恒興黃金
HENGXING GOLD

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 2017

HIGHLIGHTS

The financial results of the Group for the six months ended 30 June 2017 is highlighted as follows:

— Revenue is increased by 81% to RMB528 million from the corresponding period of last year;

— Net profit after tax is increased by 84% to RMB117 million from the corresponding period of last year;

— Gold production is increased by 20% to 42,549 ounces from the corresponding period of last year;

— The average realized gold price is increased by 10% to RMB279.6/gram from the corresponding period of last year;

— All-in gold production cost is decreased by 8% to RMB132/gram (equivalent to US$606/oz based on the exchange rate of RMB6.7744/USD as at 30 June 2017) from the corresponding period of last year;

— Total debt was RMB349 million, compared with RMB484 million as of 30 June 2016 and debt ratio was 34%, compared with 50% as of 30 June 2016.

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 2017 (the "**Period Under Review**"), together with comparative figures for the corresponding period of year 2016, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Unaudited Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Continuing operations			
Revenue	*3*	**528,320**	291,549
Cost of sales		**(339,098)**	(144,752)
Gross profit		**189,222**	146,797
Other income		**355**	233
Other gains/(losses) — net	*4*	**1,991**	(29,640)
Selling and marketing expenses		**(168)**	(171)
General and administrative expenses		**(13,402)**	(13,437)
Write off/impairment loss of exploration and evaluation assets		**(13,970)**	(23,151)
Operating profit	*5*	**164,028**	80,631
Finance income		**23**	594
Finance expenses		**(5,763)**	(10,253)
Finance expenses-net		**(5,740)**	(9,659)
Profit before income tax		**158,288**	70,972
Income tax expense	*6*	**(41,056)**	(7,395)
Profit for the period, all attributable to owners of the Company		**117,232**	63,577
Other comprehensive (loss)/income			
Items that may be reclassified to profit or loss			
— Fair value (losses)/gains on available-for-sale financial assets, net of tax		**(1,683)**	379
Total comprehensive income for the period, all attributable to owners of the Company		**115,549**	63,956
Earnings per share attributable to owners of the Company for the period *(Express in RMB per share)*			
— Basic and diluted	*8*	**0.13**	0.07

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	**Unaudited 30 June 2017 *RMB'000***	Audited 31 December 2016 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**350,457**	334,110
Investment property		**8,692**	8,979
Prepaid lease payments		**15,686**	15,865
Exploration and evaluation assets		**–**	13,970
Intangible assets		**245,874**	239,238
Prepayment for purchase of property, plant and equipment		**6,094**	14,588
Deferred income tax assets	*9*	**16,356**	20,046
Available-for-sale investment		**–**	2,163
Restricted bank balance		**10**	10
Total non-current assets		**643,169**	648,969
Current assets			
Inventories	*10*	**124,321**	97,543
Trade receivables	*11*	**–**	17,422
Other receivables and prepayments	*12*	**38,516**	46,352
Prepaid lease payments		**357**	357
Financial assets at fair value through profit or loss	*13*	**46,800**	46,908
Cash and cash equivalents		**164,383**	137,822
Total current assets		**374,377**	346,404
Total assets		**1,017,546**	995,373
EQUITY			
Equity attributable to owners of the Company			
Share capital		**7,362**	7,362
Reserves		**491,294**	573,258
Retained earnings	*14*	**169,474**	52,242
Total equity		**668,130**	632,862

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 JUNE 2017

	Note	**Unaudited 30 June 2017** ***RMB'000***	Audited 31 December 2016 *RMB'000*
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*15*	**100,000**	140,000
Deferred income		**8,055**	8,267
Provision for close down, restoration and environmental costs		**16,176**	11,448
Total non-current liabilities		**124,231**	159,715
Current liabilities			
Trade and other payables	*16*	**79,882**	52,660
Current income tax liabilities		**29,001**	43,902
Short-term borrowings	*15*	**50,000**	50,000
Current-portion of long-term borrowings	*15*	**66,302**	56,234
Total current liabilities		**225,185**	202,796
Total liabilities		**349,416**	362,511
Total equity and liabilities		**1,017,546**	995,373

