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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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

HIGHLIGHTS

- The Company's wholly owned Gold Mountain Mine produced 43,661 ounces (equivalent to 1,358.0 kg) of gold for the Period Under Review, compared with 22,824 ounces (equivalent to 709.9 kg) in the corresponding period of 2014 ;
- The Company's revenue was RMB284.6 million and net profit was RMB53.6 million for the Period Under Review, compared with RMB159.8 million in revenue and RMB34.0 million in net loss in the corresponding period of 2014;
- The all-in gold production cost for the full year of 2015 was reduced to US\$850/oz, compared with US\$1,515/oz in the corresponding period of 2014.

The board of directors (the “**Board**”) of Hengxing Gold Holding Company Limited (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2015 (the “**Period Under Review**”), together with comparative figures for the year ended 31 December 2014, as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE YEAR ENDED 31 DECEMBER 2015

		The year ended 31 December	
	<i>Notes</i>	2015	2014
		RMB'000	RMB'000
Revenue	4	284,554	159,817
Cost of sales		(181,008)	(135,147)
Gross profit		103,546	24,670
Other income		3,233	1,842
Other gains and losses	5	12,942	6,278
Selling and distribution expenses		(274)	(153)
Administrative expenses		(29,393)	(24,907)
Impairment loss of exploration and evaluation assets		(8,912)	–
Listing expenses		–	(3,993)
Finance costs	6	(27,557)	(37,744)
Profit (loss) before taxation		53,585	(34,007)
Taxation	7	–	–
Profit(loss) for the year	8	53,585	(34,007)
Other comprehensive expense:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value loss on available-for-sale investments		(16)	–
Total comprehensive income (expense) for the year		53,569	(34,007)
Earnings (loss) per share Basic (RMB cents)	9	6	(4)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	<i>Notes</i>	2015 RMB'000	2014 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		337,454	352,248
Prepaid lease payments		16,222	16,553
Exploration and evaluation assets	<i>11</i>	75,145	83,987
Intangible assets		241,953	241,388
Available-for-sale investments		473	–
Deposit for purchase of property, plant and equipment		1,052	1,538
Restricted bank balance	<i>14</i>	10	10
		<hr/> 672,309 <hr/>	<hr/> 695,724 <hr/>
CURRENT ASSETS			
Prepaid lease payments		357	357
Inventories	<i>12</i>	85,000	54,705
Other receivables and prepayments		9,173	15,788
Futures contracts	<i>13</i>	–	38
Fixed deposits	<i>14</i>	93,999	49,002
Bank balances and cash	<i>14</i>	26,339	114,223
Other current asset		–	33,607
		<hr/> 214,868 <hr/>	<hr/> 267,720 <hr/>
CURRENT LIABILITIES			
Trade and other payables	<i>15</i>	45,210	50,618
Gold loans	<i>16</i>	39,865	137,682
Bank and other borrowings	<i>17</i>	98,466	17,385
		<hr/> 183,541 <hr/>	<hr/> 205,685 <hr/>
NET CURRENT ASSETS		<hr/> 31,327 <hr/>	<hr/> 62,035 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 703,636 <hr/>	<hr/> 757,759 <hr/>

	<i>Notes</i>	2015 RMB'000	2014 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Bank and other borrowings	<i>17</i>	260,000	370,000
Deferred income		8,691	9,115
Provision		6,941	4,209
		<u>275,632</u>	<u>383,324</u>
CAPITAL AND RESERVES			
Share capital		7,362	7,362
Reserves		420,642	367,073
		<u>428,004</u>	<u>374,435</u>
Equity attributable to owners of the Company		<u>703,636</u>	<u>757,759</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Company’s immediate and ultimate holding company is Gold Virtue Limited, which is wholly owned by Mr. Ke Xiping.

The principal activity of the Company is investment holding. The Company’s principal subsidiary, Xinjiang Gold Mountain Mining Company Limited (“**Jinchuan Mining**”), located in Xinjiang Province, the People’s Republic of China (the “**PRC**”), is engaged in mining and processing of gold and sales of processed gold products in the PRC.

