



恒興黃金
HENGXING GOLD

HENGXING GOLD

Holding Company Limited

(incorporated in the Cayman Islands with limited liability)
Stock Code : 2303



2016

INTERIM REPORT



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CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Ke Xiping (柯希平) (*Chairman*)
Mr. Chen, David Yu (陳宇) (*Vice Chairman and President*)
Mr. Albert Fook Lau Ho (何福留)

Independent non-executive directors

Ms. Wong, Yan Ki Angel (黃欣琪)
Mr. Xiao Wei (肖偉)
Dr. Tim Sun (孫鐵民)

AUDIT COMMITTEE

Ms. Wong, Yan Ki Angel (黃欣琪) (*Chairlady*)
Mr. Xiao Wei (肖偉)
Dr. Tim Sun (孫鐵民)

REMUNERATION COMMITTEE

Mr. Xiao Wei (肖偉) (*Chairman*)
Mr. Ke Xiping (柯希平)
Ms. Wong, Yan Ki Angel (黃欣琪)

NOMINATION COMMITTEE

Dr. Tim Sun (孫鐵民) (*Chairman*)
Mr. Chen, David Yu (陳宇)
Ms. Wong, Yan Ki Angel (黃欣琪)

COMPANY SECRETARY

Ms. Wong Wai Ling (黃慧玲) (*ACIS, ACS*)

AUTHORISED REPRESENTATIVES

Mr. Chen, David Yu (陳宇)
Mr. Albert Fook Lau Ho (何福留)

PRINCIPAL SHARE REGISTRAR

Estera Trust (Cayman) Limited
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman, KY1-1108
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND OPERATING HEAD OFFICE IN CHINA

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Yining County
Xinjiang

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

COMPANY'S WEBSITE

www.hxgoldholding.com

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
2303

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

As to Cayman Islands law:
Estera Trust (Cayman) Limited

PRINCIPAL BANK

Agricultural Bank of China Limited
No. 77 Airport Road
Yining City 835000
China

CHAIRMAN STATEMENT

Dear shareholders,

On behalf of the Board of Directors of Hengxing Gold Holding Company Limited, I am pleased to present the interim report of the Group for the six months ended 30 June 2016. With the rising yields and benefits and the remarkable achievements in operation management after over two years of unremitting efforts, the Gold Mountain Mine, wholly owned by the Company, has become the individual gold mine with the highest ore quantity processed, the largest gold yield, the lowest unit cost and the best economic benefit in Xinjiang since start-up. Thank you for your support and trust all through the way.

KEEP UP WITH THE TREND AND FULFILL THE TARGETED OUTPUT AND PROFIT

The global gold price increased from US\$1,030/oz to US\$1,363/oz in the first half of 2016. With a spike in gold price, the Company took advantage of such opportunity and triumphant news kept pouring in. As at 30 June 2016, Gold Mountain Mine crushed and processed approximately 2.05 million tons of ore and produced 1,015kg of gold with a revenue of RMB291 million and a net profit of RMB63.58 million, successfully meeting the target of both productivity and profit. The Company lost no time in optimizing organizational production layout, developing ecological environment improvement, adjusting excavation and dumping schemes, shortening dumping haul and reducing mining cost to consolidate a sound foundation for future production plans.

OVERCOMING DIFFICULTIES AND FINALIZING THE TECHNICAL UPGRADE SCHEME

The Company made deeper researches on the relation between ore properties and the liner, the most critical component of original crushers and selected the competent manufacturer after comparison and various tests and tryouts. Thus consumption of the liner reduced dramatically compared with that at the initial stage of production.

Moreover, after in-depth studies and tests on different crushers, the decision of using high-pressure grinding roller was made. The final particle size is expected to meet the designed size and the leaching recovery rate will be enhanced by 8%–10%.

FINE MANAGEMENT AND EFFECTIVE COST CONTROL

For gold production enterprises, the production cost can directly affect their profits and competitive power. The Company took a combination of measures as well as comprehensive, fine and feasible management for achieving expenditure saving and cost reduction, and the effects were remarkable. The all-in gold production cost of Gold Mountain Mine for the first half of 2016 is reduced to approximately US\$660/oz from US\$1,008/oz for the corresponding period of 2015.

In addition, the Company also devoted itself to serving development of local communities, protecting local mining environment, taking construction of a green mine as the goal and providing the safe and reliable working environment for employees.

At last, on behalf of the Board of Directors, I would like to express my sincere gratitude to all employees for their efforts and contributions and to our partners and local society for their support and help. We look forward to witness the better results of the full year with all of you.

Yours sincerely,

KE Xiping
Chairman

26 August 2016

BUSINESS REVIEW

For the first half of 2016, the Company recorded an upsurge in net profit of RMB63.6 million from RMB17.5 million for the same period last year. The Group's Gold Mountain Mine outperformed, thanks to the substantial increases in gold production, gold price and cost saving measures. For the Period Under Review, it produced 35,527 ounces ("ounce" or "oz", referring to a unit of weight for precious metals, and one ounce equals 31.1035 grams) or 1,105kg of gold, up approximately 129% from 15,514 ounces (equivalent to 482.5 kg) gold produced for the same period last year.

On the production front, approximately 2.05 million tonnes of ore were crushed and processed for the six months ended 30 June 2016, 15% greater than the 1.78 million tonnes ore processed during the same period last year. The Company has continued to search for and use durable key wearable parts, such as liners of coarse crushers, which would facilitate better ore crushing results. However, it has been yet to meet the target particle size of P80-6.3 mm under the designed specifications of equipment required to reach the optimal recovery rate stated in feasibility studies and warranted by the crushing equipment supplier. In addition to the increase in ore processed, the average head grade rose from 0.73g/t to 0.91g/t on a year-on-year basis.

Due to enhanced production process and cost control measures, the all-in gold production cost of Gold Mountain Mine for the first half of 2016 is further reduced to approximately US\$660/oz from US\$1,008/oz for the corresponding period of 2015.

In addition to current mining operations at the Yelmand prospect and the Mayituobi prospect within Gold Mountain Mine, the Company is planning for the construction of new open pits at the Kuangou prospect and the Jinxi-Balake prospect. Initial stripping at the Kuangou prospect has commenced in August 2015 and is still in progress. At Jinxi-Balake prospect, metallurgical test is being conducted to help assess the gold recovery rate and with the mining design.

In respect of technical upgrade, the Company continued the testing of alternative crushers with a view to achieving the designed process capacity and particle size. After in-depth studies and tests on different crushers, the decision of using high-pressure grinding roller was made in June 2016. The final particle size is expected to meet the designed size and the leaching recovery rate will be enhanced. The Company also optimized the dumping technology to reduce future dumping cost.

