



HENGXING GOLD
Holding Company Limited
(incorporated in the Cayman Islands with limited liability)
Stock Code : 2303

2018 INTERIM REPORT



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CORPORATE INFORMATION

DIRECTORS

Executive directors

Mr. Ke Xiping (柯希平) (*Chairman*)
Ms. Yang Yifang (Lydia Yang, 楊宜方, *President*)
Mr. Chen, David Yu (陳宇)
Mr. Ke Jiaqi (柯家琪)

Non-executive director

Mr. Albert Fook Lau Ho (何福留)

Independent non-executive directors

Ms. Wong, Yan Ki Angel (黃欣琪)
Dr. Pan Guocheng (潘國成)
Dr. Tim Sun (孫鐵民)

AUDIT COMMITTEE

Ms. Wong, Yan Ki Angel (黃欣琪) (*Chairlady*)
Dr. Pan Guocheng (潘國成)
Dr. Tim Sun (孫鐵民)

REMUNERATION COMMITTEE

Dr. Pan Guocheng (潘國成) (*Chairman*)
Mr. Ke Xiping (柯希平)
Ms. Wong, Yan Ki Angel (黃欣琪)

NOMINATION COMMITTEE

Dr. Tim Sun (孫鐵民) (*Chairman*)
Ms. Yang Yifang (Lydia Yang, 楊宜方)
Ms. Wong, Yan Ki Angel (黃欣琪)

COMPANY SECRETARY

Ms. Wong Wai Ling (黃慧玲) (*ACIS, ACS*)

AUTHORISED REPRESENTATIVES

Ms. Yang Yifang (Lydia Yang, 楊宜方)
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

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Yining County
Xinjiang

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3203, Central Plaza
18 Harbor Road
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 ADVISER

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 ("**Hengxing Gold**", "**the Company**"), I am pleased to present the interim report of the Company for the six months ended on 30 June 2018 and express my gratitude for our shareholders along the way for your continuous support and trust.

The first half of year 2018 has been quite bumpy. It started with gold price rising in the first quarter to above \$1,350 and fell back to the level of \$1,250 just before end of June, the downward trend continued into the second half of the year. We have also experienced a pullback of stock market caused by trade tension and turmoil in global market, resulting our average gold sales price decreased 3% over the same period in 2017. Having stated that, we achieved half year gold production of 48,432 oz, rose 14% over the same period last year and with a competitive AISC at RMB149.2/gram (equivalent to US\$701/oz with exchange rate of RMB6.6166/US\$ as at 30th of June 2018), the revenue from gold sales is RMB383 million and net profit after tax is RMB121 million for the six months ended 30 June 2018, increased by 21% and 3% respectively compared to those of the same time last year. The Company managed to stay in a stable financial position with a healthy balance sheet with cash and cash equivalents of RMB219 million, the total borrowings is RMB99 million with a debt ratio of 34% as at 30 June 2018.

Despite the turmoil in market in 2018, we are focusing on reaching our annual target and performing as a responsible mining enterprise. We continue the work related to social welfare programs as well as the ecological balance and biodiversity in the region. Our vision is to seek balance, stability and sustainability in our operations.

I would also like to take this opportunity to thank Mr. David Chen for his work in the past years as president of the Company and express a warm welcome to Ms. Lydia Yang to the role of new president of Hengxing Gold. Ms. Yang has extensive experience and impressive record in global mining industry, especially in the area of business development and corporate strategy, I believe her expertise could help the Company to develop a sustainable strategy and increase value for the shareholders.

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 stakeholders in our local community for their support and cooperations. We look forward to witnessing the better results of the full year with all of you.

Yours sincerely,

KE Xiping

Chairman

27 August 2018



BUSINESS REVIEW

STABLE FINANCIAL RESULTS

For the first half year of 2018, the Company delivered sound and stable financial results. Affected by the global market gold price, higher dollars and depreciation of RMB, the average realized gold price decreased by 3% to RMB270.52/gram for the same period of 2017. Nevertheless revenue from the gold mining segment for the six months ended 30 June 2018 increased 21% over the prior year's compared period to RMB383 million. The net profit after tax has also increased 3% over the prior year's same period to RMB121 million. The Company has a healthy balance sheet with RMB219 million cash and cash equivalents, while bank borrowings were reduced by RMB49 million since 31 December 2017.

The international trading segment, it only contributed a very insignificant portion of gross profit to the Company, which accounted for less than 1% in both year 2016 and 2017. Meantime the Company was exposed to international trading price risk because of the volatility of market, which is influenced by global and regional supply and demand conditions. It was under the above circumstances that no subsequent transaction was done in the first half of 2018, leading to the nil revenue from the international trading segment.

SOUND OPERATIONAL OUTCOME

The Group's Gold Mountain Mine outperformed, thanks to the steadily increased gold production and continuous technological innovation. For the Period Under Review, it produced approximately 48,432 ounces or 1,506 kg of gold, rose approximately 14% compared to the same period in the prior year. Meanwhile the Company took a proactive role maintaining the all-in sustaining cost at a competitive level of RMB149.2/gram (equivalent to US\$701/oz with exchange rate of RMB6.6166/US\$ as at 30 June 2018).

As at 30 June 2018, Gold Mountain Mine has four operating pits, namely the Yelmand pit, the Mayituobi pit, the Jingxi-Balake pit and the Kuangou pit, which was newly commenced mining activities in April 2018. Approximately 3.03 million tons of ore were crushed and processed for the six months ended 30 June 2018, 17% increase over the 2.40 million tons ore processed during the same period last year. The average head grade is 0.77 g/t, benefited from the application of the high-pressure grinding roller, the overall recovery rate is 66%, 15% higher over the same period of 2017.

EMERGING TECHNOLOGICAL INNOVATIONS

Gold Mountain Mine has applied for the Certification of New Hi-tech Enterprises in July 2018. After a series of trial tests, the Company has used self-developed leaching agent to further increase the recovery rate since March 2018. In order to improve the percolation in the leaching pads, cement agglomeration method has been tested and put into practice since the first half of 2018.

COMMITMENT TO SUSTAINABILITY

The company takes an intransigent approach when it comes to safety and environmental protection. In 2017, Gold Mountain Mine passed the supervision and examination on Safety and environmental protection led by the state government of China. Consistent improvement in safety control and minimization the impact on environment is our continuous mission. We strive to reach the highest standard of safety and environment protection, as well as the bonded cooperation with the local herdsman and communities.

