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

(Incorporated in Bermuda with limited liability)

(Stock Code: 00340)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “Board”) of Tongguan Gold Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2020, with the comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	<i>Notes</i>	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	5	86,728	100,083
Cost of sales		(64,340)	(78,687)
Gross profit		22,388	21,396
Other income		633	2,431
Other net gains and losses		(4,583)	467
Administrative and other expenses		(22,058)	(31,187)
Finance costs	6	(1,917)	(102)
Share of loss of an associate		—	(5)
Loss before tax	7	(5,537)	(7,000)
Income tax credit	8	695	982
Loss for the period		(4,842)	(6,018)

	<i>Notes</i>	2020 HK\$'000 (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Other comprehensive income, net of income tax			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value changes in equity investments at fair value through other comprehensive income		438	2,326
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations		<u>(25,984)</u>	<u>(4,579)</u>
Other comprehensive income for the period, net of income tax		<u>(25,546)</u>	<u>(2,253)</u>
Total comprehensive income for the period		<u>(30,388)</u>	<u>(8,271)</u>
(Loss)/profit for the period attributable to:			
— Owners of the Company		(5,804)	(6,477)
— Non-controlling interests		<u>962</u>	<u>459</u>
		<u>(4,842)</u>	<u>(6,018)</u>
Total comprehensive income for the period attributable to:			
— Owners of the Company		(26,681)	(7,499)
— Non-controlling interests		<u>(3,707)</u>	<u>(772)</u>
		<u>(30,388)</u>	<u>(8,271)</u>
Loss per share – Basic and diluted	<i>10</i>	<u>HK\$(0.17) cents</u>	<u>HK\$(0.19) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 30 June 2020

	<i>Notes</i>	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		1,176,266	1,164,103
Right-of-use assets		33,246	35,507
Exploration and evaluation assets		1,251,312	1,270,375
Goodwill		597,638	597,638
Other intangible assets		151,481	119,756
Other financial assets		6,961	6,872
Interest in an associate		3,240	3,304
		3,220,144	3,197,555
Current assets			
Inventories		8,867	16,301
Other receivables	<i>11</i>	61,385	60,173
Amount due from an associate		1,639	1,671
Bank balances and cash		111,472	90,277
		183,363	168,422
Current liabilities			
Other payables	<i>12</i>	373,981	384,681
Bank and other borrowings		111,122	48,894
Contract liabilities		29,682	9,800
Lease liabilities		2,891	3,459
Income tax payable		148,741	151,622
		666,417	598,456
Net current liabilities		(483,054)	(430,034)
Total assets less current liabilities		2,737,090	2,767,521

	30 June	31 December
	2020	2019
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Non-current liabilities		
Bank and other borrowings	98,784	112,445
Financial liabilities measures at fair value through profit or loss	55,355	51,214
Other payables	<i>12</i> 457,016	440,331
Provision for restoration and environmental costs	9,857	9,560
Lease liabilities	370	1,065
Deferred tax liabilities	310,991	317,801
	<u>932,373</u>	<u>932,416</u>
Net assets	<u>1,804,717</u>	<u>1,835,105</u>
Capital and reserves		
Share capital	339,227	339,227
Share premium and reserves	1,356,975	1,383,656
	<u>1,696,202</u>	<u>1,722,883</u>
Equity attributable to owners of the Company	1,696,202	1,722,883
Non-controlling interests	108,515	112,222
	<u>1,804,717</u>	<u>1,835,105</u>
Total equity	<u>1,804,717</u>	<u>1,835,105</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements of Tongguan Gold Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). It was authorised for issue on 26 August 2020.

These condensed consolidated financial statements have been prepared with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2019, except for those relating to new standards or interpretations effective for the first time in the consolidated financial statements for the year ending 31 December 2020. Details of any changes in accounting policies are set out in Note 2.

The preparation of these condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The condensed consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments that are measured at fair values, as appropriate.

These condensed consolidated financial statements contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2019. These condensed consolidated interim financial statements and notes thereon do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) and should be read in conjunction with the Group’s audited annual financial statements for the year ended 31 December 2019.

2. ADOPTION OF HKFRSs

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 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 adoption of these amendments to HKFRSs does not have any material impact on the presentation and disclosure of the Group's interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. SIGNIFICANT EVENT

The impact of the outbreak of coronavirus disease 2019 ("COVID-19") pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position. COVID-19 may have certain impact on the Group's production and operation. The impact will largely depend on duration of the outbreak and implementation of regulatory policies thereafter.

As far as the Group's businesses are concerned, unprecedented measures were taken by the government including the lockdown of cities and the extension of the Spring Festival holiday in Mainland China.