As for exploration progress, the Company is cooperating with Western Region Gold Ili Company Limited (西部黃金伊犁有限責任公司) in exploration in the Bohogou (薄荷溝) prospect. Except for the drill hole made in 2015, other exploratory drilling plan is under consideration and expected to be finalised within 2016.

PROSPECTS

The Group aims at becoming a leading gold mining company in China through the following strategies:

Ramp up processing capacity of Gold Mountain Mine

The Group is committed to ramping up the operations in a steady and effective manner with a view to achieving the designed ore processing capacity. After in-depth studies and tests on different crushers, the Group has decided to use high-pressure grinding roller in crush processing. In addition, the Group has been dedicated to continuously enhance operational design, and utilize better technologies to strengthen overall productivity.

Further expand resources and upgrade reserves

The Group will continue joint exploration works by way of cooperation with independent third parties in the surrounding areas of the Gold Mountain Mine where the Group hold licenses. The Group will also invest resources to identify areas with great potential at early stage with a view to securing new exploration and mining rights. Besides, the Group is continuously sourcing high-quality gold mines for acquisitions.

BUSINESS REVIEW

Expand current production scope

The Group has the options and rights of first refusal to acquire the equity interests held by Mr. Ke Xiping in two companies that hold gold exploration licenses for certain mines in Shandong and Sichuan provinces. The Group may exercise the options to acquire such equity interests in due course and once economic visibility is proven.

Further strengthen work safety and environmental protection

Work safety and environmental protection are crucial to the sustainable development of our industry. We have implemented various occupational health, safety, training and environmental protection systems, demonstrating our solid commitment to sound operation and social responsibility.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares in the initial public offering ("IPO") dated 29 May 2014, after deducting listing related expenses, amounted to approximately HK\$330.4 million. The use of proceeds was disclosed in the prospectus (the "Prospectus") on 19 May 2014 issued by the Company relating to the IPO and further disclosed in the clarification announcement made by the Company on 28 May 2014. On 15 June 2015, the board has resolved to change the use of the unutilized IPO proceeds, amounting to approximately HK\$180.3 million, and apply for new specific purposes, details of which are indicated in the table below. As at 30 June 2016, the Company has used approximately HK\$197.7 million and intends to apply the remaining net proceeds in the manner consistent with that set out in the Prospectus and relevant announcements made thereafter.

	Planned amount per clarification announcement dated 28 May 2014 (HK\$ million)	Revisions per announcement of proposed changes dated 16 June 2015 (HK\$ million)	Amount utilized up to 30 June 2016 (HK\$ million)	Balance of unutilized IPO proceeds as at 30 June 2016 (HK\$ million)
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Financing the Company's CIL Project, including:

• Constructing and installing the carbon-in-leach production and ancillary facilities, purchases of relevant equipment	120.1	-	-	-
• Acquiring land use right, hiring project design and supervisory experts, implementing work safety measures and applying for relevant licenses	30.0	-	-	-

Upgrading the crushing system in order to improve the efficiency of current production process of Gold Mountain Mine

	-	12.5	-	12.5
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Developing a new open pit at the Kuangou prospect and a new leach pad to accommodate ore mined from the Kuangou prospect for the purpose of increasing production

	-	27.5	-	27.5
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Repaying outstanding loans with interests and advances from controlling shareholder Mr. Ke

	138.8	-	138.8	-
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BUSINESS REVIEW

	Planned amount per clarification announcement dated 28 May 2014 (HK\$ million)	Revisions per announcement of proposed changes dated 16 June 2015 (HK\$ million)	Amount utilized up to 30 June 2016 (HK\$ million)	Balance of unutilized IPO proceeds as at 30 June 2016 (HK\$ million)
Repaying part of the outstanding gold lease facilities	–	47.6	47.6	–
Financing the Company's potential acquisitions of gold resources, including expenses for due diligence, environmental and exploratory studies	15.1	77.6	–	77.6
Financing further exploration works at the Gold Mountain Mine and its surrounding areas where the Company holds exploration licenses	15.1	15.1	–	15.1
Working capital use and other general corporate purposes	11.3	–	11.3	–
Total	330.4	180.3	197.7	132.7



FINANCIAL REVIEW

During the Period Under Review, the Group recorded revenue of RMB291,549,000, while the revenue recorded for the corresponding period of 2015 was RMB130,635,000 representing approximately an increase of 123%, which is contributed by the substantial growth in gold production and sales.

The Group started to record a consolidated profit of the Group of RMB63,577,000 for the six months ended 30 June 2016, while there is a profit of RMB17,544,000 in the corresponding period of 2015. The situation of profit turnaround is mainly due to (a) substantial growth in gold production and sales volume as compared to the corresponding period in 2015, (b) increase of gold sales price (c) improved durability of the wearable parts leads to lower unit cost of wearable parts.

Revenue

During the Period Under Review, the Group's revenue was approximately RMB291,549,000, compared with RMB130,635,000 in the corresponding period of 2015, because the gold production and sales volume and price increased.

Cost of sales

During the Period Under Review, the Group's cost of sales amounted to approximately RMB144,752,000 compared with RMB90,628,000 in the corresponding period of 2015, which primarily included mining costs, processing costs, labor costs related to mining and processing activities as well as depreciation and amortization costs including depreciation costs of property, plant and equipment and amortization costs of intangible assets. The increase in COGS was due to the growth of production volume.

Gross profit

During the Period Under Review, the Group's gross profit amounted to approximately RMB146,797,000, compared with RMB40,007,000 in the corresponding period of 2015, and the GP ratio was 50%, compared with 31% in the corresponding period of 2015, resulted from the dilution of fixed cost with the substantial growth in gold production.

EBITDA

During the Period Under Review, the Group's earnings before interest, tax, depreciation and amortization ("EBITDA") was RMB107,932,000 compared with RMB55,397,000 in the corresponding period of 2015.

Selling and distribution expenses

During the Period Under Review, the Group's selling and distribution expenses amounted to approximately RMB171,000 compared with RMB88,000 in the corresponding period of 2015.

Administration Expenses

During the Period Under Review, the Group's administration expense was approximately RMB13,437,000 (six months ended 30 June 2015: RMB11,488,000).

Finance Costs

During the Period Under Review, the Group's finance costs was RMB10,253,000 (six months ended 30 June 2015: RMB14,414,000), representing a decrease by 29%, compared with the corresponding period of 2015. The decrease was mainly due to the repayment the unsecured trust loan and the reduction of interest rate of bank borrowings, details are set out in Note 12 in interim condensed consolidated financial statements.