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company and its subsidiaries.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

Amendments to HKFRSs those are mandatorily effective for the current year

The Group has applied the following amendments to the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time in the current year.

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

The adoption of the amendments of the HKFRSs has had no material effect on the amounts reported in the consolidated financial statements or disclosures set out in the consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKFRS 9	Financial Instruments ¹
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKAS 1	Disclosure Initiative ³
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ³
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants ³
Amendments to HKAS 27	Equity Method in Separate Financial Statements ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception ³
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ³

- ¹ Effective for annual periods beginning on or after 1 January 2018
- ² Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
- ³ Effective for annual periods beginning on or after 1 January 2016
- ⁴ Effective for annual periods beginning on or after a date to be determined

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance (“CO”).

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors’ reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment with the investee; and
- has the ability to use its power to affect its returns.

The Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins with the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

4. 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 year ended 31 December 2015 and 2014, 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.

	2015 <i>RMB’000</i>	2014 <i>RMB’000</i>
Sales of processed gold	284,554	158,285
Sales of gold metal	—	1,532
	<u>284,554</u>	<u>159,817</u>

5. OTHER GAINS AND LOSSES

	2015 <i>RMB’000</i>	2014 <i>RMB’000</i>
(Loss) gain on disposal of property, plant and equipment	(36)	104
Investment income of structured deposits	815	162
Fair value change on gold loans and gold held under gold contracts (<i>note 16</i>)	2,848	8,103
Fair value change on futures contracts (<i>note 13</i>)	6,111	(350)
Foreign exchange gain (loss), net	3,401	(1,626)
Investment income of held-for-trading investments (<i>note</i>)	19	—
Other losses	(216)	(115)
	<u>12,942</u>	<u>6,278</u>

Note: The held-for-trading investments are equity securities listed in Hong Kong which acquired for the purpose of selling in a short term.

6. FINANCE COSTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Effective interest on loan from a shareholder	–	8,661
Interest on secured bank borrowings	17,462	20,992
Interest on unsecured trust loan	3,234	6,077
Interest on loan from a related party	15	–
Interest on gold loans	5,546	1,492
Accretion on environmental restoration costs	1,300	522
	<u>27,557</u>	<u>37,744</u>

7. TAXATION

No provision for Hong Kong Profits Tax nor the PRC Enterprise Income Tax (the “EIT”) has been made as the Group had no assessable profit subject to profits tax during both years.

Under the Law of the PRC on EIT and Implementation Regulation of EIT law, the tax rate of the PRC subsidiaries were 25% during both years.

The taxation for both years can be reconciled to the profit (loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit (loss) before taxation	<u>53,585</u>	<u>(34,007)</u>
Tax at EIT rate of 25%	13,396	(8,502)
Tax effect of income not taxable for tax purpose	(697)	(253)
Tax effect of expenses not deductible	864	3,355
Tax effect of tax loss not recognised	–	5,400
Tax effect of deductible temporary differences not recognised	2,228	–
Utilisation of tax losses previously not recognised	<u>(15,791)</u>	<u>–</u>
Taxation for the year	<u>–</u>	<u>–</u>

As at 31 December 2015, the Group had cumulative unutilised tax losses of RMB72,038,000 (2014: RMB135,202,000). No deferred tax asset has been recognised due to the unpredictability of future profit stream. Most of the unused tax losses can be carried forward up to five years from the years in which the loss was originated to offset future taxable profits.