The subsidiaries of mining segment responded the call by the People's Republic of China government on the pause of production in the March, and has gradually resumed production in April when the situation got under control.

Under these circumstances, the Group has been closely monitoring the impact of the developments on the Group's businesses and will further enhance the countermeasures, strengthen the tracking and forecast on the prices of gold and other metals, strive to ensure steady production and operation, and minimize the negative impact of COVID-19 on the Group's production and operation as much as possible.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those that applied to the Group's Annual Report 2019. In addition, management makes assumptions about the future in deriving critical accounting estimates used in preparing the condensed consolidated interim financial information.

There is significant ongoing uncertainty surrounding the COVID-19 global pandemic and the extent and duration of impacts that it may have on the Group's customers, suppliers, and employees. There is heightened potential for future credit losses on receivables, inventory write downs, impairments of property, plant and equipment, impairments of exploration and evaluation assets, goodwill and other intangible assets that are based on future operating performance. The Group's cash flow estimates for certain assets are based on a longer time horizon due to the long-term nature of its processing plant.

As an understanding of the long-term impacts of COVID-19 on the Group's customers and business develops, there is heightened potential for changes in these views over the remainder of 2020.

5. 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.

The principal activity of the Group is the production and sale of gold concentrates and related products for the six months ended 30 June 2020 and 2019.

The Group has only one reportable segment, gold mining operation, for the six months ended 30 June 2020 and the year ended 31 December 2019. Since this is the only reportable and operating segment of the Group, no further analysis thereof is presented. All the revenue of the Group is generated from gold mining operation for the six months ended 30 June 2020 and 2019.

All the revenue of the Group are generated from the exploration, mining, processing and sale of gold concentrates and related products segment for the six months ended 30 June 2020 and 2019.

	Six months ended 30 June	
	2020	2019
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Unaudited)
Gold mining operation — Exploration, mining, processing and sale of gold concentrates and related products	<u>86,728</u>	<u>100,083</u>

	Six months ended 30 June	
	2020	2019
	<i>HK\$’000</i>	<i>HK\$’000</i>
	(Unaudited)	(Unaudited)
Timing of revenue recognition under HKFRS 15		
At a point in time	<u>86,728</u>	<u>100,083</u>

(a) Geographical information

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

Information about major customer

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

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Customer A	86,728	81,708

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Unsecured interest on bank and other borrowings	7,335	6,042
Secured interest on bank borrowings	751	—
Less: amount capitalised (<i>Note (a)</i>)	(6,273)	(6,042)
Interest expenses on lease liabilities	104	102
	1,917	102

Note:

- (a) Borrowing costs capitalised during the period arose on the general borrowing pool and specific borrowing are calculated by applying the capitalisation rate of 4.77% and 1.98% respectively (six months ended 30 June 2019: 5.28% and nil) to expenditure on qualifying assets.

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Directors' emoluments	345	360
Other staff's salaries, bonus and allowances	6,878	7,306
Other staff's contribution to retirement benefits schemes	131	248
	<hr/>	<hr/>
Total staff costs	7,354	7,914
	<hr/>	<hr/>
Impairment loss on other receivables	304	239
Reversal of impairment loss previously recognised on other receivables	(5)	—
Amortisation of other intangible assets	4,180	4,954
Costs of inventories recognised as an expense (<i>Note (a)</i>)	49,149	72,955
Depreciation charges		
— property, plant and equipment	7,952	13,786
— right-of-use assets	2,296	1,803
	<hr/> <hr/>	<hr/> <hr/>

Note:

- (a) Costs of inventories recognised as an expense mainly include mining extraction costs, documentation transferring fee and amortisations and depreciation charges of HK\$31,499,000 (six months ended 30 June 2019: HK\$34,499,000), HK\$5,759,000 (six months ended 30 June 2019: HK\$3,409,000) and HK\$9,706,000 (six months ended 30 June 2019: HK\$10,798,000) respectively.

8. INCOME TAX CREDIT

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2020 and 2019.

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

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

During the six months ended 30 June 2020 and 2019, 潼關縣祥順礦業發展有限公司 (transliterated as Tongguan County Xiangshun Mining Development Co., Ltd.* (“Xiangshun Mining”)), the operating subsidiary of One Champion, obtained the in-charge tax bureau's approval previously and was granted a reduced EIT rate of 15%.

