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Hengxing Gold Holding Company Limited 恒興黃金控股有限公司

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

HIGHLIGHTS

- Produced 7,012.1 ounces of gold for the Period Under Review (there was no production for the six months ended 30 June 2013);
- Reached 80% of designed daily ore processing capacity as of 30 June 2014;
- Achieved RMB44.7 million in revenue and RMB2.4 million in gross profit for the Period Under Review (there was no revenue for six months ended 30 June 2013);
- Increased monthly gold production and decreased unit operating cash cost in June 2014 as compared to the average monthly gold production and unit operating cash cost for the first five months of 2014.

The board of directors (the "Board") of Hengxing Gold Holding Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014 (the "Period Under Review"), together with comparative figures for the corresponding period in the year 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months end		ded 30 June	
		2014	2013	
	Notes	RMB'000	RMB'000	
		(Unaudited)	(Unaudited)	
Revenue	3	44,700	_	
Cost of sales		(42,254)		
Gross profit		2,446	_	
Other income		112	350	
Other (losses) gains	4	(1,760)	367	
Selling and distribution expenses		(35)	_	
Administrative expenses		(11,480)	(10,163)	
Listing expenses		(3,993)	(457)	
Finance costs	5	(23,607)	(10,160)	
Loss before taxation		(38,317)	(20,063)	
Income tax expense	6	_	_	
Loss and total comprehensive expense				
for the period	7	(38,317)	(20,063)	
Loss per share				
Basic (RMB cents)	8	(5)	(4)	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF 30 JUNE 2014

	Notes	30.6.2014 <i>RMB'000</i> (Unaudited)	31.12.2013 <i>RMB</i> '000 (Audited)
NON-CURRENT ASSETS Property, plant and equipment Prepaid lease payments Evaluation and exploration assets Intangible assets Deposit for purchase of property, plant and equipment Other non-current assets	9 9 9	329,034 16,732 82,673 238,553 2,091 10	334,265 16,910 81,998 234,534 2,470 1,840
CURRENT ASSETS Prepaid lease payments Inventories Other receivables and prepayments Futures contracts Structured deposits Bank balances and cash	10 11 12	357 45,058 16,367 6 14,832 181,641 258,261	357 13,909 7,379 10,354 31,999
CURRENT LIABILITIES Trade and other payables Amount due to a related company Amount due to a shareholder Gold loans Bank and other borrowings	13 14(a) 14(b) 15 16	49,907 82 - 52,340 17,923 120,252	66,875 1 16,890 - 10,000 93,766
NET CURRENT ASSETS (LIABILITIES) TOTAL ASSETS LESS CURRENT LIABILITIES		138,009 807,102	(61,767) 610,250
NON-CURRENT LIABILITIES Loan from a shareholder Bank and other borrowings Deferred income Provision	14(c) 16	430,000 1,443 5,534	185,543 290,000 1,477 5,789
CAPITAL AND RESERVES Share capital Reserves Equity attributable to owners of the Company		7,362 362,763 370,125 807,102	1 127,440 127,441 610,250

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants ("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 "Stock Exchange") (the "Listing Rules").

The shares of the Company were listed on the Stock Exchange since 29 May 2014.

2. PRINCIPAL ACCOUNTING POLICY

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.

Except as described below, the accounting policies and method of computation used in the preparation of the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's financial information for the year ended 31 December 2013 included in the Accountants' Report in Appendix I of the prospectus of the company dated 19 May 2014. The following accounting policies are adopted and applied by the Group in the current interim period as they have become applicable to the Group.

Financial instruments

Financial assets at fair value through profit or loss ("FVTPL")

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in other gains (losses) line item in the consolidated statement of profit or loss and other comprehensive income.

Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Financial liabilities at FVTPL

Financial liabilities at FVTPL are those financial liabilities designated at FVTPL on initial recognition.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is
 managed and its performance is evaluated on a fair value basis, in accordance with the Group's
 documented risk management or investment strategy, and information about the grouping is provided
 internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Gold loans, which are designated at FVTPL, are measured at fair value with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Application of a new Interpretation and amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, new or revised HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. 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 (the "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 2014 and 2013, 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 People's Republic of China ("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 en	Six months ended 30 June	
	2014	2013	
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Sales of processed gold	44,700		

