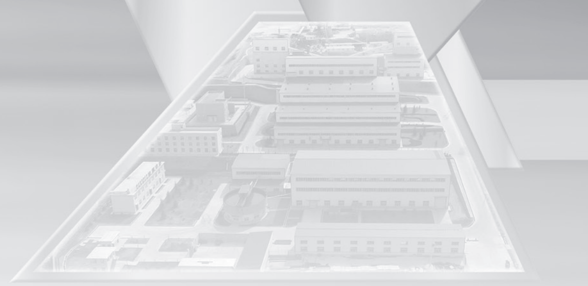
Mr. Leung Ka Wo ("Mr. Leung"), aged 47, was appointed as an independent non-executive director of the Company on 25 August 2017.

Mr. Leung is currently a director and chief financial officer of China TX IIOT Group (Hong Kong) Limited. He holds a Bachelor of Business Administration degree from Seattle University. Mr. Leung is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, certified public accountant of the American Institute of Certified Public Accountants and certified public accountant in the State of California in the United States of America. During the period from 14 June 2017 to 19 June 2019, Mr. Leung was an independent non-executive director of Rui Feng Group Holdings Company Limited (Formerly known as China Hanya Group Holdings Limited) (Stock Code: 8312), a company listed on The GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and delisted since 9 July 2019. During the period from 20 March 2014 to 15 September 2016, Mr. Leung was an independent non-executive director of Neo Telemedia Limited (Stock Code: 8167), a company listed on The GEM of the Stock Exchange.

SENIOR MANAGEMENT

LEUNG Lai Ming

Ms. Leung Lai Ming ("Ms. Leung"), aged 44, is the company secretary and senior accounting manager of the Company. Ms. Leung graduated from The Hong Kong Polytechnic University with a bachelor degree in Accountancy. Ms. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries. Ms. Leung has 20 years of experience in handling accounting matters and extensive experience in company secretarial practice. Ms. Leung joined the Company in July 2007. Ms. Leung is also a director of several subsidiaries of the Company.



COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

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

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

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

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

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

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

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

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

3. Under Code Provision E.1.2 of the Code, the Chairman should attend the annual general meeting. Since the new Chairman has not been appointed following the resignation of Dr. You Xian Sheng as the Chairman on 31 January 2014, Mr. Yeung Kwok Kuen, the executive director of the Company, has been elected by other directors of the Company present to act as the chairman of the annual general meeting of the Company held on 29 May 2020 in accordance with the Bye-laws of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES *(CONTINUED)*

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 of the Company regarding any non-compliance with the Model Code and its code of conduct regarding directors' securities transaction during the year ended 31 December 2020, and they all confirmed that they had fully complied with the required standards set out in the Model Code.

BOARD OF DIRECTORS

Composition

Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Yeung Kwok Kuen, *Chief Financial Officer*
Shi Xing Zhi
Shi Sheng Li

Independent Non-executive Directors:

Chu Kang Nam
Ngai Sai Chuen *(retired on 29 May 2020)*
Liang Xu Shu
Leung Ka Wo

The biographical details of the directors of the Company are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

BOARD OF DIRECTORS *(CONTINUED)*

Composition *(CONTINUED)*

The composition of the Board is well balanced with the directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group.

There is no relationship among the members of the Board.

During the year ended 31 December 2020, the Board had at all times at least three independent non-executive directors of the Company and at least one independent non-executive director of the Company who has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of the independent non-executive directors of the Company an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors of the Company to be independent.

Board Responsibilities and Delegation

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management. In order to better understand the respective accountabilities and contributions of the Board and management, the Company has adopted written terms of reference specifying a schedule of matters which should be reserved to the Board and which should be delegated to management.

Board Meetings and General Meetings

During the year, a total of six Board meetings (including four regular meetings) were held and the attendance records are as follows:

Name of Directors	**Number of Board Meetings Attended/Held**
Yeung Kwok Kuen	6/6
Shi Xing Zhi	6/6
Shi Sheng Li	6/6
Chu Kang Nam	6/6
Ngai Sai Chuen	3/3
Liang Xu Shu	6/6
Leung Ka Wo	5/6

BOARD OF DIRECTORS *(CONTINUED)*

Board Meetings and General Meetings *(CONTINUED)*

During the year, one general meeting of the Company was held and the attendance records are as follows:

Name of Directors	Number of General Meeting Attended/Held
Yeung Kwok Kuen	1/1
Shi Xing Zhi	1/1
Shi Sheng Li	1/1
Chu Kang Nam	1/1
Ngai Sai Chuen	1/1
Liang Xu Shu	1/1
Leung Ka Wo	1/1

Induction and Professional Development

Upon appointment to the Board, each director of the Company is provided with guideline and reference materials to enable them to be familiarised with the Group's business operations and Board's policies, as well as the general and specific duties of directors under general law (the common law and legislation) and the Listing Rules.

The directors of the Company have participated in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The continuous professional development programme comprised training seminars provided by professional bodies and reading regulatory updated materials. The costs for such trainings are borne by the Company.

During the year, all directors of the Company have participated in continuous professional development by reading regulatory updated materials and materials relevant to the Company's business, director's duties and responsibilities (including the director training webcasts and the directors' e-training launched by the Stock Exchange) and provided a record of training they received to the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Since the resignation of Dr. You Xian Sheng as the Chairman on 31 January 2014, the Company has not appointed a new Chairman. Since the resignation of Mr. Wang Hui as the Chief Executive Officer on 1 June 2016, the Company has not appointed a new Chief Executive Officer.

The roles of Chairman and Chief Executive Officer are clearly defined by written terms of reference adopted by the Company in order to ensure a balance of power and authority, so that power is not concentrated in any one individual. The Chairman and the Chief Executive Officer are independent and not connected with each other except for being officers of the same company.

NON-EXECUTIVE DIRECTORS

All the independent non-executive directors of the Company were appointed for an initial term of one year. All directors of the Company appointed during the year are subject to re-election by shareholders of the Company at the next general meeting after their appointment and every director of the Company (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in 2005. The current members of the Remuneration Committee are:

Chu Kang Nam, *Independent Non-executive Director, Chairman of the Remuneration Committee*
Ngai Sai Chuen, *Independent Non-executive Director (resigned on 29 May 2020)*
Liang Xu Shu, *Independent Non-executive Director*
Leung Ka Wo, *Independent Non-executive Director*
Yeung Kwok Kuen, *Executive Director*

The Remuneration Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Remuneration Committee is primarily responsible for the following duties:

1. to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

3. to consult the chairman of the Board and/or the chief executive of the Company about their remuneration proposals for other executive directors of the Company;

4. to make recommendations to the Board on the remuneration packages of individual executive directors and senior management of the Company;

   This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

5. to make recommendations to the Board on the remuneration of non-executive directors of the Company;

6. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the group;

REMUNERATION COMMITTEE *(CONTINUED)*

7. to review and approve the compensation payable to executive directors and senior management of the Company for any loss or termination of office or appointment to ensure that it is consistent with relevant contractual terms and is otherwise fair and not excessive;

8. to review and approve compensation arrangements relating to dismissal or removal of directors of the Company for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

9. to ensure that no director of the Company or any of his associates is involved in deciding his own remuneration; and

10. to deal with any other matters delegated by the Board.

The Remuneration Committee met one time during the year to review the remuneration packages of the member of the senior management of the Company, approve discretionary bonus payment to the executive directors and member of the senior management of the Company and review the special discretionary payments to the independent non-executive directors of the Company.

Individual attendance of each member of the Remuneration Committee during the year ended 31 December 2020 is set out below:

Name of Members	Number of Remuneration Committee Meetings Attended/Held
Chu Kang Nam	1/1
Ngai Sai Chuen	1/1
Liang Xu Shu	1/1
Leung Ka Wo	1/1
Yeung Kwok Kuen	1/1

Details of the emoluments of the directors of the Company for the year ended 31 December 2020 are set out in note 12 to the consolidated financial statements.

Senior Management Remuneration By Band

The emoluments of the members of the senior management of the Group for the year ended 31 December 2020 fell within the following bands:

Emoluments bands *(Note)*	Number of individuals
HK$0 — HK$1,000,000	7
HK$1,000,001 — HK$2,000,000	1

NOMINATION COMMITTEE

The Company established the Nomination Committee in March 2012. The current members of the Nomination Committee are:

Chu Kang Nam, *Independent Non-executive Director, Chairman of the Nomination Committee*
Ngai Sai Chuen, *Independent Non-executive Director (resigned on 29 May 2020)*
Liang Xu Shu, *Independent Non-executive Director*
Leung Ka Wo, *Independent Non-executive Director*

The Nomination Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Nomination Committee is primarily responsible for the following duties:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive directors of the Company;

4. to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive of the Company;

5. to make recommendations to the Board on the membership of Board committees e.g. audit committee and remuneration committee, in consultation with the chairman of the Board and the chairmen of such committees, as appropriate;

6. before recommending an appointment of the Board, to evaluate the existing balance of skills, knowledge and experience on the Board, and, in light of this evaluation, prepare a description of the role and capabilities required for a particular appointment; and

7. to deal with any other matters delegated by the Board.

The Nomination Committee met two times during the year to review the size, composition and structure of the Board, assess the independence of the independent non-executive directors of the Company and review the suitability of the directors of the Company proposed for re-election at the annual general meeting.

NOMINATION COMMITTEE *(CONTINUED)*

Individual attendance of each member of the Nomination Committee during the year ended 31 December 2020 is set out below:

Name of Members	**Number of Nomination Committee Meetings Attended/Held**
Chu Kang Nam	2/2
Ngai Sai Chuen	1/1
Liang Xu Shu	2/2
Leung Ka Wo	2/2

Each director of the Company appointed during the year is subject to re-election by shareholders of the Company at the next general meeting of the Company after his appointment and every director of the Company (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

No director of the Company is involved in fixing his own terms of appointment and nominations and no independent non-executive director of the Company is involved in assessing his own independence.

Summary of the Board Diversity Policy

The Company recognises and embraces the benefits of diversity in the members of the Board to enhance the quality of its performance and hence the purpose of the Board Diversity Policy aims to build and maintain a Board with a diversity of directors, in terms of skills, regional and industry experience, background, gender and other qualities of the members of the Board. These differences will be taken into account in determining the optimum composition of the Board. The Nomination Committee will discuss the measurable objectives for implementing diversity on the Board from time to time and recommend them to the Board for adoption.

The Nomination Committee will report annually on the composition of the Board under diversified perspectives and monitor the implementation of this policy to ensure the effectiveness of this policy.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions including, but not limited to, developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors, the Company's policies and practices in compliance with legal and regulatory requirements.

The Board has adopted terms of reference of the Board on corporate governance which in line with the Code in March 2012.

Summary of the terms of reference on corporate governance are as follows:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

2. to review and monitor the training and continuous professional development of directors and senior management of the Company;

CORPORATE GOVERNANCE FUNCTIONS *(CONTINUED)*

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

5. to review the Company's compliance with the Code and disclosures in the corporate governance report of its annual reports.

During the year, the Board reviewed and discussed the corporate governance policy and practices of the Company and the Board discharged the abovesaid responsibilities or through delegation to the Audit Committee, Remuneration Committee and Nomination Committee during the year.

AUDIT COMMITTEE

The Company established the Audit Committee in 1998. The current members of the Audit Committee are:

Leung Ka Wo, *Independent Non-executive Director, Chairman of the Audit Committee*
Chu Kang Nam, *Independent Non-executive Director*
Ngai Sai Chuen, *Independent Non-executive Director (resigned on 29 May 2020)*
Liang Xu Shu, *Independent Non-executive Director*

The Audit Committee has adopted terms of reference which are in line with the Code. A copy of the terms of reference is posted on the Company's website.

The Audit Committee is primarily responsible for the following duties:

1. to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

2. to review and monitor the external auditor's independence and objectively and the effectiveness of the audit process in accordance with applicable standard, to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. to develop and implement policy on the engagement of an external auditor to supply non-audit services, to report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

4. to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

AUDIT COMMITTEE *(CONTINUED)*

5. regarding No. (4) above:

    i. to liaise with the Board and senior management of the Company and to meet, at least twice a year, with the Company's external auditors; and

    ii. to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, to give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

6. to review the Company's financial control, and unless expressly addressed by a separate board risk committee, or by the Board itself, to review the Company's risk management and internal control systems;

7. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

8. to consider major investigations findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

9. where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

10. to review the Group's financial and accounting policies and practices;

11. to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

12. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

13. to report to the Board on the matters set out in Appendix 14 of the Listing Rules "Corporate Governance Code and Corporate Governance Report";

14. to consider the major findings of internal investigations and management's response;

15. to consider other topics, as defined by the Board or handle the job assigned by the Board;

16. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and

17. to act as the key representative body for overseeing the Company's relations with the external auditor.

AUDIT COMMITTEE *(CONTINUED)*

The Audit Committee met four times during the year to review the Group's annual and interim financial statements, review the external auditor's plan for the audit of the Group's accounts, review the internal control procedures and the financial reporting systems of the Group, make recommendations with respect to the appointment and reappointment of the auditors of the Company and review the risk management and internal control review plan and reports.

Individual attendance of each member of the Audit Committee during the year ended 31 December 2020 is set out below:

Name of Members	Number of Audit Committee Meetings Attended/Held
Leung Ka Wo	4/4
Chu Kang Nam	4/4
Ngai Sai Chuen	1/1
Liang Xu Shu	4/4

The financial statements for the year ended 31 December 2020 have been reviewed by the Audit Committee.

AUDITOR'S REMUNERATION

During the year ended 31 December 2020, the Group engaged BDO Limited, auditors of the Company to perform audit services. The fees were as follows:

Nature of services	Amount *HK$'000*
Audit services in relation to annual results	1,450
Review of interim results	300
Others – outlays	120
	1,870

COMPANY SECRETARY

Ms. Leung Lai Ming ("Ms. Leung") was appointed as the company secretary of the Company on 16 July 2007. The biographical detail of Ms. Leung is set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

For purpose of the Rule 3.29 of the Listing Rules, Ms. Leung has taken not less than 15 hours of relevant professional training for the year ended 31 December 2020.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to the Bye-laws of the Company, a special general meeting of the Company ("SGM") can be convened by a written requisition signed by the shareholder(s) of the Company holding not less than one-tenth of the paid-up share capital of the Company carrying the right of voting at general meetings of the Company, stating the objects of the meeting, and deposited at the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong for the attention of the Board or the company secretary of the Board. Such meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting should be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, but any meeting so convened shall not be held after the expiration of three months from the said date.

Putting forward proposals at shareholders' meetings

The procedures for shareholder(s) to put forward proposals at SGM include a written notice of those proposals being submitted by the shareholder(s) of the Company, addressed to the Board or the company secretary of the Board at the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

The procedures for shareholders of the Company to propose a person for election as a director of the Company are available on the Company's website.

Enquiries to the Board

Shareholders of the Company may at any time send their enquiries and concerns to the Board in writing to the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

Information of the Group is delivered to the shareholders of the Company through a number of channels, which include annual reports, interim reports, announcements and circulars at the Company's website. The latest information of the Group together with the published documents are also available on the Company's website.

The general meeting of the Company provides a forum for communication between the Board and the shareholders of the Company. The Board members or their delegates are available to answer questions at the general meeting.

There had been no change in the Company's constitutional documents during the year ended 31 December 2020.

Shareholders of the Company should direct their questions about their shareholdings to 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.

Shareholders of the Company can mail other enquiries or comments to the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong or sent through email to enquiry@tongguangold.com.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

(CONTINUED)

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders"), provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group.

The Dividend Policy which aims to provide the Shareholders with a target annual dividend payout of approximately 20% of the net profit attributable to the Shareholders in any financial year, whether as interim and/or final dividends, the declaration and payment of dividends being determined at the sole discretion of the Board. The total dividend recommended, declared or paid in any financial year shall not exceed 30% of the total net profit attributable to the Shareholders, unless otherwise approved by the Board.

In proposing any dividend payout and/or determining the form, frequency and/or the amount of such dividend payout, the Board shall also take into account, inter alia:—

(i) the actual and expected financial performance and financial conditions of the Group;

(ii) retained earnings and distributable reserves;

(iii) results of operation and cash flow;

(iv) the level of the Company's debts to equity ratio and return on equity;

(v) the ability of the Company's subsidiaries to make dividend payments to the Company;

(vi) restrictions on payment of dividends that may be imposed on the Company by any of its financing arrangements;

(vii) the Group's expected working capital requirements, the Group's expected capital expenditure, future expansion, other investment plans and other funding requirements;

(viii) general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group, including such legal or contractual restrictions as may apply from time to time or which the Directors may consider appropriate in the interest of the Company; and

(ix) such other factors that the Directors deem appropriate.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

RISK MANAGEMENT AND INTERNAL CONTROLS

It is the policy of the Company to maintain a sound and effective risk management and internal control systems to safeguard the shareholders' investment and the Group's assets. No risk committee has been established and the Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness and oversees the management of the Group in the design, implementation and monitoring of the risk management and internal control systems of the Group. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board continuously monitors the Group's risk management framework, reviews the Group significant risks and conducts an annual review of the effectiveness of the risk management and internal control systems. The Board determines the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. The Group's risk management and internal control systems include, among others, the relevant financial, operational and compliance control and risk management procedures or policies, a well-established organizational structure with clearly defined lines of responsibilities and authorities. Each department is accountable for its daily operations and is required to implement the policies adopted from the Board from time to time.

The Board have reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2020, which covered all material controls, including financial, operational and compliance controls and risk management of the Group and considered that they are effective and adequate. The Board is also of the opinion that the resources for and qualifications of staff of the Company's accounting, internal audit and financial reporting functions are adequate and sufficient.

The Company does not have internal audit department and the company secretary of the Company are responsible to perform the internal audit function during the year ended 31 December 2020 according to an annual plan and routine checking. The Company would review the arrangement of the internal audit function from time to time. The Audit Committee have reviewed the Company's internal audit function and the risk management and the internal control systems for the year ended 31 December 2020 and considered that they are effective and adequate.

The Board approved and adopted an inside information policy and procedures for the handling and dissemination of inside information. The inside information policy provide the guidelines to the directors, management and relevant staff (likely possessing the unpublished inside information) of the Group to ensure that the inside information of the Group is to be disseminated to the public in equal and timely manner in accordance with the applicable laws and regulations. The procedures include, among others, regularly remind the directors, management and relevant staff about the compliance with the securities dealing restrictions as set out in the Model Code (Appendix 10 of the Listing Rules) and the notification of the regular "Blackout Period".

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

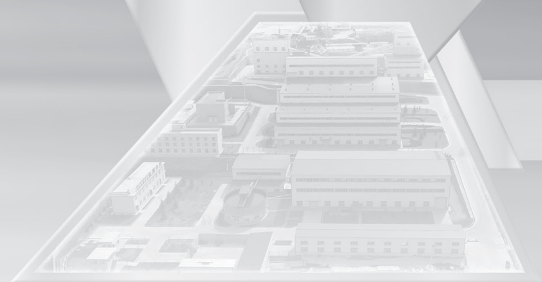
The directors of the Company acknowledge that it is their responsibility to prepare the accounts for each financial period which give a true and fair view of the state of affairs of the Group and to present a balanced, clear and understandable assessment of the financial results and disclosures of the Group under the Listing Rules and any other rules and statutory requirements. The directors of the Company are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the accounts are prepared on a going concern basis.

The responsibility of the external auditor of the Company is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the external auditors of the Company about their reporting responsibility is set out under the section headed "Independent Auditor's Report" of this annual report.

On behalf of the Board
Tongguan Gold Group Limited

Yeung Kwok Kuen
Executive Director and Chief Financial Officer

Hong Kong, 24 March 2021



The directors of the Company submit herewith their annual report together with the audited consolidated financial statements for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities and other particulars of the principal subsidiaries are set out in note 40 to the consolidated financial statements.

Further discussion and analysis of business review of the Group as required by Schedule 5 to the Company Ordinance (Chapter 622 of the laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, is set out under the section headed "Management Discussion and Analysis" of this annual report. This discussion forms part of this Directors' Report.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2020 and the Group's affairs as at that date are set out in the consolidated financial statements on pages 79 to 149.

The directors of the Company do not recommend the payment of a dividend in respect of the year ended 31 December 2020.

RESERVES

Movement in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 83 of this annual report.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's reserves available for distribution to shareholders, comprising contributed surplus and retained earnings, amounted to approximately HK$319,862,000 (2019: HK$338,837,000).

The Company's contributed surplus represents the special reserve arising upon the reorganisation of the Company. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of its assets would thereby be less than its liabilities.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2020 are set out in note 15 to the consolidated financial statements.

DIRECTORS' REPORT

DIRECTORS

The directors of the Company who were in office during the financial year and up to the date of this report were:

Executive Directors

Yeung Kwok Kuen *(Chief Financial Officer)*
Shi Xing Zhi
Shi Sheng Li

Independent Non-executive Directors

Chu Kang Nam
Ngai Sai Chuen *(retired on 29 May 2020)*
Liang Xu Shu
Leung Ka Wo

Pursuant to Bye-law 87(1) of the Bye-laws of the Company, at each annual general meeting one-third of the directors of the Company for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. Accordingly, Mr. Chu Kang Nam and Mr. Liang Xu Shu will retire by rotation at the forthcoming annual general meeting of the Company. Mr. Chu Kang Nam and Mr. Liang Xu Shu, being eligible, have offered themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2020, the interests or short positions of the directors and chief executives of the Company or their respective associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code adopted by the Company were as follow:

Interests in underlying shares of the Company — share options

Name of Directors	Number of share options	% of total issued ordinary shares of the Company
Yeung Kwok Kuen	10,000,000	0.29%
Shi Xing Zhi	12,000,000	0.35%
Shi Sheng Li	12,000,000	0.35%
Chu Kang Nam	1,000,000	0.03%
Liang Xu Shu	1,000,000	0.03%
Leung Ka Wo	1,000,000	0.03%

Save as disclosed above, as at 31 December 2020, none of the directors and chief executives of the Company or their respective associates had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 31 December 2020, persons (other than directors or chief executives of the Company as disclosed above) who had interests or short positions in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in shares of the Company

Name of Shareholders	Capacity	Class of shares of the Company	Number of shares held	% of total issued share capital of the relevant class of shares *(Note 1)*
Huang Aidong	Interest in controlled corporation	Ordinary	508,334,000 *(Note 2)*	14.99%
Hu Jianzhong	Interest in controlled corporation	Ordinary	470,000,000 *(Note 3)*	13.86%
Lin Eddie Chang	Interest in controlled corporation	Ordinary	330,000,000 *(Note 4)*	9.73%
Lin Yuhua	Interest in controlled corporation	Ordinary	185,250,000 *(Note 5)*	5.46%
Ho Ping Tanya	Beneficial owner	Ordinary	330,000,000	9.73%

Notes:

1. The percentages are calculated based on the total number of ordinary shares of the Company in issue as at 31 December 2020, which was 3,392,272,221.