8. PROFIT (LOSS) FOR THE YEAR

Profit (loss) for the year has been arrived at after charging (crediting):

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Directors' and chief executive's emoluments	1,793	1,542
Other staff costs	35,495	25,869
Retirement benefit scheme contributions, excluding those of directors and chief executive	1,702	1,434
Total staff costs	38,990	28,845
Less: amount capitalised in exploration and evaluation assets	–	(790)
Less: amount capitalised in construction in progress	–	(398)
Staff costs recognised in profit or loss	38,990	27,657
Depreciation of property, plant and equipment recognised in profit or loss	26,747	24,084
Amortisation of intangible assets	23,824	14,621
Release of prepaid lease payments	357	357
Depreciation and amortisation recognised in profit or loss	50,928	39,062
Cost of inventories recognised as an expense	181,008	135,147
Auditor's remuneration	1,680	1,600
Minimum lease payments under operating leases in respect of properties	93	94

9. EARNINGS (LOSS) PER SHARE

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Earnings (loss):		
Profit (loss) for the year attributable to owners of the Company for the purpose of basic earnings (loss) per share	53,585	(34,007)
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	925,000	831,233

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

10. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2015, nor has any dividend been proposed since the end of the reporting period (2014: nil).

11. EXPLORATION AND EVALUATION ASSETS

The Group's exploration and evaluation assets for reporting purposes are as follow:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At beginning of the year	83,987	81,998
Additions	70	1,989
Impairment loss recognised in profit or loss	(8,912)	–
	<hr/>	<hr/>
At end of the year	<u>75,145</u>	<u>83,987</u>

The exploration and evaluation assets represent all costs directly associated with exploration and evaluation and are initially capitalised. Exploration and evaluation assets are those expenditures for an area within the exploration tenements where technical feasibility and commercial viability has not been determined. Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further evidence of mineralisation in existing ore bodies and to expand the capacity of a mine.

The impairment losses of RMB8,912,000 recognised during the year ended 31 December 2015 was primarily due to expiry of an exploration licenses for the Urum-Tulasu area and the full amount of the exploration and evaluation assets recognised in prior years has therefore been fully impaired.

12. INVENTORIES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Raw materials	2,782	4,729
Gold in process	39,976	16,788
Gold dore' bars	27,348	12,527
Consumables and spare parts	14,894	20,661
	<hr/>	<hr/>
	<u>85,000</u>	<u>54,705</u>

13. FUTURES CONTRACTS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Derivatives not under hedge accounting:		
Fair value of gold futures contracts — assets	–	38
	<hr/>	<hr/>

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.

The full amount of the futures contracts has been settled during the current year.

Changes in the fair values of gold futures contracts amounting to gain of RMB6,111,000 (2014: loss of RMB350,000) have been recognised in profit or loss.

14. RESTRICTED BANK BALANCE/FIXED DEPOSITS/BANK BALANCES AND CASH

Restricted bank balance, fixed deposits and bank balances and cash of the Group carry interest at market rates as follows:

	2015 %	2014 %
Range of interest rates (per annum)	<u>0.001–1.25</u>	<u>0.001–3.80</u>

The fixed deposits and bank balances and cash that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Hong Kong dollars (“HK\$”)	49,454	60,905
US dollars (“US\$”)	<u>47,873</u>	<u>710</u>
	<u>97,327</u>	<u>61,615</u>

15. TRADE AND OTHER PAYABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade payables	<u>13,053</u>	12,805
Payables for purchases of property, plant and equipment	16,746	25,157
Payables for expenditure on intangible assets	1,595	–
Payables for expenditure on exploration and evaluation assets	62	237
Payables for listing expenses	–	1,324
Other tax payables	4,380	3,263
Other payables	3,156	3,966
Accrued expenses	<u>6,218</u>	<u>3,866</u>
	<u>32,157</u>	<u>37,813</u>
	<u>45,210</u>	<u>50,618</u>

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:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
0–30 days	5,979	4,819
31–60 days	2,763	3,425
Over 60 days	<u>4,311</u>	<u>4,561</u>
	<u>13,053</u>	<u>12,805</u>

16. 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 31 December 2015, the gold loans are denominated in RMB, interest bearing at a contract rate of 3.80% per annum with original maturity of 340 days. As at 31 December 2014, the gold loans represented interest bearing at a contract rate of 5.20% per annum with original maturity of 181 days, 5.20% per annum with original maturity of 364 days and 3.80% per annum with original maturity of 329 days.