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION

The notes contained herein are extracted from the full set of the Group's condensed consolidated interim financial information for the six months ended 30 June 2017 which 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 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

2. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

(a) Amendments to HKFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

Amendments	**Effective for annual periods beginning on or after**
Amendments to HKAS 12, 'Income taxes'	*1 January 2017*
Amendments to HKAS 7, 'Statement of cash flows'	*1 January 2017*
Amendment to HKFRS 12, 'Disclosure of interest in other entities'	*1 January 2017*

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

The following new standards and amendments published by the HKICPA that are not yet effective for the financial year ending 31 December 2017 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 or when apply IFRS 15*
HKFRS 17 Insurance contracts	*1 January 2021 or when apply IFRS 15 and IFRS 9*

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.

3. 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. For the six months ended 30 June 2017, the Group is primarily engaged in gold exploration and trading in the PRC. Therefore, for six months ended 30 June 2017, the management considers that the Group had two (note(a) and (b)) reportable segments respectively:

(a) Gold mining segment which held a gold mines and was mainly engaged in the mining, ore processing and sales of gold products;

(b) International trading segment was mainly engaged in the palm oil and iron ore trading.

The CODM assesses the performance of the operating segments based on gross profit. Interest income and expenditure at the level of Group are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to CODM for review:

	Six months ended 30 June 2017			Six months ended 30 June 2016		
	Gold mining segment	**International trading segment**	**Total**	Gold mining segment	International trading segment	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Revenue						
Sales to customers	**315,970**	**212,350**	**528,320**	291,549	–	291,549
Cost of sales	**(127,213)**	**(211,885)**	**(339,098)**	(144,752)	–	(144,752)
Results of reportable segments	**188,757**	**465**	**189,222**	146,797	–	146,797

A reconciliation of results of reportable segments to profit for the six months is as follows:

	Six months ended 30 June 2017			Six months ended 30 June 2016		
Results of reportable segments			**189,222**			146,797
Selling and marketing expenses			**(168)**			(171)
General and administrative expenses			**(13,402)**			(13,437)
Write off/impairment loss of exploration and evaluation assets			**(13,970)**			(23,151)
Other income			**355**			233
Other gains/(losses) — net			**1,991**			(29,640)
Operating profit			**164,028**			80,631
Finance income			**23**			594
Finance expenses			**(5,763)**			(10,253)
Profit before income tax expense			**158,288**			70,972
Income tax expense			**(41,056)**			(7,395)
Profit for the period			**117,232**			63,577
Amortisation	**18,092**	**–**	**18,092**	12,529	–	12,529
Depreciation	**15,895**	**–**	**15,895**	14,178	–	14,178
Write off/impairment loss of exploration and evaluation assets	**13,970**	**–**	**13,970**	23,151	–	23,151

The Group operates in mainland China and Hong Kong, and revenue is also generated from mainland China and Hong Kong. The Group's non-current assets are located in mainland China.

4. OTHER GAINS/(LOSSES) — NET

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Investment gains/(losses) on futures contracts	**4,074**	(21,374)
Investment gains from sale of available-for-sale investment	**2,045**	–
Investment income of structured deposits	**757**	439
(Losses)/gains on disposal of property, plant and equipment	**(301)**	1
Investment losses of held-for-trading investments	**(710)**	–
Foreign exchange (losses)/gains, net	**(3,825)**	1,956
Fair value losses on gold loans	**–**	(10,662)
Other losses	**(49)**	–
	1,991	(29,640)

5. OPERATING PROFIT

In addition to the items disclosed on Note 4, the following operating items have been charged to the operating profit:

	Unaudited Six months ended 30 June **2017** ***RMB'000***	 2016 *RMB'000*
Charging:		
Purchase of finished goods	**211,885**	–
Raw materials and consumables used	**18,677**	11,206
Changes in inventories of finished goods and work in progress	**(29,067)**	31,259
Mining expenses	**35,044**	31,298
Staff cost	**22,679**	17,850
Depreciation of		
— property, plant and equipment	**15,608**	14,178
Amortisation of		
— land use rights	**179**	179
— intangible assets	**17,913**	12,350
Write off/impairment loss of		
— exploration and evaluation assets	**13,970**	23,151

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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 2017, the PRC subsidiaries of the Company are subjected to an income tax rate of 25% (2016: 25%).

