



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

(Incorporated in Bermuda with limited liability)
Stock Code: 340



2020

Interim Report

Content



CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3
INDEPENDENT REVIEW REPORT	10
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	12
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	14
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	16
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	18
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	19
CORPORATE GOVERNANCE	41
DISCLOSURE OF INTERESTS AND OTHER INFORMATION	44

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

AUDIT COMMITTEE

Leung Ka Wo (*Chairman*)

Chu Kang Nam

Liang Xu Shu

REMUNERATION COMMITTEE

Chu Kang Nam (*Chairman*)

Liang Xu Shu

Leung Ka Wo

Yeung Kwok Kuen

NOMINATION COMMITTEE

Chu Kang Nam (*Chairman*)

Liang Xu Shu

Leung Ka Wo

COMPANY SECRETARY

Leung Lai Ming

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1306 13th Floor

Bank of America Tower

12 Harcourt Road

Admiralty

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

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

Suite 3301-04, 33/F

Two Chinachem Exchange Square

338 King's Road

North Point

Hong Kong

AUDITORS

BDO Limited

25th Floor, Wing On Centre

111 Connaught Road Central

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



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.

Management Discussion and Analysis



Details of the exploration, development and mining production activities and a summary of expenditure incurred on these activities during the Interim Period are as below:

I Exploration

Tongguan County Xiangshun Mining Development Co., Ltd. (“Xiangshun Mining”)

During the Interim Period, combination of pit drilling and tunnel exploration methods are used to carry out exploration activities to increase the mineral resources and reserves.

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

During the Interim Period, Jinhui Mining is in the process of application of the mining licence and did not carry out any exploration activities. Tongxin Mining has completed exploration activities and is in the process of application of the mining licence.

Tongguan County De Xing Mining L.L.C. (“De Xing Mining”)

During the Interim Period, tunnel exploration method is used to carry out deep exploration activities.

Tongguan Tongjin Mining Company Limited (“Tongjin Mining”)

During the Interim Period, Tongjin Mining is performing deep pit exploration planning and the use of drilling engineering to control the peripheral veins.

II Development

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

During the Interim Period, 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 4,878 meters, (ii) the pit drilling project of approximately 6,997 meters and (iii) ancillary work project of approximately 232 meters.

Management Discussion and Analysis



Jinhui Mining

During the Interim Period, Jinhui Mining is in the process of application of the mining licence and did not carry out any development activities.

III Mining Production Activities

Xiangshun Mining

(1) Mining operation

	Six months ended 30 June 2020
Underground mining	
Mine production (thousand tonnes)	<u>69.46</u>
Total mine production (thousand tonnes)	<u>69.46</u>
Average gold grade (gram/tonne)	3.46

(2) Ore processing operation – Concentrating

	Six months ended 30 June 2020
Concentrate production — Gold (tonnes)	3,469
Average gold grade (gram/tonne)	58.96
Metal in the concentrate (Kilogram)	204.55

Jinhui Mining, Tongxin Mining, De Xing Mining and Tongjin Mining

During the Interim Period, there was no mining production.

Management Discussion and Analysis



IV Exploration, development and mining production cost of the Group

Expenses of exploration, development and mining production activities of the Group for the Interim Period are set out as below:

	Mine produced Gold (HK\$'000)
Exploration and Mining activities	
Exploration and development construction	39,717
Mining ore	18,477
	<hr/>
Total	58,194
	<hr/>
<i>(Concentrating not included)</i>	

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).

Management Discussion and Analysis



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.

Management Discussion and Analysis



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.

Management Discussion and Analysis



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.