The Company takes it seriously in regards of ecological restoration and a "green mine" operation. Around 1,000 pine trees and 460 green poplars were planted in mining area in the first half of 2018, leading a newly increased green area approximately 135,000 square meters. The Company also participates in the daily life of local herdsmen community and seeks balance of the mining operation and herdsmen living environment. We have supported solving the purification problem of drinking water for around 500 local herdsmen, building roads for herders and providing office equipment such as computers and printers to the local committee activity center. The Company's medical office also regularly conducts free clinic for local herdsmen and has solved the medical difficulties for more than 1,000 herdsmen.



BUSINESS REVIEW

DEVELOPMENT STRATEGY

The principal business objectives of the Company are to explore, develop and operate gold projects. In early 2018, the Company decided that it does not intend to involve in any international trading business in the near future and it is foreseen that no revenue will be generated from the international trading segment.

We also consider current market condition providing an opportunity for growth. We would seek investment opportunities for obtaining suitable quality assets to strengthen the Company's asset portfolio and resource base by acquisitions and the Company will develop through the following strategies:

OPERATION STABILITY

The Company plans to strengthen mine plan and production schedule in the Gold Mountain Mine in order to maintain the stability of the output. The management team of the mine continues to be focused on improving the efficiency of the operation including enhancing ore processing procedures and increasing recovery rate. We anticipate the improvement would optimize the economical outcome.

SEEK ORGANIC GROWTH

The Company will continue the exploration activities in the mining area and surrounding tenements of the Gold Mountain Mine. New exploration plan is to focus on drilling in the depth under the existing mining area.

SEEK SUSTAINABLE GROWTH BY ACQUIRING QUALITY GOLD ASSETS

The Company is determined to be focused on gold exploration and mining operation activities. In the past years the company has successfully and significantly improved the operational results of Gold Mountain Mine, it helped to secure a healthy ground for the Company for further growth. With strong financial support, we consider current and near-term market condition providing an opportunity for growth by acquisitions. The Company would make continual efforts to pursue high-quality gold assets from both domestic and overseas. Our primary target is pursuing gold assets in advanced stage to strengthen the Company's resource and reserve basis. In the long term, the Company plans to grow to a mid-tier gold producer with a global portfolio of long-life assets.

FURTHER STRENGTHENING WORK SAFETY AND ENVIRONMENTAL PROTECTION

The company is committed to participate in the Green Mining initiative led by the state government. We vigorously promote cautious behavior throughout our workforce with safety control and acknowledgement of the precious ecological environment surround the mine area. It is our ultimate goal to eliminate workplace injuries and illnesses, in order to do so, relevant policies focused on behaviors, leadership and risk management are being implemented. In the past years Hengxing Gold has developed several green projects cooperated with local communities for growing trees, vegetables, flowers and protection of biodiversity. There is also an employee program to select and train young people from local minority villages to work in the Gold Mountain Mine.

This year we continue all these projects together with the process for obtaining the qualification of Green Mining award. We wish soon to be a model of a modern and recognized responsible mining operation.



BUSINESS REVIEW

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 2018, the Company has used approximately HK\$243.6 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 2018 (HK\$ million) | Balance of unutilized IPO proceeds as at 30 June 2018 (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 Xiping | 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 | 0.6 | 77.0 |
| Financing further exploration works at the Gold Mountain Mine and its surrounding areas where the Company holds exploration licenses | 15.1 | 15.1 | 5.3 | 9.8 |
| Working capital use and other general corporate purposes | 11.3 | – | 11.3 | – |
| Total | 330.4 | 180.3 | 243.6 | 86.8 |



FINANCIAL REVIEW

During the Period Under Review, the Group recorded revenue from gold mining segment of RMB383,321,000 for the six months ended 30 June 2018, while the revenue recorded for the corresponding period of 2017 was RMB315,970,000 representing approximately an increase of 21.32%.

The Group started to record a consolidated profit of the Group of RMB120,654,000 for the six months ended 30 June 2018, while there is a profit of RMB117,232,000 in the corresponding period of 2017.

Revenue

During the Period Under Review, the Group's revenue from gold mining segment was approximately RMB383,321,000, compared with RMB315,970,000 in the corresponding period of 2017, because the gold production and sales volume increased.

Cost of sales

During the Period Under Review, the Group's cost of sales from gold mining segment amounted to approximately RMB204,251,000 compared with RMB127,213,000 in the corresponding period of 2017, which primarily included mining costs, processing costs, labor costs related to mining and processing activities as well as depreciation and amortization costs including depreciation costs of property, plant and equipment and amortization costs of intangible assets. The increase in cost of sales was due to the growth of production volume and the increase of stripping cost and raw materials.

Gross profit

During the Period Under Review, the Group's gross profit amounted to approximately RMB179,070,000, compared with RMB189,222,000 in the corresponding period of 2017, and the gross profit ratio of Gold mining segment was 47%, compared with 60% in the corresponding period of 2017, resulted from increase of stripping cost and raw materials.

EBITDA

During the Period Under Review, the Group's earnings before interest, tax, depreciation and amortization ("EBITDA") was RMB203,751,000 compared with RMB198,196,000 in the corresponding period of 2017.

Selling and distribution expenses

During the Period Under Review, the Group's selling and distribution expenses amounted to approximately RMB197,000 compared with RMB168,000 in the corresponding period of 2017.



FINANCIAL REVIEW

Administration Expenses

During the Period Under Review, the Group's administration expense was approximately RMB16,816,000 (six months ended 30 June 2017: RMB13,402,000).

Finance Costs

During the Period Under Review, the Group's finance costs was RMB4,513,000 (six months ended 30 June 2017: RMB5,763,000), representing a decrease by 22%, compared with the corresponding period of 2017. 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 21 in interim condensed consolidated financial statements.

Profit before taxation

As a result of the foregoing, the profit before taxation was RMB162,127,000 for the six months ended 30 June 2018, compared with a profit of RMB158,288,000 in the corresponding period of 2017.

Total comprehensive income

As a result of the foregoing, the total comprehensive income was RMB120,654,000 for the six months ended 30 June 2018, compared with the total comprehensive income of RMB115,549,000 in the corresponding period of 2017.

Liquidity and Financial Resources

The Group was in possession of reasonable operation cash flow and working capital due to the substantial growth of production. As at 30 June 2018, the Group's bank balances and cash were RMB219,071,000 (as of 31 December 2017, it was RMB161,697,000). Net assets were RMB791,357,000 (as of 31 December 2017, it was approximately RMB791,201,000).