Profit before taxation

As a result of the foregoing, the profit before taxation was RMB70,972,000 for the six months ended 30 June 2016, compared with a profit of RMB17,544,000 in the corresponding period of 2015.

FINANCIAL REVIEW

Profit (loss) and total comprehensive income (expense)

As a result of the foregoing, the profit and total comprehensive income was RMB63,956,000 for the six months ended 30 June 2016, compared with a profit and total comprehensive income of RMB17,544,000 in the corresponding period of 2015.

Liquidity and Financial Resources

The group was in possession of reasonable operation cash flow and working capital due to the substantial growth of production. As at 30 June 2016, the Group's bank balances and cash and fixed deposit were RMB244,065,000 (as of 31 December 2015, it was RMB120,338,000). Net assets were RMB491,960,000 (as of 31 December 2015, it was approximately RMB428,004,000).

The Group recorded net current assets were RMB52,258,000 as of 30 June 2016, compared with RMB31,327,000 as of 31 December 2015, which was primarily due to (a) increase of bank balance amounted RMB123,727,000 (b) increase of financial liabilities at fair value through profit or loss amounted RMB106,603,000.

Current ratio and gearing ratio

As of 30 June 2016, the Group's current ratio (current assets divided by current liabilities) was 1.18 (31 December 2015: 1.17).

As of 30 June 2016, the Group's gearing ratio (total borrowings divided by total equity) was 0.85 (31 December 2015: 0.93).

Cash flows

The following table sets out selected cash flow data from the Group's condensed consolidated interim cash flow statements for the six months ended 30 June 2016 and 30 June 2015.

	Unaudited Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Net cash from operating activities	152,977	54,359
Net cash used in investing activities	(49,635)	(13,751)
Net cash used in financing activities	(26,111)	(50,661)
Net increase/(decrease) in cash and cash equivalents	77,231	(10,053)
Cash and cash equivalents at 1 January	26,339	114,223
Cash and cash equivalents at 30 June	103,570	104,170

For the Period Under Review, the net cash inflow from operating activities was RMB152,977,000, which was mainly attributable to (a) profit plus non cash cost as depreciation and amortisation and financing cost minus investing gain, amounted RMB152,177,000 (b) decrease in inventory of RMB31,661,000 (c) increase in other receivables and prepayments of RMB31,854,000, and (d) increase in trade payables, accruals, other payables and provisions of RMB993,000.

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For the Period Under Review, the net cash outflow from investing activities was RMB49,635,000, which was mainly attributable to (a) purchase of property, plant and equipment of RMB3,030,000, (b) purchase of intangible assets of RMB1,192,000, (c) placement of fixed deposits of RMB46,496,000, (d) Placement of structured deposits of RMB121,740,000, (e) partially offset by redemption of structured deposits of RMB122,179,000 and interests received of RMB568,000 and (f) proceeds from disposal of property, plant and equipment of RMB76,000.

For the Period Under Review, the net cash outflow from financing activities was RMB26,111,000, which was primarily attributable to (a) new gold lease borrowings raised of RMB72,612,000 which were partially offset by (b) interest paid for gold lease borrowings and bank and other borrowings of RMB9,914,000, (c) repayment of bank and other borrowings of RMB88,809,000.

Capital Structure

As of 30 June 2016, the total number of issued ordinary shares of the Company was 925,000,000 shares (as of 31 December 2015: 925,000,000 shares), each at HK\$0.01.

Indebtedness and charge on assets

As at 30 June 2016, the Group had the bank and other borrowings of approximately RMB225,009,000 which was pledged by certain buildings, mining structures and equipment with an aggregate carrying amount of RMB140,466,000 (31 December 2015: RMB145,382,000) and intangible assets with an aggregate carrying amount of RMB129,558,000 (31 December 2015: RMB132,225,000). In addition the Group had gold lease borrowings of approximately RMB44,648,000 with fix deposit amounting to RMB48,935,000 pledged for (31 December 2015: RMB47,921,000).

Save as stated above, as of 30 June 2016, the Group did not have other outstanding loan extended and outstanding, bank overdrafts, other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees and other material contingent liabilities.

Contingent liabilities

As of 30 June 2016, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2015: nil). The Group is not currently involved in any material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings, involving us. If the Group is involved in such material legal proceedings, the Group would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Possible Risks

The Group's major source of income is from gold production, which is subject to the price movement of gold. If gold price declines dramatically, the Company may experience more pressure in production and operation. So the Company will realise a low-cost and highly effective operation as well as use proper financial instruments to avoid price fluctuation risks.

The functional currency of the Company and its subsidiaries is RMB since all of the Group's transactions are denominated in RMB. The Group's exposure to foreign currency risk related primarily to certain bank balances, certain other payables and certain amount due to a shareholder that are denominated in HK\$ and US\$. The Group currently does not have a foreign currency hedging policy. However, the management of the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

FINANCIAL REVIEW

Employees

As at 30 June 2016, the Group employed approximately 323 employees in the PRC and Hong Kong. All employees are remunerated according to their performance, experience and prevailing trade practices. Both on-the-job and professional training are provided as well. The Group provides retirement benefits, either in the form of the Mandatory Provident Fund Exempted ORSO or Mandatory Provident Fund entitlement, to employees in Hong Kong. A similar scheme is also maintained for employees in the PRC.

THE EXPLORATION, DEVELOPMENT AND MINING PRODUCTION EXPENDITURES

Mining Production

Gold Mountain Mine includes five prospects, namely the Yelmand prospect, the Mayituobi prospect, the Jinxi-Balake prospect, the Kuangou prospect and the Lion prospect. For the Period Under Review, the total amount of ore mined and processed was approximately 2.05 million tones. As of 30 June 2016, Gold Mountain Mine has conducted mining activities in the Yelmand prospect and the Mayituobi prospect.

	Unit	Six months ended 30 June	
		2016	2015
Ore mined	Kt	2,053	1,695
<i>Yelmand prospect</i>	Kt	1,844	1,533
<i>Mayituobi prospect</i>	Kt	209	162
Overburden mined	Kt	1,294	3,444
<i>Yelmand prospect</i>	Kt	1,143	2,266
<i>Mayituobi prospect</i>	Kt	151	1,178
Strip ratio	:	0.63	2.03
Feed-in grade of ore	g/t	0.91	0.73
Ore processed	Kt	2,046	1,779
Recovery rate	%	54.5	49.5
Gold produced	Oz	35,527	15,514

During the Period Under Review, the aggregate expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB37.9 million as compared to approximately RMB31.1 million for the six months ended 30 June 2015.