4. OTHER (LOSSES) GAINS

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other (losses) gains comprise:		
Fair value gain on futures contracts (note 11)	751	_
Fair value gain on structured deposits (note 12)	19	_
Fair value loss on gold loans (note 15)	(1,672)	_
Exchange (loss) gain, net	(854)	370
Loss on disposal of property, plant and equipment	(2)	(3)
Other losses	(2)	
	(1,760)	367

5. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Effective interest on loan from a shareholder:		
 — wholly repayable within five years 	8,661	16,668
Interest on secured bank borrowing:		
— wholly repayable within five years	_	107
— not wholly repayable within five years	10,831	_
Interest on unsecured trust loan:		
— wholly repayable within five years	3,866	_
Interest on gold loans	249	_
Accretion on environmental restoration costs	653	311
Total borrowing costs	24,260	17,086
Less: amount capitalised in		(6.152)
— property, plant and equipment	_	(6,152)
— exploration and evaluation assets	((52)	(463)
— intangible assets	(653)	(311)
	23,607	10,160

6. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax nor the PRC Enterprise Income Tax has been made as the Group had no assessable profit subject to profits tax in these jurisdictions during each of the six months ended 30 June 2014 and 2013.

7. LOSS FOR THE PERIOD

Loss for the period is arrived at after charging:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Directors' and chief executive's emoluments	465	571
Other staff costs	10,911	6,091
Retirement benefit scheme contributions excluding		
those of the directors and chief executive	570	251
Total staff costs	11,946	6,913
Less: amount capitalised in exploration and evaluation assets	(610)	(1,577)
Less: amount capitalised in construction in progress	(173)	
Staff costs recognised in profit or loss	11,163	5,336
Total depreciation of property, plant and equipment	11,990	2,828
Less: amount capitalised in exploration and evaluation assets	_ _	(1,237)
Depreciation of property, plant and equipment recognised		
in profit or loss	11,990	1,591
Release of prepaid lease payments	178	175
Amortization of intangible assets	2,837	
Depreciation and amortization recognised in profit or loss	15,005	1,766
Cost of inventories recognised as an expense Minimum lease payments under operating leases in respect	42,254	_
of properties	47	42

8. LOSS PER SHARE

The calculation of basic loss per share is based on the following data:

	Six months ended 30 June	
	2014 2	
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	(38,317)	(20,063)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	735,912	468,888

The weighted average numbers of ordinary shares for the purpose of calculating the basic loss per share for each of the six months ended 30 June 2014 and 2013 have been retrospectively adjusted to reflect 693,749,985 shares issued upon capitalisation on 29 May 2014.

No diluted earnings per share are presented as there were no potential dilutive ordinary shares in issue during both periods.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/EXPLORATION AND EVALUATION ASSETS/INTANGIBLE ASSETS

During the current interim period, the Group acquired plant and equipment and incurred construction costs of RMB6,761,000 (six months ended 30 June 2013: RMB62,116,000).

During the current interim period, the Group incurred costs directly associated with exploration and evaluation of RMB675,000 (six months ended 30 June 2013: RMB19,749,000).

During the current interim period, the Group incurred costs directly associated with intangible assets of RMB6,856,000 (six months ended 30 June 2013: RMB68,745,000).

10. INVENTORIES

30.6.2014 <i>RMB</i> '000 (Unaudited)	31.12.2013 <i>RMB</i> '000 (Audited)
3,704 16,815	3,417
· · · · · · · · · · · · · · · · · · ·	1,011
12,097	9,481
45,058	13,909
30.6.2014 <i>RMB'000</i> (Unaudited)	31.12.2013 <i>RMB'000</i> (Audited)
6	_
	RMB'000 (Unaudited) 3,704 16,815 12,442 12,097 45,058 30.6.2014 RMB'000

During the current interim period, the Group entered into gold futures contracts maturing in December 2014 to sell gold at the price of RMB267.85 per gram. As at 30 June 2014, the aggregate notional amount of the gold futures contracts is RMB529,100 at the price of RMB264.55 per gram. All of the contracts were entered into during the current period and are maturing within one year from the end of the reporting period.

Changes in the fair values of gold futures contacts amounting to gain of RMB751,000 have been recognised in profit or loss.

12. STRUCTURED DEPOSITS

The structured deposits represent the financial product amounting to RMB14,832,000 issued by a bank in the PRC with an expected but not guaranteed return of 2.45% per annum, which depending on the market price of underlying financial instruments, including listed shares, inter-bank lending and debentures. The financial product was designated at FVTPL on initial recognition.