The amount of income tax expense charged to the interim condensed consolidated statement of profit or loss represents:

	Unaudited Six months ended 30 June **2017** ***RMB'000***	 2016 *RMB'000*
Current income tax		
— PRC profits tax	**37,366**	7,395
Deferred income tax	**3,690**	–
	41,056	7,395

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2017 is 27% (the estimated tax rate for the six months ended 30 June 2016 was 24%).

7. DIVIDEND

A dividend of RMB80,281,000 that relates to the period to 31 December 2016 was declared on 24 May 2017 (2016: Nil). Such dividend was distributed from the share premium of the Company. Approximate RMB68,237,000 was paid in June 2017, and the remaining amount has not been paid by 30 June 2017.

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

8. 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.

	Unaudited Six months ended 30 June	
	2017	2016
Profit attributable to owners of the Company *(in RMB'000)*	**117,232**	63,577
Weighted average number of the Company's shares in issue *(in thousands)*	**925,000**	925,000
Basic earnings per share *(in RMB)*	**0.13**	0.07

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

9. DEFERRED INCOME TAX ASSETS

	Unaudited 30 June 2017	Audited 31 December 2016
	RMB'000	*RMB'000*
Deferred tax assets	**17,514**	20,404
Deferred tax liabilities	**(1,158)**	(358)
Deferred tax assets (net)	**16,356**	20,046

10. INVENTORIES

	Unaudited 30 June 2017	Audited 31 December 2016
	RMB'000	*RMB'000*
Raw materials	**5,114**	5,271
Gold in process	**75,957**	77,777
Gold dore bars	**32,067**	1,180
Consumables and spare parts	**11,183**	13,315
	124,321	97,543

11. TRADE RECEIVABLES

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Trade receivables	**–**	17,422
Less: Provision for impairment of trade receivables	**–**	–
	–	17,422

As at 31 December 2016, the aging of trade receivables was within 1 month and no trade receivable were past due but not impaired.

12. OTHER RECEIVABLES AND PREPAYMENTS

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Prepayments	**8,748**	33,670
Input VAT recoverable	**4,472**	4,401
Deposits held by a securities broker *(Note (a))*	**17,355**	3,781
Deposits held by an interactive broker *(Note (b))*	**677**	26
Deposits held by China International Capital Corporation Limited ("CICC") *(Note (c))*	**5,690**	3,865
Other receivables	**1,574**	609
	38,516	46,352

(a) The deposits as at 30 June 2017 and 31 December 2016 represented the outstanding balance of cash account held by a securities broker for gold futures contract transactions.

(b) The deposits as at 30 June 2017 and 31 December 2016 represented the outstanding balance of cash account held by an interactive broker for equity securities transactions.

(c) The deposits as at 30 June 2017 and 31 December 2016 represented the outstanding balance of cash account held by CICC for equity securities transactions.

As at 30 June 2017, the aging of other receivables and prepayments was within one year.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Equity investments *(Note (a))*	**42,169**	45,477
Future contracts *(Note (b))*	**4,631**	1,431
	46,800	46,908

(a) Equity investments

Movements in equity investments are analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
At 1 January	**45,477**	–
Additions	**7,309**	–
Disposals	**(9,228)**	–
Fair value losses	**(1,389)**	–
At 30 June	**42,169**	–

As at 30 June 2017 and 31 December 2016, equity investments classified as financial assets at fair value through profit or loss represented the Group's equity investments in certain companies listed on The Stock Exchange of Hong Kong, which are quoted in an active market.