Independent Review Report



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

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

To the Board of Directors of Tongguan Gold Group Limited

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 12 to 40 which comprise the condensed consolidated statement of financial position of Tongguan Gold Group Limited and its subsidiaries (collectively referred to as the “Group”) as of 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors are responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on the interim financial information based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Review Report



SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

BDO Limited

Certified Public Accountants

Chan Wing Fai

Practising Certificate Number P05443

Hong Kong, 26 August 2020

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended 30 June 2020

	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	5	86,728	100,083
Cost of sales		<u>(64,340)</u>	<u>(78,687)</u>
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		<u>—</u>	<u>(5)</u>
Loss before tax	7	(5,537)	(7,000)
Income tax credit	8	<u>695</u>	<u>982</u>
Loss for the period		(4,842)	(6,018)
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		(25,546)	(2,253)
Total comprehensive income for the period		<u>(30,388)</u>	<u>(8,271)</u>

Condensed Consolidated Statement of Profit or Loss and other Comprehensive Income

For the six months ended 30 June 2020



	Notes	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
(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	10	<u>HK\$(0.17) cents</u>	<u>HK\$(0.19) cents</u>

Condensed Consolidated Statement of Financial Position

As at 30 June 2020



		30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	11	1,176,266	1,164,103
Right-of-use assets	11	33,246	35,507
Exploration and evaluation assets	11	1,251,312	1,270,375
Goodwill	11	597,638	597,638
Other intangible assets	11	151,481	119,756
Other financial assets	12	6,961	6,872
Interest in an associate	13	3,240	3,304
		<u>3,220,144</u>	<u>3,197,555</u>
Current assets			
Inventories		8,867	16,301
Other receivables	14	61,385	60,173
Amount due from an associate	13	1,639	1,671
Bank balances and cash		111,472	90,277
		<u>183,363</u>	<u>168,422</u>
Current liabilities			
Other payables	15	373,981	384,681
Bank and other borrowings	16	111,122	48,894
Contract liabilities		29,682	9,800
Lease liabilities		2,891	3,459
Income tax payable		148,741	151,622
		<u>666,417</u>	<u>598,456</u>
Net current liabilities		<u>(483,054)</u>	<u>(430,034)</u>
Total assets less current liabilities		<u>2,737,090</u>	<u>2,767,521</u>

Condensed Consolidated Statement of Financial Position

As at 30 June 2020



		30 June 2020	31 December 2019
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Non-current liabilities			
Bank and other borrowings	16	98,784	112,445
Financial liabilities measures at fair value through profit or loss	17	55,355	51,214
Other payables	15	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
		932,373	932,416
Net assets			
		1,804,717	1,835,105
Capital and reserves			
Share capital	18	339,227	339,227
Share premium and reserves		1,356,975	1,383,656
Equity attributable to owners of the Company		1,696,202	1,722,883
Non-controlling interests		108,515	112,222
Total equity		1,804,717	1,835,105

On behalf of the board of directors

Yeung Kwok Kuen
Director

Shi Xing Zhi
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020



	Attributable to owners of the Company								Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Statutory surplus reserve HK\$'000	Contributed surplus HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained earnings HK\$'000			
At 1 January 2019 (audited)	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)/profit for the period	-	-	-	-	-	-	-	(6,477)	(6,477)	459	(6,018)
Exchange difference arising on translation of financial statements of foreign operations	-	-	-	-	-	-	(3,348)	-	(3,348)	(1,231)	(4,579)
Fair value changes in other financial assets	-	-	-	-	-	2,326	-	-	2,326	-	2,326
Other comprehensive income for the period	-	-	-	-	-	2,326	(3,348)	-	(1,022)	(1,231)	(2,253)
Total comprehensive income for the period	-	-	-	-	-	2,326	(3,348)	(6,477)	(7,499)	(772)	(6,271)
Appropriation to statutory reserve	-	-	2,202	-	-	-	-	(2,202)	-	-	-
At 30 June 2019 (unaudited)	339,227	1,090,897	1,265	287,496	10,235	(46,741)	(6,560)	117,300	1,793,119	120,494	1,913,613