2. These ordinary shares are held by Profit Linkage Enterprises Limited which is 100% beneficially owned by Ms. Huang Aidong.

3. These ordinary shares are held by Golden Blossom Investment Limited which is 100% beneficially owned by Mr. Hu Jianzhong.

4. These ordinary shares are held by Fung Wai Enterprises Ltd. which is 100% beneficially owned by Mr. Lin Eddie Chang.

5. These ordinary shares are held by Supreme Success Group Limited which is 100% beneficially owned by Ms. Lin Yuhua.

SHARE OPTION SCHEME

Pursuant to ordinary resolutions of the shareholders of the Company passed on 25 May 2012, the Company adopted a new share option scheme (the "New Share Option Scheme").

Particulars of the New Share Option Scheme are set out in note 33 to the consolidated financial statements.

Summary of main terms of the New Share Option Scheme are as follows:

1. The purpose of the New Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contributions to the Group.

2. The participants of the New Share Option Scheme are: (i) any director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or advisers of or contractor to the Group or an entity in which any member of the Group holds any interest from time to time ("Invested Entity"); (ii) any discretionary trust who discretionary objects include any director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity; and (iii) the option may be granted to any corporation wholly-owned by any person mentioned in (i).

3. As at 24 March 2021, the total number of ordinary shares of HK$0.1 each in the capital of the Company ("Shares") available for issue under the New Share Option Scheme was 339,227,222 representing approximately 10% of the issued ordinary share capital of the Company.

4. Unless otherwise approved by shareholders of the Company in general meeting, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme to each participant in any 12-month period must not exceed 1% (except for substantial shareholders, as defined in the Listing Rules, or independent non-executive director of the Company, or any of their respective associates, as defined in the Listing Rules, must not exceed 0.1%) of the issued ordinary share capital of the Company from time to time.

5. An option shall be exercised in whole or in part in accordance with the terms of the New Share Option Scheme at any time during a period to be notified by the Board to each grantee, provided that no option shall be exercisable later than 10 years after its date of grant.

6. An option shall be accepted by a participant together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof within 30 days from the date of the offer of grant of the option.

7. The subscription price for Shares under the New Share Option Scheme, subject to any adjustment stipulated therein, shall be a price determined by the Board, but shall be at least the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotations on the date of grant which must be a business day, (ii) the average closing price of a Share as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of grant and (iii) the nominal value of a Share.

8. The New Share Option Scheme shall be valid and effective for a period of 10 years commencing on 25 May 2012.

SHARE OPTION SCHEME *(CONTINUED)*

Details of movements in the share options held by directors, chief executives, employees and other parties of the Company under the New Share Option Scheme for the year ended 31 December 2020 are as follows:

Name	Date granted	Period during which options are exercisable	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of options cancelled during the year	No. of shares acquired on exercise of options during the year	No. of options outstanding at the year end	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Share options granted in 2018										
Directors										
Yeung Kwok Kuen	7 December 2018	*(Note 1)*	10,000,000	–	–	–	10,000,000	HK$0.52	HK$0.51	–
Shi Xing Zhi	7 December 2018	*(Note 1)*	12,000,000	–	–	–	12,000,000	HK$0.52	HK$0.51	–
Shi Sheng Li	7 December 2018	*(Note 1)*	12,000,000	–	–	–	12,000,000	HK$0.52	HK$0.51	–
Chu Kang Nam	7 December 2018	*(Note 1)*	1,000,000	–	–	–	1,000,000	HK$0.52	HK$0.51	–
Liang Xu Shu	7 December 2018	*(Note 1)*	1,000,000	–	–	–	1,000,000	HK$0.52	HK$0.51	–
Leung Ka Wo	7 December 2018	*(Note 1)*	1,000,000	–	–	–	1,000,000	HK$0.52	HK$0.51	–
			37,000,000	–	–	–	37,000,000			
Former directors *(Note 2)*	7 December 2018	*(Note 1)*	4,000,000	–	–	–	4,000,000	HK$0.52	HK$0.51	–
Employee	7 December 2018	*(Note 1)*	9,000,000	–	–	–	9,000,000	HK$0.52	HK$0.51	–
			50,000,000	–	–	–	50,000,000			

The options granted to the directors of the Company are registered under the names of the directors of the Company who are also the beneficial owners.

* Being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Notes:

1. Exercisable from 7 December 2018 to 6 December 2023.

2. (a) 3,000,000 share options was granted to Mr. Fang Yi Quan on 7 December 2018 and Mr. Fang Yi Quan was resigned as a director of the Company on 22 November 2019.

   (b) 1,000,000 share options was granted to Mr. Ngai Sai Chuen on 7 December 2018 and Mr. Ngai Sai Chuen was retired and resigned as a director of the Company on 29 May 2020 (Annual general meeting of the Company).

3. The share options granted are vested upon granted.

Information on the accounting policy for share options granted and the weighted average value per option is provided in notes 4 and 33 to the consolidated financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Bye-laws of the Company, every director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. The permitted indemnity provision is in force for the benefit of the directors of the Company as required by section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) when the Directors' report is approved in accordance with section 391(1)(a) of the Companies Ordinance.

The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors of the Company and officers of the Group throughout the year ended 31 December 2020.

EQUITY-LINKED AGREEMENTS

Save as disclosed under the section headed "Share Option Scheme" above, no equity-linked agreements were entered into by the Group, or existed during the year.

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

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

CONNECTED TRANSACTION

None of the "Related party transactions" as disclosed in note 43 to the consolidated financial statements for the year ended 31 December 2020 constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

To the extent of the above "Related party transactions" constituted connected transaction as defined in the Listing Rules, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	71%	
Five largest customers in aggregate	100%	
The largest supplier		37%
Five largest suppliers in aggregate		63%

Sales to the five largest customers of the Company accounted for 100% of the Company's sales and related to the sale of gold concentrates. Due to the fact that pricing for the Company's gold concentrates products is based on prevailing market prices in accordance with the contract with the customers, the Company does not consider there to be any risks associated with reliance on major customers. The Company considers that its pricing structure based on prevailing gold prices mitigates against any adverse effects from concentration to few customers. The Company would continue explore business opportunities with other potential customers.

At no time during the year have the directors of the Company, their close associates or any shareholders of the Company (which to the knowledge of the directors of the Company owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

COMPETING INTEREST

None of the directors of the Company or their respective close associates had any interest in a business which competes with or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their respective shareholdings in the Company if new shares of the Company are issued.

TAX RELIEF

The Company is not aware of any relief on taxation available to the shareholders by reason of their holding of the Company's securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2020 are set out in note 26 to the consolidated financial statements.

FIVE YEARS SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 150 of this annual report.

RETIREMENT SCHEMES

Details of the retirement benefit schemes operated by the Group are set out in note 42 to the consolidated financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors of the Company an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors of the Company to be independent.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out under the section headed "Corporate Governance Report" of this annual report.

AUDITORS

BDO Limited ("BDO") acted as the auditors of the Company for the financial years ended 31 December 2018, 2019 and 2020. The consolidated financial statements of the Company for the year ended 31 December 2020 have been audited by BDO.

BDO will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for the re-appointment of BDO as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Tongguan Gold Group Limited

Yeung Kwok Kuen
Executive Director and Chief Financial Officer

Hong Kong, 24 March 2021

I. INTRODUCTION

Preamble

Tongguan Gold Group Limited (the “Company”) and its subsidiaries (collectively, the “Group”) have stringently been adhering to its sustainability strategies and committed to fulfilling the environmental and social responsibilities in business operations. As a responsible enterprise engaged in the gold exploration, development and mining production activities, the Group is deeply aware that gold mining and its associated activities can have a transformative effect on socio-economic development, and when produced in conformance to high social, environmental and safety standards, an array of environmental, social and economic benefits will be engendered including the preservation of local biodiversity, improved water quality, mitigation of the substantial risks imposed by climate change, employment opportunities, advanced infrastructure and tax revenues. To this end, the Group keeps playing a leading role in protecting the financial security of local society and communities as well as enabling advances in environmental technologies during operations, by committing to the Responsible Gold Mining Principles, namely Ethical Conduct, Understanding Our Impacts, Responsible Supply Chain, Promoting Safety and Health, Respecting Human Rights and Resolving Conflict, Treating Labours with Respect, Working with Communities, Fulfilling Environmental Responsibilities, Protect Biodiversity, Land Use and Mine Closure, and Addressing Water, Energy and Climate Change Related Risks. Following the overarching ESG framework set out by the World Gold Council that underpins sustained social and economic development in mining operations, the Group is committed to doing its part by acting as an engine of economic growth while delivering on its goals to be a responsible miner that cares about social welfare and contributes to the smooth transition to a low-carbon economy.

In strict compliance with the requirement under Appendix 27 – Environmental, Social and Governance Reporting Guide (“ESG Guide”) of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), the Group is pleased to present its seventh ESG Report to further demonstrate the Group’s initiatives, programmes and performance in terms of sustainable development for the year ended on 31 December 2020 (“FY2020”).

Reporting scope and boundary setting

Believing that an appropriate and clear reporting boundary is the foundation of an informative report that facilitates the readers to understand the ESG performance and management approach of the Group better, the Group has defined its principal business of the production and sales of gold concentrates and related products as the boundary where material ESG matters should be given particular attention in accordance with the operational control approach. The ESG report primarily covers the Group’s business activities and management policies of the gold mining operations and office operations in the People’s Republic of China (the “PRC”) and Hong Kong. The reporting period of this ESG report is for the financial year 2020, from 1 January 2020 to 31 December 2020, unless specifically stated otherwise. For the corporate governance section, please refer to the Group’s Annual Report 2020 (Page 14 to 28).

I. INTRODUCTION *(CONTINUED)*

Reporting Principles

The Group has followed the four fundamental reporting principles for the preparation of the ESG Report, determining and disclosing the relevant ESG performance of the Group under the principles of Materiality, Quantitative, Balance and Consistency.

Materiality:

As a common strategic business tool for putting more focus on the most significant environmental and social impacts of the Group, the Group adopted the principle of Materiality, ensuring that the disclosed information in the ESG report was carefully gathered, prioritised and presented based on what matters most to the Group's business and its stakeholders. Through a broad and inclusive materiality assessment implemented, topics such as "Solid waste treatment", "Occupational health and safety" and "Smooth communication and sound relationship with suppliers" were identified as the most material issues to the Group in its ESG management.

Quantitative:

The application of the reporting principle of Quantitative was primarily reflected under the environmental subject of the ESG report, where the air and greenhouse gas ("GHG") emissions, and the resource consumption were calculated and organised in a standardised and quantifiable manner.

Balance:

An unbiased picture of the Group's ESG performance is essential to the objective evaluation of the information delivered to the audience. To shed light on the application of this principle, the ESG report covers both the achievements made by the Group in pursuing responsible mining practices and the rooms for improvement where corresponding ESG policies might need to be optimised in the future.

Consistency:

Transforming the mining operations towards sustainability requires continuous attention and discussion of the lifecycle economics, in which data transparency and consistency are critical to allow all stakeholders to work together better to maximise mining operations' development potential as well as to standardise responsible practices. As such, the Group based the presentation of its ESG performance, impacts and management approach, especially the calculation of GHG emissions on a consistently standard methodology, and adopted a coherent reporting framework that was in alignment with its previous ESG reports, aiming to build a clear roadmap visualising its growth in sustainability to all stakeholders.

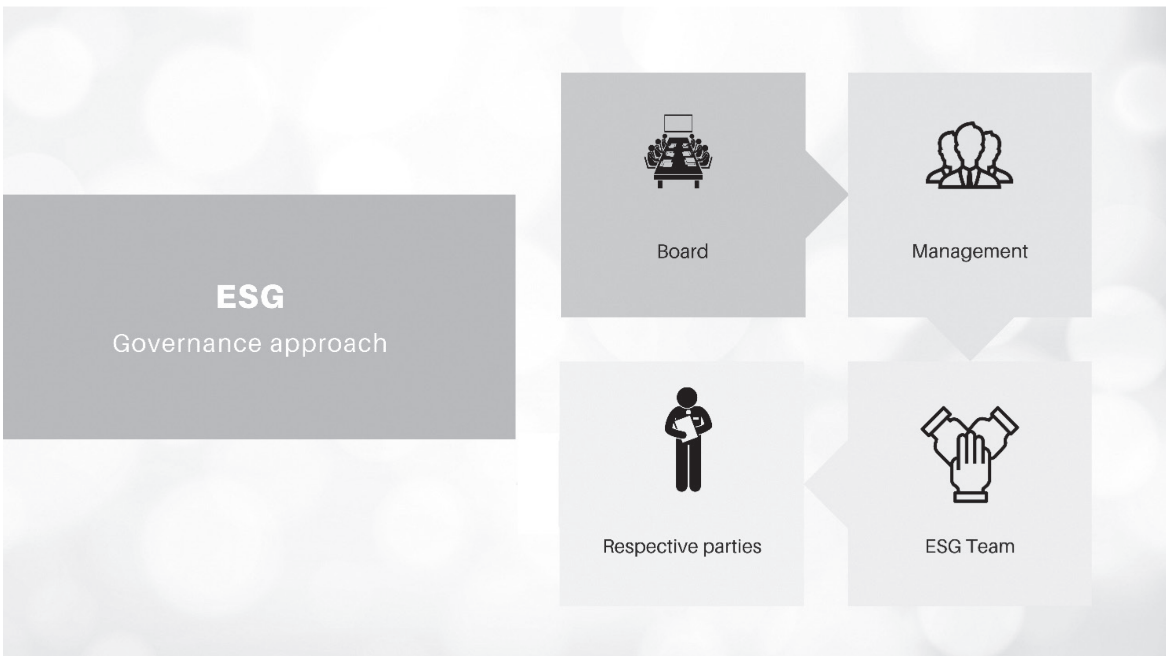
Information disclosure

The information in the ESG Report was gathered through numerous channels, including official documents and statistics of the Group, the integrated information of supervision, management and operation in accordance with the relevant policy, the internal quantitative and qualitative questionnaires based on the reporting framework, and sustainability practices provided by different subsidiaries of the Group. A complete content index is available at the end of the ESG report for readers' convenience to check its integrity. This ESG report was written in both English and Chinese. If there is any conflict or inconsistency, the English version shall prevail.

I. INTRODUCTION *(CONTINUED)*

Approach to ESG and reporting

The Group's sustainability vision started from the objective to create long-term value for all stakeholders, and has been practised by embedding environmental, social and economic considerations into all its business operations and decisions. The Group believes that the pursuit of environmental protection, low carbon footprint, resources conservation, zero-harm workplace and operations, mutually beneficial partnerships and delivering sustainable development on the ground through community engagement was inevitably the key topics that should be addressed in the modern mining industry. Aiming to develop long-term strategies so as to create sustainable values to all its stakeholders, especially focus its efforts on management in the aforementioned core areas, the Group has built and implemented its ESG governance approach from top to bottom, with the Board of Directors (the "Board") of the Company taking the lead on and overseeing the execution of relevant ESG issues within the Group. The Board assumes the ultimate responsibility for ensuring the effectiveness of the implementation of the Group's ESG policies and ESG report. The Management team delegated by the Group is responsible for evaluating, determining and addressing ESG-related risks arising from operations, and setting up appropriate and effective ESG risk management frameworks and internal controls systems. The Management team also has a pivotal role to play in maintaining the efficient communication between the Board and other business units, and assessing the ESG-related qualification, expertise and knowledge of the members forming the ESG team. The dedicated ESG teams are assigned to manage daily ESG issues within each business division of the Group including monitoring, collecting and organising both qualitative and quantitative data against a series of well-defined sustainability criteria according to international standards, while coordinating and supervising the implementation of relevant ESG policies.



With a strong position in the gold industry, China has been paying more emphasis on speeding up the optimisation of its green financial system and sustainable development framework, central to which the carbon-intensive mining industry will face growing regulatory risks and tightening rules, in particular under the grand goal of carbon neutrality by 2060 in China. To address and minimise the underlying risks, the Group prides itself on the commitment to robust corporate governance that champions the ESG management from the top and has incorporated ESG risks and opportunities into its enterprise risk management system that supports the decision-making process.

I. INTRODUCTION *(CONTINUED)*

Approach to ESG and reporting *(CONTINUED)*

The Group has also been committed to constantly reviewing and adjusting the Group's sustainability policies to satisfy the ever-changing needs of its stakeholders. For instance, the Board has examined the production capacity of the new processing plant on a regular basis and explored the feasible solutions to improving the efficiency of operations, lowering GHG emissions and creating adaptation plans that build resilience to climate variability, reduced by taking the advantages of economics of scale.

Details of the Group's management approach in both the environmental and social aspects can be found throughout different sections of the ESG Report. The Group believes that the effective implementation of sustainability-related policies is essential to the Group's overall long-term success.

II. MESSAGES FROM THE BOARD

Dear valued stakeholders,

This reporting year has witnessed multiple events of profound importance to us, including the COVID-19 pandemic ("pandemic"), global campaigns against climate change, social protests and tragic accidents of tailing dam and mine collapsing. Nevertheless, our original aspiration has never been weakening. Rather, integrating ESG into every aspect of our operations is, and will always be the most important indicator measuring our success. The Group firmly believes in transparently monitoring, evaluating and reporting our ESG performance and impacts, in particular by consulting with our stakeholders who care about our sustainable development and are regarded to be an indispensable part of our long-term success. It is the vision of creating value to all that fills us with the determination and perseverance to confront these global issues, which has further locked our potential to take actions to improve our internal management system, protect our employees' safety and wellbeing, tackle climate crisis and optimise daily operational procedure. As one of the leading companies in the gold mining industry, we recognise that we must be operating in the most socially, economically and environmentally responsible way to be successful in the long run.

Robust Leadership & Governance Structure

The management of issues relating to how an organisation interacts with the environment, employees and the communities in which it operates all tie in with the robustness of how the organisation is governed. Recognising the central role that leadership and effective oversight of corporate governance plays, the Group ensures that there is accountability and ownership at the highest level of our business, which is supported by a group of experienced managerial staff and talented employees to practise the Group's commitment to sustainability. The top-down management approach enables the Board to respond to potential and actual ESG and climate-related risks swiftly, and effectively relate the Group's ESG building to business growth. The Group also values the opinions from frontline works, which are believed to the foundation of our strategic approach to be implemented. Striving to operate our business more efficiently, the Board seeks input from its key stakeholders and reputable professional organisations that may provide insightful advice on steering the direction towards sustainability.

Health & Safety

The safety and wellbeing of employees, business partners in the supply chain and local communities remains a fundamental concern of a responsible gold-mining company like the Group. The management of the Group is committed to achieving a high standard of occupational safety and health for all its staff. During the year under review, the Group provided various workshops, training and formulated a multitude of guidelines to its staff, especially those working in the processing plant and under the pits to ensure their competency to perform their duties in a professional and safe manner.

II. MESSAGES FROM THE BOARD *(CONTINUED)*

Health & Safety *(CONTINUED)*

The sudden hit of the pandemic with such unprecedented scale made this year unusual. Guided by our core value of "Putting People's Health & Safety In The First Place"（以人為本、生命第一）, the Group established a task force that was responsible for coordinating operational responses and launching protective protocols for both the workforce and communities following the call of the government. We made a variety of resources available to support the well-being of our staff and the local community and done everything possible to limit the further spread of the virus.

Climate Change

As an increasingly recognised mainstream asset, the gold mining industry has been called upon to demonstrate its actions on decelerating and adapting to climate change. With a business nature highly dependent on the use of natural resources, we are acutely aware of climate-related risks and opportunities and as a strong supporter of Task Force on Climate-related Financial Disclosure ("TCFD") framework, we furthered our risk assessment and management on climate-related issues this year, which was reflected from the climate policy under preparation that will be utilised as an important guideline instructing the Group to set science-based climate targets and make improvements, and our thorough analysis into the interconnections between our business development and climate-related implications.

Mine and Tailing Management

Experiencing the catastrophic accidents of mine and tailing dam collapsing across the globe over these years, the Group has been focusing its efforts on improving its mine and tailing management, and taking it as one of the most critical areas of environmental management for mining operations. We are committed to continuously strengthening our mine and tailings management, and making use of advanced technologies for the safe design, operation and decommission of all facilities in accordance with international standards.

A Year of Change

It has been a significant and challenging year for the Group, throughout which the Group continued to build its reputation as a trusted partner and by developing new working standards towards the alignment with global standards, to keep seeking a more prominent voice in the market to advance through partnerships.

Looking ahead, we will continue in the year ahead to work towards international best practices, minimise our environmental impacts and maximise our contribution to creating the long-term shared value for the community.

Last but not least, I would like to take this opportunity to thank all of our employees for their continued dedication to delivering on our values and principles, and our stakeholder communities for their partnership and support. On behalf of the Board, I am pleased to present to you the ESG report of FY2020, demonstrating the progress of the Group's sustainability journey and unwavering efforts in leading the whole industry towards responsible mining.