13. TRADE AND OTHER PAYABLES

	30.6.2014 <i>RMB</i> '000 (Unaudited)	31.12.2013 <i>RMB</i> '000 (Audited)
Trade payables	4,422	5,516
Payables for purchases of property, plant and equipment Payables for expenditure on exploration and evaluation assets Payables for listing expenses Other tax payables Other payables Accrued expenses	35,201 2 4,205 2,342 1,835 1,900	43,235 1,718 11,813 416 1,432 2,745
	45,485	61,359
	49,907	66,875

The aged analysis of the Group's trade payables, presented based on the invoice date at the end of the reporting period, is as follows:

	30.6.2014	31.12.2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
0–30 days	3,111	4,500
31–60 days	313	169
over 60 days	998	847
	4,422	5,516

14. AMOUNT DUE TO A RELATED COMPANY/A SHAREHOLDER/LOAN FROM A SHAREHOLDER

(a) Amount due to a related company

	30.6.2014 <i>RMB</i> '000 (Unaudited)	31.12.2013 <i>RMB</i> '000 (Audited)
Xiamen Hengxing Group Co., Ltd (廈門恒興集團有限公司)	82	1

The amount was non-trade in nature, unsecured, interest-free and repayable on demand.

(b) Amount due to a shareholder

	30.6.2014	31.12.2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Mr. Ke Xiping	_	16,890
1 0		

The amount was non-trade in nature, unsecured, interest-free and repayable on demand. The amount was fully settled during the six month ended 30 June 2014.

(c) Loan from a shareholder

	30.6.2014 <i>RMB'000</i> (Unaudited)	31.12.2013 <i>RMB</i> '000 (Audited)
Mr. Ke Xiping	_	185,543

The amount as at 31 December 2013 was unsecured, interest-bearing and repayable in 2016 pursuant to the loan agreement. The amount bears interest at the quoted lending rate of the People's Bank of China ("PBOC") less 20%. The contractual interest rate as at 31 December 2013 was 5.12% per annum. The interest rate charged by shareholder is considered to be below the market, compared with prevailing market rate for comparable borrowings the Group could have been obtained from banks. The benefits of the below-market-rate loan from Mr. Ke Xiping was therefore recognised as deemed contributions from the shareholder (included in capital reserves) upon initial drawn down of the loan in prior years. The amount was fully settled during the six months ended 30 June 2014.

15. GOLD LOANS

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

As at 30 June 2014, the gold loans are denominated in RMB, interest bearing at a weighted average rate of 5.40% per annum with original maturity of 181 days.

The losses arising from change in fair value of gold loans of RMB1,672,000 has been recognised in profit or loss for the six month ended 30 June 2014.

16. BANK AND OTHER BORROWINGS

During the current interim period, the Group obtained new borrowings amounting to RMB150,000,000 (six months ended 30 June 2013: RMB121,000,000).

The outstanding borrowings of the Group carry interest at effective interest rate ranging from 7.18% to 9.50% (31 December 2013: 7.18%) per annum as at 30 June 2014 and are repayable in accordance with payment schedule.

The borrowings are secured by certain property, plant and equipment amounting to RMB157,026,000 (31 December 2013: RMB162,003,000) and intangible assets amounting to RMB139,521,000 (31 December 2013: RMB141,047,000) of the Group.

17. CAPITAL COMMITMENTS

	30.6.2014 RMB'000	31.12.2013 RMB'000
	(Unaudited)	(Audited)
Capital expenditure contracted for but not provided for in the condensed consolidated financial statements in respect of acquisition of — property, plant, and equipment — exploration and evaluation assets	37,515 199	62,165 240
	37,714	62,405

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company's Gold Mountain Mine (as defined in the prospectus dated 19 May 2014 of the Company) produced 7,012.1 ounces ("ounce" or "oz", referring to a unit of weight for precious metals, and one ounce equals 31.1035 grams) or 218.1 kg of gold for the Period Under Review. In the first half of the year, the Company achieved a positive gross profit of RMB2,446,000, and the Gold Mountain Mine achieved increase of gold production and decrease of operating cash cost in June 2014, the first month after listing, as compared with the average monthly gold production and unit operating cash cost for the period from January to May 2014. In June 2014, Gold Mountain Mine produced 3,729.5 ounce or 116.0 kg of gold while the average monthly gold production for the first five months of 2014 were 655.9 ounce or 20.4 kg. The reduction in unit operating cash cost is mainly attributable to increased production scale. It is expected that the unit cost reduction will continue in the second half of the year as gold production expands further. The unit operating cash cost target for 2015 is US\$598.2/oz (as disclosed in the prospectus dated 19 May 2014 of the Company).

