



(Stock Code: 340)

ANNOUNCES INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

**CONTINUE TO EXPLORE POSSIBLE INVESTMENT OPPORTUNITIES IN ORDER TO
GENERATE THE BEST RETURN TO OUR SHAREHOLDERS**

<u>Financial Highlights</u>	For the Six Months Ended 30 June 2018		
	(HK\$'000)		
	2018	2017 (Restated)	Change (%)
CONTINUING OPERATIONS			
Turnover	100,941	92,789	+8.8%
Gross Profit	31,551	25,331	+24.6%
Gross Profit Margin	31%	27%	+4 ppt
Profit/(loss) for the period attributable to owners of the Company			
- Continuing operation	(1,666)	(43,254)	
- Discontinued operation	<u>109,127</u>	<u>(12,663)</u>	
	<u>107,461</u>	<u>(55,917)</u>	
Earnings/(loss) per share - Basic and diluted			
- Continuing operation	HK(0.06) cents	HK(2.04) cents	
- Discontinued operation	HK3.84 cents	HK(0.60) cents	

(Hong Kong, 28 August, 2018) – **Tongguan Gold Group Limited** (“Tongguan Gold” or the “Group”) (Stock Code: 340) today hereby announced its interim results for the six months ended 30 June 2018 (the “Interim Period”).

During the Interim Period, the Group recorded an unaudited profit attributable to owners of the Company amounted to HK\$107,461,000 (six months ended 30 June 2017: loss of HK\$55,917,000). Of which, profit derived from the discontinued operation amounted to approximately HK\$109,127,000 which is primarily contributed by the gain on disposal of HK\$117,661,000. Loss from continuing operations decreased by 96.1% to approximately HK\$1,666,000 in 2018 from approximately HK\$43,254,000 for the corresponding period in 2017, which is primarily a result of the one-off provision of impairment loss on goodwill attributable to gold mining operation of approximately HK\$52,202,000 during the corresponding period in 2017. No such impairment loss on goodwill is provided for during the Interim Period.

REVIEW OF OPERATIONS

Continuing operations

Gold Mining Operation

The principal activity of the gold mining operation is the production and sale of gold concentrates and related products. In the first half of 2018, the Group's revenue from gold mining operation amounted to approximately HK\$100,941,000, representing an increase of approximately 8.8% from approximately HK\$92,789,000 for the corresponding period in 2017 and is primarily contributed by the improved grading of ore processed and the depreciation of Hong Kong dollars against Renminbi during the period. The cost of sales amounted to HK\$69,390,000, representing an increase of approximately 2.9% from approximately HK\$67,458,000 for the corresponding period in 2017 and is primarily contributed by the combined effect of the improvement in cost efficiency in production and partially offset by the additional amortization charges of mining rights arisen from acquisition in the corresponding period for 2017. Gross profit from continuing operations amounted to approximately HK\$31,551,000, representing an increase in 24.6% respectively as compared with approximately HK\$25,331,000 for the corresponding period in 2017. The average gross profit margin for the current period was 31%, representing an increase of 4 percentage points as compared with 27% of average gross profit margin in the corresponding period in 2017. Increase in gross profit margin was mainly attributable to the improved grading of ore processed. Administrative and other expenses amounted to approximately HK\$25,714,000, representing an increase of approximately 98.4% from approximately HK\$12,959,000 for the corresponding period in 2017 and is primarily contributed by the full period effect of the companies acquired during the corresponding period in 2017 and the expenses incurred for preparing to begin the application of mining licences for certain exploration sites of which the exploration licences are expired in 2018 and permitted for mining licences application.

Investments in Canada listed mining company and other securities

The Group invested in a Canada listed mining company which was held for the purpose of long-term investments for capital gain and dividend income. The investment portfolio of the Group, included in other financial assets, recorded a depreciation during the Interim Period as the depreciation of both the market price and the exchange rate of Canadian dollar. The net decrease in fair value of the investment portfolio during the Interim Period was HK\$15,377,000 (six months ended 30 June 2017: net increase of HK\$7,459,000). As at 30 June 2018, the carrying value of the investment portfolio was HK\$11,887,000 (31 December 2017: HK\$28,131,000).

Discontinued operation

Disposal of Tea Business

Discontinued operation represented the operating results up to the date of disposal and the gain on disposal of the tea business.

On 16 April 2018, the Group has disposed of 80% issued shares of King Gold Investments Limited (the "Disposal"). King Gold Investments Limited ("King Gold") and its subsidiaries (together with King Gold, the "King Gold Group") is principally engaged in cultivation, research, production and sale of Chinese tea products.

Upon completion of the Disposal, King Gold ceased to be a subsidiary of the Group. For the operation results, during the period from 1 January 2018 to 16 April 2018, King Gold Group contributed HK\$25,933,000 (six months ended 30 June 2017: HK\$41,654,000) and HK\$10,667,000 (six months ended 30 June 2017: HK\$15,829,000) to the Group's revenue and loss before tax respectively.

A gain of disposal of approximately HK\$117,661,000 was arisen from the Disposal and was derived from (i) the total consideration of HK\$121,072,000; and (ii) the net assets and other reserves of King Gold Group of HK\$3,411,000 upon the Disposal.

PROSPECTS

The gold mining operation continues to perform during the period under review and the management is dedicated to sustainable growth of the operation through improvements on workflow and ramping up the processing capacity.

It is normal practice to carry on maintenance and upgrade on the processing operations annually. In 2018, the central inspection teams visit Qinling mountains for environmental inspections and all the mining operations within Tongguan county, being part of Qinling mountains, were advised by the local authorities in August 2018 to suspend operations temporarily to prepare for the inspections. The Group expects longer period is required for the relevant upgrade to facilitate the environmental inspections and the overall production in 2018 is expected to be decreased.

The phase one of the new processing plant of the Group is expected to complete around the end of 2018. The new processing plant will strengthen our processing capacity in a cost-effective matter and it is expected to reduce the environmental footprint of the Group. With the new processing plant designed with occupational safety in mind, this also mean our staff and contractors can work in a more comfortable workplace. The management will continue to invest on the operation through internal training on human resources as well as capital investments.

The Group makes continual efforts in exploring opportunities for acquisitions to maintain and expand its self-sufficient mineral portfolio and also to prepare the portfolio on hand ready for mining productions. Subsequent to the two acquisitions during 2017, the Group has already begun the application procedures of mining licences for areas that the exploration works had substantially completed. The management is optimistic that the tenements would be available for exploitation in coming years.

The profitability of the Group highly depends on the gold price in the domestic and international markets and the market prices of gold (and other precious metals) are highly correlated with the global economic growth and stability. As the investors are cautious at the beginning of interest rate hikes in the United States and the impact on the economy outlook in the US and globally, gold can be said as trading at its lowest in 18 months in US dollar terms in the recent months, at approximately USD1,200/ounce level. Nevertheless, gold still serves its solid role as a safe-haven asset globally. In China, the gold price remains stable in the range from RMB265/g to RMB275/g during 2018. With reference to various sources, the gold price in the coming years is

expected to remain stable at around USD1,250/ounce.

The management remains optimistic to the financial performance of the Group as gold will continue to be in strong demand as a safe-haven asset and the price is expected to remain stable. The Group will continue to leverage its management expertise in the mining industry with the aim to increase the shareholders' value of the Group as a whole.

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About Tongguan Gold Group Limited (Stock Code: 340)

Tongguan Gold is principally engaged in the operation of exploration, mining, processing and sale of gold concentrates and related products. The Group's operations are mainly carried out in the People's Republic of China (the "PRC").

Released by Tongguan Gold Group Limited