On behalf of the Board
Tongguan Gold Group Limited

Yeung Kwok Kuen
Executive Director and Chief Financial Officer

24 March 2021

III. STAKEHOLDER ENGAGEMENT

Integral to our governance of sustainability is a commitment to engage our stakeholders and build their input into our decision-making. The Group has put tremendous efforts into its internal and external stakeholders' involvement. The Group values the feedback from its stakeholders and has been working on building a barrier-free communication platform for efficient stakeholder engagement, aiming to maintain a high standard of sustainability within the Group as well as building a trustful and supporting relationship with all stakeholders. The Group connects with its stakeholders through their preferred communication channels as listed in the table below, which in turn allows the Group to gradually align its business and sustainability strategies with its stakeholders' expectations.

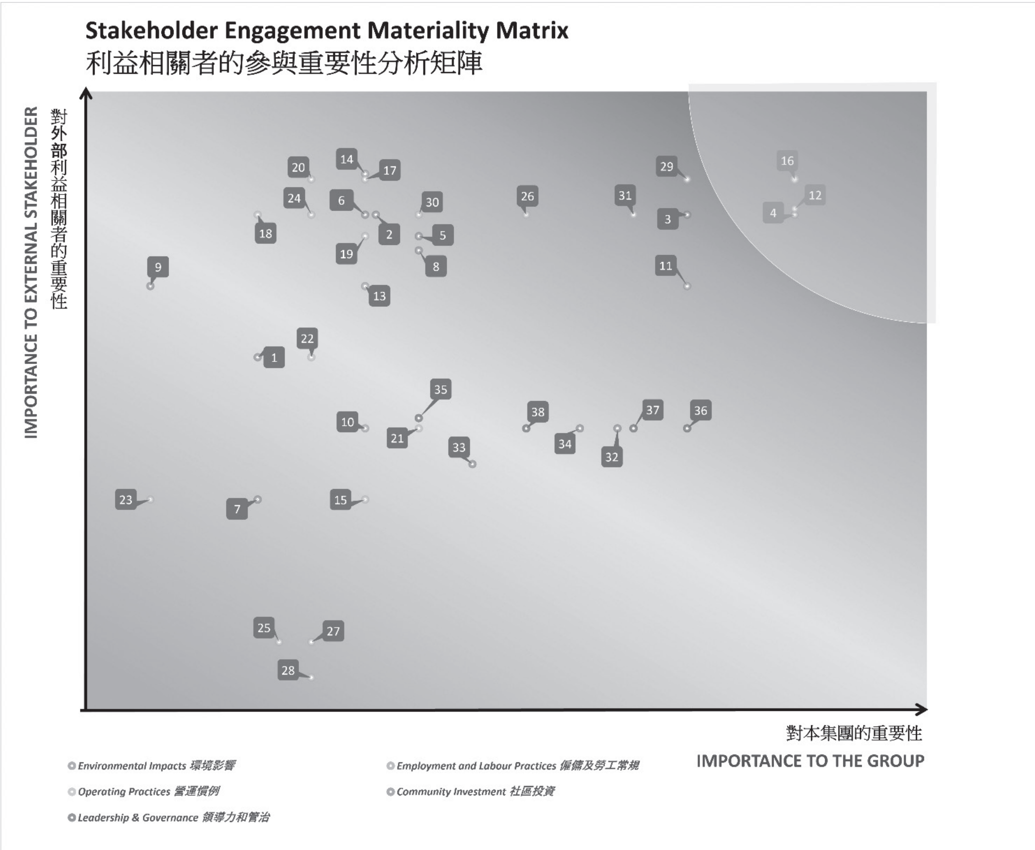
Communication with Stakeholders

Stakeholders	Expectations and concerns	Communication Channels
Government and regulatory authorities	— Compliance with laws and regulations — Anti-corruption policies — Occupational health and safety	— Supervision on the compliance with local laws and regulations — Routine reports and tax payments
Shareholders	— Return on investments — Corporate governance — Business compliance	— Regular reports — Announcements — General meetings — Official website of the Group
Employees	— Employees' remuneration and benefits — Career development — Health and safety in the workplace	— Performance appraisals — Regular meetings and training — Emails, notice boards, hotline, team building activities with the management
Senior management	— Monitoring on the disposal of solid waste — Business practice in compliance with laws and regulations — Prevention of occupational diseases — Technology innovation on "Green" development — Quality education opportunities to employees	— Internal meetings — Online conference — Emails and telephone calls — Regular reports
Customers	— Production quality assurance — Protection of customers' privacy and rights	— Customers' satisfaction surveys — Face-to-face meetings and onsite visits — Customer service hotline and emails
Suppliers	— Fair and open procurement — Win-win cooperation — Environmental protection — Protection of intellectual property rights — Insistence on sustainable development	— Open tendering — Contracts and agreements — Suppliers' satisfaction assessment — Telephone discussions — Face-to-face meetings and onsite visits — Industry seminars
General public	— Involvement in communities — Business ethics — Environmental protection awareness — Consumption of packaging materials	— Media conferences and responses to enquiries — Public welfare activities

III. STAKEHOLDER ENGAGEMENT *(CONTINUED)*

Materiality Assessment

The Group undertook an annual review in identifying and understanding its stakeholders' main concerns and material interests for the ESG Report. Specifically, the Group reviewed all the core subjects and prioritised the issues in terms of their relevance to the Group's business, and identified several issues of high importance to both the Group' business and stakeholders. This review helped the Group in prioritising its sustainability issues and highlighting the material and relevant aspects, so as to align them with stakeholders' expectations. Insisting on the consistency of material topics that upholds the strategic plan to make a change towards sustainability and seek the long-term business success, the Group integrated the materiality assessment results in FY2020 with previous outcome, which has been presented as below.



III. STAKEHOLDER ENGAGEMENT *(CONTINUED)*

Materiality Assessment *(CONTINUED)*

1	Air and greenhouse gas emissions	14	Preventing child and forced labour	27	Labelling relating to products/services
2	Sewage treatment	15	Selection of local suppliers	28	Product design & Lifecycle management
3	Land use, pollution and restoration	16	Smooth communication and sound relationship with suppliers	29	Number of legal cases filed against the company about bribery, extortion, fraud and money laundering
4	Solid waste treatment	17	Environmental risks (e.g. pollution) of the suppliers	30	Anti-corruption policies and whistle-blowing procedure
5	Energy use	18	Social risks (e.g. monopoly) of the suppliers	31	Anti-corruption training provided to directors and staff
6	Water use	19	Procurement practices	32	Community engagement
7	Use of other raw/packaging materials	20	Environmentally preferable products and services	33	Participation in charitable activities and support public welfare
8	Mitigation measures to protect environment and natural resources	21	Health and safety relating to products/services	34	Cultivation of local employment
9	Climate-related risks	22	Customers satisfaction (Welfare)	35	Business model adaptation and resilience to environmental, social, political and economic risks and opportunities
10	Diversity of employees	23	Marketing and promotion	36	Management of the legal & regulatory environment (regulation-compliance management)
11	Employee remuneration and benefits	24	Observing and protecting intellectual property rights	37	Critical incident risk responsiveness
12	Occupational health and safety	25	Product quality assurance and recall percentage	38	Systemic risk management
13	Employee development and training	26	Protection of consumer information and privacy		

The Group identified "Solid waste treatment", "Occupational health and safety" and "Smooth communication and sound relationship with suppliers" as material ESG issues to the Group and its stakeholders. The results from the evidence-based materiality matrix are conducive to enhancing sustainability decision-making and have been used to inform the content of this report.

Stakeholders Feedback

The Group welcomes stakeholders' feedback and advice on the improvement of corporate ESG approach and performance, especially related to topics listed as highly important to the Group and its stakeholders in the materiality assessment. Readers are also welcomed to share their views with the Group and send in writing to the head office and principal place of business of the Company in Hong Kong at Room 1306, 13/F., Bank of America Tower, 12 Harcourt Road, Admiralty, Hong Kong.

IV. ENVIRONMENTAL SUSTAINABILITY

To seek the long-term sustainability of the environment and the community where it operates, the Group is prudent in controlling its emissions and consumption of resources, and has complied with relevant environmental laws and regulations in Hong Kong and the PRC during its daily operations, including but not limited to the:

- Environmental Protection Law of the People's Republic of China
(中華人民共和國環境保護法);
- Environmental Impact Assessment Law of the People's Republic of China
(中華人民共和國環境影響評價法);
- Environmental Protection Tax Law of the People's Republic of China
(中華人民共和國環境保護稅法);
- Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution
(中華人民共和國大氣污染防治法);
- Law of the People's Republic of China on Prevention and Control of Water Pollution
(中華人民共和國水污染防治法);
- Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes
(中華人民共和國固體廢物污染環境防治法);
- Law of the People's Republic of China on the Prevention and Control of Pollution from Environmental Noise
(中華人民共和國環境噪聲污染防治法);
- Law of the People's Republic of China on Conserving Energy
(中華人民共和國節約能源法);
- Mineral Resources Law of the People's Republic of China
(中華人民共和國礦產資源法);
- Regulations of the Management of Economical Use of Urban Water
(城市節約用水管理規定);
- Emission standards for industrial enterprises noise at boundary (GB12348-2008)
(工業企業廠界環境噪聲排放標準);
- Standards for pollution control on the storage and disposal site for general industrial solid wastes (GB18599-2001)
(一般工業固體廢物貯存、處置場污染控制標準); and
- Technical Policy of Gold Industrial Pollution Control
(黃金工業污染防治技術政策).

This section mainly discloses the Group's policies, practices, and quantitative data on emissions, use of resources, the environment and natural resources in FY2020.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.1. Emissions

The Group has been in compliance with relevant national and local environmental laws in terms of industrial emissions set out in the operating regions during mining operations. In FY2020, the Group found no disregard to influential laws relevant to air and GHG emissions, discharges into water and land, generation of hazardous and non-hazardous waste, and noise. Adhering to the concept of "lucid waters and lush mountains are invaluable assets" and following the principles of "Reduce at source, Control in the process, Remedy at the end, Reuse the waste"（源頭減量、過程控制、末端治理、資源化利用）, the Group has implemented various effective measures to mitigate its negative impacts on the environment in accordance with the technical approaches to pollution control as recommended in the Technical Policy of Gold Industrial Pollution Control, and tried its utmost to preserve local biological diversity scientifically. In particular, the Group has focused its efforts on improving the energy efficiency during mining operations and exploring the practicality of adopting environmentally friendly facilities compared to fossil fuel-based alternatives.

During the year under review, key air pollutants from the mining process were sulphur oxides ("SO_x"), nitrogen oxides ("NO_x") and particulate matter ("PM"). The air emissions of the Group mainly came from fuel combustion for machinery operations, vehicle transportation and other operational processes. In FY2020, the air emissions of SO_x, NO_x and PM amounted to 0.4, 22.4 and 1.6 kg, respectively. Given the demand for energy inputs, the mining operations of the Group have inevitably resulted in the GHG emissions. GHG emissions from the Group were primarily due to the burning of fossil fuels and electricity consumption during industrial operations. Specifically, the Group's total GHG emissions were 12,510.7 tonnes CO_2e, with an intensity of 61.3 tonnes CO_2e/employee during the year under review. The Group generated certain amounts of solid waste and wastewater from its mining sites and offices, including but not limited to waste by-products in the form of tailings and sludge during gold mining and processing. Precisely, a total of 27.3 tonnes of non-hazardous general and industrial wastes, and 19,163 m^3 of non-hazardous wastewater were generated during the Group's operations in FY2020. Notably, the Group highly embraced the concept of "Circular Economy" and implemented onsite recycling and the reuse of non-hazardous wastewater. In FY2020, the onsite wastewater of the Group was 100% recycled. During the year under review, the Group did not discharge significant amounts of hazardous waste to the environment during its operations. The Group's total emissions in FY2020 are summarised in Table 1 below, with a comparison with the figures in FY2019 (for the year ended on 31 December 2019).

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.1. Emissions *(CONTINUED)*

Table 1 The Group's Total Emissions by Category in FY2020 [5]

Emission Category	Key Performance Indicator (KPI)	Unit	Amount in FY2020	Intensity[1] (Unit/ employee) in FY2020	Amount in FY2019	Intensity[1] (Unit/ employee) in FY2019
Air Emissions [2]	SO_x	Kg	0.4	–	0.6	–
	NO_x	Kg	22.4	–	27.0	–
	PM	Kg	1.6	–	2.0	–
GHG Emissions	Scope 1 (Direct Emissions)	Tonnes of CO_2e	117.7	–	99.4	–
	Scope 2 (Energy Indirect Emissions)	Tonnes of CO_2e	12,384.4	–	6,137.5	–
	Scope 3[3] (Other Indirect Emissions)	Tonnes of CO_2e	8.6	–	1.7	–
	Total (Scope 1 & 2 & 3)	Tonnes of CO_2e	12,510.7	61.3	6,238.7	37.6
Non-hazardous Waste	Solid Wastes	Tonnes	27.3	0.13	24	0.14
	Wastewater [4]	M^3	19,163	93.9	28,448	171.4

1. Intensity in FY2020 and FY2019 was calculated by dividing the amount of air, GHG and other emissions by the total workforce of the Group in FY2020 and FY2019, which was 204 and 166, respectively;

2. Air emissions included only the air pollutants in the exhaust gas from vehicles for transportation;

3. The Group's Scope 3 (Other Indirect Emissions) included only paper waste disposed of at landfills, electricity used for processing fresh water and sewage by government departments and business air travel. In FY2020, emissions caused by business air travel was incorporated into the scope of Scope 3 GHG emissions in alignment with the reporting requirements. Due to the pandemic, limited business travel data was recorded and organised. Aiming for improvements on a yearly basis, more detailed and complete information about business air travel of the Group will be included for discussion next year;

4. The total amount of wastewater discharged from the Group in FY2020 was based on the assumption that 100% of the consumed fresh water entered the municipal drainage system; and

5. The methodology adopted for reporting on GHG emissions set out above was based on "How to Prepare an ESG Report? — Appendix 2: Reporting Guidance on Environmental KPIs" issued by the Stock Exchange and the 2006 IPCC Guidelines for National Greenhouse Gas Inventories.

Hong Kong Office

The principal types of emissions from the Hong Kong office were municipal solid waste, wastewater and indirect GHG emissions from the purchase of electricity. During the year under review, no hazardous waste was found in the Group's Hong Kong office.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.1. Emissions *(CONTINUED)*

Solid Wastes

The solid waste generated from this business segment was mainly commercial solid waste from offices. To efficiently manage the waste, the Group has embraced the concept of "Sustainable Waste Management", adopting various measures to efficiently sort out and measure the waste in the office. For example, the Hong Kong office has put a centralised rubbish bin for the collection of waste. With the effective training and implementation of Waste Classification System, for instance, the Group collected the packaging materials of takeaway food from employees in the office for other uses. The non-recyclable municipal solid waste from offices was handled by the property management of the building and ultimately disposed of at landfills by the government department.

Adhering to the "3R" principle — "reduce, reuse and recycle" of materials, other effective measures that the Group has taken in the waste management in its Hong Kong office are highlighted as below:

- Recycle the solid waste through waste classification;
- Educate all employees on reducing the use of disposable items such as plastic tableware;
- Advocate the reuse of office stationeries; and
- Provide glass cups to clients and guests instead of disposable ones.

Wastewater

Wastewater generated from the administration office of the Group was mainly commercial wastewater. The wastewater was directly discharged into the building sewerage network and handled by the property management. Since the amount of wastewater highly depends on the amount of water used, the Group has adopted specific measures, further described in the next subsection under **Water**, to reduce its water consumption in the office.

GHG emissions

While office is not a major contributor to GHG emissions, the Group has still brought in draconian measures in an effort to lower its electricity consumption, which is by far the biggest source of carbon emissions making up for more than 94% of the Group's office's annual GHG emissions. As the awareness of the impact of climate change becomes increasingly pervasive in recent years, the Group has followed the guidance and policies of governments to take initiatives in controlling the use of electricity. For example, the Group has encouraged the use of multi-media systems and the internet so as to minimise the frequency of and dependence on business travels. In addition, taking public transport instead of driving cars is recommended by the Group, which is regarded as an effective way to reduce both the corporate and individual carbon footprint. The detailed action taken by the Group in saving electricity and improving energy efficiency, thereby lowering the total GHG emissions, are further introduced in the next subsection under **Electricity** and **Other energy resources**.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.1. Emissions *(CONTINUED)*

GHG emissions *(CONTINUED)*

Gold Mining Business

The principal emissions in the Gold Mining Business of the Group included GHG emissions from the electricity consumption and combustion of fossil fuels for machinery operations, SO_x, NO_x, smoke, slag, noise, wastewater, tailings, mine waste, rock waste and domestic waste from workers during the mining process. To ensure that all emissions from the mining sites could be effectively monitored and managed, not only has the Group conducted comprehensive environmental impact assessments for facility expansion and mining operations according to the government's requirements, an Environmental Monitoring Team comprised of professional inspectors has also been commissioned to monitor the emissions and evaluate the environmental impacts as well. Such monitoring system has been proven to be an effective way to keep the Group learning from the best practice of environmental stewardship. The Group will remain committed to monitoring and managing its impacts on the environment, and working on avoiding, minimising, mitigating or compensating for the significant adverse impacts on the environment relating to its activities.

Air & GHG Emissions

Air and GHG emissions from this business segment mainly came from the use of electricity, consumption of gasoline and dust during mining operations such as blasting, hauling, crushing and stockpiling rock. For instance, a fleet of heavy machinery for mining and transporting ore and other solid waste may produce certain amounts of exhaust fumes, while the transportation of light vehicles for workers commuting back and forth between dormitories and mining sites is another main contributor to air emissions.

As such, strictly abiding by the relevant laws and regulations in controlling air emissions, the Group has implemented specific policies and measures to abate the negative impacts on the surrounding areas. For dust suppression and control, bag-house dust collectors and closed hoods have been adopted to ensure that the air quality in the workplace meets both the national standards and internal corporate requirements. To further reduce the generation of dust and thus its impact on the surroundings, the Group has strictly adopted the Six Major System for field operations, including the use of wet drilling and blasting, installing sprinkler systems on vehicles to minimise the dust on the mining sites and ore transportation routes. In FY2020, the Group also furthered its exploration of the possibility of utilising pollution-free process for ore processing in its new plants.

To further lower the air & GHG emissions from mining operations, controlling the consumption of fossil fuels is vital to the Group. To this end, the Group has set up internal policies, which are further described in the **A.2.Use of Resources**, to reduce energy use through advancing energy management programs and energy efficiency initiatives.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.1. Emissions *(CONTINUED)*

Wastewater

The wastewater from mining activities of the Group was mainly the industrial sewage during mining operations and the domestic wastewater from workers. Laying great emphasis on the application of "Circular Economy" into operations, the Group has set a target of "Zero Water Discharge" for its mining business and successfully achieved that the sewage was recycled on site for planting or irrigation. The Group measures its water performance using well-defined KPIs including recycle rate. In FY2020, the gold mining business generated and recycled a total of 19,123 m^3 of wastewater on site.

The Group has developed comprehensive water management plans as part of its environmental assessment and policies, treating the wastewater in a professional manner. In FY2020, sedimentation tanks, automatic valveless filters and drainage ditches were set on the periphery of the mining area, with a catch basin set in the mining pit. Automation equipment, such as drainage pump stations, was installed on site to recycle the industrial wastewater. All industrial wastewater must be processed in the sedimentation tank, in which the floating mud was collected and transported to the certified external environmental organisations, while effluents were used for agricultural irrigation or being discharged. The Group ensures that both domestic and industrial wastewater from its mining operations meets the standard of "Integrated waste discharge standard (GB 8978-1996)（污水綜合排放標準）". The site-level environment teams of the Group assumed major responsibilities for water management, including the supervision of water usage and sewage treatment. The professionals were also responsible for the execution of water management plans, tracking the progress of targets, and the conformance of the mining operations with applicable regulatory requirements related to water.

Solid Wastes

The solid waste in this business segment mainly consisted of general mining solid waste including tailings, waste rock, mineral processing waste, as well as other hazardous and non-hazardous materials. For the domestic solid waste generated by its employees, mainly comprised of paper, glass and plastic-made products, was well-sorted, recycled and handled by the certified municipal department.

Tailings and mineral processing waste were the two key materials that came from the gold mining and processing. As responsible and safe tailings management is an important part of the Group's environmental stewardship, the Group ensures that all of its mining operations should be carried out by following the tailings management plans set out by the Group. The Group has been constantly vigilant of the tailings dam facilities and ensures that no lasting environmental damage would be made, nor any safety risks to local communities and its workforce. In FY2020, tailings were piled up in the internal tailing warehouses, where facilities for processing fine-grained water-containing tailings that consisted of three main systems: Plunger pump tailings transportation, Tailings ponds and Return pumping station facilities (including return water which is all reused), were established. Upholding the mindset of "zero waste", the Group strives to maximise the recycle rate of tailings. After passing through its processing facilities, the tailings are normally delivered to the tailing ponds. In FY2020, around 210,000 tonnes of tailings were generated by the Group, with approximately 25% being recycled and reused.

Due to its dual nature of hazard and usefulness, the mineral processing waste has been considered as a valuable secondary resource to the Group. In FY2020, around 800 tonnes of mineral processing waste were generated, with the recycle rate reaching 20%. The Group has also been committed to implementing the policy of effective utilisation and reasonable disposal of mineral processing waste. Other types of waste rocks are normally handled by stone manufacturers for further processing and production.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.1. Emissions *(CONTINUED)*

Solid Wastes *(CONTINUED)*

In FY2020, the hazardous wastes were carefully stored in special containers and warehouses which were under strict surveillance in accordance with the requirements of the Regulations on the Safety Management of Hazardous Chemicals（危險化學品安全管理條例）. Certified companies for environmental protection were responsible for the recycling and handling of wasted hazardous materials. The Group regulates that all hazardous waste needs to be strictly separated from the general waste. The hazardous waste should be stored at special warehouse installed with monitoring systems temporarily, while the domestic waste needs to be separately collected for centralised treatment.