FINANCIAL REVIEW

Exploration

For the Period Under Review, the Company has no exploration expenditure. Because in the current stage the focus of exploration is on seeking cooperation with other independent third parties to jointly explore the exploration targets with future potential.

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as of 30 June 2016: (Adjusted by internal geological department on JORC Mineral Resources and reserves stated in the Independent Technical Report as disclosed in the prospectus dated 19 May 2014.)

JORC Mineral Resources Category	Tonnage kt	Grade g/t	Contained Gold Au kg	Contained Gold Au koz
Measured	19,932	0.75	14,971	481
Indicated	75,634	0.74	55,934	1,798
Inferred	31,123	0.70	21,914	705
Total	126,964	0.73	92,819	2,984

JORC Mineral Reserves Category	Tonnage kt	Grade g/t	Contained Gold Au kg	Contained Gold Au koz
Proved	6,692	0.68	4,529	146
Probable	75,464	0.74	55,975	1,800
Total	82,156	0.74	60,504	1,945

Resources and reserves reported at a cut-off grade of 0.3 g/t.

Mine Development

For the first half of 2016, the Company continued its construction and development activities in Gold Mountain Mine, such as road building in the open pits. In the same time, the work on technical improvement continued on a large scale.

For the Period Under Review, the aggregate expenditure on the mine development and construction amounted to approximately RMB3.0 million, as compared to approximately RMB14.4 million for the six months ended 30 June 2015.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the Period Under Review, the Group has no significant investments, acquisitions or disposals.

CONNECTED TRANSACTION

On 26 January 2016, Jinchuan Mining, a subsidiary of the Company, took gold lease borrowing from Agricultural Bank of China. The gold lease borrowing amounted to RMB56,010,000, interest bearing at a contract rate of 4.5% per annum with original maturity of 186 days, which is guaranteed by Xiamen Hengxing Group and Mr. Ke Xiping. Such financial assistance constituted a connected transaction. The Directors are of the view that such financial assistance was guaranteed by Xiamen Hengxing Group and Mr. Ke Xiping for our benefit on normal commercial terms where no security over the Company's assets was granted in respect of the financial assistance, which is exempted from reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance in the interests of Shareholders. The Company has adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with the Corporate Governance Code during the six months ended 30 June 2016 and up to the date hereof.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 to the Listing Rules as the code for securities transactions by the Directors. The Group has made specific enquiry with the Directors and all Directors have confirmed that they complied with the Model Code during the six months ended 30 June 2016.

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

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme pursuant to the written resolutions of the Shareholders passed on 5 May 2014 and the resolutions of the Directors passed on 5 May 2014. The purpose of such Share Option Scheme is to provide an incentive for eligible participants to work with commitment towards enhancing the value of the Company and the Shares for the benefit of the Shareholders and to retain and attract high-caliber and working partners whose contributions are or may be beneficial to the growth and development of the Group.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number in issue as of the Listing Date, that is 92,500,000 Shares.

As for the grantee's maximum holding of the grant options, no option, unless approved by the shareholders in general meeting in the manner prescribed in the Listing Rules, may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options during any 12 month period exceeding 1% of the total Shares then in issue.

Pursuant to the Share Option Scheme, an option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period notified by the Board in its absolute discretion, save that such period shall not be more than ten years commencing on the date on which the option is offered (the "Offer Date"). The price per share option at which a grantee may subscribe upon exercise of an option shall also be determined by the Board and in any event shall be at least the highest of:

- (1) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the Offer Date;
- (2) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Offer Date; and
- (3) the nominal value of the Shares.



CORPORATE GOVERNANCE AND OTHER INFORMATION

The Share Option Scheme shall be valid and effective for 10 years from the Listing Date, after which time no further option will be granted but the Share Option Scheme itself shall remain in full force and effect in all other aspects.

In addition to the information stated herein, the detailed terms of such Share Option Scheme have been disclosed in the prospectus of the Company dated 19 May 2014.

No share options under the Share Option Scheme were granted, exercised, lapsed or cancelled during the six months ended 30 June 2016. The Company has no outstanding options as at 1 January 2016 and 30 June 2016.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2016, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (with the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executives of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are 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:

Long Positions in the Shares

(i) *Interest in the Company*

Name of Director	Nature of interest	Number of shares interested (Note 1)	Approximate percentage of interest in the issued capital (Note 3)
Mr. Ke Xiping (Note 2)	Interest of controlled corporation	555,000,000 (L)	60.0%

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Mr. Ke Xiping holds the entire issued share capital of Gold Virtue and is its director, therefore is deemed to be interested in the 555,000,000 Shares held by Gold Virtue.
- (3) As at 30 June 2016, the total number of issued Shares of the Company was 925,000,000.



CORPORATE GOVERNANCE AND OTHER INFORMATION

(ii) Interest in associated corporations of the Company

Name of Director	Name of associated corporation	Percentage of interest in associated corporation
Mr. Ke Xiping	Gold Virtue (Note 1)	100%

Notes:

- (1) Gold Virtue holds more than 50% of the Company's Shares, therefore Gold Virtue is the holding company and an associated corporation of the Company.

Save as disclosed above, none of the Directors or the chief executives of the Company or their respective associates had or was deemed to have any interests or short positions in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register required maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares:

As at 30 June 2016, so far as is known to any Director or chief executive of the Company, the persons (other than the Directors and chief executives of the Company) or corporations who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were set out as follows:

Name of Shareholders	Capacity/ Nature of interest	Number of shares interested (Note 1)	Approximate percentage of interest in the issued capital (Note 4)
Gold Virtue (Note 2)	Beneficial owner	555,000,000 (L)	60.0%
Mr. Ke Jiaqi (Note 3)	Interest of controlled corporation	138,750,000 (L)	15.0%
Xi Wang Developments	Beneficial owner	138,750,000 (L)	15.0%

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Mr. Ke Xiping holds the entire issued share capital of Gold Virtue and is its director, therefore is deemed to be interested in the 555,000,000 Shares held by Gold Virtue. Mr. Ke Xiping is the father of Mr. Ke Jiaqi.
- (3) Mr. Ke Jiaqi holds the entire issued share capital of Xi Wang Developments and therefore is deemed to be interested in the 138,750,000 Shares held by Xi Wang Developments. Mr. Ke Jiaqi is the son of Mr. Ke Xiping.
- (4) As at 30 June 2016, the total number of issued Shares of the Company was 925,000,000.

