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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 2022

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 2022, with the comparative figures for the corresponding period in 2021, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<i>Notes</i>	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Revenue	4	179,593	280,143
Cost of sales		(116,008)	(180,137)
Gross profit		63,585	100,006
Other income		1,274	672
Other net (losses) gains		(65)	9,137
Administrative and other expenses		(23,950)	(27,696)
Finance costs	5	(5,513)	(4,226)
Profit before tax	6	35,331	77,893
Income tax expense	7	(5,074)	(2,863)
Profit for the period		30,257	75,030

	2022	2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Other comprehensive (expense) income, net of income tax		
<i>Item that will not be reclassified to profit or loss:</i>		
Fair value changes in equity investment at fair value through other comprehensive income	(4,256)	5,038
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of financial statements of foreign operations	<u>(98,130)</u>	<u>19,604</u>
Other comprehensive (expense) income for the period, net of income tax	<u>(102,386)</u>	<u>24,642</u>
Total comprehensive (expense) income for the period	<u>(72,129)</u>	<u>99,672</u>
Profit for the period attributable to:		
— Owners of the Company	26,832	67,141
— Non-controlling interests	<u>3,425</u>	<u>7,889</u>
	<u>30,257</u>	<u>75,030</u>
Total comprehensive (expense) income for the period attributable to:		
— Owners of the Company	(62,909)	88,098
— Non-controlling interests	<u>(9,220)</u>	<u>11,574</u>
	<u>(72,129)</u>	<u>99,672</u>
Earnings per share – Basic and diluted	9	
	<u>HK\$0.79 cents</u>	<u>HK\$1.98 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		30 June	31 December
		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		1,355,811	1,396,068
Right-of-use assets		31,883	34,813
Exploration and evaluation assets		1,409,422	1,467,151
Goodwill		626,013	654,817
Other intangible assets		108,364	119,355
Other financial asset		9,322	13,636
Interest in an associate		3,461	3,620
		<u>3,544,276</u>	<u>3,689,460</u>
		-----	-----
Current assets			
Inventories		11,816	7,287
Other receivables	10	72,793	40,748
Amount due from an associate		1,751	1,832
Bank balances and cash		130,285	157,700
		<u>216,645</u>	<u>207,567</u>
		-----	-----
Current liabilities			
Other payables	11	368,766	412,233
Bank and other borrowings		144,093	61,155
Contract liabilities		29,512	3,302
Lease liabilities		1,599	2,110
Tax payables		163,641	183,526
		<u>707,611</u>	<u>662,326</u>
		-----	-----
Net current liabilities		<u>(490,966)</u>	<u>(454,759)</u>
		-----	-----
Total assets less current liabilities		<u>3,053,310</u>	<u>3,234,701</u>
		-----	-----

		30 June	31 December
		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Bank and other borrowings		55,542	115,864
Other payables	11	557,045	589,703
Provision for restoration and environmental costs		13,214	13,358
Lease liabilities		99	639
Deferred tax liabilities		327,164	342,762
		<u>953,064</u>	<u>1,062,326</u>
Net assets		<u>2,100,246</u>	<u>2,172,375</u>
Capital and reserves			
Share capital		339,227	339,227
Share premium and reserves		1,613,269	1,676,178
		<u>1,952,496</u>	<u>2,015,405</u>
Equity attributable to owners of the Company		1,952,496	2,015,405
Non-controlling interests		147,750	156,970
		<u>2,100,246</u>	<u>2,172,375</u>
Total equity		<u>2,100,246</u>	<u>2,172,375</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s audited annual financial statements for the year ended 31 December 2021 (the “Annual Report 2021”).

Basis of measurement and going concern assumption

The Group had net current liabilities of approximately HK\$490,966,000 at 30 June 2022.

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020

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

3. 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 2021. In addition, management makes assumptions about the future in deriving critical accounting estimates used in preparing the condensed consolidated interim financial information.

4. REVENUE AND SEGMENT REPORTING

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

The principal activity of the Group is the production and sale of gold concentrates and related products for the six months ended 30 June 2022 and 2021.

The Group has only one reportable segment, gold mining operation, for the six months ended 30 June 2022 and 2021. 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 2022 and 2021.

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 2022 and 2021.

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Revenue from gold mining operation — Exploration, mining, processing and sale of gold concentrates and related products	179,593	280,143

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Timing of revenue recognition under HKFRS 15		
At a point in time	179,593	280,143

Geographical information

No geographical analysis is presented as the Group's revenue and profit from operations were primarily derived from operating activities in the People's Republic of China (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	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Customer A	146,785	280,143
Customer B (<i>Note</i>)	32,808	—

Note:

The corresponding revenue for the six months ended 30 June 2021 for Customer B was nil.

