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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 2019

HIGHLIGHTS

The highlights operating and financial results of the Group for the six months ended 30 June 2019 are as follows:

- Gold production is decreased by 27% to 35,511 ounces from the corresponding period of 2018;
- Revenue from gold mining segment is decreased by 24% to RMB291 million from the corresponding period of 2018;
- Net profit after tax is decreased by 37% to RMB76 million from the corresponding period of 2018;
- The all-in sustaining cost is RMB161/gram (equivalent to US$731/oz based on the exchange rate of RMB6.8747/USD as at 30 June 2019), 7.9% higher than RMB149.2/gram from the same period last year;
- Zero serious safety and environmental accidents.

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 2019 (the "**Period Under Review**"), together with comparative figures for the corresponding period in the year 2018, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Unaudited	
		Six months ended 30 June	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
Continuing operations			
Revenue	*4*	**290,894**	383,321
Cost of sales		**(181,301)**	(204,251)
Gross profit		**109,593**	179,070
Other income		**350**	747
Other gains — net	*5*	**9,973**	3,555
Selling and marketing expenses		**(107)**	(197)
General and administrative expenses		**(27,096)**	(16,816)
Operating profit	*6*	**92,713**	166,359
Finance income		**327**	281
Finance costs		**(2,349)**	(4,513)
Finance costs — net		**(2,022)**	(4,232)
Profit before income tax		**90,691**	162,127
Income tax expense	*7*	**(14,989)**	(41,473)
Profit for the period, all attributable to owners of the Company		**75,702**	120,654
Total comprehensive income for the period, all attributable to owners of the Company		**75,702**	120,654
Earnings per share attributable to owners of the Company for the period (Express in RMB per share)			
— Basic and diluted	*9*	**0.08**	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 2019

	Notes	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**338,693**	351,075
Right-of-use assets	*3*	**17,229**	–
Prepaid lease payments		**–**	15,151
Intangible assets		**271,378**	282,489
Prepayment for purchase of property, plant and equipment		**4,069**	3,422
Deferred tax assets	*10*	**5,663**	5,822
Restricted bank balance		**10**	10
Total non-current assets		**637,042**	657,969
Current assets			
Inventories	*11*	**131,377**	106,180
Trade receivables	*12*	**41,766**	–
Other receivables and prepayments	*13*	**25,859**	21,240
Financial assets at amortised cost	*14*	**250,328**	–
Financial assets at fair value through profit or loss	*15*	**37,757**	30,489
Cash and cash equivalents		**19,251**	301,477
Prepaid lease payments		**–**	357
Total current assets		**506,338**	459,743
Total assets		**1,143,380**	1,117,712
EQUITY			
Equity attributable to owners of the Company			
Share capital		**7,362**	7,362
Reserves		**285,175**	366,544
Retained earnings	*17*	**629,144**	553,442
Total equity		**921,681**	927,348

	Notes	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
LIABILITIES			
Non-current liabilities			
Provision for close down, restoration and environmental costs		**30,873**	30,087
Deferred income		**7,207**	7,419
Lease liabilities	*3*	**974**	–
Total non-current liabilities		**39,054**	37,506
Current liabilities			
Trade and other payables	*19*	**149,111**	66,809
Current portion of long-term borrowings	*18*	**20,000**	60,000
Current income tax liabilities		**11,664**	26,049
Financial liabilities at fair value through profit or loss	*16*	**950**	–
Lease liabilities	*3*	**920**	–
Total current liabilities		**182,645**	152,858
Total liabilities		**221,699**	190,364
Total equity and liabilities		**1,143,380**	1,117,712

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

2. SIGNIFICANT ACCOUNTING POLICIES

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 effective on or after 1 January 2019 and applicable for the current reporting period, and the Group has changed its accounting policies as a result of adopting the following standards.

Standards

HKFRS 16 Leases
HK(IFRIC) 23 Uncertainty over income tax treatments
HKFRS 9 (Amendments) Prepayment features with negative compensation
HKAS 28 (Amendments) Long-term interests in associates and joint venture
HKAS 19 (Amendments) Plan amendment, curtailment or settlement

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in Note 3 below. The other standards did not have any significant impact on the Group's accounting policies and did not require retrospective adjustments.

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 2019 and have not been early adopted by the Group:

Standards	**Effective for annual periods beginning on or after**
Amendments to HKFRS 10 and HKAS 28 Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Revised Conceptual Framework for Financial Reporting	1 January 2020
HKFRS 17 Insurance contracts	1 January 2021

The Group is assessing the full impact of the new standards, new interpretations and amendments to standards and interpretations.

