恒興黃金
HENGXING GOLD

Hengxing Gold Holding Company Limited
恒興黃金控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2303)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

HIGHLIGHTS

The highlights operating and financial results of the Group for the six months ended 30 June 2018 are as follows:

- Gold production is increased by 14% to 48,432 ounces from the corresponding period of 2017;
- Revenue from gold mining segment is increased by 21% to RMB383 million from the corresponding period of 2017;
- Net profit after tax is increased by 3% to RMB121 million from the corresponding period of 2017;
- All-in sustaining cost for the half of 2018 is RMB149.2 per gram (equivalent to US$701/oz with exchange rate of RMB6.6166/US$ as at 30 June 2018).

The board of directors (the "**Board**") of Hengxing Gold Holding Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018 (the "**Period Under Review**"), together with comparative figures for the corresponding period in the year 2017, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Unaudited Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**383,321**	528,320
Cost of sales		**(204,251)**	(339,098)
Gross profit		**179,070**	189,222
Other income		**747**	355
Other gains — net	*4*	**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	*5*	**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	*6*	**(41,473)**	(41,056)
Profit for the period, all attributable to owners of the Company		**120,654**	117,232
Other comprehensive loss			
Items that may be reclassified to profit or loss			
— 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	*8*	**0.13**	0.13

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		**15,329**	15,508
Property, plant and equipment		**365,201**	384,622
Investment property		**–**	8,405
Intangible assets		**280,721**	289,187
Prepayment for purchase of property, plant and equipment		**3,092**	4,265
Deferred tax assets	*9*	**11,296**	9,565
Restricted bank balance		**–**	10
Total non-current assets		**675,639**	711,562
Current assets			
Inventories	*10*	**112,806**	107,566
Trade receivables		**89,907**	24,687
Other receivables and prepayments	*11*	**39,426**	23,726
Prepaid lease payments		**357**	357
Financial assets at fair value through profit or loss	*12*	**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	*13*	**413,199**	292,545
Total equity		**791,357**	791,201

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (Continued)
AS AT 30 JUNE 2018

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*14*	**20,000**	60,000
Deferred income		**7,631**	7,843
Provision for close down, restoration and environmental costs		**26,249**	20,608
Total non-current liabilities		**53,880**	88,451
Current liabilities			
Trade and other payables	*15*	**193,289**	80,002
Current income tax liabilities		**48,506**	37,184
Current-portion of long-term borrowings	*14*	**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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2018

1. 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.

1.1 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 2 below. The other standards did not have material impact on the Group's accounting policies and did not require retrospective adjustments.

1.2 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 RMB 822,000. 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.

2. 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.

2.1 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 2.2 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 Dec 2017 As originally presented**	**HKFRS 9**	**1 January 2018 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.

2.2 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.

(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**	**FVPL**	**Financial assets at fair value through other comprehensive income (FVOCI) (Available-for-sale 2017)**
		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 (RMB 29,000,000 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.

2.3 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.

- 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.

2.4 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.

2.5 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.

3. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("**CODM**"), being the executive directors of the Company, in order to allocate resources to segments and to assess their performance.

For the six months ended 30 June 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	**International trading segment**	**Total**	Gold mining segment	International trading segment	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Revenue						
Sales to customers	**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

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

	Unaudited			Unaudited		
	Six months ended 30 June 2018			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 expenses			**(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.

4. OTHER GAINS — NET

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	*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

5. OPERATING PROFIT

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

	Unaudited Six months ended 30 June	
	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

6. 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.

7. DIVIDEND

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*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 is expected to be 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).

8. EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June	
	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.

9. DEFERRED TAX ASSETS

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

10. 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

11. 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.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

(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 2)*)	**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 30 June 2018	Audited 31 December 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.

13. 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.

14. 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

15. 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

16. 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

17. 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	2017
	RMB'000	*RMB'000*
Salaries and other short-term benefits	**2,245**	2,261
Retirement benefit scheme contributions	**26**	30
	2,271	2,291

MANAGEMENT DISCUSSION AND ANALYSIS

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 strong balance sheet with RMB219 million cash and cash equivalents, while bank borrowings were reduced by RMB49 million since 31 December 2017.

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.

Development Strategy

The principal business objectives of the Company are to explore, develop and operate gold projects. We also seek acquisition opportunities domestically and globally to pursue rapid growth and expansion of our asset portfolio. The Company aims at transition from a single mine company to a mid-tier gold producer 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 and the Gold Mountain Mine could at last to deliver an average annual production of approximately 96,000 ounces of gold in the next few years.

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.

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	138.8	–	138.8	–
Repaying part of the outstanding gold lease facilities	–	47.6	47.6	–

	Planned amount per clarification announcement dated 28 May 2014 *(HK$ million)*	Revisions per announcement of proposed changes dated 16 June 2015 *(HK$ million)*	Amount utilized up to 30 June 2018 *(HK$ million)*	Balance of unutilized IPO proceeds as at 30 June 2018 *(HK$ million)*
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.

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 14 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).

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 from operating activities	**95,104**	153,908
Net cash inflow/(outflow) from investing activities	**14,138**	(19,433)
Net cash used in 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.

Indebtedness and charge on assets

As at 30 June 2018, the Group had the bank and other borrowings of approximately RMB99,438,000 which was 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.

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.

		Six months ended 30 June	
	Unit	**2018**	2017
Ore mined	Kt	**2,747**	2,342
Yelmand pit	Kt	**1,748**	2,225
Mayituobi pit	Kt	**309**	117
Kuangou pit	Kt	**136**	–
Jingxi-Balake pit	Kt	**554**	–
Overburden mined	m^3	**5,755,080**	4,895,649
Yelmand pit	m^3	**892,728**	1,080,687
Mayituobi pit	m^3	**117,520**	100,497
Kuangou pit	m^3	**1,341,728**	2,422,385
Jingxi-Balake pit	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.

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

INTERIM DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

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

During the six months ended 30 June 2018, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF THE INTERIM RESULTS

The audit committee of the Company (the "**Audit Committee**") has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules 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 and unaudited condensed consolidated interim financial information 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 control and financial reporting matters.

The external auditor has reviewed the Group's unaudited condensed consolidated interim financial information 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.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

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

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

Hong Kong, 27 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. KE Xiping, Ms. YANG Yifang (Lydia YANG), Mr. CHEN, David Yu and Mr. KE Jiaqi, the non-executive director of the Company is Mr. Albert Fook Lau HO and the independent non-executive directors of the Company are Ms. WONG, Yan Ki Angel, Dr. Tim SUN and Dr. PAN Guocheng.