For the six months ended 30 June 2014, the amount of ore mined and processed was up to one million tones. As at 30 June 2014, the daily ore processing capacity reached around 12,000 tones of ore per day, which is approximately 80% of the designed daily processing capacity. The Company expects that its annual ore processing capacity on a monthly basis will ramp up to designed annual production capacity of 5 million tones, or 15,000 tones per day in the coming months.

The feasibility study of CIL Project (as defined in the prospectus dated 19 May 2014 of the Company) is at its final stage and expected to be completed in coming months. The Company takes careful economic analysis on this project due to the decline of gold price. Meanwhile, the Group has implemented technical improvement on the moderate ore crushing system in the current ore processing plant by adding an additional vertical impact crusher with open-circuit to the Gold Mountain Mine. It is expected to further reduce the size of fine-crushed ore, leading to increased recovery rate. Furthermore, additional technical studies have been performed on High Pressure Grinding Roll technique as a potential alternative technical improvement and performance upgrade.

On the exploration front, Gold Mountain Mine has signed a contract with Western Region Gold Ili Company Limited (西部黃金伊犁有限責任公司) which is an independent third party on 20 June 2014 to jointly explore certain area surrounding Jinshan area (where Gold Mountain Mine is located) under the current exploration licences. The Group will focus exploration effort on the exploration targets of Bohegou (薄荷溝) which is highly prospective area covering approximately 9 sq. km. and is near A-Xi Gold Mine Deposit (阿希金礦), which has been mined by Western Region Gold Ili Company Limited (西部黃金伊犁有限責任公司) since 1993 for 50 tones of gold reserves.

During the six months ended 30 June 2014, the Group has recruited additional experienced management in gold mining and with strong technical backgrounds to strengthen over all management capabilities.

Prospects

The goal of the Group is to become a leading gold mining company in China. Looking ahead, the Group will start with the following areas:

Ramp up processing capacity and expand production operation

The Group is committed to ramping up the operations in a rapid and effective manner with the intent to achieve the designed ore processing capacity and commit to careful economic analysis on the CIL Project. In addition, the Group will make continuous efforts to invest in research and design to utilize mature and stable technologies in the operations to improve efficiency and achieve steady business growth.

Further expand resources and upgrade reserves

The Group will continue the exploration works at and in the surrounding areas of the Gold Mountain mine where the Group hold licenses for the identification of new mining resources, and also seek cooperation opportunities with other independent third parties. The Group will also invest resources to identify regions with great potential at an early stage and to secure new exploration and mining rights.

Expand business scope

The Group plans to expand the business scope through acquisition of high-quality gold mines and strategic cooperative relationships with high-quality gold mine owners in China and overseas. In addition, the Group has the options and the 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 if economically feasible gold mining projects are identified at then fair market value.

As of 30 June 2014, the tenements held by these two companies were all at a very preliminary stage of exploration. It is highly uncertain whether there will be any economically feasible mining project and production at these tenements in the future.

Further strengthen work safety and environmental protection

Work safety and environmental protection, as for the industry, are crucial to the sustainable development. The implementation of the occupational health and safety system and environmental protection system has proved us to be committed to the pursuant of all-round safety and environmental management to minimize day-to-day operational risks. The Group will still keep attention to providing more training programs to the employees regarding work safety and environmental protection.

Use of Proceeds from the Initial Public Offering

The Company was listed on the Main Board of the Stock Exchange on 29 May 2014 ("Listing" or "IPO"). The net proceeds from the Company's issue of new shares (after deducting expenses relating specifically to the issue of new shares in the Listing and expenses relating generally to the listing of all the Shares of the Company, whether existing or new) amounted to approximately HK\$330.4 million.