Save as mentioned above, as at 30 June 2016, the Directors and the chief executives of the Company are not aware of any other person (other than the Directors and chief executives of the Company) or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGES IN DIRECTORS' INFORMATION

Update on Biographical Information of Directors

Pursuant to Rule 13.51(B) of the Listing Rules, the update on the biographical details of the Directors of the Company are as follows:

- Mr. Xiao Wei was appointed as an independent non-executive director of Hollyland (China) Electronic Technology Co., Ltd. with effect from 27 July 2016 to 26 July 2019.

Save as disclosed above, for the six months ended 30 June 2016, there is no change in information of directors and chief executives of the Company.

REVIEW OF THE DEED OF OPTIONS

Reference is made to a deed of options dated 5 May 2014 entered into by Mr. Ke Xiping, Mineral Securities Golden Sea Limited and Xiamen Hengxing Group Co., Ltd. in relation to Shandong Yantai Golden Sea Mining Company Ltd. (山東煙台金海礦業有限公司) and Sichuan Xintianwei Mining Co., Ltd. (四川新天緯礦業有限公司) (collectively, "Excluded Companies") disclosed in the section headed "Relationship with our Controlling Shareholders" in the Prospectus. The Directors (including all independent non-executive Directors) reviewed such deed of options. Considering that (a) the tenements held by the Excluded Companies were all at a very preliminary stage of exploration, which might bring high uncertainty whether there will be any economically feasible mining project and production at these tenements in the future. Therefore, it is not in the interests of the Company and the Shareholders to include the Excluded Companies into the Group at this stage and (b) the Excluded Companies do not compete directly or indirectly with the Group's business, the Group has no intension to purchase any of the Excluded Companies or exercise any rights under such deed of options.

EVENTS AFTER THE REPORTING PERIOD

The Group had no subsequent events after the reporting period.

REVIEW OF INTERIM RESULTS

The Audit Committee has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee consists of three independent non-executive Directors, namely Ms. Wong Yan Ki Angel, Mr. Xiao Wei and Dr. Tim SUN. Ms. Wong Yan Ki Angel serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's unaudited consolidated interim results for the six months ended 30 June 2016 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal audit function and financial reporting matters as well as the risk management and internal control systems.

The external auditor of the Company has reviewed the Group's unaudited consolidated interim results for the six months ended 30 June 2016 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 Hong Kong Institute of Certified Public Accountants.



REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



羅兵咸永道

INDEPENDENT PRACTITIONER'S REVIEW REPORT TO THE BOARD OF DIRECTORS OF HENGXING GOLD HOLDING COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

We have reviewed the interim financial information of Hengxing Gold Holding Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 18 to 36 that comprise the interim condensed consolidated statement of financial position as at 30 June 2016, and the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE INTERIM FINANCIAL INFORMATION

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" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting, and for such internal control as directors determine is necessary to enable the preparation of interim financial information that is free from material misstatement, whether due to fraud or error.

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a conclusion on the interim financial information and to report our conclusion 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.

We conducted our review in accordance with Hong Kong Standard on Review Engagements ("HKSRE") 2400 (Revised), "Engagements to Review Historical Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial information, taken as a whole, is not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on this interim financial information.

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



羅兵咸永道

INDEPENDENT PRACTITIONER'S REVIEW REPORT (CONTINUED) TO THE BOARD OF DIRECTORS OF HENGXING GOLD HOLDING COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that interim financial information is not prepared, in all material respects, in accordance with the Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 August 2016



INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Continuing operations			
Revenue	6	291,549	130,635
Cost of sales		(144,752)	(90,628)
Gross profit		146,797	40,007
Other income		233	252
Other (losses)/gains — net	7	(29,640)	1,858
Selling and marketing expenses		(171)	(88)
General and administrative expenses		(13,437)	(11,488)
Impairment loss of exploration and evaluation assets		(23,151)	—
Operating profit	8	80,631	30,541
Finance income		594	1,417
Finance costs		(10,253)	(14,414)
Profit before income tax		70,972	17,544
Income tax expense	9	(7,395)	—
Profit for the period, all attributable to owners of the Company		63,577	17,544
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
— Fair value gains on available-for-sale financial assets, net of tax		379	—
Total comprehensive income for the period, all attributable to owners of the Company		63,956	17,544
Earnings per share attributable to owners of the Company for the period			
(Express in RMB cents per share)			
— Basic and diluted	11	6.87	1.90

The notes on pages 23 to 36 form an integral part of this condensed consolidated interim financial information.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	30.06.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	325,362	337,454
Prepaid lease payments	12	16,043	16,222
Exploration and evaluation assets	12	51,994	75,145
Intangible assets	12	230,923	241,953
Prepayment for purchase of property, plant and equipment		1,020	1,052
Available-for-sale investment	13	852	473
Restricted bank balance		10	10
Total non-current assets		626,204	672,309
Current assets			
Inventories	14	53,339	85,000
Other receivables and prepayments	15	41,027	9,173
Derivative financial instruments	16	11,338	–
Prepaid lease payments	12	357	357
Fixed deposits		140,495	93,999
Bank balances and cash		103,570	26,339
Total current assets		350,126	214,868
Total assets		976,330	887,177
EQUITY			
Equity attributable to owners of the Company			
Share capital		7,362	7,362
Reserves		571,938	571,559
Accumulated losses	17	(87,340)	(150,917)
Total equity		491,960	428,004
LIABILITIES			
Non-current liabilities			
Long-term borrowings	18	170,000	260,000
Deferred income	19	8,479	8,691
Provision for close down, restoration and environmental costs	20	8,023	6,941
Total non-current liabilities		186,502	275,632



INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	<i>Notes</i>	30.06.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Current liabilities			
Trade and other payables	21	44,348	45,210
Current income tax liabilities	9	7,395	–
Short-term borrowings	18	44,648	44,648
Current-portion of long-term borrowings	18	55,009	53,818
Financial liabilities at fair value through profit or loss	22	146,468	39,865
Total current liabilities		297,868	183,541
Total liabilities		484,370	459,173
Total equity and liabilities		976,330	887,177

The notes on pages 23 to 36 form an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information on pages 18 to 36 were approved by the Board of Directors on 26 August 2016 and were signed on its behalf.

