



HENGXING GOLD

Holding Company Limited

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



INTERIM REPORT 2017

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CORPORATE INFORMATION

DIRECTORS

Executive directors

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

Independent non-executive directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Ms. Wong Wai Ling (黃慧玲) (*ACIS, ACS*)

AUTHORISED REPRESENTATIVES

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

PRINCIPAL SHARE REGISTRAR

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

HONG KONG BRANCH SHARE REGISTRAR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS AND OPERATING HEAD OFFICE IN CHINA

No. 36 Yiji Road
Yining County
Xinjiang

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.hxgoldholding.com

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
2303

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISERS

As to Cayman Islands law:

Estera Trust (Cayman) Ltd.

PRINCIPAL BANK

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

CHAIRMAN STATEMENT

Dear shareholders,

On behalf of the Board of Directors of Hengxing Gold Holding Company Limited, I am pleased to present the interim report of the Group for the six months ended 30 June 2017 and express my sincere gratitude for our shareholders along the way for their continuous support and trust.

In the first half of 2017, we achieved much of what we set out to do. As at 30 June 2017, Gold Mountain Mine crushed and processed approximately 2.40 million tons of ore and produced 1,368kg of gold with gold mining revenue of RMB316 million and a net profit of RMB117 million, successfully meeting the target of both productivity and profit. The average realized gold price for the first half of 2017 is increased to RMB279.6/gram, 10% higher than RMB254/gram for the same period in 2016, while the 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).

Our commodity trading segment generated a revenue of RMB212 million, and the Company overall achieved a revenue of RMB528 million, 81% higher than RMB292 million for the corresponding period last year. The Company is also in a strong financial position with a healthy balance sheet with cash and cash equivalents of RMB164 million and total borrowings reduced to RMB216 million as at 30 June 2017. The Company's debt ratio is reduced by 16% to 34% compared with 50% as of 30 June 2016.

As for our operation, in addition to current mining operations at the Yelmand prospect and the Mayituobi prospect within Gold Mountain Mine, the Company has commenced initial stripping in the Kuangou prospect and Jingxi-Balake prospect consistent with the mining plan. The high-pressure grinding roller has been put into commercial operation since April 2017 as part of overall technical upgrade and has resulted in higher leaching recovery rate by approximately 10%. Meanwhile, the Company is developing cyanide-free solution and leaching agent which can further increase the recovery rate.

As always, safety and environment protection remains a major focus across all our activities. The Company has established internal training teams for cultivating managers into trainers and organizing training programs, with focus on making a safe workplace. We also continued the important work on improving the environment by setting up dust reduction equipments and planting more trees around the plant.

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

Yours sincerely,

KE Xiping
Chairman

30 August 2017

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

BUSINESS REVIEW

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)
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Financing the Company's CIL

Project, including:

<ul style="list-style-type: none"> Constructing and installing the carbon-in-leach production and ancillary facilities, purchases of relevant equipment 	120.1	–	–	–
<ul style="list-style-type: none"> Acquiring land use right, hiring project design and supervisory experts, implementing work safety measures and applying for relevant licenses 	30.0	–	–	–

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

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

	–	27.5	27.5	–
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BUSINESS REVIEW

	Planned amount per clarification announcement dated 28 May 2014 (HK\$ million)	Revisions per announcement of proposed changes dated 16 June 2015 (HK\$ million)	Amount utilized up to 30 June 2017 (HK\$ million)	Balance of unutilized IPO proceeds as at 30 June 2017 (HK\$ million)
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	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 20 in condensed consolidated interim financial information.

FINANCIAL REVIEW

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.

FINANCIAL REVIEW

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.

FINANCIAL REVIEW

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.

	Unit	Six months ended 30 June	
		2017	2016
Ore mined	Kt	2,342	2,053
<i>Yelmand prospect</i>	Kt	2,225	1,844
<i>Mayituobi prospect</i>	Kt	117	209
Overburden mined	Kt	13,279	1,294
<i>Yelmand prospect</i>	Kt	2,971	1,143
<i>Mayituobi prospect</i>	Kt	244	151
<i>Kuangou prospect</i>	Kt	6,475	–
<i>Jingxi-Balake prospect</i>	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.

FINANCIAL REVIEW

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 kt	Grade g/t	Contained Gold Au kg	Contained Gold 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 kt	Grade g/t	Contained Gold Au kg	Contained Gold 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance in the interests of Shareholders. The Company has adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Company has complied with the Corporate Governance Code during the six months ended 30 June 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 six months ended 30 June 2017.

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

INTERIM DIVIDEND

The Board of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

SHARE OPTION SCHEME

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

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

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

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

No share options under the Share Option Scheme were granted, exercised, lapsed or cancelled during the six months ended 30 June 2017. The Company has no outstanding options as at 1 January 2017 and 30 June 2017.