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020



	Attributable to owners of the Company								Non-controlling interests	Total	
	Share capital	Share premium	Statutory surplus reserve	Contributed surplus	Share option reserve	Investment revaluation reserve	Translation reserve	Retained earnings			Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020 (audited)	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 period	-	-	-	-	-	-	-	(5,804)	(5,804)	962	(4,842)
Exchange difference arising on translation of financial statements of foreign operations	-	-	-	-	-	-	(21,315)	-	(21,315)	(4,669)	(25,984)
Fair value changes in other financial assets	-	-	-	-	-	438	-	-	438	-	438
Other comprehensive income for the period	-	-	-	-	-	438	(21,315)	-	(20,877)	(4,669)	(25,546)
Total comprehensive income for the period	-	-	-	-	-	438	(21,315)	(5,804)	(26,681)	(3,707)	(30,388)
Appropriation to statutory reserve	-	-	1,906	-	-	-	-	(1,906)	-	-	-
At 30 June 2020 (unaudited)	339,227	1,090,897	3,232	287,496	10,235	(48,582)	(81,238)	94,935	1,696,202	108,515	1,804,717

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020



	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Net cash generated from operating activities	34,283	3,222
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(36,430)	(45,599)
Payments for other intangible assets	(11,262)	—
Expenditure paid on exploration and evaluation assets	(5,450)	(6,832)
Proceeds on disposal of property, plant and equipment	—	50
Interest received	450	578
Net cash used in investing activities	(52,692)	(51,803)
Cash flows from financing activities		
Repayments of bank and other borrowings	(41,724)	—
Payments of lease liabilities	(1,888)	(1,686)
New bank and other borrowings raised	93,823	30,694
Interest paid on lease liabilities	(104)	(102)
Interest paid on bank and other borrowings	(8,086)	—
Net cash generated from financing activities	42,021	28,906
Net increase/(decrease) in cash and cash equivalents	23,612	(19,675)
Cash and cash equivalents at 1 January	90,277	109,550
Effect of exchange rate changes on cash and cash equivalents	(2,417)	3,507
Cash and cash equivalents at 30 June, represented by bank balances and cash	111,472	93,382

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



1. BASIS OF PREPARATION *(Continued)*

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



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 (“PRC”) 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 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
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gold mining operation — Exploration, mining, processing and sale of gold concentrates and related products	86,728	100,083

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



5. SEGMENT REPORTING (Continued)

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

(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 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Customer A	86,728	81,708

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(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
	<u>1,917</u>	<u>102</u>

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



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 (Note (a))	49,149	72,955
Depreciation charges		
— property, plant and equipment	7,952	13,786
— right-of-use assets	2,296	1,803
	<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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



8. INCOME TAX CREDIT (Continued)

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	(695)	(982)
	<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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



11. CAPITAL EXPENDITURE

	Right-of use assets	Property, plant and equipment	Exploration and evaluation assets	Goodwill	Other intangible assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 January 2020 (audited)	40,846	1,236,581	1,270,375	646,349	159,884
Exchange adjustments	(673)	(24,039)	(24,513)	–	(3,393)
Additions	648	42,703	5,450	–	38,491
	<u>40,821</u>	<u>1,255,245</u>	<u>1,251,312</u>	<u>646,349</u>	<u>194,982</u>
At 30 June 2020 (unaudited)	<u>40,821</u>	<u>1,255,245</u>	<u>1,251,312</u>	<u>646,349</u>	<u>194,982</u>
Accumulated depreciation, amortisation and impairment					
At 1 January 2020 (audited)	5,339	72,478	–	48,711	40,128
Exchange adjustments	(60)	(1,451)	–	–	(807)
Charge for the period	2,296	7,952	–	–	4,180
	<u>7,575</u>	<u>78,979</u>	<u>–</u>	<u>48,711</u>	<u>43,501</u>
At 30 June 2020 (unaudited)	<u>7,575</u>	<u>78,979</u>	<u>–</u>	<u>48,711</u>	<u>43,501</u>
Carrying amounts					
At 30 June 2020 (unaudited)	<u>33,246</u>	<u>1,176,266</u>	<u>1,251,312</u>	<u>597,638</u>	<u>151,481</u>
At 31 December 2019 (audited)	<u>35,507</u>	<u>1,164,103</u>	<u>1,270,375</u>	<u>597,638</u>	<u>119,756</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



12. OTHER FINANCIAL ASSETS

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Equity securities listed in overseas stock exchange		
— as financial assets measured at fair value through other comprehensive income (“FVOCI”)	6,961	6,872