(b) Future contracts

	Unaudited	Audited
	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
Derivatives not under hedging accounting:		
Fair value of gold future contracts — assets	**4,631**	1,431

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.

14. RETAINED EARNINGS/(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 2017, the Group appropriated RMB11,710,000 from retained earnings (six months ended 30 June 2016: RMB10,266,000 from accumulated losses) for the safety production fund and utilised RMB1,207,000 (six months ended 30 June 2016: RMB822,000) for the safety production fund according to relevant PRC regulations.

As at 30 June 2017, the consolidated retained earnings included an appropriation of RMB33,190,000 (31 December 2016: RMB22,687,000) to PRC safety production fund according to relevant PRC regulations.

15. BORROWINGS

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Non-current	**100,000**	140,000
Current	**116,302**	106,234
	216,302	246,234

The borrowings can be analysed as follows:

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Representing:		
— secured *(Note (a))*	**166,302**	196,234
— guaranteed *(Note (b))*	**50,000**	50,000
Total borrowings	**216,302**	246,234

(a) As at 30 June 2017, the secured bank borrowings were secured by the Group's intangible assets of mining rights with a net book value of approximately RMB118,644,000 (31 December 2016: approximately RMB122,349,000) and property, plant and equipment with a net book value of approximately RMB130,941,000 (31 December 2016: approximately RMB135,866,000).

(b) As at 30 June 2017 and 31 December 2016, bank borrowings of RMB50,000,000 were guaranteed by Xiamen Hengxing Group Company Limited and Mr. Ke Xiping.

(c) The outstanding borrowings of the Group carry interest at effective interest rate ranging from 4.35% to 4.90% (31 December 2016: 4.35% to 5.15%) per annum and are repayable in accordance with payment schedule.

Movements in borrowings are analysed as follows:

Six months ended 30 June 2017	
Opening amount as at 1 January 2017	246,234
Repayments of borrowings	(29,932)
Closing amount as at 30 June 2017	216,302
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

16. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Trade payables	**12,715**	12,584
Payables for capital expenditure	**47,942**	30,504
Dividend payable	**12,044**	–
Staff salaries payables	**4,635**	6,353
Other tax payables	**832**	960
Accrued expenses	**278**	248
Other payables	**1,436**	2,011
	79,882	52,660

At 30 June 2017, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date was as follows:

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Within 1 year	**12,715**	12,584

17. COMMITMENTS

(a) Capital commitments

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Property, plant and equipment	**24,278**	6,939

(b) Lease Commitments

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

	Unaudited 30 June 2017 *RMB'000*	Audited 31 December 2016 *RMB'000*
Within 1 year	**201**	37
Over 1 year	**10**	–
	211	37

18. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) No significant transactions with related parties occurred during the six months ended 30 June 2017 and 30 June 2016.

(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 & Mr. Xiping Ke	Jinchuan Mining	RMB50,000,000	27/10/2016	27/10/2017

(d) Key management compensation:

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

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Salaries and other short-term benefits	**2,261**	2,454
Retirement benefit scheme contributions	**30**	33
	2,291	2,487

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company delivered outstanding results for the first half of 2017. Revenue for the six months ended 30 June 2017 rose by 81% to RMB528 million from RMB292 million for the corresponding period last year. The net profit after tax was up 84% to RMB117 million from the corresponding figure last year. The Company's financial strength has been enhanced, with total debt reduced by RMB135 million from the corresponding period of last year.

The Group's Gold Mountain Mine outperformed, thanks to the substantially increased gold production, higher average realized gold price and effective cost-saving measures. For the Period Under Review, it produced approximately 42,549 ounces or 1,368kg of gold, up approximately 20%, while the all-in gold production cost decreased by 8% to RMB132/gram (equivalent to US$606/oz based on the exchange rate of RMB6.7744/USD as at 30 June 2017), from the corresponding period last year. The average realized gold price for the first half of 2017 rose to RMB279.6/gram, 10% higher than RMB254/gram for the corresponding period in 2016.