5. FINANCE COSTS

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Interest on unsecured bank and other borrowings	12,007	10,918
Interest on secured bank borrowings	–	1,758
Less: amount capitalised (<i>Note</i>)	(9,202)	(8,504)
Interest expenses on lease liabilities	38	54
Interest on promissory note payable at amortised cost	2,670	–
	<u>5,513</u>	<u>4,226</u>

Note:

Borrowing costs capitalised during the period arose on the general borrowings pool are calculated by applying the capitalisation rate of 11.9% (six months ended 30 June 2021: 5.8%) to expenditure on qualifying assets.

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Directors' emoluments	513	270
Other staff's salaries, bonus and allowances	10,070	10,648
Other staff's contribution to retirement benefits schemes	760	149
Total staff costs	<u>11,343</u>	<u>11,067</u>
Impairment loss on other receivables	–	243
Reversal of impairment loss previously recognised on other receivables	–	(1)
Amortisation of other intangible assets	5,684	3,665
Costs of inventories recognised as an expense (<i>Note</i>)	110,689	141,787
Depreciation charges		
— property, plant and equipment	17,670	12,431
— right-of-use assets	1,533	2,198
	<u>119,932</u>	<u>160,131</u>

Note:

Costs of inventories recognised as an expense mainly include mining extraction costs, documentation transferring fee, transportation cost and amortisations and depreciation charges of approximately HK\$78,456,000 (six months ended 30 June 2021: approximately HK\$103,531,000), approximately HK\$5,506,000 (six months ended 30 June 2021: approximately HK\$9,573,000), approximately HK\$960,000 (six months ended 30 June 2021: approximately HK\$1,310,000) and approximately HK\$20,810,000 (six months ended 30 June 2021: approximately HK\$13,647,000) respectively.

7. INCOME TAX EXPENSE

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 2022 and 2021.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the Enterprise Income Tax (“EIT”) 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, 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 2022 and 2021, 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 International Limited, and 潼關縣德興礦業有限責任公司 (transliterated as Tongguan County De Xing Mining LLC*), the operating subsidiary of Pride Success Investment Limited, obtained the in-charge tax bureau’s approval previously and were 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	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Current tax — PRC EIT:		
— Provision for the period	5,321	3,233
— Underprovision in prior year	248	—
	<hr/>	<hr/>
Deferred tax	5,569	3,233
	(495)	(370)
	<hr/>	<hr/>
	5,074	2,863
	<hr/> <hr/>	<hr/> <hr/>

8. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the six months ended 30 June 2022, nor has any dividend been proposed for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to owners of the Company of approximately HK\$26,832,000 (six months ended 30 June 2021: approximately HK\$67,141,000) and the weighted average number of ordinary shares of approximately 3,392,272,000 (six months ended 30 June 2021: approximately 3,392,272,000) in issue during the six months ended 30 June 2022.

Diluted earnings per share equals to basic earnings per share, as there were no potential dilutive ordinary shares issued during the six months ended 30 June 2022 and 2021.

10. OTHER RECEIVABLES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Other receivables	2,200	2,995
<i>Less: allowances (Note)</i>	<u>(490)</u>	<u>(490)</u>
	----- 1,710	----- 2,505
Deposits and prepayments	70,820	36,614
Value added tax recoverable	<u>263</u>	<u>1,629</u>
	<u><u>72,793</u></u>	<u><u>40,748</u></u>

Note:

Other receivables

Movement in impairment loss on other receivables:

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
At 1 January	490	268
Impairment loss recognised	<u>—</u>	<u>222</u>
At 30 June/31 December	<u><u>490</u></u>	<u><u>490</u></u>

The Group does not hold any collateral over these balances.