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

13. INTEREST IN AN ASSOCIATE

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Share of net assets	3,240	3,304
Amount due from an associate*	1,642	1,674
Less: allowance	(3)	(3)
	1,639	1,671

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



13. INTEREST IN AN ASSOCIATE (Continued)

Movement in impairment loss on amount due from an associate:

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
At 1 January	3	—
Impairment loss recognised	—	3
At 30 June/31 December	<u>3</u>	<u>3</u>

Details of the Group's 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) The company is limited liability company established in the PRC. The English translation of the company name is for reference only.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



13. INTEREST IN AN ASSOCIATE (Continued)

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Loss for the period	—	(17)
Other comprehensive income	—	—
	<hr/>	<hr/>
Total comprehensive income	—	(17)
	<hr/>	<hr/>

14. OTHER RECEIVABLES

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



14. OTHER RECEIVABLES (Continued)

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	304	47
At 30 June/31 December	403	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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



15. OTHER PAYABLES

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Other payables and accruals (Note (a))	377,894	362,355
Amounts due to related parties (Note (b))	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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



16. BANK AND OTHER BORROWINGS

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Current		
Unsecured other borrowings (Note (a))	21,896	—
Unsecured bank borrowings (Note (b)&(d))	42,150	16,745
Secured other borrowing (Note (c))	40,507	—
Bill payables (Note (d))	70,067	49,117
Less: cash deposit (Note (e))	<u>(63,498)</u>	<u>(16,968)</u>
	111,122	48,894
Non-current		
Unsecured other borrowings (Note (a))	88,383	112,445
Unsecured bank borrowing (Note (b)&(d))	<u>10,401</u>	<u>—</u>
	98,784	112,445
Other borrowing and bank borrowings repayable*:		
Within one year	111,122	48,894
More than one year but not more than two years	<u>98,784</u>	<u>112,445</u>
	209,906	161,339

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



16. BANK AND OTHER BORROWINGS (Continued)

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% and LPR+2.025% per annum (year ended 31 December 2019: RMB benchmark loan interest rates+1.05% per annum).
- (c) During the period, the Group has pledged the machineries to secure the other borrowing granted to the Group. The effective interest rates on the other borrowings is fixed rate 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 Mining is required to maintain cash on deposit of HK\$63,498,000 for the six months ended 30 June 2020 (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 Mining's borrowings have been presented net of the cash on deposit.

17. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL") (NON-CURRENT)

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
Contingent consideration payable	55,355	51,214

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



17. FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVTPL”) (NON-CURRENT) *(Continued)*

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\$55,355,000 determined at 30 June 2020 (year ended 31 December 2019: HK\$51,214,000) with reference to a professional valuation performed by Valtech Valuation Advisory Limited and with the effective interest rate of 11.19% (year ended 31 December 2019: 11.89%).

18. SHARE CAPITAL

	Number of ordinary shares at HK\$0.1 each '000	HK\$'000
Authorised:		
At 1 January 2019 (audited), 30 June 2019 (unaudited), 31 December 2019 (audited) and 30 June 2020 (unaudited)	<u>46,223,810</u>	<u>4,622,381</u>
Issued and fully paid:		
At 1 January 2019 (audited), 30 June 2019 (unaudited), 31 December 2019 (audited) and 30 June 2020 (unaudited)	<u>3,392,272</u>	<u>339,227</u>

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



19. CAPITAL COMMITMENTS

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	32,044	9,461
Exploration right	16,237	16,556
Mining right	27,229	—
	<u>75,510</u>	<u>26,017</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 30 June 2020 (unaudited)				
Financial assets measured at FVOCI				
– listed equity securities	6,961	–	–	6,961
Financial liabilities measured at FVTPL				
– contingent consideration payable	–	–	55,355	55,355
At 31 December 2019 (audited)				
Financial assets measured at FVOCI				
– listed equity securities	6,872	–	–	6,872
Financial liabilities measured at FVTPL				
– contingent consideration payable	–	–	51,214	51,214

The listed equity securities of the Group 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020



20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

There were no transfers between Level 1, 2 and 3 in current and prior period.