To keep a sound management of tailings, waste rock and other valuable solid waste, the Group has established the Solid Waste Stewardship Strategy to promote the good practices in construction, operation, maintenance, monitoring and the disposal of waste.

Noise

The Group regularly provides mine tours and run participatory monitoring sessions for the surrounding area on noise levels, as mining and its associated processes may expose both workers and residents to loud noises. In FY2020, noise emissions of the Group mainly came from heavy machinery and drills. The Group has been committed to keeping its vehicles and machines below the noise limit and taking necessary measures to ensure the correct use of hearing protection equipment among workers. In strict compliance with national and local regulations in terms of noise emissions such as Emission standards for industrial enterprises noise at boundary (GB12348-2008), the Group has adopted various noise-reducing facilities and measures to mitigate the impact of noise on the surroundings. Specifically, the Group has strengthened its monitoring system for effective reduction of noise exposure levels on site. Low-noise equipment and pumps with better performance in noise control were selected by the Group, while shock pads, air compressors and mufflers were installed on site. Advanced mining technology such as Millisecond deep-hole blasting was also considered for better noise control.

Targets and Progress

Under the ambitious target of “Zero Discharge of Solid Waste” and the integrated energy and carbon management strategy, the Group sees delivering more energy savings through greater energy efficiencies and the replacement of emission-intensive equipment by innovative technologies as its primary targets in business development. As such, the Group has made great efforts in strengthening its supervision and management of operational process, where the Group resolves to root out any practice of covert discharge and leakage.

In FY2020, a new processing plant commenced trial operation since July. With the inclusion of the expanding mining production activities into the scope, the use of fossil fuels such as diesel, gasoline and liquified petroleum gas (LPG), and the consumption of electricity unsurprisingly surged, thus leading to an upswing of the overall GHG emissions. The broader scope of Scope 3 (Other Indirect Emissions) that included the emissions from water and sewage treatment, and business air travel also contributed to the inflated GHG emissions of the Group. Notwithstanding that, the Group is committed to continuing its efforts on monitoring its energy usage throughout the entire organisation and delving into effective measures for emissions reduction.

Meanwhile, with all wastewater produced on site being recycled in FY2020, the Group is committed to improving its water efficiency further and has already made some progress in controlling the wastewater generation. In FY2020, the amount of wastewater generated dropped dramatically by 32.6% as compared to the figures in FY2019, equivalent to 9,285 m^3 less wastewater being discharged into the environment. The substantial decline was primarily due to the successful implementation of internal policies and measures among employees and within the Group.

With clear and ambitious environmental targets, in recent years, the Group kept setting up internal policies for sustainable development and launching various initiatives such as the cumulative GHG emissions reduction plan.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.2. Use of Resources

In FY2020, the main resources consumed by the Group were electricity, gasoline, water and paper. The judicious and discreet use of water, paper and energy resources in the mining operations has always been one of the core elements of the Group's sustainable development strategy, not only as part of the contribution to yielding savings, but also playing a key role in improving the Group's operational efficiencies and environmental stewardship. Since the final products of the Group are gold concentrate that is sold by pour-out, the gold mining business does not require or consume any packaging materials. Table 2 illustrates the amount of different resources used by the Group in FY2020 and FY2019.

Table 2 Group's Total Use of Resources by Category in FY2020 and FY2019

Use of Resources	Key Performance Indicator (KPI)	Unit	Amount in FY2020	Intensity[1] (Unit/ employee) in FY2020	Amount in FY2019	Intensity[1] (Unit/ employee) in FY2019
Energy	Electricity	kWh'000	18,561	91.0	9,197	55.4
	Diesel	L	18,496	90.7	–	–
	Gasoline	L	27,025	132.5	41,948	252.7
	LPG	L	2,477	12.1	–	–
Water	Water	M^3	19,163	93.9	28,448	171.4
Paper [2]	Paper	Kg	350	1.7	362	2.2
Raw Materials	Metal	Tonnes	811	4.0	–	–
	Concrete	Tonnes	685	3.6	–	–
	Wood	Tonnes	376	1.8	–	–
	Paper	Tonnes	200	1.0	–	–

1. Intensity for FY2020 and FY2019 was calculated by dividing the amount of resources the Group consumed in FY2020 and FY2019 by the total workforce in FY2020 and FY2019 respectively, which was 204 in FY2020 and 166 in FY2019; and

2. Paper consumption = paper inventory at the beginning of reporting period + paper added to inventory during reporting period – paper collected for recycling purposes – paper inventory at end of the reporting period.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.2. Use of Resources *(CONTINUED)*

Electricity

Electricity was purchased from the utility company by the Group and consumed for in the office and during mining operations. Both offices and mining sites of the Group have stringently complied with relevant regulations and the Group's policy of saving electricity. The Group has set up the policy of "Cut off electricity during operation shutdown and re-operate after returning to work"（停轉停工，復轉復工） and established a reward and punishment system for electricity management. To lower the consumption of electricity so as to diminish its GHG emissions, the Group has embedded the slogan of "Saving Electricity" into its business strategy and in particular implemented the following practices:

- Switch off all idle lights and air conditioners (e.g. most electrical equipment will be turned off during lunch time);
- Place "Save electricity and turn off the light when you leave please" posters to encourage workers and employees to conserve energy;
- Advocate energy conservation through seminars and training courses among employees;
- Purchase and install new electric generators and transformers with high energy efficiency on site;
- Use more efficient LED bulbs for office lighting instead of energy-intensive lamps;
- Monitor equipment operation by carrying out energy audit continuously; and
- Adopt natural ventilation or ventilation fans for areas not requiring air-conditioning.

In spite of the dramatical surge in overall electricity consumption due to the trial operation of a new processing plant of the Group, the electricity consumption of the Hong Kong office has decreased by around 5% with the concerted efforts by employees, which marked a tremendous improvement of the Group in its electricity control.

Other energy resources

The effective management and consumption of other energy resources in the operating sites is an aspect to which the Group has paid great attention. In FY2020, a total of 18,496 L of diesel and 27,025 L of gasoline were consumed by the Group, with an intensity of 90.7 and 132.5 L/employee respectively.

Gasoline and diesel were the primary energy resources used by the Group for digging, loading and transportation of ore and waste rock, comminution process, and heating. As energy is essential for the mining business, optimising the mining operations and ensuring the access to secure and reliable energy sources are key to the long-term stability of the Group's business.

In addition to the promotion of energy conservation among employees and the adoption of innovative technologies to save energy resources, the Group has also incorporated environmental protection into its business strategy, thereby establishing an energy policy that quantifies the amount of different energy resources consumed during mining operations. The introduction of LPG as an alternative energy source was the first step of implementing the energy policy. In FY2020, 2,477 L of LPG was consumed for operating vehicles.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.2. Use of Resources *(CONTINUED)*

Other energy resources *(CONTINUED)*

Actively responding to the call for energy conservation and emission reduction, which has been emphasised in the 14th Five-Year Plan (2021-2025) as an ambitious target to achieve on the national level, the Group has carried out energy consumption audits on each and every vehicles so as to optimise the transportation process in the mining operating areas. In the cases where the Group has outsourced the transportation work, the Group performs an in-depth background research on the outsourcers beforehand to assess their transportation process and take into account both the energy and time consumed during the selection of the best plan for transportation.

Meanwhile, the Group has kept choosing the most environmentally-friendly vehicles for transportation and operations, redesigning the machinery to be more eco-efficient, and initiating a competitive mechanism to incentivise its subsidiaries to pursue a "low-carbon and low-consumption" operating process.

In FY2020, the gasoline consumption of the Group fell considerably by 35.6% as compared to FY2019. The Group has been committed to furthering its monitoring on the usage of gasoline during operations and improving its enterprise-level energy management framework for mining business. In the meantime, for any major expansion and development projects, the Group makes comprehensive evaluations on the opportunities to reduce energy consumption through design optimisation as well as the use of renewable energy alternatives, by investing more in the fuel-switching projects that aim to explore the viability of the widespread application of renewable and clean energy as the major power source on site.

Water

Water is a vital and scarce global resource. Aligning with the SDG Goal 6 (Sustainable Development Goals) about clean water and sanitation, which urges countries and businesses to improve the management, protection and restoration of the world's freshwater system, while gaining and maintaining the social license to operate in the PRC, the Group takes responsible water consumption and management as one of its most parts of its sustainability strategy.

Given the Group's business nature, steady, reliable and secure access to water is crucial to the effective mining activities. While each site operates in a unique water context, all operations are required to comply with applicable regulations, meet corporate expectations, maximise water efficiency, protect water quality and engage with stakeholders on matters pertaining to shared water resources when necessary.

The Group is committed to taking effective measures that prioritise water conservation based on the "3R rules – Reduce, Reuse and Recycle" in its daily operations. With the robust water resource protection and monitoring measures in place such as the installation of flow metres on the control of the withdrawal of water resources, the Group did not face any problem in sourcing water during the year under review.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.2. Use of Resources *(CONTINUED)*

Water *(CONTINUED)*

As compared with FY2019, despite the trial operation of the new processing plant, the water consumption in FY2020 declined markedly by 32.6% partly due to the increased water recycling efforts. The Group plans to strengthen its monitoring and measurement on the outsourcing operations in the future, thereby depicting a complete picture of its environmental performance as well as moving towards the full scope of its environmental impact across the value chain. Mining sites, where water could be largely consumed, have been encouraged to reuse the wastewater properly. In FY2020, the water recycling initiatives in the gold mining business led to the Group accomplishing its goal of "Zero Water Discharge" on site. With cumulative experience in water stewardship, the Group will further set more ambitious water withdrawal and recycling targets in the future. Education on water conservation has long been regarded as a vital part of the Group's water management, as the Group believes that the success in maximising the water efficiency and lowering corporate water footprint cannot be achieved without the joint efforts by all employees. As such, the Group has made efforts to promote the principle of "Saving Water" among employees through a variety of channels, such as internal training. To improve the utilisation efficiency of water resources, the Group has further adopted the following practices:

- Fix dripping taps timely to avoid further leakage of the water supply system;
- Strengthen the inspection and maintenance on water tap, water pipelines and water storage; and
- Run regular leakage test on water taps, joint rings and other components in the water supply system.

Paper

The Quantification Management Policy has been proven as an efficient approach in the control of paper consumption of the Group. A variety of Office Automation ("OA") solutions have been put into practice from document transfer, information communication, all the way to the review, approval and signing of relevant decisions within the Group. To further reduce the use of paper, the Group has implemented the following policies in order to promote a paperless office:

- Promote the procurement and use of recycled paper;
- Set duplex printing as the default mode for most network printers when printouts are needed;
- Spread the idea of "Think before print" by using posters and stickers in offices to remind the staff of avoiding unnecessary printings;
- Put boxes and trays as containers beside photocopiers to collect single-sided paper for reuse;
- Use the back of old single-sided documents for printing or draft paper; and
- Recycle used stationery whenever possible.

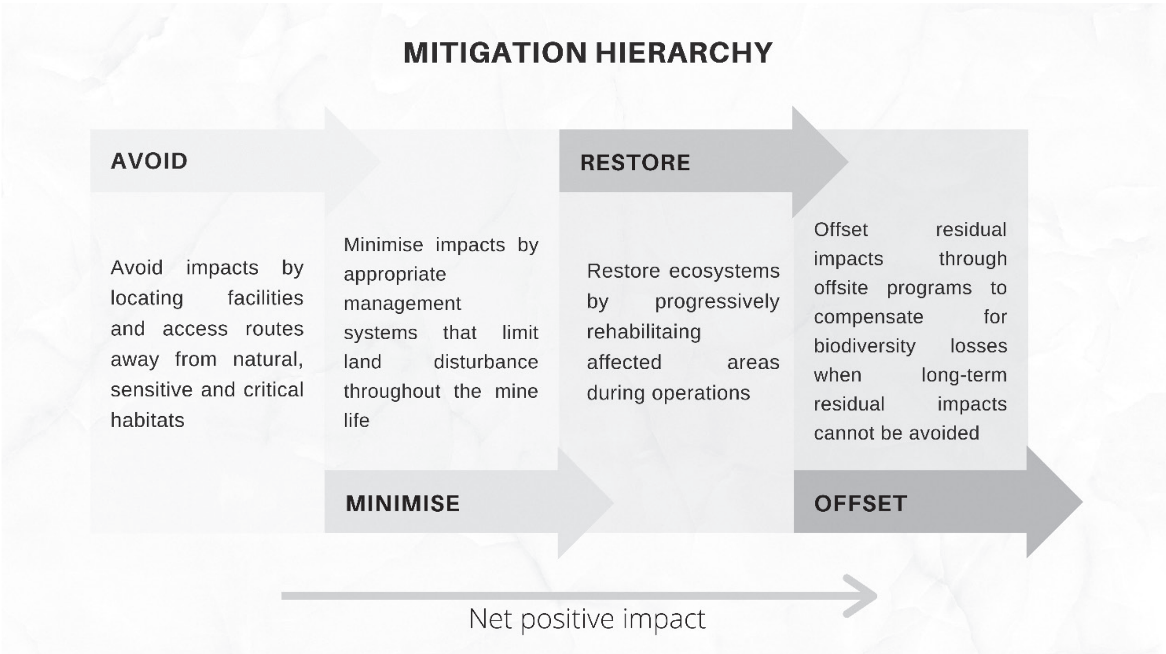
In FY2020, while the paper intensity per employee remained similar level as the figure in FY2019, the total amount of paper consumed by the Group decreased by 3.3% due to the unremitting commitment of the Group to moving towards sustainability.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.3. The Environment and Natural Resources

The Group believes that managing the environmental impacts of mining operations is a vital element of responsible gold mining, and the natural environment underpins many of the ecosystem services that the Group's mining work and their surrounding communities depend on, including the fresh water and raw materials, benign climatic conditions, good soil formation and recreational services that keep people and nature alive and healthy.

Aiming to achieve a net neutral environmental impact, the Group proactively seeks to protect the biodiversity and environment in which its gold mining business operates and spares no efforts in limiting potential negative impact that its mining practices can cause on the surrounding areas by, for example, adopting the Mitigation Hierarchy. Benchmarking the international best practices in practising sustainability, the Group has carefully evaluated the implications of its business operations on the environment, especially the emissions to natural bodies and exploitation of natural resources, in order to set appropriate goals, define appropriate metrics, set up effective policies and build strong teams and governance framework.



In FY2020, among all environmental impacts, the most discernible one which the Group believed topped the list was the mining waste and GHG emissions. The Group's approach to waste management, especially the treatment of tailings and onsite sewage was guided and strictly based on the requirements of local regulations. Abiding by the Provisions on the Protection of the Geologic Environment of Mines(礦山地質環境保護規定), Technical Policy of Gold Industrial Pollution Control(黃金工業污染防治技術政策)and other material guidelines and laws in the mining industry, the Group kept improving its internal policies and strengthening its risk management during the year under review. The mining operations interact with water in a variety of ways. The Group has formulated detailed plans in managing the water runoff on site and ensures that "Zero Water Discharge" policy can be implemented continuously and efficiently.

IV. ENVIRONMENTAL SUSTAINABILITY *(CONTINUED)*

A.3. The Environment and Natural Resources *(CONTINUED)*

GHG emissions, another major environmental impacts of the Group's operations, have been reduced through the effective control of electricity consumption. The Group has been committed to the research and investment in innovating and building an all-electric underground mine, which relies on digital and smart controls, aiming to achieve global carbon reduction targets as set out in the Paris Agreement and the national grand goal to achieve carbon neutrality by 2060. Besides the integration of advanced technologies in the pollution control, the Group has focused its efforts on the education and advocacy of low-carbon operations and lifestyle among employees as well, who are expected to cultivate the good habits of diligence and frugality in the use of natural resources.

A.4. Climate Change

Mining is energy-intensive process, which is universally acknowledged as a key driver of climate change. As one of the top global issues these days, climate-related risks cannot be neglected anymore and the Group has already taken actions to integrate climate change criteria into its business strategy though a strong governance structure and risk management. In particular, by taking a long-term strategic view of climate change, the Group has been working on developing its climate strategies with clear commitments to climate actions, long-term GHG targets and guidelines, which will be completed and implemented next year and enable the Group to better identify the climate-related risks and opportunities from the global shift toward a lower-carbon economy.

In FY2020, the Group conducted an internal evaluation of its performance in mitigating climate change and the exposure to climate-related risks including physical and transitional impacts. In terms of physical risks, the Group recognises that climate change and its consequences including the shift in temperature, precipitation and more frequent severe weather events, could affect its mining business in a range of possible ways. Volatile climatic conditions, for instance, may weaken the stability and effectiveness of infrastructure and equipment, thereby leading to site closure and occupational safety accidents. In terms of transitional risks, changes in regulatory environment, including the increased carbon tax regimes and rising cost of water and energy supplies, may also pose threat to the Group's operating cost and revenue.

Look forward, the Group will further assess the climate-related risks at its operations and its implications on its capacity to create value in the long term, to build resilience and play a key role in the industry to address climate change concerns.

V. SOCIAL SUSTAINABILITY

Employment and Labour Practices

B.1. Employment

The Group not only relies on its technological advancement and improvement on professional skills in its business development, but also values the employment management within the company. Its human resources strategy prioritises talent, learning, diversity and culture of its people which help grow, sustain and optimise its business. The Group treasures its employee's talent and endeavours to provide all employees with a suitable platform and workplace, while enabling growth and vocational development for them, compensating them equitably and fairly, and respecting the fundamental labour rights wherever it operates. As at the end of FY2020, the Group had a total of 204 full-time employees, with 199 employees in the PRC and 5 employees working in Hong Kong.

Table 3 Total Workforce by Gender and Age in FY2020

By age / By gender	30 or below	Between 31 and 40	Between 41 and 50	51 or above	Total
Male	44	44	45	48	181
Female	6	8	6	3	23
Total	50	52	51	51	204

Table 4 Total Workforce by Gender and Position Type in FY2020

By position / By gender	General staff	Senior employee, manager and senior manager	Director and the management	Total
Male	141	11	33	185
Female	17	1	1	19
Total	158	12	34	204

Law compliance

In FY2020, the Group abided by applicable employment laws and regulations in Hong Kong and the PRC that were material to the Group's businesses, including but not limited to the:

- Employment Ordinance (Cap. 57 of the Laws of Hong Kong);
- Employees' Compensation Ordinance (Cap. 282 of the Laws of Hong Kong);
- Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong);
- Minimum Wage Ordinance (Cap. 608 of the Laws of Hong Kong);
- Labour Law of the People's Republic of China（中華人民共和國勞動法）;
- Insurance Law of the People's Republic of China（中華人民共和國社會保險法）;

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Employment and Labour Practices *(CONTINUED)*

B.1. Employment *(CONTINUED)*

Law compliance (CONTINUED)

- Labour Contract Law of the People's Republic of China（中華人民共和國勞動合同法）;
- Minimum Wage Regulations（最低工資規定）; and
- Regulations on the Supervision of Labour Security（勞動保障監察條例）.

The Human Resource Department of the Group is responsible for the reviewing and updating of relevant company policies on a regular basis in accordance with the latest laws and regulations.

Recruitment and promotion

Following a set of transparent and clear procedures in annual recruitment, such as "Personnel Recruitment Plan", the Group ensures that its recruitment practice conforms to the principles of "Openness, Fairness, Transparency, Standardisation"（公開、公平、透明、規範）. The Group offers fair, competitive remuneration and benefits with due considerations of applicants' past performance, personal attributes, job experiences and career aspirations. The Group refers to market benchmarks in relation to staff promotion and provides equal promotion opportunities to eligible employees who have exhibited outstanding performance and potential. The promotion within the Group is strictly based on clear and legitimate procedures.

Compensation and dismissal

Benchmarking the standard of local markets, company performance, economic circumstances, individual development and position type, the base pay and compensation adjustment for all employees are reviewed annually after rounds of evaluations and approval. The termination of employment contract is in accordance with reasonable, lawful grounds and internal policies such as the Staff Handbook（員工手冊）of the Group. The Group strictly prohibits any kind of unfair or illegitimate dismissals. For those who violate the Group's employment policies, the Group would warn verbally before issuing a warning letter. The employees who remain untamed despite making the same mistakes repeatedly would be dismissed by the Group following the standard procedures set out in the laws of Hong Kong and the PRC.

Working hours and rest periods

The Staff Handbook（員工手冊）specifies the terms and policies in the Group's management of working hours and rest periods, which are based on local employment laws including Provisions of the State Council on Employees' Working Hours（國務院關於職工工作時間的規定）. The attendance management system enables the Group to monitor its employee's working hours and compensate those who work overtime with extra pay or additional days off. In addition to basic paid annual leave and statutory holidays, employees are also entitled to additional leave benefits such as marriage leave, maternity leave, sick leave and compassionate leave.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Employment and Labour Practices *(CONTINUED)*

B.1. Employment *(CONTINUED)*

Equal opportunity and anti-discrimination

As an equal opportunity employer, the Group is committed to acknowledging the staff's different experiences and championing diversity, through creating a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in all its human resources and employment decisions. Training and promotion opportunities, dismissals and retirement policies of the Group are all on the basis of factors irrespective of the employees' age, sex, marital status, pregnancy, family status, disability, race, colour, descent, national or ethnic origins, nationality, religion or any other non-job related elements in all business units of the Group. Meanwhile, the equal opportunity policy of the Group allows zero tolerance in relation to any workplace discrimination, harassment or vilification according to local ordinances and regulations. Employees can report any incidents involving discrimination to the Human Resource Department of the Group, which will carry out thorough investigations and take any necessary disciplinary actions on the responsible individuals. The Group looks to its value of inclusion and diversity to support all individuals and create an inclusive environment where every employee's voice can be heard and everyone has an equal opportunity to contribute.