The Group recorded net current assets were RMB169,598,000 as of 30 June 2018, compared with RMB168,090,000 as of 31 December 2017.

Current ratio and gearing ratio

As of 30 June 2018, the Group's current ratio (current assets divided by current liabilities) was 1.53 (31 December 2017: 1.82).

As of 30 June 2018, the Group's gearing ratio (total borrowings divided by total equity) was 0.13 (31 December 2017: 0.19).



FINANCIAL REVIEW

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 2018 and 30 June 2017.

| | Unaudited | |
|---|--------------------------|-----------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Net cash inflow from operating activities | 95,104 | 153,908 |
| Net cash inflow/(outflow) from investing activities | 14,138 | (19,433) |
| Net cash outflow from financing activities | (52,336) | (105,547) |
| Net increase in cash and cash equivalents | 56,906 | 28,928 |
| Cash and cash equivalents at 1 January | 161,697 | 137,822 |
| Effects of exchange rate changes on cash and cash equivalents | 468 | (2,367) |
| Cash and cash equivalents at 30 June | 219,071 | 164,383 |

For the Period Under Review, the net cash inflow from operating activities was RMB95,104,000, which was mainly attributable to (a) profit plus non cash cost as depreciation and amortisation and financing cost minus investing gain, amounted to RMB206,849,000, (b) increase in inventory of RMB5,240,000, (c) increase in trade receivables, other receivables and prepayments of RMB69,555,000, (d) decrease in trade payables, accruals and other payables of RMB3,606,000, (e) Enterprise income tax paid amounted to RMB31,882,000 and (f) decrease in other activities of RMB1,462,000.

For the Period Under Review, the net cash inflow from investing activities was RMB14,138,000, which was mainly attributable to (a) purchase of property, plant and equipment of RMB7,872,000, (b) increase of intangible assets of RMB1,935,000, (c) Placement of structured deposits of RMB312,000,000, (d) partially offset by redemption of structured deposits of RMB312,884,000 and interests received of RMB291,000, and (e) transaction of stocks and futures with a cash inflow of 22,770,000.

For the Period Under Review, the net cash outflow from financing activities was RMB52,336,000, which was primarily attributable to (a) repayment of bank and other borrowings of RMB48,853,000, (b) interest paid for bank and other borrowings of RMB3,483,000.

Capital Structure

As of 30 June 2018, the total number of issued ordinary shares of the Company was 925,000,000 shares (as of 31 December 2017: 925,000,000 shares), each at HK\$0.01.



FINANCIAL REVIEW

Indebtedness and charge on assets

As at 30 June 2018, the Group had the bank and other borrowings of approximately RMB99,438,000 which were secured by the Group's intangible assets of mining rights with a net book value of approximately RMB109,110,000 (31 December 2017: approximately RMB113,517,000) and property, plant and equipment with a net book value of approximately RMB120,944,000 (31 December 2017: approximately RMB125,830,000).

Save as stated above, as of 30 June 2018, 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 2018, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2017: nil). The Group is not currently involved in any material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings, involving us. If the Group is involved in such material legal proceedings, the Group would record any loss or contingency when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Possible Risks

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

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

Employees

As at 30 June 2018, the Group employed approximately 378 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.



FINANCIAL REVIEW

THE EXPLORATION, DEVELOPMENT AND MINING PRODUCTION EXPENDITURES

Mining Production

Gold Mountain Mine includes five pits, namely the Yelmand pit, the Mayituobi pit, the Jinxi-Balake pit, the Kuangou pit and the Lion pit. For the Period Under Review, the total amount of ore mined and processed was approximately 3.03 million tones. As of 30 June 2018, Gold Mountain Mine has conducted mining activities in the Yelmand pit, the Mayituobi pit, the Kuangou pit and the Jingxi-Balake pit.

| | Unit | Six months ended 30 June | |
|--------------------------|----------------|--------------------------|-----------|
| | | 2018 | 2017 |
| Ore mined | Kt | 2,747 | 2,342 |
| <i>Yelmand pit</i> | Kt | 1,748 | 2,225 |
| <i>Mayituobi pit</i> | Kt | 309 | 117 |
| <i>Kuangou pit</i> | Kt | 136 | – |
| <i>Jingxi-Balake pit</i> | Kt | 554 | – |
| Overburden mined | m ³ | 5,755,080 | 4,895,649 |
| <i>Yelmand pit</i> | m ³ | 892,728 | 1,080,687 |
| <i>Mayituobi pit</i> | m ³ | 117,520 | 100,497 |
| <i>Kuangou pit</i> | m ³ | 1,341,728 | 2,422,385 |
| <i>Jingxi-Balake pit</i> | m ³ | 3,403,104 | 1,292,081 |
| Strip ratio | : | 5.35 | 5.67 |
| Feed-in grade of ore | g/t | 0.77 | 0.96 |
| Ore processed | Kt | 3,032 | 2,402 |
| Recovery rate | % | 66.7 | 58.2 |
| Gold produced | Oz | 48,432 | 42,549 |

During the Period Under Review, the aggregate expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB78.0 million as compared to approximately RMB62.0 million for the six months ended 30 June 2017.



FINANCIAL REVIEW

Exploration

For the Period Under Review, the expenditure directly relating to exploration was RMB1,369,000, as compared to approximately RMB853,300 for the six months ended 30 June 2017.

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as of 30 June 2018: (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 | 17,935 | 0.75 | 13,362 | 430 |
| Indicated | 68,989 | 0.73 | 50,232 | 1,615 |
| Inferred | 27,688 | 0.68 | 18,912 | 608 |
| Total | 114,612 | 0.72 | 82,506 | 2,653 |

| JORC Mineral Reserves Category | Tonnage kt | Grade g/t | Contained Gold Au kg | Contained Gold Au koz |
|--------------------------------|---------------|--------------|----------------------------|-----------------------------|
| Proved | 8,140 | 0.71 | 5,797 | 186 |
| Probable | 62,623 | 0.72 | 45,099 | 1,450 |
| Total | 70,763 | 0.72 | 50,896 | 1,636 |

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

Mine Development

For the first half of 2018, the Company continued its construction and development activities in Gold Mountain Mine, such as the construction of the road in the Kuangou pit and lime warehouse.

For the Period Under Review, the aggregate expenditure on the mine development and construction amounted to approximately RMB7.9 million, as compared to approximately RMB6.3 million for the six months ended 30 June 2017.