As at 30 June 2014, the net proceeds of IPO had been utilised in the following manner:

	Planned amount per clarification announcement dated 28 May 2014	Amount utilised up to 30 June 2014	Balance as at 30 June 2014
Finance the CIL Project by the end of 2015	Approximately HK\$150.1 million	nil	Approximately HK\$150.1 million
Repay a portion of outstanding loans with interests and advances from Mr. Ke Xiping	Approximately HK\$138.8 million	HK\$138.8 million	nil
Finance the Group's potential acquisitions of gold mineral resources and/or gold mining companies	Approximately HK\$15.1 million	nil	Approximately HK\$15.1 million
Finance the Group's future exploration works at the Gold Mountain Mine and its surrounding areas for which we hold exploration licenses	Approximately HK\$15.1 million	nil	Approximately HK\$15.1 million
Working capital and other general purposes	Approximately HK\$11.3 million	nil	Approximately HK\$11.3 million

Financial Review

During the Period Under Review, the Group recorded a revenue of RMB44,700,000, while there was no revenue recorded for the corresponding period of 2013 since Gold Mountain Mine had not commenced production at that time. The Group continued to record a consolidated loss of the Group of RMB38,317,000 for the six months ended 30 June 2014, representing approximately an increase of 91.0% in loss compared to the corresponding period of 2013. The increase in loss is mainly due to (a) increased finance cost amounting to RMB13,447,000 as a result of interests in relation to new bank loans and other borrowings, and (b) professional expenses amount to RMB3,993,000 associated with the Listing which was completed during May 2014.

Revenue

During the Period Under Review, the Group's revenue was approximately RMB44,700,000, compared with no revenue for the Group in the corresponding period of 2013 primarily because the Group had not commenced production until late 2013.

Cost of sales

During the Period Under Review, the Group's cost of sales amounted to approximately RMB42,254,000 which primarily included mining costs, processing costs, labor costs related to mining and processing activities as well as depreciation and amortization costs including amortization costs of intangible assets and depreciation costs of property, plant and equipment. The Group was in the early stage of development and therefore did not recognize any cost of sales in the first half of 2013.

Gross profit

During the Period Under Review, the Group's gross profit amounted to approximately RMB2,446,000 since the Group commenced the production and sales of processed gold in late 2013. The Group was in the early stage of development and therefore did not recognize any gross profit or loss in the first half of 2013.

Selling and distribution expenses

During the Period Under Review, the Group's selling and distribution expense amounted to approximately RMB35,000 since the Group commenced the production and sales of processed gold in late 2013. The Group was in the early stage of development and therefore did not recognize selling and distribution expenses in the first half of 2013.

Administrative expenses

Administrative expenses increased by RMB1,317,000, or 13.0%, from approximately RMB10,163,000 for the six months ended 30 June 2013 to approximately RMB11,480,000 for the six months ended 30 June 2014, primarily due to increase in the administrative and management staff costs and depreciation and amortization costs as the Group continued to expand the construction and mining for the Period Under Review.

Listing expenses

Listing expenses increased from RMB457,000 for the six months ended 30 June 2013 to RMB3,993,000 for the six months ended 30 June 2014, mainly due to the professional expenses for the Listing.

Finance Costs

During the Period Under Review, the Group's finance costs was approximately RMB23,607,000 (for six months ended 30 June 2013, it was approximately RMB10,160,000), representing an increase of 132.4%, compared with the corresponding period of 2013. The increase was mainly due to interests on new gold loan of RMB52,340,000 and interests on a trust loan of RMB150,000,000, newly incurred for the six months ended 30 June 2014.

Loss before taxation

As a results of the foregoing, the loss before taxation was RMB38,317,000 for the six months ended 30 June 2014, as compared to RMB20,063,000 for the corresponding the six months ended 30 June 2013.

Loss and total comprehensive expense

As a results of the foregoing, the loss and total comprehensive expense was RMB38,317,000 for the six months ended 30 June 2014, as compared to RMB20,063,000 for the corresponding the six months ended 30 June 2013.

Liquidity and Financial Resources

The Group was in possession of reasonable operation cash flow and working capital due to ramp up of production starting from December 2013 and a result of Listing on 29 May 2014. As at 30 June 2014, the Group's cash and bank balances were approximately RMB181,641,000 (as of 31 December 2013, it was RMB10,354,000). Net assets were approximately RMB370,125,000 (as of 31 December 2013, it was approximately RMB127,441,000).

The Group recorded net current assets of RMB138,009,000 as of 30 June 2014, as compared to the net current liabilities of approximately RMB61,767,000 as of 31 December 2013, which was primarily due to (a) increase in bank balances and cash associated with the proceeds from the IPO, (b) increase in the Group's inventory mainly attributable to the ramp up production and (c) repayment of the loan from Mr. Ke Xiping at the date of IPO.