DISCLOSURE OF INTERESTS

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

As at 30 June 2017, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (with the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executives of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long Positions in the Shares

(i) Interest in the Company

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

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Mr. Ke Xiping holds the entire issued share capital of Gold Virtue and is its director, therefore is deemed to be interested in the 555,000,000 Shares held by Gold Virtue.
- (3) As at 30 June 2017, the total number of issued Shares of the Company was 925,000,000.

(ii) Interest in associated corporations of the Company

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

Notes:

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

As at 30 June 2017, so far as is known to any Director or chief executive of the Company, the persons (other than the Directors and chief executives of the Company) or corporations who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were set out as follows:

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

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) Mr. Ke Xiping holds the entire issued share capital of Gold Virtue and is its director, therefore is deemed to be interested in the 555,000,000 Shares held by Gold Virtue. Mr. Ke Xiping is the father of Mr. Ke Jiaqi.
- (3) Mr. Ke Jiaqi holds the entire issued share capital of Xi Wang Developments and therefore is deemed to be interested in the 138,750,000 Shares held by Xi Wang Developments. Mr. Ke Jiaqi is the son of Mr. Ke Xiping.
- (4) As at 30 June 2017, the total number of issued Shares of the Company was 925,000,000.

Save as mentioned above, as at 30 June 2017, the Directors and the chief executives of the Company are not aware of any other person (other than the Directors and chief executives of the Company) or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

CHANGES IN DIRECTORS' INFORMATION

There is no changes in information of Directors of the Company required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

CORPORATE GOVERNANCE AND OTHER INFORMATION

REVIEW OF THE DEED OF OPTIONS

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

EVENTS AFTER THE REPORTING PERIOD

The Group had no subsequent events after the reporting period.

REVIEW OF INTERIM RESULTS

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

The Audit Committee has reviewed the Group’s unaudited consolidated interim results for the six months ended 30 June 2017 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal audit function and financial reporting matters as well as the risk management and internal control systems.

The external auditor of the Company has reviewed the Group’s unaudited consolidated interim results for the six months ended 30 June 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.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

TO THE BOARD OF DIRECTORS OF HENGXING GOLD HOLDING COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 17 to 38, which comprises the interim condensed consolidated statement of financial position of Hengxing Gold Holding Company Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2017 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30 August 2017

*PricewaterhouseCoopers, 22/F, Prince’s Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888*

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	
	Note	2017 RMB'000	2016 RMB'000
Continuing operations			
Revenue	6	528,320	291,549
Cost of sales		(339,098)	(144,752)
Gross profit			
Other income		189,222	146,797
Other gains/(losses) — net	7	355	233
Selling and marketing expenses		1,991	(29,640)
General and administrative expenses		(168)	(171)
Write off/impairment loss of exploration and evaluation assets		(13,402)	(13,437)
		(13,970)	(23,151)
Operating profit			
Finance income	8	164,028	80,631
Finance expenses		23	594
		(5,763)	(10,253)
Finance expenses — net			
		(5,740)	(9,659)
Profit before income tax			
Income tax expense	9	158,288	70,972
		(41,056)	(7,395)
Profit for the period, all attributable to owners of the Company			
		117,232	63,577
Other comprehensive (loss)/income			
<i>Items that may be reclassified to profit or loss</i>			
— 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	11	0.13	0.07

The notes on pages 22 to 38 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>Note</i>	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	350,457	334,110
Investment property	12	8,692	8,979
Prepaid lease payments	12	15,686	15,865
Exploration and evaluation assets	12	–	13,970
Intangible assets	12	245,874	239,238
Prepayment for purchase of property, plant and equipment		6,094	14,588
Deferred income tax assets	13	16,356	20,046
Available-for-sale investment	14	–	2,163
Restricted bank balance		10	10
Total non-current assets		643,169	648,969
Current assets			
Inventories	15	124,321	97,543
Trade receivables	16	–	17,422
Other receivables and prepayments	17	38,516	46,352
Prepaid lease payments	12	357	357
Financial assets at fair value through profit or loss	18	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	19	169,474	52,242
Total equity		668,130	632,862
LIABILITIES			
Non-current liabilities			
Long-term borrowings	20	100,000	140,000
Deferred income	21	8,055	8,267
Provision for close down, restoration and environmental costs	22	16,176	11,448
Total non-current liabilities		124,231	159,715

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	<i>Note</i>	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Current liabilities			
Trade and other payables	23	79,882	52,660
Current income tax liabilities		29,001	43,902
Short-term borrowings	20	50,000	50,000
Current-portion of long-term borrowings	20	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

The notes on pages 22 to 38 form an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information on pages 17 to 38 were approved by the Board of Directors on 30 August 2017 and were signed on its behalf.