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 best 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 2018 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 2018.

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

During the six months ended 30 June 2018, 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 2018 (six months ended 30 June 2017: 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.

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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2018. The Company has no outstanding options as at 1 January 2018 and 30 June 2018.

DISCLOSURE OF INTERESTS

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

As at 30 June 2018, 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 2) |
|------------------------|------------------------------------|---|--|
| Mr. Ke Xiping (Note 3) | Interest of controlled corporation | 555,000,000 (L) | 60.0% |
| Mr. Ke Jiaqi (Note 4) | Interest of controlled corporation | 138,750,000 (L) | 15.0% |

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) As at 30 June 2018, the total number of issued Shares of the Company was 925,000,000.
- (3) 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.
- (4) Mr. Ke Jiaqi holds the entire issued share capital of Xi Wang Developments and is its director, therefore is deemed to be interested in the 138,750,000 Shares held by Xi Wang Developments.

(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% |
| Mr. Ke Jiaqi | Xi Wang Developments (Note 2) | 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.
- (2) Xi Wang Developments holds 15% of the Company's Shares, therefore Xi Wang Developments 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 2018, 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 2) |
|--|-----------------------------|---|--|
| Gold Virtue (Note 3) | Beneficial owner | 555,000,000 (L) | 60.0% |
| Xi Wang Developments (Note 4) | Beneficial owner | 138,750,000 (L) | 15.0% |
| Central China Dragon Global Opportunity Fund SP1 | Beneficial owner | 55,848,000 (L) | 6.04% |

Notes:

- (1) The letter "L" denotes the person's long position in such shares.
- (2) As at 30 June 2018, the total number of issued Shares of the Company was 925,000,000.
- (3) 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.
- (4) 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.

Save as mentioned above, as at 30 June 2018, the Directors and the chief executives of the Company are not aware of any other person (other than the Directors and chief executives of the Company) or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.



CORPORATE GOVERNANCE AND OTHER INFORMATION

CHANGES IN DIRECTORS' INFORMATION

Resignation of Director

Mr. Xiao Wei has resigned as an independent non-executive Director, Chairman of the Remuneration Committee and a member of Audit Committee with effect from 1 June 2018.

Re-Designation of Directors

1. Mr. Albert Fook Lau Ho has been re-designated from executive Director to non-executive Director of the Company with effect from 1 June 2018; and
2. Mr. Chen David Yu has resigned as the President of the Company and a member of the Nomination Committee with effect from 1 June 2018 but remains as an executive Director of the Company.

Appointment of Directors and the president with effect from 1 June 2018

1. Ms. Yang Yifang (Lydia Yang) ("**Ms. Yang**") is appointed as an executive Director, president of the Company and a member of the Nomination Committee;
2. Mr. Ke Jiaqi is appointed as an executive Director of the Company; and
3. Dr. Pan Guocheng is appointed as an independent non-executive Director of the Company, Chairman of the Remuneration Committee and a member of Audit Committee.

Update on Biographical Information of Directors

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

- Ms. Wong Yan Ki Angel has resigned as an independent non-executive director of Miko International Holdings Limited (Stock Code: 1247) and China Public Procurement Limited (Stock Code: 1094) with effect from 18 July 2018 and 29 July 2018 respectively.

Save as disclosed above, for the six months ended 30 June 2018, 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.

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 intention 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.



CORPORATE GOVERNANCE AND OTHER INFORMATION

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, Dr. Pan Guocheng 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 2018 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 2018 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 19 to 46, which comprises the interim condensed consolidated balance sheet of Hengxing Gold Holding Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the interim condensed consolidated statements of profit or loss and other comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of 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 of the Group is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 August 2018

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 2018

| | Note | Unaudited | |
|---|------|--------------------------|-----------|
| | | Six months ended 30 June | |
| | | 2018 | 2017 |
| | | RMB'000 | RMB'000 |
| Revenue | 5 | 383,321 | 528,320 |
| Cost of sales | | (204,251) | (339,098) |
| Gross profit | | 179,070 | 189,222 |
| Other income | | 747 | 355 |
| Other gains — net | 6 | 3,555 | 1,991 |
| Selling and marketing expenses | | (197) | (168) |
| General and administrative expenses | | (16,816) | (13,402) |
| Write off of exploration and evaluation assets | | — | (13,970) |
| Operating profit | 7 | 166,359 | 164,028 |
| Finance income | | 281 | 23 |
| Finance costs | | (4,513) | (5,763) |
| Finance costs — net | | (4,232) | (5,740) |
| Profit before income tax | | 162,127 | 158,288 |
| Income tax expense | 8 | (41,473) | (41,056) |
| Profit for the period, all attributable to owners of the Company | | 120,654 | 117,232 |
| Other comprehensive loss | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| — Changes in the fair value of available-for-sale financial assets | | — | (1,683) |
| Total comprehensive income for the period, all attributable to owners of the Company | | 120,654 | 115,549 |
| Earnings per share attributable to owners of the Company for the period | | | |
| (Express in RMB per share) | | | |
| — Basic and diluted | 10 | 0.13 | 0.13 |

The above interim condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.



INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

| | Note | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|---|------|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Prepaid lease payments | 11 | 15,329 | 15,508 |
| Property, plant and equipment | 12 | 365,201 | 384,622 |
| Investment property | 13 | – | 8,405 |
| Intangible assets | 14 | 280,721 | 289,187 |
| Prepayment for purchase of property, plant and equipment | | 3,092 | 4,265 |
| Deferred tax assets | 15 | 11,296 | 9,565 |
| Restricted bank balance | | – | 10 |
| Total non-current assets | | 675,639 | 711,562 |
| Current assets | | | |
| Inventories | 16 | 112,806 | 107,566 |
| Trade receivables | 17 | 89,907 | 24,687 |
| Other receivables and prepayments | 18 | 39,426 | 23,726 |
| Prepaid lease payments | 11 | 357 | 357 |
| Financial assets at fair value through profit or loss | 19 | 29,264 | 26,534 |
| Available-for-sale financial assets | | – | 29,000 |
| Cash and cash equivalents | | 219,071 | 161,697 |
| Total current assets | | 490,831 | 373,567 |
| Total assets | | 1,166,470 | 1,085,129 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 7,362 | 7,362 |
| Reserves | | 370,796 | 491,294 |
| Retained earnings | 20 | 413,199 | 292,545 |
| Total equity | | 791,357 | 791,201 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Long-term borrowings | 21 | 20,000 | 60,000 |
| Deferred income | 22 | 7,631 | 7,843 |
| Provision for close down, restoration and environmental costs | 23 | 26,249 | 20,608 |
| Total non-current liabilities | | 53,880 | 88,451 |



INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2018

| | <i>Note</i> | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|---|-------------|---|---|
| Current liabilities | | | |
| Trade and other payables | 24 | 193,289 | 80,002 |
| Current income tax liabilities | | 48,506 | 37,184 |
| Current-portion of long-term borrowings | 21 | 79,438 | 88,291 |
| Total current liabilities | | 321,233 | 205,477 |
| Total liabilities | | 375,113 | 293,928 |
| Total equity and liabilities | | 1,166,470 | 1,085,129 |

The above interim condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

The condensed consolidated interim financial information on pages 19 to 46 were approved by the Board of Directors on 27 August 2018 and were signed on its behalf.

Mr. Ke Xiping
Director

Miss. Yang Yifang
Director



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

| | 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 RMB'000 | |
| Balance at 1 January 2018 | | 7,362 | 459,771 | 31,523 | - | 292,545 | 791,201 |
| Comprehensive income | | | | | | | |
| Profit for the period | | - | - | - | - | 120,654 | 120,654 |
| Transactions with owners in their capacity as owners: | | | | | | | |
| Dividends provided for or paid | 9 | - | (120,498) | - | - | - | (120,498) |
| Balance at 30 June 2018 | | 7,362 | 339,273 | 31,523 | - | 413,199 | 791,357 |
| 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 loss | | | | | | | |
| 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 |
| Transactions with owners in their capacity as owners: | | | | | | | |
| Dividends provided for or paid | 9 | - | (80,281) | - | - | - | (80,281) |
| Balance at 30 June 2017 | | 7,362 | 459,771 | 31,523 | - | 169,474 | 668,130 |

The above interim condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

| | Unaudited | |
|---|---------------------------------|-----------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Cash flows from operating activities | | |
| Cash generated from operations | 126,986 | 206,175 |
| Income tax paid | (31,882) | (52,267) |
| Net cash inflow from operating activities | 95,104 | 153,908 |
| Cash flows from investing activities | | |
| Redemption of structured deposits | 312,884 | 423,757 |
| Proceeds from disposal of held-for-trading investments | 33,152 | 9,990 |
| Interest received | 291 | 23 |
| Proceeds from disposal of financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) | – | 2,525 |
| Proceeds from disposal of property, plant and equipment | – | 5 |
| Payments for intangible assets | (1,935) | (19,012) |
| Payments for property, plant and equipment | (7,872) | (6,329) |
| Payments for held-for-trading investments | (10,382) | (7,392) |
| Placement of structured deposits | (312,000) | (423,000) |
| Net cash inflow/(outflow) from investing activities | 14,138 | (19,433) |
| Cash flows from financing activities | | |
| Interest paid for bank and other borrowings | (3,483) | (7,378) |
| Repayment of bank and other borrowings | (48,853) | (29,932) |
| Dividends paid to company's shareholders | – | (68,237) |
| Net cash (outflow) from financing activities | (52,336) | (105,547) |
| Net increase in cash and cash equivalents | 56,906 | 28,928 |
| Cash and cash equivalents at beginning of the period | 161,697 | 137,822 |
| Effects of exchange rate changes on cash and cash equivalents | 468 | (2,367) |
| Cash and cash equivalents at end of the period | 219,071 | 164,383 |

The above interim condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

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 in the People’s Republic of China (the “PRC”). The Group has operation mainly in Xinjiang Uygur Autonomous region, the 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, the 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 27 August 2018.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 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 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

2.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. The Group has changed its accounting policies as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of the new standards is disclosed in Note 3 below. The other standards did not have material impact on the Group’s accounting policies and did not require retrospective adjustments.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

2. BASIS OF PREPARATION (CONTINUED)

2.2 Impact of standards issued but not yet applied by the Group

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

| Standards | Effective for annual periods beginning on or after |
|---|---|
| HKFRS 16 Leases | 1 January 2019 |
| HK (IFRIC) 23 Uncertainty over income tax treatments | 1 January 2019 |
| Amendments to HKFRS 10 and HKAS 28 | |
| Sale or contribution of assets between an investor and its associate or joint venture | To be determined |
| HKFRS 17 Insurance contracts | 1 January 2021 |

The Group has already commence an assessment of the impact of these new or revised standards which are relevant to the Group's operation. Except as described below, the Group considers that the application of amendments to HKFRS, amendments to HKASs and the new interpretations is unlikely to have a material impact on the Group's financial position and performance as well as disclosure in the future.

HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB822,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

3.1 Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in Note 3.2 below, HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustment is explained in more detail by standard below.

| Balance sheet | 31 December 2017 | HKFRS 9 | 1 January 2018 |
|---|----------------------------|----------|----------------|
| | As originally presented | | Restated |
| | RMB'000 | RMB'000 | RMB'000 |
| Current assets | | | |
| Financial assets at fair value through profit or loss | 26,534 | 29,000 | 55,534 |
| Available-for-sale financial assets | 29,000 | (29,000) | – |

There is no impact on the statement of profit or loss and other comprehensive income by adopting HKFRS 9.

3.2 HKFRS 9 Financial Instruments — Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument. As a result, the adjustments arising from the new classification rules are not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet as at 1 January 2018.

The adoption of HKFRS 9 has no impact on the Group's retained earnings as at 1 January 2018 and 1 January 2017.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.2 HKFRS 9 Financial Instruments — Impact of adoption (continued)

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effect resulting from this reclassification is as follows:

| Financial assets — 1 January 2018 | Notes | Financial assets at fair value through other comprehensive income (FVOCI) (Available-for-sale 2017) | |
|--|-------|---|----------|
| | | FVPL RMB'000 | RMB'000 |
| Closing balance 31 December 2017 — HKAS 39 | | 26,534 | 29,000 |
| Reclassify investments from available-for-sale to FVPL | (a) | 29,000 | (29,000) |
| Opening balance 1 January 2018 — HKFRS 9 | | 55,534 | — |

(a) Reclassification from available-for-sale to FVPL

Certain investments in bank financial products with non-guaranteed floating profit were reclassified from available-for-sale to financial assets at FVPL (RMB29,000,000 as at 1 January 2018). They do not meet the HKFRS 9 criteria for classification at amortised cost or at fair value through other comprehensive income, because their cash flows do not represent solely payments of principal and interest.