As at 31 December 2015, fixed deposit amounting to HK\$55,000,000 (equivalent to RMB46,078,000) (2014: RMB49,002,000) is pledged for the relevant gold loan.

In addition, Jinchuan Mining repaid gold loans with a fair value of RMB44,868,000 (2014: RMB45,810,000) by using its processed gold. These transactions therefore represent major non-cash transactions of the Group for the year ended 31 December 2015.

The net gain arising from change in fair value of gold loans and gold held under gold loan contracts of RMB2,848,000 (2014: RMB8,103,000) has been recognised in profit or loss for the year ended 31 December 2015.

17. BANK AND OTHER BORROWINGS

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Secured bank borrowings		
— floating rate	263,759	287,286
— fixed rate	44,648	—
Unsecured trust loan		
— fixed rate	50,059	100,099
	<u>358,466</u>	<u>387,385</u>
The amount is repayable as per follows:		
— within one year	98,466	17,385
— more than one year, but not exceeding two years	100,000	150,000
— more than two year, but not exceeding five years	160,000	220,000
	<u>358,466</u>	<u>387,385</u>
Less: amount due within one year shown under current liabilities	<u>98,466</u>	<u>17,385</u>
Amount shown under non-current liabilities	<u>260,000</u>	<u>370,000</u>

The ranges of effective interest rates on the Group's borrowings are as follows:

	2015	2014
	<i>%</i>	<i>%</i>
Effective interest rate (per annum)		
— fixed-rate borrowing	3.78 to 4.85	5.24
— floating-rate borrowing	6.08	6.95

The Group's floating-rate borrowing is mainly subject to interest at the quoted lending rate of the People's Bank Of China ("PBOC"). Interest is reset every year.

As at 31 December 2015, fixed deposits amounting to US\$7,363,000 (equivalent to RMB47,811,000) and RMB110,000 are pledged for the fixed rate borrowing from China Merchants Bank.

Subsequent to the end of the reporting period, the Group agreed with the lender to early settle the trust loan in full.

18. CAPITAL COMMITMENTS

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure contracted for but no provided for in the consolidated financial statements in respect of acquisition of		
— property, plant, and equipment	13,580	51,296
— exploration and evaluation assets	<u>—</u>	<u>253</u>
	<u>13,580</u>	<u>51,549</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's Gold Mountain Mine (as defined in the prospectus dated 19 May 2014 of the Company) marked substantial increases in gold production and profit in 2015. For the Period Under Review, it produced 43,661 ounces ("ounce" or "oz", referring to a unit of weight for precious metals, and one ounce equals 31.1035 grams) or 1358.0 kg of gold, representing a substantial increase by approximately 91% as compared to 22,824 ounces (equivalent to 709.9 kg) gold produced in 2014. The Company achieved a net profit of RMB53.6 million, compared with net loss of RMB34.0 million in the corresponding period of 2014.

The management of the Group deeply believes that efficient and effective operation underpins corporate survival and therefore they have focused effort on optimising the existing business, as evidenced by the outstanding results for this year.

On the production front, approximately 4.2 million tonnes of ore were crushed and processed for the year ended 31 December 2015, more than 68% greater than the 2.5 million tonnes ore processed during the corresponding period of 2014. The Company has continued its efforts to search for more durable key wearable components, such as the liners of the coarse crushers, leading to better ore crushing results. However it has still yet to meet the target particle size of P80-6.3 mm as per the designed specifications required to reach the optimal recovery rate determined by the feasibility study report and warranted by the crushing equipment supplier. Meantime, all-in gold production cost for the full year of 2015 is further reduced to approximately US\$850/oz, as a result of enhanced production process and cost control measures.

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 August 2015 and is estimated to complete in a year. At Jinxi-Balake prospect, metallurgical test is being conducted to help assess the gold recovery rate and with the mining design.