Other benefits and welfare

To provide all employees with a sound workplace that can bring them a sense of belonging, the Group cares about the wellbeing of its employees and provides numerous benefits to its employees, including the employment injury insurance, travelling packages and a plethora of well-designed meaningful activities such as annual dinner, Christmas party and monthly birthday parties. The Group believes that through the regular review of employees' performance and rewarding its employees whose dedication to work should be recognised, the Group's practice can be better aligned with its compensation philosophy, thereby benefiting the long-term corporate sustainability.

During the year under review, the Group was in compliance with relevant laws and regulations in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, welfare and other benefits that have a significant impact on the Group.

B.2. Health and Safety

Occupational health and safety of employees is the crucial to the Group at both its mining sites and across all departments of the company. Providing the safest possible working environment remains one of the highest priorities of the Group, which implements safety and health management systems based on internationally recognised good practice, maintains high standards of occupational health and hygiene, and strengthens risk-based monitoring of the health of its workforce based on occupational exposures.

Mines involves dynamic and complicated working environments where heavy machinery, vehicles and facilities are in continuous use to move significant quantities of materials. Mining and refining operations are normally performed under high-risk working environments where failure in implementing robust safety standards and procedures can result in damage in equipment, serious injury and even loss of life. As such, sticking to the principle of "Safety first, Prevention first"（安全第一，預防第一）, the Group has set up and implemented health and safety systems and policies for all employees, especially the frontline workers, with the detailed guidance in standardising their practices in compliance with applicable health and safety-related laws and regulations.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Employment and Labour Practices *(CONTINUED)*

B.2. Health and Safety *(CONTINUED)*

To provide and maintain a safe, clean and environmentally-friendly working condition for employees, the Group has set up strict internal safety and health policies, and abided by the relevant laws and regulations in Hong Kong and the PRC, including the:

- Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong);
- Law of the People's Republic of China on Prevention and Control of Occupational Diseases (中華人民國和國職業病防治法);
- Regulation on Work-Related Injury Insurance (工傷保險條例);
- Notice of the State Administration of Work Safety on the strengthening of dust hazard control work in the gold mining enterprises (國家安全監管總局關於加強金礦開採企業粉塵危害治理工作的通知);
- Warning Signs for Occupational Hazards in the Workplace (工作場所職業病危害警示標識); and
- Notice on Issuing the Work Plan for Preventing and Resolving the Safety Risks of Tailings Pond (關於印發防範化解尾礦庫安全風險工作方案的通知).

Striving for the elimination of fatalities and life-altering injuries from its operations, and to continuously reduce potential injury and health hazards on site, the Group has particularly focused on the effective implementation of the following measures:

Emergency preparedness programs

- Train and build mine rescue team
- Improve its real-time monitoring and alerting system

Management of hazardous materials

- Promote the lifecycle management of purchase, use, storage, transportation and disposal

Technical safety training

- Machine safeguarding training
- Simulator training
- Equipment operation training

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Employment and Labour Practices *(CONTINUED)*

B.2. Health and Safety *(CONTINUED)*

Technical safety training *(CONTINUED)*

Knowing that the effective safety management does not happen behind a desk, an onsite workforce has been assembled to ensure a secure working environment where exposure risks of occupational hazards are minimised by observing the processes, talking to frontline workers from time to time about safe practices and preparing for emergency relief. Suitable protective gears and rescue plans for emergency have been provided to the mining rescue team. Professional emergency facilities and sufficient supplies are all in reserve for unpredicted circumstances, which are guarded and managed by designated staff to make sure that the contingency plan could be perfectly carried out during the outbreak of unwanted environmental and operational incidents that might threaten the health and safety of workers. With a strong ambition to constantly lower the rate of operational accidents while enhancing the resilience of the Group to deal with any emergency, the Group commits to optimising its countermeasures to emergency according to the National Emergency Plans in Response to the Outbreak of Environmental Incidents（國家突發環境事件應急預案）and to intensify emergency drills in both frequency and quality in the near future. The Group has also set up policies to guide the correct handling of hazardous materials, in order to align the procurement practice, operations in the mining sites, storage in warehouses, transportation to another place, and disposal measures with industry standards. Health and safety training is an effective step to protect employees from occupational hazards. Making full use of online training platforms and technologies, the Group has been working on the improvement of its safety training quality and committed to bringing all employees a brand-new learning experience.

In FY2020, the Group organised its employees to study the requirements of Notice on Issuing the Work Plan for Preventing and Resolving the Safety Risks of Tailings Pond（關於印發防範化解尾礦庫安全風險工作方案的通知）, and committed to

- Improving the accountability system for preventing and addressing the safety risks in tailings ponds;
- Strengthening source registration access; and
- Taking integrated measures to effectively control the number of tailings ponds.

In addition, the Group cares about the health and safety of employees in the offices and has taken the following actions to provide a clean and safe working environment to its staff:

- Emergency response drills for employees at offices;
- Safety inspections in the offices;
- Disinfection of carpets in the offices; and
- Prohibition of smoking and drinking liquor in the workplace.

The Human Resource Department and the Administrative Department are responsible for monitoring and ensuring that all the safety policies are in place and enforced properly. During the FY2020, the lost days due to work injury of the Group were zero. The Group did not have any work-related fatalities during its operations and was in compliance with relevant laws and regulations in relation to providing a safe working environment and protecting the employees from occupational hazards that may have a significant impact on the Group.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Employment and Labour Practices *(CONTINUED)*

B.2. Health and Safety *(CONTINUED)*

Response to COVID-19

In early 2020, the widespread of pandemic swiped through the planet and caused suspension in business activities and people's daily lives. In response to the call of central government in combating the pandemic with concerted efforts, the Group responded swiftly and set up several internal policies in line with the precautionary measures announced by local and national governments, such as the Epidemic Prevention and Control Emergency System (疫情防控應急制度) and Hygiene and Epidemic Prevention System (衛生防疫制度).

Specifically, strict hygiene protocols and temperature monitoring rules at entrances of the workplace were practised orderly. The process for the sanitisation of public spaces were standardised while employees were also encouraged to obey social distancing rules.

To limit the widespread of the virus, the office in Hong Kong followed the Hong Kong government's measures in implementing flexible working arrangement. Employees were working on shift and allowed to work from home, which was believed to be an effective way to lower the risk of transmission, while maintaining the business operations.

B.3. Development and Training

In the competitive market of modern business, the Group believes that employees are its most important asset, whose skills are the bedrock and the lifeblood of its success, and superb training management policies can facilitate the Group to fend off stagnation as well as simulating the engagement of employees in its business development.

Seeing this as a strategic long-term investment that helps its staff members achieve professional growth and build capacity, the Group has invested resources in providing development and training opportunities for its employees. A complete training package is normally designed and arranged to all new hires, which covers the History of Company, Corporate Governance Structure, Corporate Culture, Business Processes, and Management System. For experienced employees, courses that match the corporate demands and employees' interest are offered regularly. In FY2020, a host of training opportunities were provided to employees of the Group and the topics of training covered Basic Safety Management, Geological Design, and Electricity Supply Security. The Group strives to make sure that all employees who have received quality training can tap into vast cornucopia of knowledge in work.

To further enhance the professional skills of its employees and meet the Group's development goals, signing up for professional qualification examinations and external training is highly encouraged. Employees who have taken external qualification examinations and obtained vocational qualification certificates could receive a reimbursement from the Group. Meanwhile, the Group also invites external organisations and experts to provide training on a broad range of topics to its employees regularly.

In FY2020, a total of 162 employees of the Group attended the training programmes held by either the Group internally or external professional organisations. The training time by all employees aggregated approximately 526 hours and each employee spent 3.2 hours on training on average. Specifically, the general staff of the Group received 357 hours of training in total, while the group of senior employees, managers and senior managers participated in training sessions for around 40 hours. The directors and management of the Group spent over 129 hours on training during the year under review.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Employment and Labour Practices *(CONTINUED)*

B.4. Labour Standards

Respecting for and protecting labour rights is a central part of the Group's sustainability vision. In FY2020, the Group abided by the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), the Labour Law of the People's Republic of China(中華人民共和國勞動法)and other related labour laws and regulations in Hong Kong and the PRC to prohibit any child and forced labour employment. To combat illegal employment of child labour, underage workers and forced labour, the Group's Human Resource Department requires all job applicants to provide valid identity documents to ensure that they are lawfully employable prior to the confirmation of any employment. The Group's Human Resource Department is responsible for the conformance of corporate policies and practices with the relevant laws and regulations that prohibit child labour and forced labour. Once any case that fails to comply with the relevant labour laws, regulations or standards is found, the relevant employment contract will be immediately terminated and the individuals responsible for the management of human resources will be disciplined accordingly.

In FY2020, the Group was in compliance with the relevant laws and regulations, in relation to the prevention of child and forced labour that have a significant impact on the Group.

Operating Practices

B.5. Supply Chain Management

As a socially responsible enterprise, it is vital for the Group to maintain and manage a sustainable and reliable supply chain that brings positive impacts to the environment and society. Apart from electricity supply, the Group's main suppliers also include partners providing machinery and equipment, raw materials and labour and transportation services for the Group. To ensure that all suppliers and contractors operate in strict compliance with relevant regulations and in an environmentally-friendly manner, the Group keeps monitoring their performance and its supply chain practice on a continuous basis. The Group requires that all its suppliers and contractors follow the policy that has been agreed upon in the contract during the business partnership with Group.

Taking a risk-based approach to product stewardship and implementing due diligence procedures, the Group has formulated its internal policies, such as "Supplier Management Procedures"(供應商管理辦法), to manage and evaluate its suppliers before, during and after the tendering process, so as to ensure that its suppliers' performance fully conforms to the international best practices.

Since the Group partners with a number of large-scale suppliers and contractors to carry out gold mining and other forms of work at its operations, the Group screens its suppliers against a set of internal criteria and ensures that the business partnership comes into force after a series of discreet evaluations, including but not limited to suppliers'/contractors' reputations, business credibility, service/product quality, completeness of internal environmental management system, production and technical capacity, business track record for past 3 years, economic disputes history with the Group and regulation compliance. The eligible candidates are further investigated in terms of whether their practices are in the compliance with labour standards, human rights, code of conduct, anti-corruption policies, and health and safety-related standards. Regarding the procurement procedures, the department needs to submit the plan in which the information of required items should be specified in detail. The highest authority of the company approves the plan after assessment. After receiving the approved plan, the procurement department is responsible for the submission of procurement application and purchasing relevant materials. During the partnership, environmental risk assessment is carried by the Group regularly. The suppliers' compliance with business ethics, performance in environmental hazard control, technical capabilities and product quality are evaluated on a continuous basis.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Operating Practices *(CONTINUED)*

B.5. Supply Chain Management *(CONTINUED)*

The Group is committed to controlling the social and environmental risks that might arise from its supply chain and has set up internal supplier management policies by classifying the suppliers into different groups, in order to implement differentiated managerial strategies towards suppliers. The Group ensures that each business division has specific employee(s) in charge of the communication with its suppliers. The Group believes that a mutual understanding is essential to maintaining a sustainable and sound relationship with suppliers. As such, to strive for effective cooperation, on top of information sharing, the Group keeps working on finding more advanced and efficient ways in maintaining strong business partnerships with its suppliers.

The Group views its supply chain as a gold opportunity to achieve its sustainability goals in the local community by giving its priority to indigenous vendors and service providers. During the year under review, the Group had a total of 170 major suppliers located in the PRC with whom the Group did not experience any material delays, conflict or other significant accidents. Embracing the practices of green procurement, the Group is committed to prioritising suppliers with better performance in pollution treatment, energy savings, emission reduction and environmental protection.

B.6. Product Responsibility

Adhering to the business operation philosophy of "Steady operation, Pioneering and innovative, Upholding integrity, and Enhancing social responsibility (穩健經營、開拓創新、篤守誠信、增強社會責任感), the Group aims to achieve the product responsibility concept of "People-Oriented, Quality Assurance, Environmental Protection and Scientific Management" (以人為本、保證質量、保護環境、科學管理).

Regarding the health and safety, advertising, labelling and privacy matters of its products, the Group was in compliance with the relevant rules, regulations and standards in the PRC and Hong Kong in FY2020, including but not limited to the:

- Product Quality Law of the People's Republic of China（中華人民共和國產品質量法）;
- Mineral Resources Law of the People's Republic of China（中華人民共和國礦產資源法）;
- The Notice of Gold Tax Policy（關於黃金稅收政策問題的通知）; and
- Ambient air quality standards（環境空氣質量標準）.

Product quality and operation safety

Product responsibility remains an important topic to the Group, which considers the product quality, health and safety affairs and privacy matters as significant matters to its gold mining business. The major product of the Group is Gold Concentrate. To produce consistently top-notch products that satisfy customers' needs, the Group insists on the production of high quality Gold Concentrate, which is "No Impurity and Uniform Colour". In particular, the Group has formulated a series of strict rules and brought in effective measures in an effort to standardise the production and sale process, including the requirements of the laboratory report（檢驗結果報告單）, water content test report（水分檢測報告單）, gold concentrate delivery measurement order（金精粉出庫計量單）, gold concentrate mental concentration confirmation slip（金精粉金屬含量確認單）and gold concentrate advice of settlement（金精粉銷售結算單）.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Operating Practices *(CONTINUED)*

B.6. Product Responsibility *(CONTINUED)*

Product quality and operation safety (CONTINUED)

In compliance with relevant international and national standards in the mining industry, the Group has acted in accordance with YS/T 3004-2011 Gold Concentrate(金精礦行業標準)in quality classification in order to deliver reliable and trustworthy products to its clients. The internal policy provides guidance to the Internal Quality and Technique Control Station, which is responsible for the sampling, testing and issuing certification on the quality of gold. Specifically, before the delivery of gold concentrate, the sample extraction is conducted by the person designated by the buyer under the supervision of the sales team. The sample must be put in clean and dry vessels, and transferred to the laboratory of the Quality and Technique Control Station for testing. The experimenter performs chemical examinations and the final test report should be signed by relevant staff on the test report.

Bearing the principle of "Safety first" (安全第一) and "People-oriented" (以人為本) in mind, the Group has paid attention to the health and safety of nearby residents and strengthens environmental protection investment and management in terms of the discharge of mineral waste and sewage generated during gold processing by strictly following the recommended practices of ISO15001 and ISO14001 standards. As part of its environmental stewardship policy, tailing management has been crucial to the Group. Thence, detailed tailing dam management plans have been set up and safety inspections are conducted regularly:

- Project geological surveys and stability analysis of the tailing dam are carried out when the pond accumulation is up to two-thirds of the designed height;
- To ensure the good permeability and stability of the tailing dam, upstream tailing ores are dispersed evenly so that both the coarse and fine participles can be deposited in a correct place;
- The length and slope of the sedimentation beach are verified to meet the requirement in design, preventing the slurry from brushing the dam body;
- In later stage, the internal and external slopes of the dam are built strictly based on the requirements in terms of factors including the stacking quality and the uniform rise of the dam to avoid significant height difference between the two ends of the dam axis;
- The inner water edge line is maintained parallel to the dam axis; and
- Seepage prevention and drainage of the dam are maintained through practices including building the flood interception ditch at the dam abutment, reducing the dam body's infiltration line and preventing mountain torrents from scouring the dam body.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Operating Practices *(CONTINUED)*

B.6. Product Responsibility *(CONTINUED)*

Complaint handling & Privacy matters

The general office(綜合辦公室)of the PRC subsidiaries is responsible for dealing with customers' complaints. As the Group values clients' feedback, a follow-up mechanism is initiated and set up timely once any complaint is received, to ensure that the substantiated complaints can be resolved efficiently. After investigation, the Group makes corresponding rectifications based on the results and notifies the result to the complainant in a timely manner.

The Group abided by the laws in relation to customer privacy and ensures that its customers' rights are strictly protected, including Law of the People's Republic of China on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法); and Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong) in FY2020. According to the confidentiality terms in the contract, employees are not allowed to disclose any information of the Group and its customers to any third party. Information collected by the Group from its customers would be used only for the purpose for which it has been collected. In FY2020, the Group did not receive any complaint or was involved in any legal case concerning breaches of customer privacy and losses of customer data.

Given the business nature of the Group, the labelling-, advertising— and recall-related matters are relatively insignificant or not applicable to the Group. In FY2020, the Group was in compliance with the relevant laws and regulations regarding health and safety, advertising, labelling and privacy matters of its products and services that have a significant impact on the Group.

B.7. Anti-corruption

As clearly stated in its internal policy and employment standards, the Group is committed to maintaining a workplace free from corruption. All employees of the Group are expected to behave in compliance with the requirements in the code of conduct and internationally recognised standards for ethical behaviour. To observe all applicable obligations in anti-corruption, the Group has complied with laws and regulations relating to anti-corruption and bribery in the PRC and Hong Kong, including the Anticorruption Law of the People's Republic of China(中華人民共和國反腐敗法), the Law of the People's Republic of China on Anti-money Laundering(中華人民共和國反洗錢法), Interim Provisions on Banning Commercial Bribery(關於禁止商業賄賂行為的暫行規定), the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615 of the Laws of Hong Kong), and the Prevention of Bribery Ordinance (Cap. 201 of the Laws of Hong Kong).

The Group has zero tolerance for any practice in relation to bribery and corruption, and has strictly enforced its anti-corruption internal policies as stipulated in its "Anti-fraud and Reporting Policy"(反舞弊與舉報制度)and Staff Handbook(員工手冊)to manage any fraudulent practices. The Staff Handbook describes in detail the circumstances under which employees' practice is deemed to be in violation of corporate regulations, the value of gifts above which the practice is regarded as bribe, and the standard procedures by which any employee who receives the "benefit" from clients need to report to the leadership.

Employee engagement is critical to building a common understanding of the Group's expectations for ethical conduct. While due diligence process is necessary, ongoing training and free access to learning tools are also critical to fostering employees' awareness of the Group's rules in combating corrupt practices. In FY2020, around 10 training courses in topics of anti-corruption were arranged for all level of staff in the Group. Specifically, the Group organised a two-hour Corporate Anti-corruption Training and Education for 93 employees including management-level staff, in an effort to strengthen their awareness on how to effectively root out corruption in the workplace and how to strengthen supervision during transactions.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Operating Practices *(CONTINUED)*

B.7. Anti-corruption *(CONTINUED)*

Meanwhile, the Office of Cracking Down the Crime（掃黑除惡辦公室）has been established, which is responsible for monitoring and reporting any case in relation to corrupt practice including bribery and extortion in the Group. During the year under review, no concluded legal cases regarding corrupt practices were brought against the Group or its employees.

Whistle-blowers can report verbally or in writing to the Human Resource Department of the Group for any suspected misconduct with full details of the incident and supporting evidence. The Human Resource Department of the Group is responsible for carrying out investigations against any suspected or illegal behaviour to protect the Group's interests. The Group has set up an effective grievance mechanism to protect whistle-blowers from unfair dismissal or victimisation. Where any crime is substantiated by the Group, a report will be submitted promptly to relevant regulators or law enforcement authorities when the management of the Group considers it necessary.

In FY2020, the Group was in compliance with relevant laws and regulations in relation to bribery, extortion, fraud and money laundering that have a significant impact on the Group.

Community

B.8. Community Investment

To deliver on its commitment to creating value to all, the Group recognises the need to engage and build ongoing relationships with local communities and take initiatives to better the communities in which it operates. The Group has established a systematic set of standards and policies, and built a group of executers for its environmental and operational management. Sticking to the principle of "Helping Those in Need" across the company, the Group has focused its community investment initiatives mainly on the training and employment of local workforce. Meanwhile, the Group has strategically implemented the "Community Development Scheme", aiming to work with community groups collectively to alleviate poverty, enhance people's health, and partner with local governments to bring prosperity to communities.

The Group's operational footprint such as job creation and local procurement is believed to be a significantly positive contribution to the host communities. The Group strives to support the collaboration with local suppliers and business partners, facilitating the socio-economic development in the region where the Group operates.

In FY2020, due to the special arrangement caused by the pandemic, the Group was unable to organise or participate in any physical community engagement or charitable activities. Yet, caring about all the vulnerable in the society has never been stopped in the Group, which distributed free masks and sanitisers, and donated food to the low-income families and frontline workers including cleaners and medical staff, in an appreciation of their tremendous contributions to the society.

Looking forward, the Group will dedicate itself to creating more value for local communities by targeting at their needs and committing to youth training, business collaboration with local partners and environmental rehabilitation.

V. SOCIAL SUSTAINABILITY *(CONTINUED)*

Appendix I

Table A. Employee Turnover Rate by Age Group, Gender and Geographical Locations in FY2020

Unit: Number of employees			Age group		
Gender	**Aged 30 or below**	**Aged between 31 and 40**	**Aged between 41 and 50**	**Aged 51 or above**	**Total**
Male	0	7	12	2	21
Employee turnover rate*(percentage)	0.0	3.8	6.5	1.1	
Female	0	3	0	1	4
Employee turnover rate*(percentage)	0.0	1.6	0.0	0.5	
Total	0	10	12	3	25
Total employee turnover rate*(percentage)	0.0	5.4	6.5	1.6	13.5

Geographical locations

Locations	Employee turnover	Employee turnover rate* (percentage)
PRC	25	13.5%
Hong Kong	0	0.0%

* Turnover rate refers to the ratio of the number of employees who resigned and the number of employees on average in FY2020

VI. REPORT DISCLOSURE INDEX

HKEx ESG Guide content index

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VI. REPORT DISCLOSURE INDEX *(CONTINUED)*

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VI. REPORT DISCLOSURE INDEX *(CONTINUED)*

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Aspects	ESG Indicators	Description	Page
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B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	67
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VI. REPORT DISCLOSURE INDEX *(CONTINUED)*

HKEx ESG Guide content index *(CONTINUED)*

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Community			
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TO THE SHAREHOLDERS OF TONGGUAN GOLD GROUP LIMITED (潼關黃金集團有限公司)
(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Tongguan Gold Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 79 to 149, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of exploration and evaluation assets and goodwill

Refer to Notes 5(b)(iv) and 5(b)(i) and Notes 16 and 17 to the consolidated financial statements and accounting policies on Note (4)(d) and (4)(g).