11. OTHER PAYABLES

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Other payables and accruals <i>(Note (a))</i>	400,383	446,924
Amounts due to related parties <i>(Note (b))</i>	465,042	497,296
Promissory note payable <i>(Note (c))</i>	<u>60,386</u>	<u>57,716</u>
	<u>925,811</u>	<u>1,001,936</u>
Analysed for reporting purposes as:		
— current portion	368,766	412,233
— non-current portion	<u>557,045</u>	<u>589,703</u>
	<u>925,811</u>	<u>1,001,936</u>

Notes:

- (a) Included in other payables were (i) amounts payable to subcontractors of approximately HK\$171,466,000 at 30 June 2022 (31 December 2021: approximately HK\$264,000,000) for mining extraction and construction; (ii) retention payable and guarantee deposits received from subcontractors for mining extraction and construction of approximately HK\$67,144,000 (31 December 2021: approximately HK\$51,000,000); and (iii) loan from an independent third party of approximately HK\$17,540,000 (31 December 2021: Nil) which were unsecured, carried interest rate of 12% per annum and repayable on 14 January 2023.
- (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.
- (c) Promissory note payable carried at zero interest rate, unsecured and repayable on 9 October 2025 (31 December 2021: repayable on 9 October 2025).

12. CONTINGENT LIABILITIES

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

As at 30 June 2022, the banking facility guaranteed by the Group to the Borrower was utilised to the extent of RMB20,000,000 (equivalent to approximately HK\$23,386,000) (31 December 2021: RMB40,000,000 (equivalent to approximately HK\$48,924,000)) by pledging the Borrower’s properties and machineries of approximately RMB25,000,000 and RMB55,600,000 respectively to the bank. The Directors considered the fair value of the financial guarantee contract at initial recognition was to be insignificant based on the fair value of the pledged properties of the Borrower.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

For the six months ended 30 June 2022 (the “Interim Period”), Tongguan Gold Group Limited (the “Company”) together with its subsidiaries (the “Group”) recorded an unaudited profit attributable to owners of the Company amounted to approximately HK\$26,832,000 (six months ended 30 June 2021: approximately HK\$67,141,000). Profit from operations decreased by approximately HK\$40,309,000 to approximately HK\$26,832,000 for the Interim Period from approximately HK\$67,141,000 for the corresponding period in 2021. Such a decrease in profit is primarily due to decrease in sale volume.

Administrative and other expenses amounted to approximately HK\$23,950,000, representing a decrease of approximately 13.5% from approximately HK\$27,696,000 for the corresponding period in 2021 and is primarily due to decrease in one off expenses, such as invalid exploration costs.

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\$179,593,000, representing a decrease of approximately 35.9% from approximately HK\$280,143,000 for the corresponding period in 2021 and is primarily arisen from the decrease in production volume and sale volume following an enhanced measures for disease control and other policies in the Mainland China (the “PRC”), which led to suspension of production for varying periods. The cost of sales amounted to approximately HK\$116,008,000, representing a decrease of approximately 35.6% from approximately HK\$180,137,000 for the corresponding period in 2021 and is in line with the decrease in revenue. Gross profit from operations amounted to approximately HK\$63,585,000 (gross profit margin 35.4%), representing a decrease in approximately 36.4% as compared with gross profit of approximately HK\$100,006,000 (gross profit margin 35.7%) for the corresponding period in 2021. The decrease in gross profit was in line with the decrease in revenue as a result of lower production volume and sale volume during the reporting period.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2022, the Group had total assets and net assets of approximately HK\$3,760,921,000 (31 December 2021: approximately HK\$3,897,027,000) and approximately HK\$2,100,246,000 (31 December 2021: approximately HK\$2,172,375,000), respectively. The current ratio was 0.31 (31 December 2021: 0.31).

As at 30 June 2022, the Group had bank balances and cash, of approximately HK\$130,285,000 (31 December 2021: approximately HK\$157,700,000), of which most were denominated in Renminbi and Hong Kong dollar.

As at 30 June 2022, the Group had total bank and other borrowings of approximately HK\$199,635,000 (31 December 2021: approximately HK\$177,019,000) which were denominated in Renminbi. For the bank and other borrowings under fixed rates of approximately HK\$117,784,000 (31 December 2021: approximately HK\$98,741,000) carried at fixed rates ranged from 6% to 12% (31 December 2021: fixed rate at 12%) per annum. For the bank and other borrowings under variable rates of approximately HK\$33,910,000 (31 December 2021: approximately HK\$28,131,000), the interest rates are loan prime rate (“LPR”) +2.025%, LPR +2.60% and LPR+2.95% per annum (31 December 2021: LPR+2.025%, LPR+2.088% and LPR+2.95% per annum). The increase in total borrowings is to cope with daily operation and future development demands. The gearing ratio, as a ratio of total borrowings to shareholders’ fund was 10.2% (31 December 2021: 8.8%).

As at 30 June 2022, the Group had promissory note of approximately HK\$60,386,000 (31 December 2021: approximately HK\$57,716,000). The promissory note with principal amount of HK\$80,000,000 carries zero interest and to be due on 9 October 2025.