(i) Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) is as follows:

Contingent consideration payable

	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
At 1 January	51,214	68,161
Change in fair value:		
— in profit or loss (included in other net gains and losses)	4,141	(16,947)
At 30 June/31 December	55,355	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	(4,141)	16,947

(ii) Summary of the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value at		Valuation technique	Unobservable inputs	Range of inputs
	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)			
Contingent consideration	55,355	51,214	Discount cashflows	Discount rate	11.19% (year ended 31 December 2019: 11.89%)

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.

Corporate Governance



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.

BOARD OF DIRECTORS

The Board is responsible for the formulation of the Group’s business strategies and management objective, supervision of the management and evaluation of the effectiveness of management strategies. 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 a written terms of reference specifying a schedule of matters which should be reserved to the Board and which should be delegated to management.

Corporate Governance



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.

REMUNERATION COMMITTEE

The Remuneration Committee comprises one executive Director and three independent non-executive Directors. The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy, remuneration packages for the Directors and members of the senior management and on the establishment of a formal and transparent process for approving such remuneration policy.

NOMINATION COMMITTEE

The Nomination Committee comprises three independent non-executive Directors. The principal responsibilities of the Nomination Committee are to lead the process for the appointments of the member of the Board, and to identify and nominate suitable candidates for appointment to the Board and make recommendations to the Board.

Disclosure of Interests and Other Information



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

As at 30 June 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%

Saved as disclosed above, as at 30 June 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.

Disclosure of Interests and Other Information



ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in “Share Option Scheme” below, at no time during the period was the Company or any of its subsidiaries a party to any arrangements 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.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 30 June 2020, persons (other than directors or chief executives of the Company as disclosed herein) 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 <i>(Note 1)</i>
Huang Aidong	Interest in controlled corporation	Ordinary	508,334,000 <i>(Note 2)</i>	14.99%
Hu Jianzhong	Interest in controlled corporation	Ordinary	470,000,000 <i>(Note 3)</i>	13.86%
Lin Eddie Chang	Interest in controlled corporation	Ordinary	330,000,000 <i>(Note 4)</i>	9.73%
Lin Yuhua	Interest in controlled corporation	Ordinary	185,250,000 <i>(Note 5)</i>	5.46%
Ho Ping Tanya	Beneficial owner	Ordinary	330,000,000	9.73%

Disclosure of Interests and Other Information



INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

(Continued)

Long position in shares of the Company *(Continued)*

Notes:

1. The percentages are calculated based on the total number of ordinary shares of the Company in issue as at 30 June 2020, which were 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.

Saved as disclosed above, the Company had not been notified of any interests or short positions in the shares and underlying shares of equity derivatives of the Company as required to be recorded in the register under section 336 of the SFO as at 30 June 2020.

SHARE OPTION SCHEME

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

Summary of main terms of 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.

Disclosure of Interests and Other Information



SHARE OPTION SCHEME *(Continued)*

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 whose 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 26 August 2020, 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.

Disclosure of Interests and Other Information



SHARE OPTION SCHEME *(Continued)*

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.

Disclosure of Interests and Other Information



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 six months ended 30 June 2020 are as follows:

Name	Date granted	Period during which options are exercisable	No. of options outstanding at 1 January 2020	No. of options granted during the period	No. of options cancelled during the period	No. of shares acquired on exercise of options during the period	No. of options outstanding at 30 June 2020	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	–
			<u>37,000,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>37,000,000</u>			
Former directors										
(Note 2)	7 December 2018	(Note 1)	<u>4,000,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,000,000</u>	HK\$0.52	HK\$0.51	–
Employees in aggregate										
	7 December 2018	(Note 1)	<u>9,000,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>9,000,000</u>	HK\$0.52	HK\$0.51	–
			<u>50,000,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>50,000,000</u>			

Disclosure of Interests and Other Information



SHARE OPTION SCHEME *(Continued)*

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.

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.

AUDIT COMMITTEE

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

INTERIM DIVIDEND

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

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

Executive Director and Chief Financial Officer

Hong Kong, 26 August 2020