As at 31 December 2020, the Group had exploration and evaluation assets and goodwill relating to gold mining operation which amounted to HK$1,409,990,000 and HK$636,132,000 respectively, which were allocated to the cash generating units of gold mining operation. The impairment assessment of exploration and evaluation assets and goodwill is a key audit matter due to its significance and judgment involved.

How our audit addressed the key audit matter:

Our audit procedures in relation to the directors' impairment assessment included:

— assessed the reasonableness of discount rate applied in determining the recoverable amount;

— challenged the reasonableness of other key assumptions based on our knowledge of the business and industry; and

— checked input data to supporting evidence, such as management's cash flow forecasts and considering the reasonableness of these cash flow forecasts.

Assessment of the Group's ability to continue as a going concern

Refer to note 3(b) to the consolidated financial statements.

At 31 December 2020, the Group had net current liabilities of HK$553,990,000, total borrowings of HK$239,696,000 and capital commitments of HK$64,665,000.

The Group finances its operating and exploration and development activities using a combination of cash on hand and operating and financing cash flows, which are generated mainly from the sales of gold and borrowings.

Based on the cash flow forecasts of the Group, the Directors have concluded that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date of the financial statements.

We identified the assessment of the Group's ability to continue as a going concern as a key audit matter because the assessment is dependent upon certain management assumptions and judgements, in particular in relation to future revenue from sales of gold and the ability of the Group to renew or obtain new financing facilities upon expiry of the existing financing facilities, which may be inherently uncertain and could be subject to management bias.

How our audit addressed the key audit matter:

Our audit procedures in relation to the assessment of the Group's ability to continue as a going concern included:

— walking through the business planning process and assessing the design, implementation and operating effectiveness of management's key internal controls over the assessment of the Group's ability to continue as a going concern, including the preparation of cash flow forecasts;

— evaluating the key assumptions adopted by management in the preparation of the cash flow forecast including, comparing future gold prices with gold futures contracts in the market; comparing forecast production quantities and future cost projections with historical information for the past two years;

— comparing future expected cash flows with historical data and assessing whether any variations were consistent with our expectations based on our understanding of the Group's business;

— considering the accuracy and reliability of past cash flow forecasts made by management by comparing them with the current year's results;

— comparing the available financing facilities and arrangements to underlying documentation and assessing the impact of any covenants and other restrictive terms attached thereto;

— assessing the sensitivities of the key assumptions adopted by management in the going concern assessment and considering whether management had incorporated any bias in the selection of such assumptions; and

— evaluating the disclosures in the consolidated financial statements in respect of the going concern assumption with reference to the requirements of the prevailing accounting standards.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibilities in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

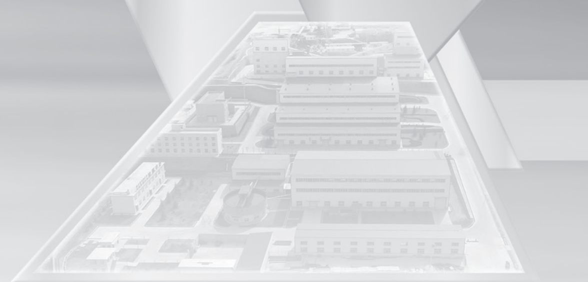
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants

Chan Wing Fai
Practising Certificate Number P05443

Hong Kong, 24 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

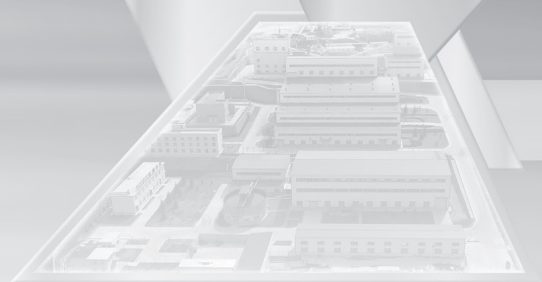
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020** ***HK$'000***	2019 *HK$'000*
Revenue	*6*	**327,710**	191,436
Cost of sales		**(255,198)**	(169,017)
Gross profit		**72,512**	22,419
Other income	*7*	**2,030**	1,620
Other net gains and losses	*8*	**(11,838)**	17,370
Administrative and other expenses		**(66,761)**	(66,651)
Finance costs	*9*	**(166)**	(235)
Share of losses of an associate		**—**	(5)
Loss before tax	*10*	**(4,223)**	(25,482)
Income tax credit	*11*	**2,710**	3,730
Loss for the year		**(1,513)**	(21,752)
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		**15**	47
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**115,531**	(65,074)
Other comprehensive income for the year, net of tax		**115,546**	(65,027)
Total comprehensive income for the year		**114,033**	(86,779)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 HK$'000	2019 HK$'000
Loss for the year attributable to:			
— Owners of the Company		**(6,330)**	(21,071)
— Non-controlling interests		**4,817**	(681)
		(1,513)	(21,752)
Total comprehensive income for the year attributable to:			
— Owners of the Company		**94,894**	(77,735)
— Non-controlling interests		**19,139**	(9,044)
		114,033	(86,779)
Loss per share – Basic and diluted	*14*	**HK(0.19) cents**	HK(0.62) cents



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment	*15*	**1,303,782**	1,164,103
Right-of-use assets	*32*	**33,534**	35,507
Exploration and evaluation assets	*16*	**1,409,990**	1,270,375
Goodwill	*17*	**636,132**	597,638
Other intangible assets	*18*	**147,229**	119,756
Other financial assets	*19*	**6,989**	6,872
Interest in an associate	*20*	**3,517**	3,304
		3,541,173	3,197,555
Current assets			
Inventories	*21*	**61,674**	16,301
Other receivables	*22*	**42,912**	60,173
Amount due from an associate	*20*	**1,779**	1,671
Bank balances and cash	*23*	**130,293**	90,277
		236,658	168,422
Current liabilities			
Other payables	*24*	**437,588**	384,681
Bank and other borrowings	*26*	**121,791**	48,894
Contract liabilities	*25*	**68,700**	9,800
Lease liabilities	*32*	**1,303**	3,459
Income tax payable		**161,266**	151,622
		790,648	598,456
Net current liabilities		**(553,990)**	(430,034)
Total assets less current liabilities		**2,987,183**	2,767,521

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

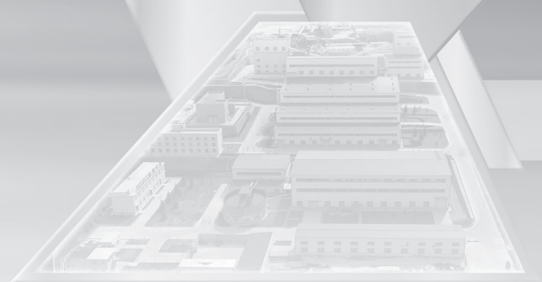
AS AT 31 DECEMBER 2020

	Notes	2020 HK$'000	2019 HK$'000
Non-current liabilities			
Bank and other borrowings	26	**117,905**	112,445
Financial liabilities measured at fair value through profit or loss	27	**—**	51,214
Other payables	24	**571,662**	440,331
Provision for restoration and environmental costs	29	**12,973**	9,560
Lease liabilities	32	**102**	1,065
Deferred tax liabilities	28	**335,403**	317,801
		1,038,045	932,416
Net assets		**1,949,138**	1,835,105
Capital and reserves			
Share capital	30	**339,227**	339,227
Share premium and reserves		**1,478,550**	1,383,656
Equity attributable to owners of the Company		**1,817,777**	1,722,883
Non-controlling interests	34	**131,361**	112,222
Total equity		**1,949,138**	1,835,105

On behalf of the board of directors

Yeung Kwok Kuen
Director

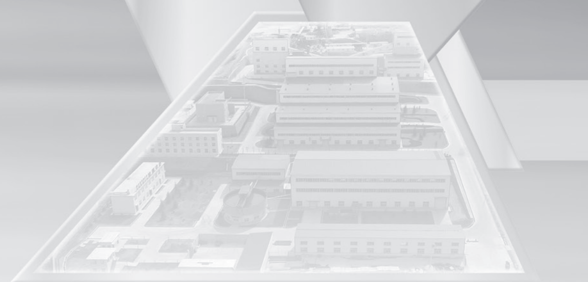
Shi Xing Zhi
Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the Company										
	Share capital HK$'000 (Note 30)	Share premium HK$'000 (Note 31(a))	Statutory surplus reserve HK$'000 (Note 31(b))	Contributed surplus HK$'000 (Note 31(c))	Share option reserve HK$'000 (Note 31(d))	Investment revaluation reserve HK$'000 (Note 31(e))	Translation reserve HK$'000 (Note 31(f))	Retained earnings HK$'000 (Note 31(g))	Total HK$'000	Non-controlling interests HK$'000 (Note 34)	Total HK$'000
At 1 January 2019	339,227	1,090,897	(937)	287,496	10,235	(49,067)	(3,212)	125,979	1,800,618	121,266	1,921,884
Loss for the year	–	–	–	–	–	–	–	(21,071)	(21,071)	(681)	(21,752)
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	–	(56,711)	–	(56,711)	(8,363)	(65,074)
Fair value changes in other financial assets	–	–	–	–	–	47	–	–	47	–	47
Other comprehensive income for the year	–	–	–	–	–	47	(56,711)	–	(56,664)	(8,363)	(65,027)
Total comprehensive income for the year	–	–	–	–	–	47	(56,711)	(21,071)	(77,735)	(9,044)	(86,779)
Appropriation to statutory reserve	–	–	2,263	–	–	–	–	(2,263)	–	–	–
At 31 December 2019	339,227	1,090,897	1,326	287,496	10,235	(49,020)	(59,923)	102,645	1,722,883	112,222	1,835,105
At 31 December 2019 and 1 January 2020	339,227	1,090,897	1,326	287,496	10,235	(49,020)	(59,923)	102,645	1,722,883	112,222	1,835,105
(Loss)/profit for the year	–	–	–	–	–	–	–	(6,330)	(6,330)	4,817	(1,513)
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	–	101,209	–	101,209	14,322	115,531
Fair value changes in other financial assets	–	–	–	–	–	15	–	–	15	–	15
Other comprehensive income for the year	–	–	–	–	–	15	101,209	–	101,224	14,322	115,546
Total comprehensive income for the year	–	–	–	–	–	15	101,209	(6,330)	94,894	19,139	114,033
Appropriation to statutory reserve	–	–	6,650	–	–	–	–	(6,650)	–	–	–
At 31 December 2020	339,227	1,090,897	7,976	287,496	10,235	(49,005)	41,286	89,665	1,817,777	131,361	1,949,138



CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 *HK$'000*	2019 *HK$'000*
Cash flows from operating activities		
Loss before tax	**(4,223)**	(25,482)
Adjustments for:		
Interest income	**(990)**	(1,192)
Interest expenses	**166**	235
Depreciation of property, plant and equipment	**32,796**	32,775
Depreciation of right-of-use assets	**4,625**	3,922
Amortisation of other intangible assets	**20,511**	20,125
Fair value loss/(gain) of a contingent consideration payable	**13,074**	(16,947)
Gain on disposal of property, plant and equipment	**—**	(46)
Impairment loss recognised in respect of other receivables	**265**	47
Impairment loss recognised in respect of amount due from an associate	**—**	3
Provision for restoration and environment costs	**2,647**	1,399
Reversal of impairment loss written off/recognised in respect of other receivables	**(1,225)**	(102)
Share of losses of an associate	**—**	5
	67,646	14,742
(Increase)/decrease in inventories	**(41,943)**	2,787
Decrease/(increase) in other receivables	**22,628**	(14,577)
Increase in amount due from an associate	**—**	(3)
Increase in other payables	**17,570**	10,636
Increase in contract liabilities	**56,417**	6,363
Cash generated from operations	**122,318**	19,948
Income tax expenses paid	**—**	—
Net cash generated from operating activities	**122,318**	19,948

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 HK$'000	2019 HK$'000
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	**(75,885)**	(89,719)
Payment for other intangible assets	**(9,658)**	—
Expenditure paid on exploration and evaluation assets	**(41,476)**	(17,095)
Proceeds on disposal of property, plant and equipment	**—**	50
Interest received	**990**	1,192
Net cash used in investing activities	**(126,029)**	(105,572)
Cash flows from financing activities		
Repayment of bank and other borrowings	**(64,990)**	—
New bank and other borrowings raised	**129,306**	72,514
Payment of principal portion of lease liabilities	**(3,834)**	(3,258)
Interest paid on lease liabilities	**(166)**	(235)
Interest paid	**(18,130)**	(13,841)
Net cash generated from financing activities	**42,186**	55,180
Net increase/(decrease) in cash and cash equivalents	**38,475**	(30,444)
Cash and cash equivalents at beginning of the year	**90,277**	109,550
Effect of exchange rate changes on cash and cash equivalents	**1,541**	11,171
Cash and cash equivalents at end of the year, represented by bank balances and cash	**130,293**	90,277

1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

3. BASIS OF PREPARATION

(a) Statement of compliance

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 "HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. 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").

3. BASIS OF PREPARATION *(CONTINUED)*

(b) Basis of measurement and going concern assumption

The Group incurred a loss of approximately HK$1,513,000 for the year ended 31 December 2020 and, as of that date, had net current liabilities of approximately HK$553,990,000.

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

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

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

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair value, at the end of each reporting period, as explained in the accounting policies set out below.

(c) Functional and presentation currency

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.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree, if any, is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

When the Group loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee; exposure, or rights, to variable returns from the investee; and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(c) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

In the Company's statement of financial position, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Goodwill

Where the fair value of identifiable assets and liabilities exceeds the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A CGU to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see Note 4(p)), and whenever there is an indication that the CGU may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Property, plant and equipment *(CONTINUED)*

Property, plant and equipment, except for mining structures, are depreciated so as to write off their costs net of expected residual values over their estimated useful lives on a straight-line basis. The useful lives, residual values and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The estimated useful lives are as follows:

Buildings	Shorter of lease term of land or 10-40 years
Plant and machinery	3-10 years
Furniture, fixtures and equipment	5-10 years
Motor vehicles	4-10 years

Mining structures located in the mining site are depreciated using the Unit-of-Production ("UOP") method to write-off cost of the assets proportionately to the extraction of the proven and probable mineral reserves.

Construction in progress represents mining structures, buildings and machinery in the course of construction for production or for its own use purposes. Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount if any indication of impairment is identified.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net disposal proceeds and its carrying amount, and is recognised in profit or loss on disposal.

(f) Leasing

All leases are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Leasing *(CONTINUED)*

Right-of-use asset

The right-of-use asset is recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose as investment properties under HKAS 40 and are carried at fair value. The Group accounts for leasehold land and buildings which are held for own use under HKAS 16 and are carried at fair value. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g. a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Exploration and evaluation assets

All costs directly associated with exploration and evaluation are initially capitalised. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment loss. Exploration and evaluation assets are those expenditures for an area where technical feasibility and commercial viability has not been determined. Exploration and evaluation assets include acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, sampling and trenching and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. Exploration and evaluation assets are written off to profit or loss if the exploration property is abandoned.

Exploration and evaluation assets which became demonstrable and reached the development phase are transferred to mining rights and property, plant and equipment. Exploration and evaluation assets are assessed for impairment annually and before reclassification.

(h) Intangible assets (other than goodwill)

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Except for mining rights, amortisation is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative and other expenses.

Mining rights with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment loss. Amortisation is provided using the UOP method based on the actual volume mined over the estimated total proven and probable reserves of the ore mine within the terms of the mining license.

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see Note 4(p)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial Instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income (“FVOCI”): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial Instruments *(CONTINUED)*

(i) Financial assets *(CONTINUED)*

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on other receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12-month ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other receivables, the ECLs are based on the 12-month ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial Instruments *(CONTINUED)*

(ii) Impairment loss on financial assets *(CONTINUED)*

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at FVTPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at FVTPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise, except for the gains and losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Financial Instruments *(CONTINUED)*

(iii) Financial liabilities *(CONTINUED)*

Financial liabilities at amortised cost

Financial liabilities at amortised cost including other payables and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with the accounting policy set out in note 4(i)(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the period.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Revenue recognition *(CONTINUED)*

Under HKFRS 15, the Group recognise revenue from sales of goods when control over the goods has been transferred to the customers. It is generally satisfied at a point in time when the legal title has passed to the customer.

(i) Other income

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(ii) Contract liabilities

A contract liability represents the Group's obligation to transfer services to a customer for which the Group has received consideration from the customer.

(l) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities and adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(m) Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised in profit or loss when the services are rendered by the employees.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

(o) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the options at the date of grant. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) Impairment of assets (other than financial assets)

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- exploration and evaluation assets
- other intangible assets
- investments in subsidiaries in the Company's statement of financial position; and
- interest in an associate

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Value in use is based on the estimated future cash flows expected to be derived from the asset or CGU (see Note 4(d)), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

(q) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reliably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Provisions for land reclamation and cavity refill costs and environmental rehabilitation are based on estimates of required expenditure on the mines in accordance with the relevant rules and regulations in the PRC. The Group estimates its liabilities for land reclamation and cavity refill, and environmental rehabilitation based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work, escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. Provisions for land reclamation and cavity refill cost, and environmental rehabilitation are recognised in profit or loss in the period when the obligation is identified.

(s) Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

(t) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) Related parties *(CONTINUED)*

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgments in applying accounting policies

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgment is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. In the absence of active market of the CGU, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation models. Assumptions and inputs used in valuation techniques vary and depend on the nature of business of the CGU. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and a suitable discount rate. Where other pricing models are used, inputs are based on observable market data at the end of each reporting period. However, where market data are not available, management needs to make estimates on such unobservable market inputs based on assumptions. Changes in assumptions about these factors could affect the estimated fair value of the CGU. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

(b) Key sources of estimation uncertainty *(CONTINUED)*

(ii) Impairment of trade and other receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers/debtors to make the required payments. The impairment allowances are based on assumptions about risk of default and expected credit loss rates. The Group makes its estimates based on the ageing of its loan balances, customers/debtors' creditworthiness, historical write-off experience and existing market condition including forward-looking estimates as at the reporting date. If the financial condition of its debtors was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

(iii) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether non-financial assets suffered any impairment in accordance with accounting policy stated in Note 4(p). The non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The determination of recoverable amount requires an estimation of future cash flows and the selection of appropriate discount rates. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods, where applicable.

(iv) Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable amount. The assessment of the recoverable amount involves judgment as to (i) the likely future commercial viability of the asset and when such commercial viability should be determined; (ii) future revenues based on forecasted gold prices; (iii) future development costs and production expenses; (iv) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable amount; and (v) potential value to future exploration and evaluation activities of any geological and geographical data acquired. Any material adverse changes of these factors may cause impairment of the carrying value of the exploration and evaluation assets.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

(b) Key sources of estimation uncertainty *(CONTINUED)*

(v) Fair value measurement

A number of assets and liabilities included in the Group's consolidated financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted);
- Level 2: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Certain of the Group's financial assets/liabilities measured at FVOCI/FVTPL are disclosed in Note 37 are measured at fair value.

(vi) Going concern and liquidity

A explained in Note 3(b) to the financial statements, the Group incurred a loss of approximately HK$1,513,000 for the year ended 31 December 2020 and, as of that date, had net current liabilities of approximately HK$553,990,000. The directors consider that the Company has ability to continue as a going concern and details of which are set out in Note 3(b) to the financial statements.

6. REVENUE AND SEGMENT REPORTING

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

Segment revenue and results

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

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

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

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

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	
	2020	2019
	HK$'000	*HK$'000*
Customer A	**232,388**	152,787
Customer B	**95,322**	—

7. OTHER INCOME

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

Note:

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

8. OTHER NET GAINS AND LOSSES

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

9. FINANCE COSTS

	2020 HK$'000	2019 HK$'000
Unsecured interest on bank and other borrowings	**16,627**	13,404
Secured interest on bank borrowings	**331**	437
Secured interest on other borrowing	**1,172**	—
Less: Amount capitalised *(Note (a))*	**(18,130)**	(13,841)
Interest expenses on leases liabilities	**166**	235
	166	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 7.65% and 1.86% respectively (2019: 11.92% and 2.61%) to expenditure on qualifying assets.

10. LOSS BEFORE TAX

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

	2020	2019
	HK$'000	*HK$'000*
Director's emoluments *(Note 12)*	**3,371**	4,219
Other staff's salaries, bonus and allowances	**16,743**	13,762
Other staff's contribution to retirement benefits schemes	**1,670**	1,642
Total staff costs	**21,784**	19,623
Impairment loss recognised in respect of other receivables	**265**	47
Impairment loss recognised in respect of amount due from an associate	**—**	3
Reversal of impairment loss previously written off/recognised in respect of other receivables	**(1,225)**	(102)
Amortisations		
— other intangible assets	**20,511**	20,125
Auditor's remuneration	**1,850**	1,806
Costs of inventories recognised as an expense *(Note (a))*	**241,399**	164,704
Depreciation charges		
— property, plant and equipment	**32,796**	32,775
— right-of-use assets		
— office premise and factories	**3,248**	2,550
— motor vehicle	**525**	530
— office equipment	**34**	17
— prepaid lease payments	**818**	825
Interest on leases liabilities	**166**	235

Note:

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

11. INCOME TAX CREDIT

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

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

11. INCOME TAX CREDIT *(CONTINUED)*

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

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

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

	2020	2019
	HK$'000	*HK$'000*
Current tax — PRC Enterprise Income Tax	**—**	678
Deferred tax *(Note 28)*	**(2,710)**	(4,408)
	(2,710)	(3,730)

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

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

12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS

	2020	2019
	HK$'000	*HK$'000*
Fees	**615**	720
Other emoluments		
Salaries and other benefits	**2,084**	2,713
Performance related incentive payments *(Note (a))*	**602**	716
Contributions to retirement benefits schemes	**70**	70
	3,371	4,219

Directors' and chief executives' emoluments are disclosed as follows:

For the year ended 31 December 2020

	Fees	**Salaries and other benefits**	**Performance related incentive payments**	**Contributions to retirement benefits schemes**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Executive directors					
Yeung Kwok Kuen	–	**1,200**	**200**	**70**	**1,470**
Shi Xing Zhi	–	**442**	**160**	–	**602**
Shi Sheng Li	–	**442**	**152**	–	**594**
Independent non-executive directors					
Chu Kang Nam	**180**	–	**30**	–	**210**
Ngai Sai Chuen *(Note (c))*	**75**	–	–	–	**75**
Liang Xu Shu	**180**	–	**30**	–	**210**
Leung Ka Wo	**180**	–	**30**	–	**210**
	615	**2,084**	**602**	**70**	**3,371**

12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS *(CONTINUED)*

For the year ended 31 December 2019

	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Performance related incentive payments *HK$'000*	Contributions to retirement benefits schemes *HK$'000*	Total *HK$'000*
Executive directors					
Yeung Kwok Kuen	–	1,200	200	70	1,470
Fang Yi Quan *(Note(b))*	–	642	78	–	720
Shi Xing Zhi	–	444	162	–	606
Shi Sheng Li	–	427	156	–	583
Independent non-executive directors					
Chu Kang Nam	180	–	30	–	210
Ngai Sai Chuen	180	–	30	–	210
Liang Xu Shu	180	–	30	–	210
Leung Ka Wo	180	–	30	–	210
	720	2,713	716	70	4,219

Notes:

(a) The performance related incentive payments are determined by reference to the financial performance of certain subsidiaries of the Group and the market environment during the year.