FOREIGN EXCHANGE RISK MANAGEMENT

As part of the Group’s assets and liabilities are denominated in Hong Kong 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 2022, 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 2022, the Group had not pledged any assets as a security for the bank and other borrowing granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group had a contingent liability and detail is set out in Note 19 to the condensed consolidated financial statements (31 December 2021: detail is set out in Note 45 to the consolidated financial statements).

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 2022, the Group had approximately 9 and 196 employees in Hong Kong and the PRC 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\$11,343,000 for the Interim Period (six months ended 30 June 2021: approximately HK\$11,067,000).

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 the PRC employees, performance bonus and share option scheme.

According to the share option scheme adopted by the Company on 13 June 2022, 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

Global economic continues to be challenging due to pandemic, geopolitical crisis and interest rate hikes. In view of the pandemic being sporadic from time to time, it was under control through a number of pandemic control measures in the PRC. The Group followed the enhanced measures for disease prevention and control and other policies in the PRC for the first half of 2022, which led to suspension of production for varying periods, the production volume and sales volume therefore decreased. With the gradual ease of the pandemic and relaxation of other policies, the Group strives to resume to its normal production and expand the exploration and mining activities, we expect that the overall performance of the business will be improved in the second half of 2022.

The profitability of the Group is highly dependent on the gold price in domestic and international markets. The market prices of gold (and other precious metals) are correlated to the global economic environment and stability. Stepping into 2022, in face of high inflation, global central banks have begun to manage and control the inflation by increasing the interest rate, especially the Federal Reserve. Investors are wary of whether successive interest rate hikes will create a global recession or not. While higher interest rate will be detrimental to the gold price, high and persistent inflation and international geopolitical conflicts offsets the impact. As such, gold still serves its solid role as a safe-haven asset, particularly while uncertainties stays elevated. The management will closely monitor the market trends of commodity prices and take necessary actions to control any potential risks.

The Group is committed to being a responsible corporate citizen and to fulfilling its corporate social responsibility while remaining competitive and sustainable in its business development. Pandemic prevention and control, environmental sustainability and safety production would continue to be the priority tasks of the Group. In response to the pandemic, the Group actively implemented various hygiene measures, and followed the disease prevention and control measures and other policies in the PRC. The Group adhered to provide safe and healthy working environment, and carried out trainings to all workers and employees to enhance their safety management and technical knowledge skills. To ensure environmental sustainability, the Group continues to monitor and review waste and pollution reduction measures at all of the operating plants to comply with the relevant regulations and requirements.

Moving forward, under the market uncertainties, the Group would remain vigilant and responsive in a timely manner. In the second half of 2022, the Group has extended its gold related business in the PRC, which is to sale of physical gold bullion by purchasing gold related materials from other supply chain players, and refining by subcontractors. Despite the margin of such business is expected to be substantially lower than our existing business, the new business could broaden our income stream, explore our market share and enhance our reputation in the gold industry in the PRC. On the other hand, the management would proactively explore other investment opportunities to enhance the portfolio, thereby maximizing the value for the shareholders of the Company.

CORPORATE GOVERNANCE

The Company is committed to comply with its established best practice in corporate governance and are based on the principles and code provisions as set out in the Corporate Governance Code (the “CG Code”) in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”). The 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 CG Code as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2022, except for certain deviations as specified and explained below with considered reasons and explanation for such deviations.

1. Under Code Provision C.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. The Board considers that the principle of balance of power and authority is achieved by the check and balance between the executive Directors and the independent non-executive Directors. 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 structure from time to time and as and when appropriate if candidate with suitable leadership, knowledge, skills and experience is identified, the Company may make the necessary modification to the management structure.

2. Under Code Provision F.2.2 of the CG Code, the Chairman should attend the annual general meeting. Since the Company currently does not have any officer with the title of the Chairman, 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 10 June 2022 in accordance with the Bye-laws of the Company.
3. Under Code Provision C.6.3 of the CG Code, the company secretary should report to the board chairman and/or the chief executive officer. Since the Company currently does not have any officer with the title of the Chairman or CEO, the company secretary of the Company reported to the executive Directors since 1 June 2016.

The Board will continue to regularly review and monitor the Company’s corporate governance practices to ensure compliance with the relevant provisions under the Listing Rules and to maintain a high standard of corporate governance practices of the Company.

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 2022.

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 2022. 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 2022.

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 2022.

In addition, the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2022 have been reviewed by CCTH CPA 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 2022.

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, 29 August 2022

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.