Current ratio and gearing ratio

As of 30 June 2014, the Group's current ratio (current assets divided by current liabilities) was 2.1 (31 December 2013: 0.3).

As of 30 June 2014, the Group's gearing ratio (total borrowings divided by total equity) is 1.4 (31 December 2013: 3.8).

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 2014 and 30 June 2013.

	Six months ended 30 June		
	2014	2013	
	RMB'000	RMB'000	
	(Unaudited)	(Unaudited)	
Net cash used in operating activities	(45,794)	(12,162)	
Net cash used in investing activities	(36,926)	(64,917)	
Net cash from financing activities	254,429	161,914	
Net increase in cash and cash equivalents	171,709	84,835	
Effect of foreign exchange rate changes	(422)	_	
Cash and cash equivalents at 1 January	10,354	20,431	
Cash and cash equivalents at 30 June	181,641	105,266	

For the Period Under Review, the net cash outflow from operating activities was RMB45,794,000, which was mainly attributable to (a) increase in inventory of RMB31,149,000, (b) increase in trade receivables, prepayment deposits and other receivables of RMB6,042,000, and (c) decrease in trade payables, accruals and other payables of RMB8,069,000.

For the Period Under Review, the net cash outflow from investing activities was RMB36,926,000, which was mainly attributable to (a) a placement of structured deposits of RMB60,000,000, (b) purchase of property, plant and equipment of RMB12,586,000, (c) payments of intangible assets of RMB4,146,000, and partially offset by the redemption of structured deposits of RMB45,187,000.

For the Period Under Review, the net cash inflow from financing activities was RMB254,429,000, which was primarily attributable to (a) proceeds from IPO of RMB294,483,000, (b) new bank and other borrowings raised of RMB150,000,000, (c) new gold loans raised of RMB50,668,000, (d) loan from a shareholder of RMB43,000,000, all of which were partially offset by (a) IPO expenses of RMB13,482,000, (b) interest paid for bank and other borrowings of RMB14,860,000, (c) repayment of amount due to a shareholder of RMB16,893,000, and (d) repayment of loan due to a shareholder of RMB237,204,000.

Capital Structure

On 29 May 2014, the Group issued a total of 231,250,000 ordinary shares of HK\$0.01 each at HK\$1.6 (equivalent to RMB1.273) pursuant to the initial public offering of the Group's shares. On the same date, the Group allotted and issued 693,749,985 ordinary shares of HK\$0.01 each which was credited as fully paid to the shareholders by capitalising an amount of HK\$6,938,000 (equivalent to RMB5,521,000) from the share premium account of the Group.

As of 30 June 2014, the total number of issued ordinary shares of the Company was 925,000,000 shares (as of 31 December 2013: 15 shares), each at HK\$0.01.

Indebtedness and charge on assets

The Group had repaid the loan from Mr. Ke Xiping in the first half of 2014.

As of 30 June 2014, the Group had the bank and other borrowings of approximately RMB300,000,000, which was secured by certain properties, plant and equipment amounting to approximately RMB157,026,000 and intangible assets amounting to approximately RMB139,521,000 and unsecured trust loan of approximately RMB150,000,000.

Save as stated above, as of 30 June 2014, the Group did not have other outstanding loan extended and outstanding, bank overdrafts, other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Contingent Liabilities

As of 30 June 2014, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2013: 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.

Foreign Currency Risk

All of the Group's operations are located in China and most of the transactions are carried out in RMB, the functional currency of each of the Company and its subsidiaries. The fluctuation of the RMB/HKD exchange rates may have material effects on certain bank balances and amounts due to related parties which are dominated in HKD. The Group currently do not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Employees

As at 30 June 2014, the Group employed approximately 304 employees in the PRC and Hong Kong (31 December 2013: 258). 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 entitlement, to employees in Hong Kong. A similar scheme is also maintained for employees in the PRC.

The Mining Production, Exploration and Development

Mining Production

Since the trial production at the end of 2013, the daily ore processing capacity of Gold Mountain Mine has reached around 12,000 tones of ore per day as of 30 June 2014, which is approximately 80% of the designed daily processing capacity. Gold Mountain Mine includes five prospects, namely the Yelmand prospect, the Mayituobi prospect, the Jinxi-Balake prospect, the Kuangou prospect and the Lion prospect. As of 30 June 2014, Gold Mountain Mine has conducted mining activities in the Yelmand prospect and the Mayituobi prospect.