Mr. Ke Xiping
Director

Mr. Chen Yu, David
Director



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Unaudited					
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Investment revaluation reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2016	7,362	540,052	31,523	(16)	(150,917)	428,004
Comprehensive income						
Profit for the period	-	-	-	-	63,577	63,577
Other comprehensive income						
Fair value gains on available-for-sale financial assets	-	-	-	379	-	379
Total comprehensive income for the six months ended 30 June 2016	-	-	-	379	63,577	63,956
Balance at 30 June 2016	7,362	540,052	31,523	363	(87,340)	491,960
Balance at 1 January 2015	7,362	540,052	31,523	-	(204,502)	374,435
Comprehensive income						
Profit for the period	-	-	-	-	17,544	17,544
Total comprehensive income for the six months ended 30 June 2015	-	-	-	-	17,544	17,544
Balance at 30 June 2015	7,362	540,052	31,523	-	(186,958)	391,979

The notes on pages 23 to 36 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash used in operations	152,977	54,359
Net cash generated from operating activities	152,977	54,359
Cash flows from investing activities		
Redemption of structured deposits	122,179	165,432
Interest received from fixed deposits	568	331
Proceeds from disposal of property, plant and equipment	76	–
Purchase of property, plant and equipment	(3,030)	(14,389)
Purchase of intangible assets	(1,192)	–
Purchase of exploration and evaluation assets	–	(125)
Placement of fixed deposits	(46,496)	–
Placement of structured deposits	(121,740)	(165,000)
Net cash used in investing activities	(49,635)	(13,751)
Cash flows from financing activities		
Proceeds from borrowings	–	40,000
Gold loans raised	72,612	–
Redemption of other current assets	–	33,868
Advance from a related party	–	50
Interest paid for gold loans	(2,717)	(4,510)
Interest paid for bank and other borrowings	(7,197)	(13,012)
Repayment of gold loans	–	(47,057)
Repayment of bank and other borrowings	(88,809)	(60,000)
Net cash used in financing activities	(26,111)	(50,661)
Net increase/(decrease) in cash and cash equivalents	77,231	(10,053)
Cash and cash equivalents at beginning of the period	26,339	114,223
Cash and cash equivalents at end of the period	103,570	104,170

The notes on pages 23 to 36 form an integral part of this condensed consolidated interim financial information.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. GENERAL INFORMATION

Hengxing Gold Holding Company Limited (the "Company") and its subsidiaries (together, "the Group") are engaged in mining and processing of gold and sales of processed gold products in the People's Republic of China (the "PRC"). The Group has operation mainly in Xinjiang Uygur Autonomous region, PRC.

The Company is a limited liability company incorporated and domiciled in the Cayman Islands. The address of its registered office is Clifton House, 75 Fort Street, P.O.Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company has its primary listing on the Stock Exchange of Hong Kong Limited, commencing on 29 May 2014.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated, which is also the functional currency of the Company. This condensed consolidated interim financial information has not been audited and has been approved for issue by Board of Directors on 26 August 2016.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting' issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

2.1 Going-concern basis

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial information.

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements except for the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2016.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

- (a) Amendments to HKFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

Amendments	Effective for annual periods beginning on or after
Amendments to HKAS 1, 'Presentation of financial statements' disclosure initiative	1 January 2016
Amendment to HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets'	1 January 2016
Amendment to HKAS 34, 'Interim financial reporting'	1 January 2016



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

3. ACCOUNTING POLICIES (CONTINUED)

(b) Impact of standards issued but not yet applied by the entity

The following new standards and amendments published by the HKICPA that are not yet effective for the financial year ending 31 December 2016 and have not been early adopted by the Group:

Standards	Effective for annual periods beginning on or after
HKFRS 9 Financial instruments	1 January 2018
HKFRS 15 Revenue from contracts with customers	1 January 2018
HKFRS 16 Leases	1 January 2019

Amendments	Effective for annual periods beginning on or after
Amendments to HKAS 7, Statement of cash flows	1 January 2017
Amendments to HKAS 12, 'Income taxes' on Recognition of deferred tax assets for unrealised losses	1 January 2017
Amendment to HKFRS 9, 'Financial instruments', on general hedge accounting	1 January 2018
Amendments to HKFRS 15, 'Revenue from contracts with customers' — Clarifications	1 January 2018

Management is currently assessing the effects of applying these new standards and amendments on the Group's financial statements and has not identified areas that are likely to be affected. The Group does not expect to adopt the new standards and amendments until their effective dates.

4. ESTIMATES

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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 the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no changes in the risk management policies since year end.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

The Group's funding requirements primarily arise from exploration investments, purchases of mining machinery and repayments of bank borrowings. The Group finances its working capital requirements through a combination of funds generated from operations and additional bank borrowings.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the period of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Unaudited				
At 30 June 2016				
Bank borrowings	115,380	76,894	103,327	–
Financial liabilities at fair value through profit or loss	147,527	–	–	–
Trade and other payables	44,348	–	–	–
	307,255	76,894	103,327	–
Audited				
At 31 December 2015				
Bank borrowings	110,844	110,439	168,025	–
Financial liabilities at fair value through profit or loss	41,340	–	–	–
Trade and other payables	45,210	–	–	–
	197,394	110,439	168,025	–



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets that are measured at fair value at 30 June 2016:

	Level 1 RMB'000 (Unaudited)	Level 2 RMB'000 (Unaudited)	Level 3 RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Assets				
Available-for-sale financial assets				
— Equity investments	852	–	–	852
Gold forward contracts classified as derivative financial assets	–	11,338	–	11,338
Liabilities				
Gold loans	–	134,477	–	134,477
Future contracts classified as financial liabilities	11,991	–	–	11,991

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015:

	Level 1 RMB'000 (Audited)	Level 2 RMB'000 (Audited)	Level 3 RMB'000 (Audited)	Total RMB'000 (Audited)
Assets				
Available-for-sale financial assets				
— Equity investments	473	–	–	473
Liabilities				
Gold loans	–	39,865	–	39,865

There were no transfers of financial assets during the period.

There were no other changes in valuation techniques during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities measured at amortisation cost

The fair values of the following financial assets and liabilities approximate their carrying amounts:

- Bank balances and cash
- Other receivables and prepayments
- Fixed deposits
- Restricted bank balance
- Trade and other payables
- Borrowings

6. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM"), being the executive directors of the Company, in order to allocate resources to segments and to assess their performance. During each of the six months ended 30 June 2016 and 2015, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in gold exploration in the PRC. Therefore, the management considers that the Group only has one operating segment, and no segment information is presented.

The Group operates in and all revenue is generated from the PRC. The Group's non-current assets are also located in the PRC.