According to the preliminary assessment, 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.

3. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in Note 3.2 below.

The Group has adopted HKFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019.

3.1 Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.24%.

	Unaudited *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	2,756
Less: Short-term leases recognised on a straight-line basis as expense	(199)
	2,557
Discounted using the lessee's incremental borrowing rate at the date of initial application, lease liabilities recognised as at 1 January 2019	**2,375**
Of which are:	
Current lease liabilities	914
Non-current lease liabilities	1,461
	2,375
Add: Reclassification of land use rights	15,508
Right-of-use assets recognised as at 1 January 2019	17,883

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	Unaudited	
	30 June 2019	1 January 2019
	RMB'000	*RMB'000*
Land use rights	15,329	15,508
Offices	1,900	2,375
Total right-of-use assets	**17,229**	**17,883**
Current lease liabilities	920	914
Non-current lease liabilities	974	1,461
Total lease liabilities	**1,894**	**2,375**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	RMB'000
• Right-of-use assets — increase by	17,883
• Lease liabilities (current portion) — increase by	914
• Lease liabilities (non-current portion) — increase by	1,461
• Prepaid lease payments (current portion) — decrease by	357
• Prepaid lease payments (non-current portion) — decrease by	15,151

There was no impact on retained earnings on 1 January 2019.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 Determining whether an Arrangement contains a Lease.

3.2 The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods but may have extension options as described in (i) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

(i) Extension options

Extension options are included in a number of office leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

4. 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. During each of the six months ended 30 June 2019 and 2018, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in gold exploration in the PRC. Therefore, the management considers that the Group only has one operating segment, and no segment information is presented.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Sales of processed gold	**290,894**	383,321

The Group operates in mainland China and Hong Kong, and revenue for the six months ended 30 June 2019 is generated from mainland China. The Group's non-current assets are located in mainland China and Hong Kong.

5. OTHER GAINS-NET

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Investment gains on trust investments *(Note 14)*	**3,313**	–
Investment gains on futures contracts	**4,007**	4,264
Net fair value gains/(losses) on financial assets at fair value through profit or loss *(Note 15)*	**2,914**	(2,747)
Investment gains on debt investments *(Note 15(b))*	**1,285**	884
Investment gains on equity investments *(Note 15(a))*	**–**	420
Losses on disposal of property, plant and equipment	**(153)**	(208)
Net foreign exchange (losses)/gains	**(443)**	942
Net fair value losses on financial liabilities at fair value through profit or loss *(Note 16)*	**(950)**	–
	9,973	3,555

6. OPERATING PROFIT

In addition to the items disclosed on Note 5, the following operating items have been charged to the operating profit:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Charging:		
Raw materials and consumables used	**122,025**	97,213
Changes in inventories of finished goods and work in progress	**(28,126)**	(6,460)
Staff cost	**21,294**	28,655
Professional service fee	**8,059**	1,539
Depreciation and amortisation of		
— property, plant and equipment	**22,698**	21,694
— right-of-use assets	**660**	–
— land use rights	**–**	179
— intangible assets	**16,502**	15,794

7. INCOME TAX EXPENSE

The Company's Hong Kong subsidiary Tianshan Gold Securities (Hong Kong) Limited was subject to Hong Kong profits tax at tax rate of 16.5% for the six months ended 30 June 2018. Pursuant to the enactment of two-tiered profit tax rates by the Inland Revenue Department from the year of assessment 2018/19 onwards, the first HKD 2 million of assessable profits of one of the Group's companies incorporated in Hong Kong under Hong Kong profits tax during the six months ended 30 June 2019 is subject to a tax rate of 8.25%. The Group's remaining assessable profits above HKD 2 million will continue to be subject to a tax rate of 16.5%.

For the six months ended 30 June 2019, the Company's PRC subsidiary Goldfield (Xinjiang) Investment Advisory Limited are subjected to an income tax rate of 25% (for the six months ended 30 June 2018: 25%).

For the six months ended 30 June 2019, the Company's PRC subsidiary Xinjiang Jinchuan ("**Jinchuan Mining**") are subjected to an income tax rate of 15% (for the six months ended 30 June 2018: 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	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
— PRC profits tax	**14,830**	43,204
Deferred income tax	**159**	(1,731)
	14,989	41,473

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 2019 is 17%, compared to 26% for the six months ended 30 June 2018.