None of related fair value gains was transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018 since there was no other comprehensive income in the fair value of available-for-sale financial assets in 2017.

(ii) Impairment of financial assets

The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables. The identified impairment loss was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.3 HKFRS 9 Financial Instruments — Accounting policies applied from 1 January 2018

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.3 HKFRS 9 Financial Instruments — Accounting policies applied from 1 January 2018 (continued)

Measurement (continued)

Debt instruments (continued)

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

3.4 HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. There are no adjustments to the amounts recognised in the financial statements.

3.5 HKFRS 15 Revenue from Contracts with Customers – Accounting policies

(i) Sale of gold products

The revenue from sale of gold products is recognised when control of the products has transferred, being when the gold products are sold.

4. FINANCIAL RISK MANAGEMENT

4.1 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 2017.

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

4.2 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 2018 and 31 December 2017 respectively to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Liquidity risk (continued)

| At 30 June 2018 | Unaudited | | | |
|---|--------------------------------|-------------------------------------|-------------------------------------|-------------------------|
| | 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 |
| Bank borrowings | 83,123 | 20,204 | – | – |
| Trade and other payables (excluding staff salaries payable and other tax payable) | 179,226 | – | – | – |
| | 262,349 | 20,204 | – | – |
| | | | | |
| At 31 December 2017 | Audited | | | |
| | 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 |
| Bank borrowings | 94,324 | 61,261 | – | – |
| Trade and other payables (excluding staff salaries payable and other tax payable) | 60,359 | – | – | – |
| | 154,683 | 61,261 | – | – |

4.3 Fair value estimation

To provide an indication about the reliability of the inputs used in determining fair value, the group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

| At 30 June 2018 | Unaudited | | | Total RMB'000 |
|---|--------------------|--------------------|--------------------|------------------|
| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | |
| Assets | | | | |
| Financial assets at fair value through profit or loss (FVPL) — Equity investments (Note 19) | 29,264 | – | – | 29,264 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3 Fair value estimation (continued)

| At 31 December 2017 Assets | Audited | | | Total RMB'000 |
|--|--------------------|--------------------|--------------------|------------------|
| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | |
| Financial assets at fair value through profit or loss (FVPL) | | | | |
| — Equity investments (<i>Note 19</i>) | 25,362 | — | — | 25,362 |
| — Future contracts (<i>Note 19</i>) | 1,172 | — | — | 1,172 |
| Available-for-sale financial assets | | | | |
| — Equity investments | 20,000 | 9,000 | — | 29,000 |
| | 46,534 | 9,000 | — | 55,534 |

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

4.4 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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

5. 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 2018, the Group is primarily engaged in gold exploration in the PRC. Therefore, for the six months ended 30 June 2018, the management considers that the Group only had one operating segment.

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:

| | Unaudited Six months ended 30 June 2018 | | | Unaudited Six months ended 30 June 2017 | | |
|---------------------------------------|--|--|------------------|--|--|------------------|
| | 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 | 383,321 | – | 383,321 | 315,970 | 212,350 | 528,320 |
| Cost of sales | (204,251) | – | (204,251) | (127,213) | (211,885) | (339,098) |
| Results of reportable segments | 179,070 | – | 179,070 | 188,757 | 465 | 189,222 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

5. SEGMENT INFORMATION (CONTINUED)

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

| | Unaudited Six months ended 30 June 2018 | | | Unaudited Six months ended 30 June 2017 | | |
|--|--|---|---------------|--|---|--------|
| Results of reportable segments | 179,070 | | | 189,222 | | |
| Selling and marketing expenses | (197) | | | (168) | | |
| General and administrative expenses | (16,816) | | | (13,402) | | |
| Write off of exploration and evaluation assets | – | | | (13,970) | | |
| Other income | 747 | | | 355 | | |
| Other gains — net | 3,555 | | | 1,991 | | |
| Operating profit | 166,359 | | | 164,028 | | |
| Finance income | 281 | | | 23 | | |
| Finance costs | (4,513) | | | (5,763) | | |
| Profit before income tax expense | 162,127 | | | 158,288 | | |
| Income tax expense | (41,473) | | | (41,056) | | |
| Profit for the period | 120,654 | | | 117,232 | | |
| Amortisation | 15,973 | – | 15,973 | 18,092 | – | 18,092 |
| Depreciation | 21,694 | – | 21,694 | 15,895 | – | 15,895 |
| Write off of exploration and evaluation assets | – | – | – | 13,970 | – | 13,970 |

The Group operates in mainland China and Hong Kong, and revenue for the six months ended 30 June 2018 is generated from mainland China. The Group's non-current assets are located in mainland China and Hong Kong.

6. OTHER GAINS — NET

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Investment gains on futures contracts | 4,264 | 4,074 |
| Investment income of structured deposits | 884 | 757 |
| Losses on disposal of property, plant and equipment | (207) | (301) |
| Investment losses of held-for-trading investments | (2,328) | (710) |
| Foreign exchange gains/(losses), net | 942 | (3,825) |
| Investment gains from sale of available-for-sale investment | – | 2,045 |
| Other losses | – | (49) |
| | 3,555 | 1,991 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

7. OPERATING PROFIT

In addition to the items disclosed on Note 6, the following operating items have been charged to the operating profit:

| | Unaudited | |
|---|---------------------------------|----------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Charging: | | |
| Purchase of finished goods | – | 211,885 |
| Raw materials and consumables used | 97,213 | 53,721 |
| Changes in inventories of finished goods and work in progress | (6,460) | (29,067) |
| Staff cost | 28,655 | 22,679 |
| Depreciation of | | |
| — property, plant and equipment | 21,694 | 15,608 |
| Amortisation of | | |
| — land use rights | 179 | 179 |
| — intangible assets | 15,794 | 17,913 |
| Write off of | | |
| — exploration and evaluation assets | – | 13,970 |

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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 2018, the PRC subsidiaries of the Company are subjected to an income tax rate of 25% (2017: 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 | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Current income tax | | |
| — PRC profits tax | 43,204 | 37,366 |
| Deferred income tax | (1,731) | 3,690 |
| | 41,473 | 41,056 |

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average annual tax rate used for six months ended 30 June 2018 is 26%, compared to 27% for the six months ended 30 June 2017.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

9. DIVIDENDS

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| Ordinary shares | | |
| Dividend provided for or paid during the period | 120,498 | 80,281 |

Pursuant to the resolution of Annual General Meeting dated 28 June 2018, a dividend of RMB120,498,000 (2017: RMB80,281,000) relating to the year ended 31 December 2017 (2017: relating to the year ended 31 December 2016) was declared and distributed from the share premium of the Company to the shareholders. Such dividend was paid in August 2018.