On the production front, approximately 2.40 million tonnes of ore were crushed and processed for the six months ended 30 June 2017, 17% greater than the 2.05 million tonnes ore processed for the corresponding period last year. The average head grade is 0.96 g/t. In addition to current mining operations at the Yelmand prospect and the Mayituobi prospect within Gold Mountain Mine, the initial stripping volumes for the Kuangou prospect and Jingxi-Balake prospect in the first half of 2017 were 1,453,570 cubic meters and 1,455,162 cubic meters respectively. Owing to the increased initial stripping volumes at these new prospects, the average overall strip ratio for Gold Mountain Mine of 2017 is 5.67 as of 30 June 2017.

As part of overall technical upgrade, a high-pressure grinding roller was adopted for trial run in March 2017 and put into production since April 2017. The newly installed high-pressure grinding roller has effectively produced finer particle size, which will extend the leaching cycle but shall result in higher leaching recovery rate by approximately 10%. In addition, the Company is developing cyanide-free solution and leaching agent which can further increase the recovery rate. Meanwhile the Company optimized dumping technology to reduce future dumping cost.

In respect of exploration, the Company is cooperating with Chinese scientific research institutes, including the National 305 Project Office, to conduct in-depth geological studies and exploration works at and in the surrounding areas of the Gold Mountain Mine on which the Company has been licensed. Such explorations observed several anomalies which will be followed up with a drilling campaign to verify these anomalies within 2017.

Prospects

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

Ramp up processing capacity and enhance gold recovery rate

The Group is committed to ramping up the ongoing operations with a view to achieving the designed ore processing capacity. In addition, the Group put continuous efforts to optimize operational design and adopt cost-saving technologies to enhance gold recovery rate.

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 holds licenses for identifying new mining resources, and further explore deeper layers under the existing mining licenses. In addition, the Group seeks cooperation with independent strategic parties for joint explorations and continues sourcing high-quality gold mines for acquisitions.

Seek business diversifications

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 economically viable situation.

In addition to solidifying the exiting mining business, the Group seeks to diversify from its single business and invest in other strategic sectors, including trading, health care and education.

Further strengthen work safety and environmental protection

Work safety and environmental protection are crucial to the sustainable development of our industry. The Group has established internal training teams for cultivating managers into trainers and organizing training programs, with focus on explosive and combustible places, dangerous chemicals and risk factors in workplaces. The Group also mobilised employees to plant trees around the workplace to fulfil our commitment to occupational health 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 2017, the Company has used approximately HK$239.7 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 2017 *(HK$ million)*	Balance of unutilized IPO proceeds as at 30 June 2017 *(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

	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 2017 *(HK$ million)*	Balance of unutilized IPO proceeds as at 30 June 2017 *(HK$ million)*
Financing further exploration works at the Gold Mountain Mine and its surrounding areas where the Company holds exploration licenses	15.1	15.1	2.0	13.1
Working capital use and other general corporate purposes	11.3	–	11.3	–
Total	330.4	180.3	239.7	90.7

Financial Review

During the Period Under Review, the Group recorded revenue of RMB528,320,000 for the six months ended 30 June 2017, while the revenue recorded for the corresponding period of 2016 was RMB291,549,000 representing approximately an increase of 81%, which is contributed by the substantial growth in gold production and sales and the trading of palm oil and iron ore.

The Group started to record a consolidated profit of the Group of RMB117,232,000 for the six months ended 30 June 2017, while there is a profit of RMB63,577,000 in the corresponding period of 2016. The significant increase of profit is mainly due to (a) substantial growth in gold production and sales volume as compared to the corresponding period in 2016, (b) increase in average realized gold price, and (c) lower production costs.

Revenue

During the Period Under Review, the Group's revenue was approximately RMB528,320,000, compared with RMB291,549,000 in the corresponding period of 2016, because the gold production and sales volume and price increased in addition to the new business occurred for the trading of palm oil and iron ore during the first six months ended 30 June 2017.