Mr. Ke Xiping
Director

Mr. Chen Yu, David
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Note	Unaudited					Total equity RMB'000
		Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Investment revaluation reserves RMB'000	Retained earnings/ (Accumulated losses) RMB'000	
Balance at 1 January 2017		7,362	540,052	31,523	1,683	52,242	632,862
Comprehensive income							
Profit for the period		-	-	-	-	117,232	117,232
Other comprehensive income							
Disposal of available-for-sale financial assets		-	-	-	(1,683)	-	(1,683)
Total comprehensive income for the six months ended 30 June 2017		-	-	-	(1,683)	117,232	115,549
Total transactions with owners, recognised directly in equity							
Dividend relating to 2016 declared in May 2017	10	-	(80,281)	-	-	-	(80,281)
		-	(80,281)	-	-	-	(80,281)
Balance at 30 June 2017		7,362	459,771	31,523	-	169,474	668,130
Balance at 1 January 2016		7,362	540,052	31,523	(16)	(150,917)	428,004
Comprehensive income							
Profit for the period		-	-	-	-	63,577	63,577
Other comprehensive income							
Fair value gains on available-for-sale financial assets		-	-	-	379	-	379
Total comprehensive income for the six months ended 30 June 2016		-	-	-	379	63,577	63,956
Balance at 30 June 2016		7,362	540,052	31,523	363	(87,340)	491,960

The notes on pages 22 to 38 form an integral part of this condensed consolidated interim financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	206,175	152,977
Income tax paid	(52,267)	–
Net cash generated from operating activities	153,908	152,977
Cash flows from investing activities		
Redemption of structured deposits	423,757	122,179
Proceeds from disposal of held-for-trading investments	9,990	–
Proceeds from disposal of available-for-sale investment	2,525	–
Interest received	23	568
Proceeds from disposal of property, plant and equipment	5	76
Purchases of property, plant and equipment	(6,329)	(3,030)
Purchases of held-for-trading investments	(7,392)	–
Purchases of intangible assets	(19,012)	(1,192)
Placement of fixed deposits	–	(46,496)
Placement of structured deposits	(423,000)	(121,740)
Net cash used in investing activities	(19,433)	(49,635)
Cash flows from financing activities		
Gold loans raised	–	72,612
Interest paid for gold loans	–	(2,717)
Interest paid for bank and other borrowings	(7,378)	(7,197)
Repayment of bank and other borrowings	(29,932)	(88,809)
Payment of dividend	(68,237)	–
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 beginning of the period	137,822	26,339
Exchange losses on cash and cash equivalents	(2,367)	–
Cash and cash equivalents at end of the period	164,383	103,570

The notes on pages 22 to 38 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

1. GENERAL INFORMATION

Hengxing Gold Holding Company Limited (the “Company”) and its subsidiaries (together, “the Group”) are engaged in mining and processing of gold, sales of processed gold products, palm oil trading and iron ore trading in the People’s Republic of China (the “PRC”). The Group has operation mainly in Xinjiang Uygur Autonomous region, PRC.

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

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

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated, which is also the functional currency of the Company. This condensed consolidated interim financial information has not been audited and has been approved for issue by Board of Directors on 30 August 2017.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 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”).

3. 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

3. ACCOUNTING POLICIES (CONTINUED)

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.

4. ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, with the exception of changes in estimates that are required in determining the provision for income taxes and disclosure of unusual items (Note 9).

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Liquidity risk

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

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

The following tables below analyse the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at 30 June 2017 and 31 December 2016 respectively to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Unaudited				
At 30 June 2017				
Bank borrowings	127,655	83,123	20,204	–
Trade and other payables (excluding staff salaries payable and other tax payable)	74,415	–	–	–
	202,070	83,123	20,204	–
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Audited				
At 31 December 2016				
Bank borrowings	120,612	85,084	61,261	–
Trade and other payables (excluding staff salaries payable and other tax payable)	45,347	–	–	–
	165,959	85,084	61,261	–

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation

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

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

The following table presents the Group's assets that are measured at fair value at 30 June 2017:

	Unaudited			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Equity investments (<i>Note 18</i>)	42,169	—	—	42,169
— Future contracts (<i>Note 18</i>)	4,631	—	—	4,631

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016:

	Audited			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
— Equity investments (<i>Note 18</i>)	45,477	—	—	45,477
— Future contracts (<i>Note 18</i>)	1,431	—	—	1,431
Available-for-sale financial assets				
— Equity investments (<i>Note 14</i>)	2,163	—	—	2,163

There were no transfers of financial assets during the period.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

6. 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 RMB'000	International trading segment RMB'000	Total RMB'000	Gold mining segment RMB'000	International trading segment RMB'000	Total 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

6. SEGMENT INFORMATION (CONTINUED)

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

7. 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)

8. OPERATING PROFIT

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

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

9. 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	2016
	RMB'000	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%).