8. DIVIDENDS

	Unaudited Six months ended 30 June **2019** ***RMB'000***	 2018 *RMB'000*
Ordinary shares		
Dividend provided for or paid during the period	**81,369**	120,498

Pursuant to the resolution of Annual General Meeting dated 28 June 2019, a dividend of RMB81,369,000 (2018: RMB120,498,000) relating to the year ended 31 December 2018 (2018: relating to the year ended 31 December 2017) was declared and distributed from the share premium of the Company to the shareholders. Such dividend is expected to be paid in August 2019.

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

9. 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 **2019**	 2018
Profit attributable to owners of the Company *(in RMB'000)*	**75,702**	120,654
Weighted average number of the Company's shares in issue *(in thousands)*	**925,000**	925,000
Basic earnings per share *(in RMB)*	**0.08**	0.13

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

10. DEFERRED TAX ASSETS

	Unaudited **30 June** **2019** ***RMB'000***	Audited 31 December 2018 *RMB'000*
Deferred tax assets	**7,614**	7,353
Deferred tax liabilities	**(1,951)**	(1,531)
Deferred tax assets (net)	**5,663**	5,822

11. INVENTORIES

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Raw materials	**3,733**	3,558
Gold in process	**77,446**	78,132
Gold dore bars	**35,115**	6,303
Consumables and spare parts	**15,083**	18,187
	131,377	106,180

12. TRADE RECEIVABLES

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Trade receivables	**41,766**	–
Less: Provision for impairment of trade receivables	**–**	–
	41,766	–

As at 30 June 2019, the aging of trade receivables was within 1 month.

13. OTHER RECEIVABLES AND PREPAYMENTS

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Deposits held by a securities broker *(Note (a))*	**9,998**	3,236
Prepayments	**8,331**	9,921
Input VAT deductible	**4,146**	4,206
Deposits held by China International Capital Corporation Limited ("**CICC**") *(Note (b))*	**1,573**	1,566
Deposits held by an interactive broker *(Note (c))*	**143**	394
Other receivables	**1,668**	1,917
	25,859	21,240

(a) The deposits as at 30 June 2019 and 31 December 2018 represented the outstanding balance of cash account held by a securities broker for gold futures contract transactions.

(b) The deposits as at 30 June 2019 and 31 December 2018 represented the outstanding balance of cash account held by CICC for equity securities transactions.

(c) The deposits as at 30 June 2019 and 31 December 2018 represented the outstanding balance of cash account held by an interactive broker for equity securities transactions.

14. FINANCIAL ASSETS AT AMORTISED COST

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**–**	–
Additions	**250,000**	–
Gains on trust investment *(Note 5)*	**3,313**	–
Proceeds received	**(2,985)**	–
At 30 June	**250,328**	–

As at 30 June 2019, trust investments classified as financial assets at amortised cost represented the Group's trust investments in trust products.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
Equity investments *(a)*	**29,107**	26,761
Debt investments *(b)*	**8,650**	3,700
Future contracts *(c)*	**–**	28
	37,757	30,489

(a) Equity investments

Movements in equity investments are analysed as follows:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**26,761**	54,362
Additions	**–**	10,360
Disposals	**–**	(33,130)
Dividend declared	**(538)**	–
Gains on disposal *(Note 5)*	**–**	420
Fair value gains/(losses) *(Note 5)*	**2,884**	(2,747)
At 30 June	**29,107**	29,265

As at 30 June 2019 and 31 December 2018, 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) Debt investments

Movements in equity investments are analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**3,700**	–
Additions	**828,000**	312,000
Disposals	**(824,365)**	(312,884)
Gains on disposal *(Note 5)*	**1,285**	884
Fair value gains *(Note 5)*	**30**	–
At 30 June	**8,650**	–

As at 30 June 2019, debt investments classified as financial assets at fair value through profit or loss represented the Group's debt investments in bank financial products.

(c) Future contracts

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
Derivatives not under hedging accounting:		
Fair value of gold future contracts — assets	**–**	28

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.

16. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Future contracts

	Unaudited	Audited
	30 June	31 December
	2019	2018
	RMB'000	*RMB'000*
Derivatives not under hedging accounting:		
Fair value of gold future contracts — liabilities *(Note 5)*	**950**	–

17. RETAINED EARNINGS

As at 30 June 2019, the consolidated retained earnings included the balance of its subsidiary's reserve fund of RMB75,245,000 (31 December 2018: RMB67,959,000) 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 sold in previous years.