On the technical upgrade front, the Company continued the testing of alternative crushers with a view to achieving the designed process capacity and particle size. The Company is still conducting tests with various crushers available on the market on an on-going basis, in an effort to find the most optimal solution. Improvements in various aspects of the workshop is being carried out to increase the overall gold recovery rate.

As for exploration progress, the Company cooperated with Western Region Gold Ili Company Limited (西部黃金伊犁有限責任公司) and drilled a 700 meter hole in the Bohegou (薄荷溝) prospect in September 2015. Although the initial drilling showed no positive results, the Company and Western Region Gold are jointly planning for further exploration studies, including drillings in 2016.

Prospects

The mission of the Group is to become 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. The Group has carefully suspended the CIL Project proposed earlier and, considered it was not in the best interest of our shareholders after careful technical and economic analysis. In addition, the Group will make continuous efforts to enhance operational design and utilize more technologies to improve efficiency.

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. As part of our effort to expand our resources cost-effectively, the Group has formed a strategic co-operation with a reputable local state-owned mining company, Western Region Gold Ili Company Limited (西部黄金伊犁有限责任公司), to jointly explore gold deposits in our licensed area. The Group is continuously sourcing of high-quality gold mines for acquisitions.

Expand current production scope

Moreover, 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 for new specific details of which are indicated in the table below. As at 31 December 2015, 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 31 December 2015 (HK\$ million)	Balance of unutilized IPO proceeds as at 31 December 2015 (HK\$ million)
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
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
Repaying outstanding loans with interests and advances from controlling shareholder Mr. Ke	138.8	–	138.8	–
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 RMB284,554,000, while the revenue recorded for the corresponding period of 2014 was RMB159,817,000, representing approximately an increase of 78%, which is contributed by the substantial growth in gold production and sales.

The Group started to record a consolidated profit of the Group of RMB53,585,000 for the year ended 31 December 2015, while there is a loss of RMB34,007,000 in the corresponding period of 2014. The situation of profit turnaround is mainly due to (a) substantial growth in gold production and sales as compared to the corresponding period in 2014, (b) 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 RMB284,554,000, compared with RMB159,817,000 in the corresponding period of 2014, because the gold production and sales volume increased.

Cost of Sales ("COGS")

During the Period Under Review, the Group's cost of sales amounted to approximately RMB181,008,000 compared with RMB135,147,000 in the corresponding period of 2014, 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 RMB103,546,000, compared with RMB24,670,000 in the corresponding period in 2014.

Selling and distribution expenses

During the Period Under Review, the Group's selling and distribution expenses amounted to approximately RMB274,000 compared with RMB153,000 in the corresponding period of 2014.

Administration Expenses

During the Period Under Review, the Group's administration expense was approximately RMB29,393,000 compared with RMB24,907,000 in the corresponding period of 2014.

EBITDA

During the Period Under Review, the Group's earnings before interest, tax, depreciation and amortization ("**EBITDA**") was RMB132,070,000 gain while it was RMB42,799,000 loss in the corresponding period of 2014.

Finance Costs

During the Period Under Review, the Group's finance costs was RMB27,557,000 (for the year ended 31 December 2014: RMB37,744,000), representing a decrease by 27%, compared with the corresponding period of 2014. The decrease was mainly due to the repayment of loan from the unsecured trust loan, details are set out in Note 6 in consolidated financial statements.

Profit (loss) before taxation

As a result of the foregoing, the profit before taxation was RMB53,585,000 for the year ended 31 December 2015, compared with a loss of RMB34,007,000 in the corresponding period of 2014.

Profit (loss) and total comprehensive income (expense)

As a result of the foregoing, the profit and total comprehensive income was RMB53,569,000 for the year ended 31 December 2015, compared with a loss and total comprehensive expense of RMB34,007,000 in the corresponding period of 2014.

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 31 December 2015, the Group's bank balances and cash and fixed deposits were RMB120,338,000 (as of 31 December 2014, it was RMB163,225,000). Net assets were RMB428,004,000 (as of 31 December 2014, it was approximately RMB374,435,000).