* *The English translation of the names are for reference only.*

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax — PRC Enterprise Income Tax	—	—
Deferred tax	<u>(695)</u>	<u>(982)</u>
	<u>(695)</u>	<u>(982)</u>

9. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the six months ended 30 June 2020, nor has any dividend been proposed for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the period attributable to owners of the Company of approximately HK\$5,804,000 (six months ended 30 June 2019: HK\$6,477,000) and the weighted average number of ordinary shares of approximately 3,392,272,000 (six months ended 30 June 2019: 3,392,272,000) in issue during the six months ended 30 June 2020.

Diluted loss per share equals to basic loss per share, as there were no potential dilutive ordinary shares issued during the six months ended 30 June 2020 and 2019.

11. OTHER RECEIVABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Other receivables	7,615	7,372
<i>Less: allowances (Note (a))</i>	<u>(403)</u>	<u>(104)</u>
	----- 7,212	----- 7,268
Deposits and prepayments	51,233	50,790
Value added tax recoverable	<u>2,940</u>	<u>2,115</u>
	<u><u>61,385</u></u>	<u><u>60,173</u></u>

Note:

(a) Other receivables

Movement in impairment loss on other receivables:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
At 1 January	104	159
Reversal of impairment loss previously recognised	(5)	(102)
Impairment loss recognised	<u>304</u>	<u>47</u>
At 30 June/31 December	<u><u>403</u></u>	<u><u>104</u></u>

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

12. OTHER PAYABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Other payables and accruals <i>(Note (a))</i>	377,894	362,355
Amounts due to related parties <i>(Note (b))</i>	453,103	462,657
	<u>830,997</u>	<u>825,012</u>
Analysed for reporting purposes as:		
— current portion	373,981	384,681
— non-current portion	457,016	440,331
	<u>830,997</u>	<u>825,012</u>

Notes:

- (a) Included in other payables were mainly payable to subcontractors of HK\$205,842,000 for the six months ended 30 June 2020 (year ended 31 December 2019: HK\$222,000,000) for mining extraction and construction.
- (b) The amounts are due to certain beneficial owners of the shareholders of the Company and are non-trade in nature, unsecured, interest-free and repayable after one year at the end of reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the six months ended 30 June 2020 (the “Interim Period”), Tongguan Gold Group Limited (the “Company”) together with its subsidiaries (the “Group”) recorded an unaudited loss attributable to owners of the Company amounted to HK\$5,804,000 (six months ended 30 June 2019: HK\$6,477,000). Loss from continuing operations decreased by HK\$673,000 to approximately HK\$5,804,000 in 2020 from approximately HK\$6,477,000 for the corresponding period in 2019, which is primarily due to improvement on gross profit margin.

Administrative and other expenses amounted to approximately HK\$22,058,000, representing a decrease of approximately 29% from approximately HK\$31,187,000 for the corresponding period in 2019 and is primarily due to decrease in depreciation 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 Interim Period, the Group’s revenue from gold mining operation amounted to approximately HK\$86,728,000, representing a decrease of approximately 13% from approximately HK\$100,083,000 for the corresponding period in 2019 and is primarily contributed by decrease in sale quantity. The cost of sales amounted to HK\$64,340,000, representing a decrease of approximately 18% from approximately HK\$78,687,000 for the corresponding period in 2019 and is primarily contributed by decrease in mining cost. Gross profit from continuing operations amounted to approximately HK\$22,388,000, representing a increase in 5% as compared with approximately HK\$21,396,000 for the corresponding period in 2019. The average gross profit margin for the current period was 26%, representing an increase of 5 percentage points as compared with 21% of average gross profit margin in the corresponding period in 2019. Increase in gross profit margin was mainly attributable to the increase in average selling price by upward trend of gold.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2020, the Group had total assets and net assets of HK\$3,403,507,000 (31 December 2019: HK\$3,365,977,000) and HK\$1,804,717,000 (31 December 2019: HK\$1,835,105,000), respectively. The current ratio was 0.28, as compared to 0.28 as of year ended 31 December 2019.

As at 30 June 2020, the Group had bank balances and cash, of HK\$111,472,000 (31 December 2019: HK\$90,277,000), of which most were denominated in Renminbi and Hong Kong dollar.

As at 30 June 2020, the Group had bank and other loans of approximately HK\$209,906,000 (31 December 2019: HK\$161,339,000) which were denominated in Renminbi including the fixed rates ranged from 6%-12% (31 December 2019: 12%) per annum. For the borrowings under variable rate, the interest rates are loan prime rate (“LPR”) +0.95% and LPR +2.025% per annum (31 December 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 12.4% (31 December 2019: 9.4%).

As at 30 June 2020, the Group had promissory note of approximately HK\$55,355,000 (31 December 2019: HK\$51,214,000).