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

10. 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 | |
|---|---------------------------------------|---------|
| | 2018 | 2017 |
| Profit attributable to owners of the Company (in RMB'000) | 120,654 | 117,232 |
| Weighted average number of the Company's shares in issue (in thousands) | 925,000 | 925,000 |
| Basic earnings per share (in RMB) | 0.13 | 0.13 |

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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

11. PREPAID LEASE PAYMENTS

The Group's interests in prepaid lease payments represent prepaid operating lease payments and their net book value are analysed as follows:

| | Unaudited Six months ended 30 June | |
|--|---------------------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| At 1 January | 15,865 | 16,222 |
| Amortisation of prepaid operating lease payment (Note 7) | (179) | (179) |
| At 30 June | 15,686 | 16,043 |
| Current portion | 357 | 357 |
| Non-current portion | 15,329 | 15,686 |
| At 30 June | 15,686 | 16,043 |

12. PROPERTY, PLANT AND EQUIPMENT

| | Unaudited | | | | | | | |
|--------------------------------------|---|---|----------------------|------------------------------|---|------------------------------------|--|------------------|
| | Buildings and structures RMB'000 | Mining structures and equipment RMB'000 | Machinery RMB'000 | Motor vehicles RMB'000 | Furniture & office equipment RMB'000 | Electronic equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
| At 31 December 2017 | | | | | | | | |
| Cost | 104,674 | 323,587 | 52,062 | 6,454 | 2,168 | 15,519 | 4,007 | 508,471 |
| Accumulated depreciation | (17,889) | (83,733) | (12,191) | (3,840) | (634) | (5,562) | - | (123,849) |
| Net book amount | 86,785 | 239,854 | 39,871 | 2,614 | 1,534 | 9,957 | 4,007 | 384,622 |
| Six months ended 30 June 2018 | | | | | | | | |
| Opening net book amount | 86,785 | 239,854 | 39,871 | 2,614 | 1,534 | 9,957 | 4,007 | 384,622 |
| Additions | - | - | 634 | 133 | 35 | 1,572 | 10,766 | 13,140 |
| Disposals (Note 6) | - | - | (116) | - | (45) | (46) | - | (207) |
| Transfers (Note 13) | 17,086 | - | - | - | - | - | (8,681) | 8,405 |
| Other decreases | - | (19,065) | - | - | - | - | - | (19,065) |
| Depreciation charge (Note 7) | (3,271) | (14,453) | (2,477) | (371) | (172) | (950) | - | (21,694) |
| Closing net book amount | 100,600 | 206,336 | 37,912 | 2,376 | 1,352 | 10,533 | 6,092 | 365,201 |
| At 30 June 2018 | | | | | | | | |
| Cost | 125,438 | 304,522 | 52,448 | 6,587 | 2,077 | 16,812 | 6,092 | 513,976 |
| Accumulated depreciation | (24,838) | (98,186) | (14,536) | (4,211) | (725) | (6,279) | - | (148,775) |
| Net book amount | 100,600 | 206,336 | 37,912 | 2,376 | 1,352 | 10,533 | 6,092 | 365,201 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

13. INVESTMENT PROPERTY

| | Unaudited Six months ended 30 June | |
|---|---------------------------------------|-----------------|
| | 2018 RMB'000 | 2017 RMB'000 |
| At 1 January | | |
| Cost | 12,082 | 12,082 |
| Accumulated depreciation | (3,677) | (3,103) |
| Net book amount | 8,405 | 8,979 |
| Six months ended 30 June | | |
| Opening net book amount | 8,405 | 8,979 |
| Transfer to property, plant and equipment (Note 12) | (8,405) | – |
| Depreciation charge | – | (287) |
| Closing net book amount | – | 8,692 |
| At 30 June | | |
| Cost | – | 12,082 |
| Accumulated depreciation | – | (3,390) |
| Net book amount | – | 8,692 |

14. INTANGIBLE ASSETS

| | Mining rights RMB'000 | Restoration costs RMB'000 | Stripping costs RMB'000 | Meadow compensation costs and others RMB'000 | Total RMB'000 |
|--------------------------------------|-----------------------------|---------------------------------|-------------------------------|--|------------------|
| At 31 December 2017 | | | | | |
| Cost | 141,380 | 26,516 | 192,947 | 37,613 | 398,456 |
| Accumulated amortisation | (27,863) | (11,009) | (63,925) | (6,472) | (109,269) |
| Net book amount | 113,517 | 15,507 | 129,022 | 31,141 | 289,187 |
| Six months ended 30 June 2018 | | | | | |
| Opening net book amount | 113,517 | 15,507 | 129,022 | 31,141 | 289,187 |
| Additions | – | 5,393 | 1,935 | – | 7,328 |
| Amortisation charge (Note 7) | (4,406) | (1,966) | (8,540) | (882) | (15,794) |
| Closing net book amount | 109,111 | 18,934 | 122,417 | 30,259 | 280,721 |
| At 30 June 2018 | | | | | |
| Cost | 141,380 | 31,909 | 194,882 | 37,613 | 405,784 |
| Accumulated amortisation | (32,269) | (12,975) | (72,465) | (7,354) | (125,063) |
| Net book amount | 109,111 | 18,934 | 122,417 | 30,259 | 280,721 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

15. DEFERRED TAX ASSETS

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|----------------------------------|---|---|
| Deferred tax assets | 11,296 | 9,886 |
| Deferred tax liabilities | - | (321) |
| Deferred tax assets (net) | 11,296 | 9,565 |

16. INVENTORIES

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|-----------------------------|---|---|
| Raw materials | 4,011 | 2,826 |
| Gold in process | 76,131 | 82,737 |
| Gold dore bars | 18,293 | 5,227 |
| Consumables and spare parts | 14,371 | 16,776 |
| | 112,806 | 107,566 |

17. TRADE RECEIVABLES

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|---|---|---|
| Trade receivables | 89,907 | 24,687 |
| Less: Provision for impairment of trade receivables | - | - |
| | 89,907 | 24,687 |