	Six months ended 30 June		
	2014	2013	
Ore mined (tones)	1,003,600	_	
Yelmand prospect	1,002,800	_	
Mayituobi prospect	800	_	
Overburden mined (tones)	3,881,700	2,477,300	
Yelmand prospect	2,666,300	2,477,300	
Mayituobi prospect	1,215,400	_	
Average grade of ore (g/t)	0.71	_	
Ore crushed & Stacked (tones)	1,046,260	_	
Ore processed (tones)	1,046,260	_	
Gold Produced (oz)	7,012.1	_	

During the Period Under Review, the aggregate expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB29,762,000, as compared to approximately RMB19,807,000 for the corresponding period in 2013.

Exploration

The Company did not conduct drilling at Gold Mountain Mine during the first half year of 2014 but focused on seeking cooperation activities with other independent third parties and also conducted analysis on previously geological data collected from surrounding area of Gold Mountain Mine with external advisers.

During the Period Under Review, the expenditure directly relating to exploration was approximately RMB675,000.

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as of 31 December 2013:

JORC Mineral Resource Category	Tonnage kt	Grade kt	Contained Gold Au kg	Contained Gold Au koz
Measured	23,630	0.77	18.092	582
Indicated	80,190	0.74	59,569	1,915
Total Measured and Indicated	103,820	0.75	77,661	2,497
Inferred	31,905	0.70	22,423	721
Total	135,725	0.74	100,084	3,218
JORC Mineral Reserve Category	Tonnage kt	Grade kt	Contained Gold Au kg	Contained Gold Au koz
Proved	10,390	0.74	7,650	246
Probable	80,020	0.75	59,610	1,917
Total	90,410	0.74	67,280	2,163

Resources and reserves reported at a cut-off grade of 0.30 g/t.

Mine Development

For the first half year of 2014, the Company completed several auxiliary projects for the Gold Mountain Mine including the improvement on the heap leach pad, ore processing plants as well as the anti-leakage project of heap leaching.

During the Period Under Review, the expenditure on the mine development and construction amounted to approximately RMB6,761,000.

Significant Investments, Acquisitions and Disposals

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

INTERIM DIVIDEND

The Board of the Company did not recommend any interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013, no dividend was declared).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

Given that the shares of the Company have only been listed on the main board of the Stock Exchange since 29 May 2014, the code provisions of the Code on Corporate Governance Code ("CG Code") as set forth in Appendix 14 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") was not applicable to the Company before the Listing. However, since the date of Listing on 29 May 2014, the Company has adopted the CG Code as its corporate governance code of practices. In the opinion of the Board, the Company has fully complied with the applicable code provisions of the CG Code from the date of Listing on 29 May 2014 to 30 June 2014.

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 throughout the period from the date of Listing on 29 May 2014 up to 30 June 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the period from the date of Listing on 29 May 2014 up to 30 June 2014, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

EVENTS AFTER THE REPORTING PERIOD

The Group had no subsequent events after the reporting period.

REVIEW OF THE INTERIM RESULTS

The audit committee of the Company (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 CG Code. The Audit Committee consists of three independent non-executive Directors, namely Ms. WONG Yan Ki Angel, Mr. XIAO Wei and Mr. Tim SUN. Ms. WONG Yan Ki Angel serves as the chairperson of the Audit Committee.

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 June 2014 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters.

The external auditor of the Company has reviewed the interim financial information for the six months ended 30 June 2014 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.

Without qualifying its review conclusion, the external auditor of the Company draws attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the sixmonth period ended 30 June 2013 and the relevant explanatory notes disclosed herein have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (http://www.hxgoldholding.com). The interim report for the Period Under Review containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available on the above websites in due course.

By order of the Board

Hengxing Gold Holding Company Limited

KE Xiping

Chairman

Xiamen, the PRC, 27 August 2014

As at the date of this announcement, the executive directors of the Company are Mr. KE Xiping, Mr. CHEN Yu, David and Mr. HO Albert Fook Lau, and the independent non-executive directors of the Company are Ms. WONG Yan Ki Angel, Mr. XIAO Wei and Mr. Tim SUN.