10. 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).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

11. EARNINGS PER SHARE

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

	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.

12. CAPITAL EXPENDITURE

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

	Unaudited					
	Property, plant and equipment RMB'000	Investment properties RMB'000	Prepaid lease payments RMB'000	Exploration and evaluation assets RMB'000	Intangible assets RMB'000	Total RMB'000
Net book amount as at 1 January 2017	334,110	8,979	16,222	13,970	239,238	612,519
Additions	32,261	-	-	-	24,549	56,810
Disposals	(306)	-	-	-	-	(306)
Write off as expense	-	-	-	(13,970)	-	(13,970)
Depreciation and amortisation charge	(15,608)	(287)	(179)	-	(17,913)	(33,987)
Net book amount as at 30 June 2017	350,457	8,692	16,043	-	245,874	621,066
Net book amount as at 1 January 2016	337,454	-	16,579	75,145	241,953	671,131
Additions	2,161	-	-	-	1,320	3,481
Disposals	(75)	-	-	-	-	(75)
Depreciation and amortisation charge	(14,178)	-	(179)	-	(12,350)	(26,707)
Impairment loss	-	-	-	(23,151)	-	(23,151)
Net book amount as at 30 June 2016	325,362	-	16,400	51,994	230,923	624,679

The Group's investment properties are stated at historical cost at the end of the reporting period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

13. DEFERRED INCOME TAX ASSETS

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

14. AVAILABLE-FOR-SALE INVESTMENT

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Listed investment: Equity securities listed outside Hong Kong, at market prices	–	2,163

15. INVENTORIES

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

16. 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.

17. 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 (<i>Note (a)</i>)	17,355	3,781
Deposits held by an interactive broker (<i>Note (b)</i>)	677	26
Deposits held by China International Capital Corporation Limited ("CICC") (<i>Note (c)</i>)	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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR 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 RMB'000	2016 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 30 June 2017 RMB'000	Audited 31 December 2016 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

19. 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.

20. 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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

20. BORROWINGS (CONTINUED)

- (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

21. DEFERRED INCOME

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

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
At 1 January	8,267	8,691
Released to profit or loss	(212)	(212)
At 30 June	8,055	8,479

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

22. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

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

Movements of provision during both periods are as follows:

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
At 1 January	11,448	6,941
Additions	5,380	1,479
Payment of close down, restoration and environmental costs	(652)	(397)
At 30 June	16,176	8,023

23. TRADE AND OTHER PAYABLES

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

24. 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

25. 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	RMB 50,000,000	27/10/2016	27/10/2017

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2017

25. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(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 RMB'000	2016 RMB'000
Salaries and other short-term benefits	2,261	2,454
Retirement benefit scheme contributions	30	33
	2,291	2,487

26. CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no significant contingent liability (31 December 2016: Nil).

27. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to 30 June 2017 and up to the signing date of this financial information, the Group had no material subsequent events which have not been reflected in the interim financial statements.

DEFINITIONS

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

DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Model Code”	model code for securities transactions by directors of listed issuers contained in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Company established in compliance with Rule A.5.1 and Rule A.5.2 of the Listing Rules
“Period Under Review”	the six months ended 30 June 2017
“PRC” or “China”	The People’s Republic of China
“Prospectus”	the prospectus of the Company dated 19 May 2014
“Remuneration Committee”	the remuneration committee of the Company established in compliance with Rule 3.25 and Rule 3.26 of the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company under the resolutions of the Shareholders dated 5 May 2014
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianshan Gold HK”	Tianshan Gold Securities (Hong Kong) Limited, a limited liability company incorporated in Hong Kong on 16 April 2008 and an indirect wholly-owned subsidiary of the Company
“Xiamen Hengxing”	Xiamen Hengxing Group Co., Ltd. (廈門恒興集團有限公司), a limited liability company established in China on 14 September 1994, which is owned by Mr. Ke Xiping as to 99.34% and by Ms. Liu Haiying, Mr. Ke’s wife, as to 0.66%, and except where the context otherwise requires, includes all of its subsidiaries
“Xi Wang Developments”	Xi Wang Developments Limited (熙望發展有限公司), a limited liability company incorporated in the BVI on 11 May 2012 and a Controlling Shareholders, which is wholly-owned by Mr. Ke Jiaqi, Mr. Ke Xiping’s son
“%”	per cent