As at 30 June 2018 and 31 December 2017, the aging of trade receivables was within 1 month.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

18. OTHER RECEIVABLES AND PREPAYMENTS

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|---|---|---|
| Prepayments | 10,192 | 4,840 |
| Input VAT deductible | 3,877 | 3,912 |
| Deposits held by a securities broker (Note (a)) | 7,237 | 12,467 |
| Deposits held by an interactive broker (Note (b)) | 224 | 652 |
| Deposits held by China International Capital Corporation Limited ("CICC") (Note (c)) | 1,003 | 994 |
| Deposits held by China International Capital Corporation Commodity Trading Limited ("CICC CT") (Note (d)) | 3,079 | – |
| Compensation receivable | 12,016 | – |
| Other receivables | 1,798 | 861 |
| | 39,426 | 23,726 |

- (a) The deposits as at 30 June 2018 and 31 December 2017 represented the outstanding balance of cash account held by a securities broker for gold futures contract transactions.
- (b) The deposits as at 30 June 2018 and 31 December 2017 represented the outstanding balance of cash account held by an interactive broker for equity securities transactions.
- (c) The deposits as at 30 June 2018 and 31 December 2017 represented the outstanding balance of cash account held by CICC for equity securities transactions.
- (d) The deposits as at 30 June 2018 represented the outstanding balance of cash account held by CICC CT for gold futures contract transactions.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|-------------------------------|---|---|
| Equity investments (Note (a)) | 29,264 | 25,362 |
| Future contracts (Note (b)) | – | 1,172 |
| | 29,264 | 26,534 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

(a) Equity investments

Movements in equity investments are analysed as follows:

| | Unaudited | |
|---|--------------------------|---------|
| | Six months ended 30 June | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| At 1 January (Restated at 1 January 2018 (Note 3)) | 54,362 | 45,477 |
| Additions | 10,360 | 7,309 |
| Disposals | (32,151) | (9,228) |
| Fair value losses | (3,307) | (1,389) |
| At 30 June | 29,264 | 42,169 |

As at 30 June 2018 and 31 December 2017, 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 and Toronto Stock Exchange, which are quoted in an active market.

(b) Future contracts

| | Unaudited | Audited |
|--|-----------|-------------|
| | 30 June | 31 December |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| Derivatives not under hedging accounting: | | |
| Fair value of gold future contracts — assets | — | 1,172 |

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 2018

20. RETAINED EARNINGS

As at 30 June 2018, the consolidated retained earnings included the balance of its subsidiary's reserve fund of RMB52,750,000 (31 December 2017: RMB41,343,000) which would be specifically used to offset accumulated losses or to increase capital and cannot be appropriated according to relevant PRC regulations.

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 2018, the Group appropriated RMB13,733,000 from retained earnings (six months ended 30 June 2017: RMB11,710,000 from retained earnings) for the safety production fund and utilised RMB4,779,000 (six months ended 30 June 2017: RMB1,207,000) for the safety production fund according to relevant PRC regulations.

As at 30 June 2018, the consolidated retained earnings included an appropriation of RMB52,440,000 (31 December 2017: RMB43,486,000) to PRC safety production fund according to relevant PRC regulations.

21. BORROWINGS

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|-------------------------|---|---|
| Secured bank borrowings | | |
| — Non-current | 20,000 | 60,000 |
| — Current | 79,438 | 88,291 |
| | 99,438 | 148,291 |

- (a) As at 30 June 2018, the bank borrowings were secured by the Group's intangible assets of mining rights with a net book value of approximately RMB109,110,000 (31 December 2017: approximately RMB113,517,000) and property, plant and equipment with a net book value of approximately RMB120,944,000 (31 December 2017: approximately RMB125,830,000).
- (b) The outstanding borrowings of the Group carry interest at effective interest rates 4.9% (31 December 2017: 4.9%) per annum and are repayable in accordance with payment schedule.

Movements in borrowings are analysed as follows:

| | |
|--|----------------|
| Six months ended 30 June 2018 | |
| Opening amount as at 1 January 2018 | 148,291 |
| Repayments of borrowings | (48,853) |
| Closing amount as at 30 June 2018 | 99,438 |
| 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 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

22. 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 | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| At 1 January | 7,843 | 8,267 |
| Released to profit or loss | (212) | (212) |
| At 30 June | 7,631 | 8,055 |

23. 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 | |
| | 2018 | 2017 |
| | RMB'000 | RMB'000 |
| At 1 January | 20,608 | 11,448 |
| Additions | 5,393 | 5,231 |
| Accretion incurred in the year | 556 | 149 |
| Payment of close down, restoration and environmental costs | (308) | (652) |
| At 30 June | 26,249 | 16,176 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

24. TRADE AND OTHER PAYABLES

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|----------------------------------|---|---|
| Trade payables | 9,760 | 14,243 |
| Payables for capital expenditure | 47,382 | 43,287 |
| Dividend payable | 120,498 | – |
| Staff salaries payables | 4,469 | 14,220 |
| Other tax payables | 9,594 | 5,423 |
| Accrued expenses | 32 | 332 |
| Other payables | 1,554 | 2,497 |
| | 193,289 | 80,002 |

At 30 June 2018, the ageing analysis of the trade payables based on invoice date was as follows:

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|---------------|---|---|
| Within 1 year | 9,760 | 14,243 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

25. COMMITMENTS

(a) Capital commitments

| | Unaudited 30 June 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|-------------------------------|---|---|
| Property, plant and equipment | 7,623 | 8,409 |

(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 2018 RMB'000 | Audited 31 December 2017 RMB'000 |
|---------------|---|---|
| Within 1 year | 822 | 126 |

26. RELATED PARTY TRANSACTIONS

- (a) No significant transactions with related parties occurred during the six months ended 30 June 2018 and 30 June 2017.
- (b) No outstanding balances with related parties are set out in both periods end.
- (c) 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 2018 RMB'000 | 2017 RMB'000 |
|---|--|-----------------|
| Salaries and other short-term benefits | 2,245 | 2,261 |
| Retirement benefit scheme contributions | 26 | 30 |
| | 2,271 | 2,291 |



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2018

27. CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no significant contingent liability (31 December 2017: Nil).

28. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to 30 June 2018 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 information.



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 Xiping, 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 2018 |
| “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 Shareholder, which is wholly-owned by Mr. Ke Jiaqi, Mr. Ke Xiping’s son |
| “%” | per cent |