Cost of sales

During the Period Under Review, the Group's cost of sales amounted to approximately RMB339,098,000 compared with RMB144,752,000 in the corresponding period of 2016, 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 and the cost of sales of trading of palm oil and iron ore. The increase in COGS was due to the growth of production volume and the trading of palm oil and iron ore.

Gross profit

During the Period Under Review, the Group's gross profit amounted to approximately RMB189,222,000, compared with RMB146,797,000 in the corresponding period of 2016, and the GP ratio of Gold mining segment was 60%, compared with 50% in the corresponding period of 2016, 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 RMB198,196,000 compared with RMB107,972,000 in the corresponding period of 2016.

Selling and marketing expenses

During the Period Under Review, the Group's selling and marketing expenses amounted to approximately RMB168,000 compared with RMB171,000 in the corresponding period of 2016.

General and Administrative expenses

During the Period Under Review, the Group's general and administrative expenses were approximately RMB13,402,000 (six months ended 30 June 2016: RMB13,437,000).

Finance expenses

During the Period Under Review, the Group's finance expenses was RMB5,763,000 (six months ended 30 June 2016: RMB10,253,000), representing a decrease by 44%, compared with the corresponding period of 2016. The decrease was mainly due to the repayment bank borrowings and the reduction of interest rate of bank borrowings, details are set out in Note 15 in condensed consolidated interim financial information.

Profit before taxation

As a result of the foregoing, the profit before taxation was RMB158,288,000 for the six months ended 30 June 2017, compared with a profit of RMB70,972,000 in the corresponding period of 2016.

Total comprehensive income (expense)

As a result of the foregoing, the total comprehensive income was RMB115,549,000 for the six months ended 30 June 2017, compared with the total comprehensive income of RMB63,956,000 in the corresponding period of 2016.

Liquidity and financial resources

The Group was in possession of reasonable operating cash flows and working capital due to the substantial growth of production. As at 30 June 2017, the Group's bank balances and cash and fixed deposit were RMB164,393,000 (as of 31 December 2016, it was RMB137,832,000). Net assets were RMB668,130,000 (as of 31 December 2016, it was approximately RMB632,862,000).

The Group recorded net current assets were RMB149,192,000 as of 30 June 2017, compared with RMB143,608,000 as of 31 December 2016.

Current ratio and gearing ratio

As of 30 June 2017, the Group's current ratio (current assets divided by current liabilities) was 1.66 (31 December 2016: 1.71).

As of 30 June 2017, the Group's gearing ratio (total borrowings divided by total equity) was 0.33 (31 December 2016: 0.39).

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 2017 and 30 June 2016 respectively.

	Unaudited Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Net cash generated from operating activities	**153,908**	152,977
Net cash used in investing activities	**(19,433)**	(49,635)
Net cash used in financing activities	**(105,547)**	(26,111)
Net increase in cash and cash equivalents	**28,928**	77,231
Cash and cash equivalents at 1 January	**137,822**	26,339
Exchange losses on cash and cash equivalents	**(2,367)**	–
Cash and cash equivalents at 30 June	**164,383**	103,570

For the Period Under Review, the net cash generated from operating activities was RMB153,908,000, which was mainly attributed to (a) profit plus non cash cost as depreciation and amortisation and financing cost minus investing gains, amounted RMB193,024,000 (b) increase in inventories of RMB26,778,000 (c) decrease in trade receivables, other receivables and prepayments of RMB25,258,000 (d) increase in trade payables, accruals and other payables of RMB2,260,000 (e) disposal of exploration and evaluation assets of RMB13,970,000, (f) tax expenses paid with RMB52,267,000 and (g) other activities of RMB2,961,000.

For the Period Under Review, the net cash used in investing activities was RMB19,433,000, which was mainly attributed to (a) purchases of property, plant and equipment of RMB6,329,000, (b) increase of intangible assets of RMB19,012,000, (c) placement of structured deposits of RMB423,000,000 and (d) partially offset by redemption of structured deposits of RMB423,757,000 and interests received of RMB23,000, (e) proceeds from disposal of property, plant and equipment of RMB5,000, and (f) transaction of stocks and futures with a cash inflow of RMB5,123,000.