The Group recorded net current assets were RMB31,327,000 as of 31 December 2015, compared with RMB62,035,000 as of 31 December 2014, which was primarily due to (a) decrease of other current asset amounted RMB33,607,000 and bank balance amounted RMB42,887,000 (b) net increase of inventory amounted RMB30,295,000, (c) net decrease of Gold loans and Bank and other borrowings amounted RMB16,736,000.

Current ratio and gearing ratio

As at 31 December 2015, the Group's current ratio (current assets divided by current liabilities) was 1.2 (31 December 2014: 1.3).

As at 31 December 2015, the Group's gearing ratio (total borrowings divided by total equity) was 0.9 (31 December 2014: 1.4).

Cash flows

The following table sets out selected cash flow data from the Group's consolidated cash flow statements for the year ended 31 December 2015 and 31 December 2014.

	The year ended	
	31 December	31 December
	2015	2014
	RMB'000	RMB'000
Net cash from (use in) operating activities	65,281	(67,850)
Net cash used in investing activities	(81,316)	(116,492)
Net cash (use in) from financing activities	(71,849)	288,757
Net(decrease) increase in cash and cash equivalents	(87,884)	104,415
Effect of foreign exchange rate changes	–	(546)
Cash and cash equivalents at 1 January	114,223	10,354
Cash and cash equivalents at 31 December	26,339	114,223

For the Period Under Review, the net cash inflow from operating activities was RMB65,281,000, which was mainly attributable to (a) Profit plus non cash cost as Depreciation and Amortization and minus financing cost and investing gain, amounted RMB124,917,000 (b) increase in inventory of RMB75,163,000 (c) decrease in trade receivables, repayment deposits and other receivables of RMB3,360,000, and (d) increase in trade payables, accruals and other payables of RMB5,163,000 (e) Net settlement on acquisition and disposal of futures contracts of 8,901,000 (f) Environmental restoration expenses paid 1,897,000.

For the Period Under Review, the net cash outflow from investing activities was RMB81,316,000, which was mainly attributable to (a) purchase of property, plant and equipment of RMB18,029,000, (b) payments of intangible assets of RMB19,465,000, and (c) partially offset by the redemption of structured deposits and fixed deposits of RMB44,182,000 and (d) interests received of RMB2,243,000 (e) Purchases of an available-for-sale investment of RMB1,651,000 (f) others of RMB232,000.

For the Period Under Review, the net cash outflow from financing activities was RMB71,849,000, which was primarily attributable to (a) new bank and other borrowings raised of RMB92,751,000, and (b) new gold loans raised of RMB75,704,000, all of which were partially offset by (a) interest paid for gold loans and bank and other borrowings of RMB29,853,000, (b) repayment of gold loans of RMB 92,198,000 and bank and other borrowings of RMB118,253,000.

Capital Structure

As at 31 December 2015, the total number of issued ordinary shares of the Company was 925,000,000 shares (as of 31 December 2014: 925,000,000 shares), each at HK\$0.01.

Indebtedness and charge on assets

As at 31 December 2015, the Group had the bank and other borrowings of approximately RMB263,759,000 which was secured by certain buildings, mining structures and equipment with an aggregate carrying amount of RMB145,382,000 (31 December 2014: RMB155,507,000) and intangible assets with an aggregate carrying amount of RMB132,225,000 (31 December 2014: RMB137,554,000), and unsecured trust loan of approximately RMB50,059,000. In addition the Group had gold loans of approximately RMB39,865,000 and Bank borrowings approximately RMB44,648,000 with fix deposit amounting to RMB93,999,000 pledged for.

Save as stated above, as of 31 December 2015, 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 at 31 December 2015, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2014: 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

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 available-for-sale investments, fixed deposits, certain bank balances, certain other receivables and certain other payables that are denominated in HK\$, US\$ and CAD\$.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Employees

As at 31 December 2015, the Group employed approximately 329 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 4.2 million tones. As of 31 December 2015, Gold Mountain Mine has conducted mining activities in the Yelmand prospect and the Mayituobi prospect.