FOREIGN EXCHANGE RISK MANAGEMENT

As part of the Group’s assets and liabilities are denominated in Hong Kong dollar and Canadian dollar, 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 30 June 2020, the Company had 3,392,272,221 ordinary shares in issue with a total shareholders’ fund of the Group amounting to approximately HK\$339,227,000.

PLEDGE OF ASSETS

As at 30 June 2020, the Group had pledged the machineries of HK\$50,877,000 as a security for the other borrowing granted to the Group.

CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 30 June 2020 (31 December 2019: HK\$Nil).

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 Interim Period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had approximately 9 and 181 employees in Hong Kong and Mainland China respectively.

The staff cost of the Group (including directors' remuneration in form of salary and other benefits, share-based payments, performance related incentive payments and retirement benefit contributions) was approximately HK\$7,354,000 for the Interim Period (six months ended 30 June 2019: HK\$7,914,000).

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

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

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

PROSPECTS

The outbreak of the coronavirus (COVID-19) and the deterioration of Sino-US relations have led to a challenging period for the first half of 2020. The operation has been partially suspended since the Chinese New Year and production volumes have been slightly affected. Nevertheless, the Group followed and responded the government's call by promptly resuming production and work advance. Most of the employees returned to the workplace with sufficient precautionary measures and the operation has been resumed in early April. In light of the speedy recovery from pandemic and commencement of new processing plant, the management remained optimistic on the Group's financial performance turnaround in the foreseeable future.

The phase 1 of new processing plant started the trial operation in July 2020. The maximum production capacity is 1,500 tonnes per day and processing volume is expected to increase gradually in the second half of 2020. With the new processing plant, the operation will become more and more autonomous and machine will alert when there are any problems. The management believed that the advance technology and massive production would give rise to economies of scale. To make the best use of the plant, the Group would continue to ramp up the production capacity and expand the exploration and mining activities.

The profitability of the Group is closely correlated to the gold price in domestic and international markets. The market prices of gold (and other precious metals) are sensitive to the global economic environment and stability. The worsening China-US relations and coronavirus pandemic would continue to reinforce the role of gold as a strategic asset. It is under these circumstances that the demand for gold is expected to remain strong and the Group would be beneficial from the gold rally.

Prevention of the pandemic, environmental sustainability and safety production would continue to be the priority tasks of the Group. To ensure our staff working in a safe environment, the Company continue to promote a safety-first culture, educate the employees with latest standard and review the operation regularly. To address the pandemic, the Group has implemented a number of hygiene measures, including but not limited to ventilation, cleaning workplace and so on.

Looking into the future, the Group would remain vigilant in the face of market uncertainties. The management would make timely response, proactively seek for optimal investment opportunities and maximum returns to the shareholders of the Company.

CORPORATE GOVERNANCE

The Company is committed to comply with its established best practice in corporate governance and is acting in line with those practices as set out in the annual report of the Company for the financial year ended 31 December 2019. The Board believes that good corporate governance is crucial to enhance the performance of the Group and to safeguard the interests of the shareholders of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF THE LISTING RULES

The Company has complied with the code provisions (“Code Provision(s)”) of the Corporate Governance Code (the “CG Code”) 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”) during the six months ended 30 June 2020, except for certain deviations as specified and explained below with considered reasons for such deviations.

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

Since the resignation of Dr. You Xian Sheng as the chairman and the executive director of the Company (“Director”) 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 “CEO”) on 1 June 2016, the Company has not appointed a new CEO. Until the appointment of the new CEO, the executive Directors, 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 E.1.2 of the CG 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, has been elected by other Directors 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.
3. Under Code Provision F.1.3 of the CG 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 CEO has not been appointed following the resignation of Mr. Wang Hui as the CEO on 1 June 2016, the company secretary of the Company reported to the executive Directors since 1 June 2016.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Upon specific enquiries, all Directors confirmed they had complied with the required standards set out in the Model Code during the six months ended 30 June 2020.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive Directors. They are responsible for ensuring the quality and integrity of internal control, conducting review of the Group's accounting principles and practices, risk management and the Group's interim and annual accounts.

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

The Company has not redeemed any of its listed securities during the six months ended 30 June 2020. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the six months ended 30 June 2020.

REVIEW OF INTERIM RESULTS

The Audit Committee of the Company and management have reviewed the accounting principles and policies adopted by the Group and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020.

In addition, the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 have been reviewed by BDO Limited, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published in the Company’s website (www.tongguangold.com) and the designated website of the Stock Exchange (www.hkexnews.hk). The interim report will be available on the websites of the Company and the Stock Exchange in due course.

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

Hong Kong, 26 August 2020

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