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of processed gold	291,549	130,635

7. OTHER (LOSSES)/GAINS — NET

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Foreign exchange gains, net	1,956	319
Investment income of structured deposits	439	432
Gains/(losses) on disposal of property, plant and equipment	1	(1)
Fair value losses on gold loans	(10,662)	(2,332)
Fair value (losses)/gains on futures contracts	(21,374)	3,440
	(29,640)	1,858



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

8. OPERATING PROFIT

In addition to the items disclosed on Note 7, the following operating items have been charged to the operating profit:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Charging:		
Raw materials and consumables used	11,206	13,252
Changes in inventories of finished goods and work in progress	31,259	(9,380)
Mining expenses	31,298	31,092
Staff cost	17,850	15,851
Depreciation of		
— property, plant and equipment	14,178	14,186
Amortization of		
— land use rights	179	179
— intangible assets	12,350	9,074
Provision for impairment of		
— exploration assets	23,151	—

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) and at the rates of taxation prevailing in the countries in which the Group operates respectively.

For the six months ended 30 June 2016, the PRC subsidiaries of the Company are subjected to an income tax rate of 25%.

The Group is not subject to Hong Kong profits tax as it has no assessable income arising in or derived from Hong Kong during the six months ended 30 June 2016.

The amount of income tax expense charged to the unaudited condensed consolidated interim income statement represents:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC corporate income tax expense	7,395	—

At 30 June 2016 and 31 December 2015, the Group had deductible temporary differences. No deferred tax asset/liability has been recognised due to the unpredictability of future profit stream.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the current and prior reporting periods. The directors do not propose the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

11. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the period attributable to owners of the Company by the weighted average number of the Company's shares in issue during the period.

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (in RMB'000)	63,577	17,544
Weighted average number of the Company's shares in issue (in thousands)	925,000	925,000
Basic earnings per share (in RMB cents)	6.87	1.90

Diluted earnings per share is equal to basic earnings per share as the Company has no potential dilutive shares.

12. CAPITAL EXPENDITURE

During the six months period, the capital expenditure of the Group is set out as follows:

	Property, plant and equipment	Prepaid lease payments	Exploration and evaluation assets	Intangible assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net book amount as at 1 January 2016	337,454	16,579	75,145	241,953	671,131
Additions	2,161	–	–	1,320	3,481
Disposals	(75)	–	–	–	(75)
Depreciation and amortisation charge	(14,178)	(179)	–	(12,350)	(26,707)
Impairment	–	–	(23,151)	–	(23,151)
Net book amount as at 30 June 2016	325,362	16,400	51,994	230,923	624,679
Net book amount as at 1 January 2015	352,248	16,910	83,987	241,388	694,533
Additions	7,174	–	–	1,277	8,451
Disposals	(1)	–	–	–	(1)
Depreciation and amortisation charge	(14,186)	(179)	–	(9,074)	(23,439)
Net book amount as at 30 June 2015	345,235	16,731	83,987	233,591	679,544

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

13. AVAILABLE-FOR-SALE INVESTMENT

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Listed investment: Equity securities listed outside Hong Kong, at market prices	852	473

14. INVENTORIES

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Raw materials	3,422	2,782
Gold in process	17,600	39,976
Gold doré bars	18,465	27,348
Consumables and spare parts	13,852	14,894
	53,339	85,000

15. OTHER RECEIVABLES AND PREPAYMENTS

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Prepayments	5,492	1,572
Cash held by securities broker (<i>Note a</i>)	30,615	2,860
Cash held by interactive broker (<i>Note b</i>)	–	1,162
Interest receivables	822	240
Other receivables	468	358
Others	3,630	2,981
	41,027	9,173

Notes:

- (a) Cash held by securities broker as at 30 June 2016 and 31 December 2015 represented the outstanding balance of cash account held by a securities broker for gold future contract transactions.
- (b) Cash held by interactive broker as at 30 June 2016 and 31 December 2015 represented the outstanding balance of cash account held by interactive broker for equity securities transactions.

16. DERIVATIVE FINANCIAL INSTRUMENTS

In the derivative financial instruments, the Group has entered into gold forward contracts in accordance with the quantity, specification and repayment terms of gold to be returned to banks for the purpose of hedging certain risks arising from gold price fluctuation from gold loans.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

17. ACCUMULATED LOSSES

Pursuant to the relevant regulations in the PRC, the Group is required to provide for safety production fund based on volume of ores.

For the six months ended 30 June 2016, the Group appropriated RMB10,266,000 (six months ended 30 June 2015: RMB8,450,000) from accumulated losses for the safety production fund and utilised RMB822,000 (six months ended 30 June 2015: RMB969,000) for the safety production fund according to relevant PRC regulations.

As at 30 June 2016, the consolidated accumulated losses included an appropriation of RMB14,367,000 (31 December 2015: RMB4,923,000) to PRC safety production fund according to relevant PRC regulations.

18. BORROWINGS

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Non-current	170,000	260,000
Current	99,657	98,466
	269,657	358,466
Representing:		
— pledged (a)	225,009	263,759
— secured (b)	44,648	44,648
— credit	—	50,059
Total borrowings	269,657	358,466

- (a) As at 30 June 2016, the pledged bank borrowings from banks amount in RMB225 million (31 December 2015: RMB264 million) were pledged by the Group's intangible asset with a net book value of approximately RMB130 million (31 December 2015: approximately RMB132 million) and property, plant and equipment with a net book value of approximately RMB140 million (31 December 2015: approximately RMB145 million).
- (b) As at 30 June 2016, fixed deposits amounting to RMB48,934,592 (31 December 2015: RMB47,921,000) are pledged for the fixed rate borrowing of RMB44,648,000 (31 December 2015: RMB44,648,000).
- (c) The outstanding borrowings of the Group carry interest at effective interest rate ranging from 3.78% to 5.97% (31 December 2015: 3.78% to 6.08%) per annum and are repayable in accordance with payment schedule.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

18. BORROWINGS (CONTINUED)

Movements in borrowings are analysed as follows:

Six months ended 30 June 2016	
Opening amount as at 1 January 2016	358,466
Repayments of borrowings	(88,809)
Closing amount as at 30 June 2016	269,657
Six months ended 30 June 2015	
Opening amount 1 January 2015	387,385
Proceeds of new borrowings	37,801
Repayments of borrowings	(60,000)
Closing amount as at 30 June 2015	365,186

19. DEFERRED INCOME

Deferred income represents governments grants received by the Company's subsidiary Xinjiang Jinchuan Mining Company Limited ("Jinchuan Mining") for developments of mining projects. Movements of deferred income during both periods are as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At 1 January	8,691	9,115
Released to profit or loss	(212)	(212)
At 30 June	8,479	8,903

20. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

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

Movements of provision during both periods are as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
At 1 January	6,941	4,209
Additions	1,479	1,636
Payment of close down, restoration and environmental costs	(397)	(916)
At 30 June	8,023	4,929

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

21. TRADE AND OTHER PAYABLES

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Trade payables	18,771	16,844
Payables for capital expenditure	14,967	15,740
Payables for employee expenditure	3,705	6,022
Other tax payables	5,869	4,380
Other payables	1,036	2,224
	44,348	45,210

At 30 June 2016, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date were as follows:

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Within 1 year	18,771	16,844

22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Gold loans (a)	134,477	39,865
Future contracts (b)	11,991	–
	146,468	39,865

(a) Gold loans

Movements in gold loans are analysed as follows:

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
At 1 January	39,865	137,682
Fair value change	22,000	2,332
Additions	72,612	–
Repayments	–	(47,057)
At 30 June	134,477	92,957



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Gold loans (Continued)

Gold loans are borrowed to enhance working capital needs, and were designated as financial liabilities at fair value through profit or loss.

Amount of the gold loans	Amount of the pledged fixed deposit	Guarantor
RMB78,467,000	RMB87,721,000	N/A
RMB56,010,000	RMB3,751,000	Xiamen Hengxing Group Company Limited & Ke Xiping

(b) Future contracts

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Derivatives not under hedging accounting: Fair value of gold future contracts — liabilities	11,991	–

The Group used futures contracts to reduce its exposure to fluctuations in the gold prices. The Group does not currently designate any hedging relationship on the gold futures contracts for the purpose of hedge accounting.

23. COMMITMENTS

(a) Capital commitments

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Purchases of capital expenditure contracted for but not yet incurred:	20,970	6,910

(b) Lease Commitments

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases which fall due as follow:

	30.6.2016 RMB'000 (Unaudited)	31.12.2015 RMB'000 (Audited)
Within 1 year	49	23

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

24. SIGNIFICANT RELATED PARTY TRANSACTIONS

- (a) During the six months ended 30 June 2016 and 30 June 2015, save as disclosed elsewhere in the notes in the consolidated financial statements, the Group had the following significant transactions with related parties:

		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Transactions with related party	Name of related party		
<i>Revenues</i>			
Sales of processed gold	Xiamen Hengxing Group Company Limited	–	1,000

The above significant transactions with related parties were determined based on the terms mutually agreed by the parties involved.

- (b) No outstanding balances with related parties are set out in both periods end.
(c) Provision of guarantees by related party for bank loan of the group

Guarantor	Guaranteed party	Amount of the guarantee	Inception date of guarantee	Expiry date of guarantee
Xiamen Hengxing Group Company Limited & Ke Xiping	Jinchuan Mining	RMB56,010,000	26/01/2016	29/07/2016

- (d) Key management compensation:

During the reporting period, the remunerations of key management personnel which represent the directors and senior management were as follows:

		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Salaries and other short-term benefits		2,454	2,042
Retirement benefit scheme contributions		33	30
		2,487	2,072



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

25. CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no significant contingent liability (31 December 2015: Nil).

26. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.

27. EVENTS OCCURRING AFTER THE REPORTING PERIOD

As at 30 June 2016, the Group had no material subsequent events which have not been reflected in the interim financial statements.



DEFINITIONS

“Articles of Association” or “Articles”	the articles of association of the Company conditionally adopted on 5 May 2014, which will become effective upon the Listing, as amended from time to time
“associate”	has the meaning ascribed thereto in the Listing Rules
“Audit Committee”	the audit committee of the Company established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules
“Board” or “Board of Directors”	the board of Directors
“CIL Project”	a project of the Group which is designed to utilize carbon-in-leach technology to produce gold
“Company”	Hengxing Gold Holding Company Limited (恒興黃金控股有限公司), an exempted company incorporated under the laws of the Cayman Islands on 10 April 2012 with limited liability, whose Shares are listed on the main board of the Stock Exchange
“Company Law” or “Cayman Company Law”	The Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Controlling Shareholders”	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to Mr. Ke, Gold Virtue, Mr Ke Jiaqi and/or Xi Wang Developments
“Corporate Governance Code”	corporate governance code contained in Appendix 14 to the Listing Rules
“Director(s)”	the director(s) of the Company
“Gold Mountain Mine”	金山金礦, a gold mine located in Yining County of Xinjiang, China, which covers five gold prospects, namely the Yelmand prospect, the Mayituobi prospect, the Jinxi-Balake prospect, the Kuangou prospect and the Lion prospect
“Gold Virtue”	Gold Virtue Limited, a company incorporated under the laws of the BVI with limited liability on 16 March 2012 and a Controlling Shareholder, which is wholly-owned by Mr. Ke Xiping
“Group”	the Company and its subsidiaries
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Jinchuan Mining”	Xinjiang Gold Mountain Mining Co., Ltd (新疆金川礦業有限公司), a limited liability company established in China on 20 June 2003 and owned as to 93.6% by Tianshan Gold HK and 6.4% by Jintian Investment
“Listing” or “IPO”	the listing of the Shares on the Main Board of the Stock Exchange on 29 May 2014



DEFINITIONS

“Listing Date”	29 May 2014
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	model code for securities transactions by directors of listed issuers contained in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Company established in compliance with the Code Provisions A.5.1 and A.5.2 of the Corporate Governance Code
“Period Under Review”	the six months ended 30 June 2016
“PRC” or “China”	The People’s Republic of China
“Prospectus”	the prospectus of the Company dated 19 May 2014
“Remuneration Committee”	the remuneration committee of the Company established in compliance with Rule 3.25 and Rule 3.26 of the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company under the resolutions of the Shareholders dated 5 May 2014
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianshan Gold HK”	Tianshan Gold Securities (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on 16 April 2008 and an indirect wholly-owned subsidiary of the Company
“Xiamen Hengxing”	Xiamen Hengxing Group Co., Ltd. (廈門恒興集團有限公司), a limited liability company established in China on 14 September 1994, which is owned by Mr. Ke Xiping as to 99.34% and by Ms. Liu Haiying, Mr. Ke’s wife, as to 0.66%, and except where the context otherwise requires, includes all of its subsidiaries
“Xi Wang Developments”	Xi Wang Developments Limited (熙旺發展有限公司), a limited liability company incorporated in the BVI on 11 May 2012 and a Controlling Shareholders, which is wholly-owned by Mr. Ke Jiaqi, Mr. Ke Xiping’s son
“%”	per cent