	Unit	The year ended 31 December	
		2015	2014
Ore mined	Kt	4,103	2,518
<i>Yelmand prospect</i>	Kt	3,424	2,468
<i>Mayituobi prospect</i>	Kt	679	50
Overburden mined	Kt	4,335	6,031
<i>Yelmand prospect</i>	Kt	2,534	4,650
<i>Mayituobi prospect</i>	Kt	1,801	1,381
Strip ratio	:	1.06	2.40
Feed-in grade of ore	g/t	0.77	0.75
Ore processed	Kt	4,156	2,523
Recovery rate	%	53.0	46.9
Gold produced	Oz	43,661	22,824

During the Period Under Review, the aggregate capital expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB19.0 million, as compared to approximately RMB18.0 million for the year ended 31 December 2014.

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 targets with future potential.

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as of 31 December 2015: (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	20,436	0.76	15,458	497
Indicated	76,896	0.74	57,029	1,833
Inferred	31,750	0.70	22,262	716
Total	129,081	0.73	94,749	3,046

JORC Mineral Reserves Category	Tonnage kt	Grade g/t	Contained Gold Au kg	Contained Gold Au koz
Proved	7,196	0.70	5,016	161
Probable	76,726	0.74	57,070	1,835
Total	83,922	0.74	62,086	1,996

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

Mine Development

For the year of 2015, the Company continued its construction and development activities in Gold Mountain Mine, including the construction of a new heap leach pad, the anti-leakage project of heap leaching, as well as the 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 capital expenditure on the mine development and construction amounted to approximately RMB18.0 million, as compared to approximately RMB55.7 million for the year ended 31 December 2014.

Significant Investments, Acquisitions and Disposals

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

CONNECTED TRANSACTION

On 26 January 2015, Jinchuan Mining, a subsidiary of the Company, entered into the Gold Dore Purchase Agreement with Xiamen Hengxing pursuant to which the Group agrees to sell and Xiamen Hengxing agrees to purchase the gold dore for a consideration of RMB1,000,000 to be used in transaction to facilitate its gold lease financing with commercial banks. The transaction contemplated under the Gold Dore Purchase Agreement constitutes a connected transaction of the Group pursuant to Chapter 14A of the Listing Rules. Details of the Gold Dore Purchase Agreement are as stated in the Company's announcement dated 26 January 2015.

During the year, an amount of HK\$10,000,000 was advance from Excel Pearl (Hong Kong) Limited, which is wholly-owned by Mr. Ke Xiping, the controlling shareholder of the Company, to a subsidiary of the Company. The amount was unsecured, interest-bearing at fixed rate of interest of 2% per annum and has been repaid in full by the Group before the end of the reporting period. The interest paid by the Group is HK\$18,000 (equivalent to RMB15,000).

During the Period Under Review, the Group had not entered into any continuing connected transactions which are required to be disclosed in this announcement pursuant to the Listing Rules.

Final Dividend

The Board of the Company did not recommend the payment of a final dividend for the year ended 31 December 2015 (for the year ended 31 December 2014: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from 2 June 2016 to 6 June 2016, both days inclusive, in order to determine the identity of the shareholders who are entitled to attend the forthcoming annual general meeting to be held on 6 June 2016. All transfers documents accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 1 June 2016.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

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 year ended 31 December 2015 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 year ended 31 December 2015 and up to the date hereof.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2015, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

EVENTS AFTER THE PERIOD UNDER REVIEW

The Group had no material subsequent events after the Period Under Review.

REVIEW OF THE ANNUAL 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 chairman of the Audit Committee.

The Audit Committee has reviewed the Group’s audited consolidated financial statements for the year ended 31 December 2015 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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2015 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (<http://www.hxgoldholding.com>). The annual report containing all the information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders and available on the same websites in due course.

By order of the Board
Hengxing Gold Holding Company Limited
KE Xiping
Chairman

Xiamen, the PRC, 22 March 2016

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.