(b) Mr. Fang Yi Quan resigned as an executive director of the Company with effect from 22 November 2019.

(c) Mr. Ngai Sai Chuen resigned as an independent non-executive director of the Company with effect from 29 May 2020.

The executive directors' and chief executives' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

There was no arrangement under which a director waived or agreed to waive any remuneration during the two years ended 31 December 2020 and 2019.

12. DIRECTORS' AND CHIEF EXECUTIVES' EMOLUMENTS *(CONTINUED)*

Five highest paid employees

The five highest paid employees of the Group during the year included two directors (2019: two directors), details of whose remuneration are set out above. Details of the remuneration for the year of the remaining three (2019: three) highest paid employees who are not a director of the Group are as follows:

	2020	2019
	HK$'000	*HK$'000*
Salaries and other benefits	**1,972**	1,918
Performance related incentive payments *(Note (a))*	**328**	320
Contributions to retirement benefits schemes	**73**	70
	2,373	2,308

The remaining highest paid employees' remuneration was each within HK$Nil to HK$1,000,000 (2019: within Nil to HK$1,000,000).

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to the directors or employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

13. DIVIDEND

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

14. LOSS PER SHARE

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

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

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Construction in progress *HK$'000*	Mining structures *HK$'000*	Total *HK$'000*
Cost							
At 1 January 2019	33,850	67,668	1,686	2,212	958,896	96,282	1,160,594
Exchange adjustments	(785)	(1,621)	(32)	(44)	(17,652)	(6,972)	(27,106)
Additions	350	8,495	13	162	94,540	–	103,560
Transfer	2,307	–	–	–	(299,015)	296,708	–
Disposals	–	–	(8)	(459)	–	–	(467)
At 31 December 2019 and 1 January 2020	35,722	74,542	1,659	1,871	736,769	386,018	1,236,581
Exchange adjustments	8,414	7,978	112	121	43,480	24,863	84,968
Additions	787	21,060	126	–	72,042	–	94,015
Transfer	106,958	34,933	199	–	(142,090)	–	–
Disposals	–	–	(67)	–	–	–	(67)
At 31 December 2020	151,881	138,513	2,029	1,992	710,201	410,881	1,415,497
Accumulated depreciation and impairment							
At 1 January 2019	7,056	17,805	1,607	630	–	14,501	41,599
Exchange adjustments	(193)	(509)	(32)	(11)	–	(688)	(1,433)
Charge for the year	2,319	7,263	30	274	–	22,889	32,775
Eliminated on disposals	–	–	(8)	(455)	–	–	(463)
At 31 December 2019 and 1 January 2020	9,182	24,559	1,597	438	–	36,702	72,478
Exchange adjustments	861	2,093	94	48	–	3,412	6,508
Charge for the year	4,809	9,072	41	340	–	18,534	32,796
Eliminated on disposals	–	–	(67)	–	–	–	(67)
At 31 December 2020	14,852	35,724	1,665	826	–	58,648	111,715
Net book value							
At 31 December 2020	137,029	102,789	364	1,166	710,201	352,233	1,303,782
At 31 December 2019	26,540	49,983	62	1,433	736,769	349,316	1,164,103

16. EXPLORATION AND EVALUATION ASSETS

	2020	2019
	HK$'000	*HK$'000*
Cost		
At 1 January	**1,270,375**	1,281,633
Exchange adjustments	**84,922**	(28,353)
Additions	**54,693**	17,095
At 31 December	**1,409,990**	1,270,375
Carrying amount		
At 31 December	**1,409,990**	1,270,375

The Group's exploration and evaluation assets relate to exploration licenses and assets situated in Shaanxi Province, PRC, which are under the exploration and evaluation stage as at 31 December 2020 with a carrying value of HK$1,409,990,000 (2019: HK$1,270,375,000). These assets are not subject to amortisation until they are placed in use.

17. GOODWILL

	2020	2019
	HK$'000	*HK$'000*
Cost		
At 1 January	**646,349**	688,611
Exchange adjustment	**41,631**	(42,262)
At 31 December	**687,980**	646,349
Accumulated impairment		
At 1 January	**48,711**	52,202
Exchange adjustment	**3,137**	(3,491)
At 31 December	**51,848**	48,711
Carrying amount		
At 31 December	**636,132**	597,638

17. GOODWILL *(CONTINUED)*

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	**2020** **HK$'000**	2019 HK$'000
One Champion Group	Gold mining operation	**385,716**	362,375
Perfect Major Group	Gold mining operation	**83,184**	78,150
Pride Success Group	Gold mining operation	**79,542**	74,729
Best Income and Max Paramount Group	Gold mining operation	**87,690**	82,384
Carrying amount		**636,132**	597,638

Impairment testing:

Valuations were carried out by an independent valuer, JP Assets Consultancy Limited ("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 2020 and 2019, 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 will 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.

	2020	2019
Pre-tax discount rate	**16.47%**	17.11%
Spot price of Gold	**USD1,898/Oz**	USD1,517/Oz
Exchange rate (RMB:US$)	**RMB6.5272: US$1**	RMB6.9632: US$1
Growth rate	**2%**	2%

No impairment is recognised as a result of the annual impairment testing of goodwill for the years ended 31 December 2020 and 2019. 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.

17. GOODWILL *(CONTINUED)*

Impairment testing *(CONTINUED)*

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

As at 31 December 2020 and 2019, 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 2020 and 2019.

18. OTHER INTANGIBLE ASSETS

	Mining rights *HK$'000* *(Note)*
Cost	
At 1 January 2019	163,465
Exchange adjustments	(3,581)
At 31 December 2019 and 1 January 2020	159,884
Additions	39,210
Exchange adjustments	12,523
At 31 December 2020	211,617
Accumulated amortisation and impairment	
At 1 January 2019	20,788
Exchange adjustments	(785)
Charge for the year	20,125
At 31 December 2019 and 1 January 2020	40,128
Exchange adjustments	3,749
Charge for the year	20,511
At 31 December 2020	64,388
Carrying amount	
At 31 December 2020	147,229
At 31 December 2019	119,756

Note: Mining rights (included in the CGU of gold mining operation)

The mining licences and gold mining permit of the relevant gold mining projects have been granted to the Group, which allow the Group to mine up to a predetermined level of ore every year from the date of grant through the expiry of the mining licences.

19. OTHER FINANCIAL ASSETS

	2020 *HK$'000*	2019 *HK$'000*
Equity securities listed in overseas stock exchange — as financial assets measured at FVOCI	**6,989**	6,872

The equity investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature.

20. INTEREST IN AN ASSOCIATE

	2020 *HK$'000*	2019 *HK$'000*
Share of net assets	**3,517**	3,304
Amount due from an associate*	**1,782**	1,674
Less: allowance	**(3)**	(3)
	1,779	1,671

* The amount is unsecured, interest free and is with no fixed repayment terms.

Movement in impairment loss on amount due from an associate:

	2020 *HK$'000*	2019 *HK$'000*
At 1 January	**3**	—
Impairment loss recognised	**—**	3
At 31 December	**3**	3

20. INTEREST IN AN ASSOCIATE *(CONTINUED)*

Details of the Group interest in an associate is as follows:

Name	Place of incorporation, operation and principal activity	Percentage of ownership interests
Shaanxi Tongguan Siu Qin Ling Gold Mining Country Park Limited（陝西潼關小秦嶺金礦國家礦山公園有限公司）*(Note (b))*	Manufacturing of arts and crafts and park management in the PRC	30

Notes:

(a) The primary business of Shaanxi Tongguan Siu Qin Ling Gold Mining Country Park Limited is manufacturing of arts and crafts and park management of Siu Qin Ling Gold Mining Country Park.

(b) This company is limited liability company established in the PRC. The English translation of the company name is for reference only.

In the opinion of the directors of the Group, the above associate is not material to the Group and the summarised financial information is set out below.

	2020	2019
	HK$'000	*HK$'000*
Loss for the year	—	(17)
Other comprehensive income	—	—
Total comprehensive income	—	(17)

21. INVENTORIES

	2020	2019
	HK$'000	*HK$'000*
Raw materials	**6,536**	5,124
Finished goods	**55,138**	11,177
	61,674	16,301

22. OTHER RECEIVABLES

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

Note:

(a) Other receivables

Movement in impairment loss on other receivables:

	2020 HK$'000	2019 HK$'000
At 1 January	**104**	159
Reversal of impairment loss previously recognised	**(101)**	(102)
Impairment loss recognised	**265**	47
At 31 December	**268**	104

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.

23. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rates ranging from 0.001% to 0.35% per annum (2019: 0.001% to 0.35% per annum) at 31 December 2020.

Included in bank balances and cash are the following amounts which are subject to foreign exchange control regulations or not freely transferrable:

	2020 HK$'000	2019 HK$'000
Amounts denominated in:		
RMB	**80,174**	16,750

24. OTHER PAYABLES

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

Notes:

(a) Included in other payables were amounts payable to subcontractors of HK$306 million (2019: HK$222 million) for mining extraction and construction and promissory note payable of HK$64 million (2019: Nil).

(b) The amounts are due to certain beneficial owners of the shareholders of the Company and are non-trade in nature, unsecured, interest-free and repayable after one year at the end of reporting period.

25. CONTRACT LIABILITIES

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

	31 December 2020 HK$'000	31 December 2019 HK$'000
Contract liabilities arising from:		
Sale of goods	**68,700**	9,800

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

Movements in contract liabilities:

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

26. BANK AND OTHER BORROWINGS

	2020 HK$'000	2019 HK$'000
Current		
Unsecured other borrowings *(Note (a))*	**23,764**	—
Unsecured bank borrowing *(Note (b)&(d))*	**46,934**	16,745
Secured other borrowing *(Note (c))*	**43,964**	—
Bill payables *(Note (d))*	**30,893**	49,117
Less: Cash deposit *(Note (e))*	**(23,764)**	(16,968)
	121,791	48,894
Non-current		
Unsecured other borrowings *(Note (a))*	**95,923**	112,445
Unsecured bank borrowing *(Note (b)&(d))*	**21,982**	—
	117,905	112,445
Other borrowing and bank borrowings repayable:		
Within one year	**121,791**	48,894
More than one year but not more than two years*	**117,905**	112,445
	239,696	161,339

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Notes:

(a) The effective interest rates (which are also equal to contracted interest rates) on the Group's other borrowings are including the fixed rates at 12% per annum (year ended 31 December 2019: 12% per annum).

(b) The ranges of effective interest rates on the Group's bank borrowings are including the variable market rates which are loan prime rate ("LPR")+0.95%, LPR+2.025% and LPR+2.088% per annum (year ended 31 December 2019: RMB benchmark loan interest rates+1.05% per annum).

(c) During the year, the Group has pledged the machineries of HK$55,217,000 (year ended 31 December 2019: Nil) to secure the other borrowing granted to the Group. The effective interest rates on the other borrowings is fixed rates at 6% per annum.

(d) Personal and corporate guarantees were given to banks for the bank borrowings and bill payables by a subsidiary and/or the independent third parties.

(e) Xiangshun is required to maintain cash on deposit of HK$23,764,000 (year ended 31 December 2019: HK$16,968,000) in respect of bill payables. The cash cannot be withdrawn or used by the company for liquidity purposes whilst the bill payables are outstanding. Upon maturity of the borrowing, the company and the lender intend to net settle. As a result, Xiangshun's borrowings have been presented net of the cash on deposit.

27. FINANCIAL LIABILITIES MEASURED AT FVTPL (NON-CURRENT)

	2020	2019
	HK$'000	*HK$'000*
Contingent consideration payable	–	51,214

The promissory note with principal amount of HK$80,000,000 carries zero interest and with maturity of 36 months from the date of Registration Approval ("Effective Date"). The fair value of the promissory note was HK$51,214,000 determined at 31 December 2019 with reference to a professional valuation performed by Valtech Valuation Advisory Limited and with the effective interest rate of 11.89%.

During the year, the promissory note became effective upon the date of Registration Approval, therefore, the promissory note is no longer a contingent consideration payable and is recognised as other payable (note 24).

28. DEFERRED TAX LIABILITIES

The followings are the deferred tax liabilities recognised and movements thereon during current and prior years:

	Accelerated tax depreciation	**Exploration and evaluation assets**	**Other intangible assets**	**Right of use asset**	**Lease liabilities**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2019	18,840	272,550	37,522	–	–	438	329,350
Exchange adjustment	(387)	(5,969)	(774)	(5)	4	(10)	(7,141)
(Credited)/charge to profit or loss *(Note 11)*	(1,574)	–	(2,848)	857	(832)	(11)	(4,408)
At 31 December 2019	16,879	266,581	33,900	852	(828)	417	317,801
Exchange adjustment	1,051	17,170	2,066	11	(12)	26	20,312
(Credited)/charge to profit or loss *(Note 11)*	(640)	–	(2,064)	(568)	573	(11)	(2,710)
At 31 December 2020	17,290	283,751	33,902	295	(267)	432	335,403

At the end of the reporting period, the Group has unused tax losses of approximately HK$580,004,000 (2019: approximately HK$119,486,000) available for offset against future profits. No deferred tax asset has been recognised in relation to such tax losses due to the unpredictability of future profit streams available in the relevant tax jurisdictions and entities. The tax losses arising from the PRC operations expire five years after the relevant accounting year end. The tax losses arising from other operations do not expire under current tax legislation in the relevant tax jurisdiction.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences amounting to HK$124,498,000 (2019: HK$103,443,000) representing the accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29. PROVISION FOR RESTORATION AND ENVIRONMENT COSTS

	2020	2019
	HK$'000	*HK$'000*
At 1 January	**9,560**	8,368
Exchange adjustment	**766**	(207)
Additions to site reclamation	**2,647**	1,399
At 31 December	**12,973**	9,560

In accordance with relevant PRC rules and regulations, if any damage is caused to cultivated land, grassland or forest as a result of exploration or mining activities, a mining enterprise must restore the land to a state appropriate for use by reclamation, re-planting trees or grasses or such other measures, as appropriate, after the mining has been completed. The Group provides for the present obligation of the cost of the restoration.

The provision for restoration costs has been determined by the directors of the Group based on their best estimates for the restoration upon the closure of the mine sites taking consideration of the amount and timing of future cash flows that a third party may be required to perform the required work of restoration, including material cost and labour cost, escalated for inflation, and discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability to reflect the present value of the expenditures expected to be required to settle such obligation.

30. SHARE CAPITAL

	Number of ordinary shares at HK$0.1 each	
	'000	*HK$'000*
Authorised:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**46,223,810**	4,622,381

	Number of ordinary shares at HK$0.1 each	
	'000	*HK$'000*
Issued and fully paid:		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	**3,392,272**	339,227

All the shares issued during the year rank pari passu with the then existing shares in all respects.

31. RESERVES

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of changes in equity.

(a) Share premium

Share premium represented the amount subscribed for share capital in excess of nominal value.

(b) Statutory surplus reserve

According to the relevant rules and regulations in the PRC, subsidiaries established in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these subsidiaries. Statutory surplus reserve can be used to set-off previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

(c) Contributed surplus

The contributed surplus represents the excess of capital reduction and share premium cancellation over the accumulated losses of the Company pursuant to the capital reorganisation on 29 February 2016.

(d) Share option reserve

Share option reserve recognised is based on the fair value of equity-settled share options granted to key management personnel and employees as at the date of grant.

(e) Investment revaluation reserve

Investment revaluation reserve represented the gains or losses arising on recognising financial assets classified as FVOCI at fair value.

(f) Translation reserve

Translation reserve represented the gains or losses arising on retranslating the net assets of foreign operations into presentation currency.

(g) Retained earnings

Retained earnings represented the cumulative net gains and losses recognised in profit or loss.

32. LEASE LIABILITIES

(i) Amounts recognised in the consolidated statement of financial position

The consolidated statement of financial position shows the following amounts relating to leases:

	2020	2019
	HK$'000	*HK$'000*
Right-of-use-assets		
Office premise and factories	**1,114**	3,680
Motor vehicles, carried at depreciated cost	**462**	956
Office equipment, carried at depreciated cost	**17**	51
Prepaid lease payments	**31,941**	30,820
	33,534	35,507
Lease liabilities		
Current liabilities	**1,303**	3,459
Non-current liabilities	**102**	1,065
	1,405	4,524

Addition to the right-of-use assets during the 2020 financial year were HK$660,000 (2019:HK$68,000).

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	2020	2019
	HK$'000	*HK$'000*
Depreciation charge of right-of-use-assets		
Office premise and factories	**3,248**	2,550
Motor vehicles, carried at depreciated cost	**525**	530
Office equipment, carried at depreciated cost	**34**	17
Prepaid lease payments	**818**	825
	4,625	3,922
Interest expense (included in finance cost) *(Note 9)*	**166**	235

The total cash outflow for leases in 2020 was HK$4,000,000 (2019:HK$3,493,000).

33. SHARE OPTIONS SCHEME

2012 Option Scheme

The Company has a share option scheme which was adopted on 25 May 2012 (the "2012 Option Scheme") whereby the directors might, at their discretion, invite directors and employees of the Company or its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. The options granted were vested immediately at the date of grant and were exercisable within a period of five years. Each option gave the holder the right to subscribe for one ordinary share in the Company. The Scheme is deemed to be an equity-settled share based remuneration scheme for employees. All Hong Kong employees are eligible to participate in the scheme. All unexpired share options granted under the 2012 Option Scheme had been cancelled during the year ended 31 December 2014.

Option granted

On 7 December 2018, the Company has granted, subject to acceptance of the grantees, 50,000,000 share options to certain eligible persons under the 2012 Option Scheme of the Company adopted on 25 May 2012, to subscribe for a total of 50,000,000 ordinary shares of HK$0.1 each in the Company. The validity period and exercise period of the Share Options are within 5 years from the date of grant.

The exercise price of the options granted is set as the highest of (i) the closing price of HK$0.51 per Share as stated in the daily quotations sheets issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the Date of Grant; (ii) the average closing price of HK$0.519 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and (iii) HK$0.1, being the nominal value of a Share on the date of the offer.

33. SHARE OPTIONS SCHEME *(CONTINUED)*

The following share options were outstanding under the scheme during the year:

	Weighted average exercise price 2020 *HK$*	**Number 2020** *'000*	Weighted average exercise price 2019 *HK$*	Number 2019 *'000*
Outstanding at beginning of the year	**0.52**	**50,000**	0.52	50,000
Granted during the year	**—**	**—**	—	—
Forfeited during the year	**—**	**—**	—	—
Exercised during the year	**—**	**—**	—	—
Outstanding at the end of the year	**0.52**	**50,000**	0.52	50,000

All options granted were at an exercise price of HK$0.52 per share (2019: HK$0.52) and the remaining contractual life was 3 years (2019: 4 years).

The fair value of the equity-settled share options granted in 2018 was HK$10,235,000, which was estimated as at the date of grant, using a binomial tree option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2018
Underlying stock price (HK$)	0.51
Exercise price (HK$)	0.52
Expected life of option (years)	5
Expected volatility (%)	51.84
Expected dividend yield (%)	—
Risk-free interest rate (%)	1.98

The risk-free rate was based on market yield rate of Hong Kong Sovereign Government Bond Curve with maturity on 7 December 2018 as of the date of valuation. Expected volatility was based on the share prices of Company's historical 5-year weekly volatility that are equal to the expected life before the grant date.