For the Period Under Review, the net cash used in financing activities was RMB105,547,000, which was primarily attributed to (a) repayment of bank and other borrowings of RMB29,932,000 (b) interest paid for bank and other borrowings of RMB7,378,000, and (c) Payment of dividend of RMB68,237,000.

Capital structure

As of 30 June 2017, the total number of issued ordinary shares of the Company was 925,000,000 shares (as of 31 December 2016: 925,000,000 shares), each at HK$0.01.

Indebtedness and charge on assets

As at 30 June 2017, the Group had bank and other borrowings of approximately RMB166,302,000 which were secured by the Group's intangible assets of mining rights with a net book value of approximately RMB118,644,000 (31 December 2016: approximately RMB122,349,000) and property, plant and equipment with a net book value of approximately RMB130,941,000 (31 December 2016: approximately RMB135,866,000).

As at 30 June 2017 and 31 December 2016, bank borrowings of RMB50,000,000 were guaranteed by Xiamen Hengxing Group Company Limited and Mr. Ke Xiping.

Save as stated above, as of 30 June 2017, 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 2017, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2016: 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 amounts due to a shareholder that are denominated in HK$ and US$. 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 30 June 2017, the Group employed approximately 348 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 2.40 million tones. As of 30 June 2017, Gold Mountain Mine has conducted mining activities in the Yelmand prospect and the Mayituobi prospect.

		Six months ended 30 June	
	Unit	**2017**	2016
Ore mined	Kt	**2,342**	2,053
Yelmand prospect	Kt	**2,225**	1,844
Mayituobi prospect	Kt	**117**	209
Overburden mined	Kt	**13,279**	1,294
Yelmand prospect	Kt	**2,971**	1,143
Mayituobi prospect	Kt	**244**	151
Kuangou prospect	Kt	**6,475**	–
Jingxi-Balake prospect	Kt	**3,589**	–
Strip ratio	:	**5.67**	0.63
Feed-in grade of ore	g/t	**0.96**	0.91
Ore processed	Kt	**2,402**	2,046
Recovery rate	%	**58.2**	54.5
Gold produced	Oz	**42,549**	35,527

During the Period Under Review, the aggregate expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB62.0 million as compared to approximately RMB37.9 million for the six months ended 30 June 2016.

Exploration

For the Period Under Review, the expenditure directly relating to exploration was RMB853,300, while the Company has no exploration expenditure in the first half of 2016.

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as of 30 June 2017: (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**	**Grade**	**Contained Gold**	**Contained Gold**
	kt	*g/t*	*Au kg*	*Au koz*
Measured	21,087	0.76	15,946	513
Indicated	71,611	0.73	52,327	1,682
Inferred	28,506	0.70	19,555	629
Total	**121,204**	**0.72**	**87,827**	**2,824**

JORC Mineral Reserves Category	**Tonnage**	**Grade**	**Contained Gold**	**Contained Gold**
	kt	*g/t*	*Au kg*	*Au koz*
Proved	8,873	0.72	6,384	205
Probable	68,336	0.73	49,745	1,599
Total	**77,209**	**0.73**	**56,129**	**1,805**

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

Mine Development

For the first half of 2017, the Company continued its construction and development activities in Gold Mountain Mine, such as the construction of a new heap leach pad, covering an area of approximately 224 thousand square meters.

For the Period Under Review, the aggregate expenditure on the mine development and construction amounted to approximately RMB6.3 million, as compared to approximately RMB3.0 million for the six months ended 30 June 2016.

Significant Investments, Acquisitions and Disposals

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

INTERIM DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance in the interests of shareholders of the Company. 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 2017 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 Period Under Review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period Under Review, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 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 2017 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 has reviewed the Group's unaudited consolidated interim results for the six months ended 30 June 2017 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.

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

Hong Kong, 30 August 2017

As at the date of this announcement, the executive directors of the Company are Mr. KE Xiping, Mr. CHEN, David Yu 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 Dr. Tim SUN.