34. NON-CONTROLLING INTERESTS

Tongguan County Xiangshun Mining Development Co., Ltd. ("Xiangshun")

Xiangshun, an 90% owned subsidiary of the Company, has NCI. Summarised financial information in relation to the NCI of Xiangshun before intra-group eliminations is presented below:

	2020 ***HK$'000***	2019 *HK$'000*
For the year ended 31 December		
Revenue	**294,493**	109,383
Profit/(loss) for the year	**66,497**	(8,864)
Total comprehensive income	**7,845**	(1,154)
Profit/(loss) allocated to NCI	**6,650**	(886)
Dividends paid to NCI	**—**	—
Cash flows from operating activities	**231,765**	16,834
Cash flows used in investing activities	**(122,165)**	(69,151)
Cash flows (used in)/from financing activities	**(78,751)**	58,221
Net cash inflows	**30,849**	5,904
As at 31 December		
Current assets	**422,211**	217,430
Non-current assets	**619,382**	481,460
Current liabilities	**(526,199)**	(382,021)
Non-current liabilities	**(170,815)**	(47,334)
Net equity	**344,579**	269,535
Accumulated non-controlling interests	**34,458**	26,954

34. NON-CONTROLLING INTERESTS *(CONTINUED)*

Shaanxi Tongxin Mining Co. Ltd. ("Tongxin Mining")

Tongxin Mining, an 90% owned subsidiary of the Company, has NCI. Summarised financial information in relation to the NCI of Tongxin Mining before intra-group eliminations is presented below:

	2020	2019
	HK$'000	*HK$'000*
For the year ended 31 December		
Revenue	—	—
Loss for the year	**(3,869)**	(6,237)
Total comprehensive income	**(562)**	(662)
Loss allocated to NCI	**(387)**	(624)
Dividends paid to NCI	—	—
Cash flows used in operating activities	**(4,706)**	(5,377)
Cash flows used in investing activities	**(5,759)**	(4,782)
Cash flows from financing activities	**10,633**	10,140
Net cash inflows/(outflows)	**168**	(19)
As at 31 December		
Current assets	**5,956**	4,195
Non-current assets	**555,415**	517,890
Current liabilities	**(198,935)**	(177,740)
Non-current liabilities	**(89,839)**	(83,974)
Net equity	**272,597**	260,371
Accumulated non-controlling interests	**27,260**	26,037

34. NON-CONTROLLING INTERESTS *(CONTINUED)*

Tongguan County De Xing Mining LLC ("De Xing")

De Xing, an 90% owned subsidiary of the Company, has NCI. Summarised financial information in relation to the NCI of De Xing before intra-group eliminations is presented below:

	2020	2019
	HK$'000	*HK$'000*
For the year ended 31 December		
Revenue	**33,217**	82,053
(Loss)/profit for the year	**(12,111)**	15,050
Total comprehensive income	**(1,233)**	1,494
(Loss)/profit allocated to NCI	**(1,211)**	1,505
Dividends paid to NCI	**—**	—
Cash flows (used in)/from operating activities	**(4,370)**	54,412
Cash flows used in investing activities	**(500)**	(11,401)
Cash flows from/(used in) financing activities	**36,471**	(41,491)
Net cash inflows	**31,601**	1,520
As at 31 December		
Current assets	**105,634**	40,613
Non-current assets	**751,700**	723,736
Current liabilities	**(327,565)**	(255,370)
Non-current liabilities	**(134,960)**	(124,923)
Net equity	**394,809**	384,056
Accumulated non-controlling interests	**39,481**	38,406

34. NON-CONTROLLING INTERESTS *(CONTINUED)*

Tongguan Tongjin Mining Co. Ltd. ("Tongjin")

Tongjin, an 90% owned subsidiary of the Company, has NCI. Summarised financial information in relation to the NCI of Tongjin before intra-group eliminations is presented below:

	2020	2019
	HK$'000	*HK$'000*
For the year ended 31 December		
Revenue	**—**	—
Loss for the year	**(7,865)**	(10,253)
Total comprehensive income	**3,815**	(2,647)
Loss allocated to NCI	**(787)**	(1,025)
Dividends paid to NCI	**—**	—
Cash flows used in operating activities	**(68,489)**	(25,779)
Cash flows used in investing activities	**(33,866)**	(26,822)
Cash flows from financing activities	**102,776**	52,607
Net cash inflows	**421**	6
As at 31 December		
Current assets	**18,684**	20,848
Non-current assets	**938,593**	838,342
Current liabilities	**(643,402)**	(529,374)
Non-current liabilities	**(95,929)**	(89,013)
Net equity	**217,946**	240,803
Accumulated non-controlling interests	**21,795**	24,080

35. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank and other borrowings disclosed in Note 26 to the consolidated financial statements and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and risks associates with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of the existing debt.

The gearing ratio at the end of reporting period was as follows:

	2020	2019
	HK$'000	*HK$'000*
Bank and other borrowings	**239,696**	161,339
Bank balances and cash	**(130,293)**	(90,277)
Net debt	**109,403**	71,062
Equity	**1,949,138**	1,835,105
Net debt to equity ratio	**5.61%**	3.87%

36. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

	Bank and other borrowings *(Note 26)* *HK$'000*	**Lease liabilities** *(Note 32)* *HK$'000*
At 1 January 2019	92,046	—
Recognition upon adoption of HKFRS16	—	7,741
Changes from cash flows:		
Proceeds from new bank and other loans	72,514	—
Payment of lease liabilities	—	(3,258)
Interest paid	(13,841)	(235)
Total changes from financing cash flows	58,673	(3,493)
Exchange adjustments	(3,221)	(27)
Other changes:		
Interest expenses on bank and other borrowings	13,841	—
Addition of lease liabilities	—	68
Interest expenses on leases liabilities	—	235
Total other changes	13,841	303
At 31 December 2019	161,339	4,524
Changes from cash flows:		
Proceeds from new bank and other loans	129,306	—
Repayment of bank and other borrowings	(64,990)	—
Payment of lease liabilities	—	(3,834)
Interest paid	(18,130)	(166)
Total changes from financing cash flows	46,186	(4,000)
Exchange adjustments	14,041	55
Other changes:		
Interest expenses on bank and other borrowings	18,130	—
Addition of lease liabilities	—	660
Interest expenses on leases liabilities	—	166
Total other changes	18,130	826
At 31 December 2020	239,696	1,405

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

	2020	2019
	HK$'000	*HK$'000*
Financial assets		
Financial assets measured at FVOCI		
— Equity investments	**6,989**	6,872
Financial assets measured at amortised cost		
Other receivables	**22,410**	17,729
Amount due from an associate	**1,779**	1,671
Bank balances and cash	**130,293**	90,277
	154,482	109,677
	161,471	116,549
Financial liabilities		
Financial liabilities measured at amortised cost		
Other payables	**1,009,250**	825,012
Bank and other borrowings	**239,696**	161,339
Lease liabilities	**1,405**	4,524
	1,250,351	990,875
Financial liabilities measured at FVTPL		
Contingent consideration payable	**—**	51,214
	1,250,351	1,042,089

Some of the Group's financial assets/liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets/liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2020				
Financial assets measured at FVOCI				
— Listed equity investments	6,989	—	—	6,989

37. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY *(CONTINUED)*

	Fair value hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2019				
Financial assets measured at FVOCI				
— Listed equity investments	6,872	—	—	6,872
Financial liabilities measured at FVTPL				
— Contingent consideration payable	—	—	51,214	51,214

The listed equity securities were measured at fair value determined based on their quoted bid prices in active markets at the end of each reporting period.

The fair value of contingent consideration payable is estimated using a discounted cash flow method.

There were no transfers between Level 1, 2 and 3 in current and prior year.

(i) Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) is as follows:

Contingent consideration payable

	2020	2019
	HK$'000	*HK$'000*
At 1 January	**51,214**	68,161
Change in fair value:		
— in profit or loss (included in other net gains and losses)	**13,074**	(16,947)
Derecognition of financial liabilities measured at FVTPL	**(64,288)**	—
At 31 December	**—**	51,214
(Loss)/gain recognised in profit or loss (included in other net gains and losses) relating to financial instruments held by the Group at the reporting date	**(13,074)**	16,947

(ii) Summary of the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	**Fair value at 31 December 2020** ***HK$'000***	31 December 2019 *HK$'000*	**Valuation technique**	**Unobservable inputs**	**Range of inputs**
Contingent consideration	**—**	51,214	Discount cashflows	Discount rate	8.21 % (2019: 11.89%)

38. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include financial assets measured at FVTOCI, other receivables, amount due from an associate, bank balances and cash, other payables, lease liabilities, bank and other borrowings and contingent consideration payable. Details of the financial instruments are disclosed in respective notes to the consolidated financial statements. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain financial assets measured at FVOCI, other receivables, amount due from an associate, bank and cash balances, other payables, lease liabilities and bank and other borrowing are denominated in foreign currencies, which expose the Company to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
HK$	**52,476**	75,667	**30,900**	31,360

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuation in HK$ and CAD.

The following table details the Group's sensitivity to a 5% (2019: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2019: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2019: 5%) change in foreign currency rates.

A negative number below indicates an increase in post-tax loss where RMB strengthen 5% (2019: 5%) against the relevant currency. For a 5% (2019: 5%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss.

38. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Market risk *(CONTINUED)*

(i) Currency risk *(CONTINUED)*

Impact on	HK$		CAD	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
(Decrease)/Increase in post-tax profit or loss	**(1,079)**	(2,215)	**350**	344

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. The Group's cash flow interest rate risk relates primarily to variable rate interest bearing bank balances. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group currently does not have an interest rate hedging policy. However, the directors monitor interest rate exposure and will consider hedging significant interest rate risk should the need arise. The directors considered the Group's exposure to interest rate risk is not material. Hence, no interest rate sensitivity analysis is presented.

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments issued by one entity (2019: one entity) listed in TSX for the year ended 31 December 2020. In addition, the Group will monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (2019: 10%) higher/lower, investment valuation reserve would increase/decrease by approximately HK$698,900 (2019: HK$687,200) as a result of the changes in fair value of other financial assets.

38. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Market risk *(CONTINUED)*

(iv) Credit risk

As at 31 December 2020 and 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the directors review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

The Group regularly monitors the business performance of the associates. The Group's credit risks in these balances are mitigated through the value of the assets held by these entities and the power to participate the relevant activities of these entities. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12 months ECL.

For other receivables and deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12 months ECL. For the years ended 31 December 2020 and 2019, the Group assessed the ECL for other receivables and deposits were insignificant and thus no loss allowance was recognised.

ECLs rates are based on actual loss experience. These rates are adjusted to reflect differences between economic conditions during the year over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables. No impairment for trade and other receivables is provided as the amount of additional impairment measured under the ECLs model is immaterial.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from other receivables are set out in Note 22.

The credit risk on bank balances is limited because the counterparties are banks with high credit-rating or with good reputation.

Financial guarantee contract

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was RMB200,000,000 (equivalent to HK$ 237,640,000) as at 31 December 2020. At the end of the reporting period, the directors of the Company have performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the loss allowance for financial guarantee contracts issued by the Group is measured at an amount equal to 12m ECL. An amount of RMB$859,000 (equivalent to HK$1,019,000) (2019: Nil) has been estimated as a loss allowance as at 31 December 2020 in accordance with HKFRS 9. Details of the financial guarantee contracts are set out in Note 45.

38. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Market risk *(CONTINUED)*

(v) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

	Weighted average interest rate	Carrying amount	Total undiscounted cash flows	Repayable on demand or within 1 year	1-2 years	2-5 years	Over 5 years
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2020							
Other payables	N/A	1,009,250	1,009,250	437,588	507,374	64,288	–
Bank and other borrowings	10.67%	239,696	256,604	136,441	120,163	–	–
Lease liabilities	5%	1,405	1,522	1,331	10	29	152
		1,250,351	1,267,376	575,360	627,547	64,317	152
At 31 December 2019							
Other payables	N/A	825,012	825,012	384,681	440,331	–	–
Bank and other borrowings	4.13%	161,339	168,001	52,054	115,947	–	–
Lease liabilities	5%	4,524	4,771	3,603	989	27	152
Contingent consideration payable	N/A	51,214	51,214	–	51,214	–	–
		1,042,089	1,048,998	440,338	608,481	27	152

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020	2019
	HK$'000	*HK$'000*
Non-current assets		
Investments in subsidiaries	**1**	1
Property, plant and equipment	**25**	39
Right-of-use assets	**733**	3,634
	759	3,674
Current assets		
Amounts due from subsidiaries	**1,787,883**	1,781,217
Other receivables	**1,791**	1,634
Bank balances and cash	**37,282**	50,018
	1,826,956	1,832,869
Current liabilities		
Amount due to subsidiaries	**678**	678
Other payables	**1,979**	1,978
Lease liabilities	**512**	2,934
	3,169	5,590
Net current assets	**1,823,787**	1,827,279
Non-current liabilities		
Financial liabilities measured at FVTPL	**—**	51,214
Other payable	**64,288**	—
Lease liabilities	**—**	512
Deferred tax liabilities	**37**	31
	64,325	51,757
NET ASSETS	**1,760,221**	1,779,196
Capital and reserves		
Share capital	**339,227**	339,227
Reserves	**1,420,994**	1,439,969
TOTAL EQUITY	**1,760,221**	1,779,196

On behalf of the board of directors

Yeung Kwok Kuen
Director

Shi Xing Zhi
Director

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(CONTINUED)*

Note:

Reserves

	Share premium *HK$'000*	Contributed surplus *HK$'000*	Share option reserve *HK$'000*	Translation reserve *HK$'000*	Retained earning *HK$'000*	Total *HK$'000*
At 1 January 2019	1,090,897	287,496	10,235	–	37,093	1,425,721
Profit and total comprehensive income for the year	–	–	–	–	14,248	14,248
At 31 December 2019	1,090,897	287,496	10,235	–	51,341	1,439,969
Loss and total comprehensive income for the year	–	–	–	–	(18,975)	(18,975)
At 31 December 2020	1,090,897	287,496	10,235	–	32,366	1,420,994

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE GROUP

The following are the details of the Group's principal subsidiaries at 31 December 2020 that would affect the results for the reporting period or formed a substantial portion of the net assets of the Group. In the opinion of the Directors, to give details of the other subsidiaries would result in excessive length.

Name	Place of incorporation/ establishment	Issued/registered and paid-up share capital	Attributable equity interests held by the Company Directly	Indirectly	Principal activities and place of operation
New Legend International Group Limited (新里程國際集團有限公司)	Hong Kong	Ordinary share of HK$1	100%	–	Provision of administrative support to group companies in Hong Kong
Will Win Group Limited (碩田集團有限公司)	Hong Kong	Ordinary share of HK$1	100%	–	Investment holding in Hong Kong
Best Tone Holdings Limited	The British Virgin Islands ("BVI")	Ordinary share of US$1	100%	–	Investment holding in Hong Kong
Famous Class Limited (名階有限公司)	BVI	Ordinary share of US$50,000	100%	–	Investment holding in Hong Kong
Year Joy Investments Limited (年悦投資有限公司)	BVI	Ordinary share of US$100	–	70%	Investment holding in Hong Kong
Top Delight Investments Limited (樂悦投資有限公司)	Hong Kong	Ordinary share of HK$1	–	70%	Investment holding in Hong Kong

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE GROUP *(CONTINUED)*

Name	Place of incorporation/ establishment	Issued/registered and paid-up share capital	Attributable equity interests held by the Company Directly	Indirectly	Principal activities and place of operation
China iTV Network Co., Ltd. (九州時代數碼科技有限公司) *(Note (b))*	The PRC	Registered capital of RMB50,000,000	–	*Note (b)*	*Note (b)*
Combined Success Investments Limited	BVI	Ordinary share of US$10	100%	–	Investment holding in Hong Kong
One Champion International Limited (一冠國際有限公司)	BVI	Ordinary share of US$50,000	–	100%	Investment holding in Hong Kong
Champion Lucky Limited (福瑞有限公司)	Hong Kong	Ordinary share of HK$1	–	100%	Investment holding in Hong Kong
Shaanxi Furui Rongcheng Mining Co., Ltd. (陝西福瑞永成礦業有限公司) *(Note (a))*	The PRC	Registered capital of RMB33,643,100	–	100%	Production and sales of gold products in the PRC
Weinan Jindong Mining Co., Ltd. (渭南金東礦業有限公司) *(Note (a))*	The PRC	Registered capital of RMB35,000,000	–	100%	Investment holding in Hong Kong
Tongguan County Xiangshun Mining Development Co., Ltd. (潼關縣祥順礦業發展有限公司) *(Note (a))*	The PRC	Registered capital of RMB27,500,000	–	90%	Production and sales of gold products in the PRC
Perfect Major Holdings Limited (美晶控股有限公司)	BVI	Ordinary share of US$50,000	–	100%	Investment holding in Hong Kong
World Light Holdings Limited (光華集團有限公司)	Hong Kong	Ordinary share of HK$1	–	100%	Investment holding in Hong Kong
Shaanxi Guang Hua Mei Jing Mining Industry Co., Ltd. (陝西光華美晶礦業有限公司) *(Note (a))*	The PRC	Registered capital of RMB43,152,300	–	100%	Investment holding in Hong Kong
Luonan Jinhui Mining Co. Ltd. (洛南縣金輝礦業有限公司) *(Note (a))*	The PRC	Registered capital of RMB5,000,000	–	100%	Production and sales of gold products in the PRC
Shaanxi Tongxin Mining Co. Ltd. (陝西潼鑫礦業有限公司) *(Note (a))*	The PRC	Registered capital of RMB50,000,000	–	90%	Production and sales of gold products in the PRC

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE GROUP *(CONTINUED)*

Name	Place of incorporation/ establishment	Issued/registered and paid-up share capital	Attributable equity interests held by the Company Directly	Indirectly	Principal activities and place of operation
Pride Success Investment Limited（榮成投資有限公司）	BVI	Ordinary share of US$50,000	–	100%	Investment holding in Hong Kong
Ocean Faith Limited（洋實有限公司）	Hong Kong	Ordinary share of HK$ 1	–	100%	Investment holding in Hong Kong
Shaanxi Xing Xiang Mining Technology Co., Ltd.（陝西星祥礦業科技有限公司）*(Note (a))*	The PRC	Registered capital of RMB2,493,600	–	100%	Investment holding in Hong Kong
Tongguan County De Xing Mining LLC（潼關縣德興礦業有限責任公司）*(Note (a))*	The PRC	Registered capital of RMB7,000,000	–	90%	Production and sales of gold products in the PRC
Best Income Limited（佳盈有限公司）	BVI	Ordinary share of US$1	–	100%	Investment holding in Hong Kong
Glory Resources Hong Kong Limited（寶鑫香港有限公司）	Hong Kong	Ordinary share of HK$1	–	100%	Investment holding in Hong Kong
Shaanxi Dujin Mining Co. Ltd.（陝西都金礦業有限公司）*(Note (a))*	The PRC	Registered capital of RMB50,000,000	–	100%	Production and sales of gold products in the PRC
Tongguan Sanqin Mining Co. Ltd (潼關縣三秦礦業有限公司) *(Note (a))*	The PRC	Registered capital of RMB30,000,000	–	100%	Production and sales of gold products in the PRC
Tongguan Tongjin Mining Co. Ltd. (潼關縣潼金礦業有限公司) *(Note (a))*	The PRC	Registered capital of RMB$500,000,000	–	90%	Production and sales of gold products in the PRC
Max Paramount Holdings Limited (峰揚控股有限公司)	BVI	Ordinary share of US$ 50,000	–	100%	Investment holding in Hong Kong
Elite Master Limited (鋭精有限公司)	Hong Kong	Ordinary share of HK$1	–	100%	Investment holding in Hong Kong

None of the subsidiaries had issued any debt securities at the end of the year.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE GROUP *(CONTINUED)*

Notes:

(a) These companies are limited liability companies established in the PRC. The English translation of the company names is for reference only.

(b) The Group holds 70% of controlling interest in this subsidiary through special arrangements. China iTV Network Co., Ltd. held a network video platform, representing the design and application of the network video platform for providing online video services. The network video platform has been fully impaired in prior years.

41. CAPITAL COMMITMENTS

	2020	2019
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**22,935**	9,461
Mining right	**29,552**	—
Exploration right	**12,178**	16,556
	64,665	26,017

42. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying Hong Kong employees. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees.

The PRC employees of the Group are members of state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits.

The contributions paid/payable to the scheme by the Group at rates specified in the rules of the schemes are included in staff costs and disclosed in Notes 10 and 12 to the consolidated financial statements for employees and the directors respectively.

43. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The key management of the Group comprises all the directors, details of their remuneration is determined by the Remuneration Committee having regard to the financial performance of the Group, performance of individuals and market trends. Details of their remuneration are disclosed in Note 12 to the consolidated financial statements.

44. MATERIAL INTERESTS OF DIRECTORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in Note 43 to the consolidated financial statements, no contracts of significance to which the Company's subsidiary or joint venture was a party and in which a director of the Company or an entity connected with a director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year.

45. CONTINGENT LIABILITIES

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

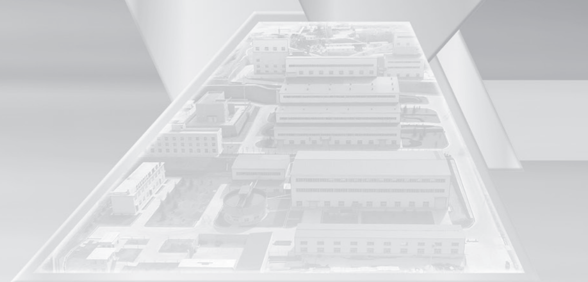
As at 31 December 2020, the banking facility guaranteed by the Group to the Borrower was utilised to the extent of RMB88,000,000 (equivalent to HK$104,561,000) by pledging the Borrower's properties and machineries of approximately RMB25,000,000 and RMB55,600,000 respectively to the Bank. The directors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

46. SUBSEQUENT EVENTS

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

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 24 March 2021.



FINANCIAL SUMMARY

	For the year ended 31 December				
	2020	2019	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	
RESULTS					
Revenue	**327,710**	191,436	105,975	295,787	112,372
Profit/(loss) for the year attributable to:					
Owners of the Company	**(6,330)**	(21,071)	57,526	(74,068)	(21,130)
Non-controlling interests	**4,817**	(681)	(5,217)	(5,106)	(2,007)
	(1,513)	(21,752)	52,309	(79,174)	(23,137)

	As at 31 December				
	2020	2019	2018	2017	2016
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Total assets	**3,777,831**	3,365,977	3,415,219	2,712,101	757,379
Total liabilities	**(1,828,693)**	(1,530,872)	(1,493,335)	(1,015,991)	(150,142)
	1,949,138	1,835,105	1,921,884	1,696,110	607,237
Represented by:					
Equity attributable to owners of the Company	**1,817,777**	1,722,883	1,800,618	1,605,928	611,237
Non-controlling interests	**131,361**	112,222	121,266	90,182	(4,000)
	1,949,138	1,835,105	1,921,884	1,696,110	607,237