For the six months ended 30 June 2019, the Group appropriated RMB12,866,000 from retained earnings (six months ended 30 June 2018: RMB13,733,000 from retained earnings) for the safety production fund and utilised RMB1,376,000 (six months ended 30 June 2018: RMB4,779,000) for the safety production fund according to relevant PRC regulations.

As at 30 June 2019, the consolidated retained earnings included an appropriation of RMB69,349,000 (31 December 2018: RMB57,859,000) to PRC safety production fund according to relevant PRC regulations.

18. BORROWINGS

	Unaudited 30 June 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
Secured bank borrowings		
— Current	**20,000**	60,000

(a) As at 30 June 2019, the bank borrowings were secured by the Group's intangible assets of mining rights with a net book value of approximately RMB97,393,000 (31 December 2018: approximately RMB103,245,000) and property, plant and equipment with a net book value of approximately RMB111,102,000(31 December 2018: approximately RMB116,145,000).

(b) The outstanding borrowings of the Group carry interest at effective interest rates 4.9% (31 December 2018: 4.9%) per annum and are repayable in accordance with payment schedule.

Movements in borrowings are analysed as follows:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
At 1 January	**60,000**	148,291
Repayments of borrowings	**(40,000)**	(48,853)
At 30 June	**20,000**	99,438

19. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Dividend payable	**81,369**	–
Payables for capital expenditure	**47,650**	28,712
Trade payables	**10,026**	14,394
Staff salaries payables	**5,226**	15,167
Other tax payables	**3,008**	5,749
Other payables	**1,778**	2,763
Accrued expenses	**54**	24
	149,111	66,809

At 30 June 2019, the aging analysis of the trade payables based on invoice date was as follows:

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Within 1 year	**10,026**	14,394

20. COMMITMENTS

(a) Capital commitments

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Property, plant and equipment	**28,760**	2,574

(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 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
No later than 1 year	**78**	1,222
More than 1 year but no later than 2 years	**–**	1,023
More than 2 years but no later than 3 years	**–**	511
	78	2,756

21. RELATED PARTY TRANSACTIONS

(a) No significant transactions with related parties occurred during the six months ended 30 June 2019 and 30 June 2018.

(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	
	2019	2018
	RMB'000	*RMB'000*
Salaries and other short-term benefits	**2,331**	2,245
Retirement benefit scheme contributions	**42**	26
	2,373	2,271

24. CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no significant contingent liability (31 December 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period Under Review, the Company's average realized gold price was consistent with the global gold price trend and achieved RMB289.5/gram, 7% higher than the same period of 2018. The Company recorded revenue from the gold mining segment RMB291 million and net profit after tax RMB76 million, lower by 24% and 37% than that of the same period of 2018 respectively. The Company still has a healthy balance sheet with a debt ratio of 19%, while bank borrowings were reduced by RMB40 million since 31 December 2018 to RMB20 million.

During the Period Under Review, the Gold Mountain Mine processed 2.56 million tonnes of newly mined ore with a feed-in grade of 0.72g/t and 0.73 million tonnes of ore in the existing pad with grade of 0.38g/t. It produced 35,511 ounces (equivalent to approximately 1,104.5 kg) of gold, decreased approximately 27% compared to the same period of 2018. The all-in sustaining cost was maintained at a competitive level of RMB161/gram (equivalent to US$731/oz based on the exchange rate of RMB6.8747/USD as at 30 June 2019), 7.9% higher than RMB149.2/gram from the same period last year.

The decrease in gold production was mainly due to: (1) According to the production schedule, the ore in the first half of 2019 mainly comes from the lower grade areas in the Jingxi-Balake pit and Yelmand pit, leading to a decline in the overall mining grade; and (2) Production declined during the installation of upgraded equipment. However in line with the mining plan, the grade for newly mined ore has increased to 0.77g/t by the end of June 2019, 22% higher than 0.63g/t from the first quarter of 2019.

During the Period Under Review, RMB3.5 million was invested for ecological recovery and remediation, including the reclaim work in the Mayituobe pit and other greening area approximately 45,000 square meters. The Company also recognizes that we have an important opportunity and business imperative to contribute to the positive social and economic development of our host communities.

The Company has made in-depth desktop reviews of multiple projects in the first half of 2019 and the reviews are ongoing while the Company has not reached any definitive agreements in relation to any project as at the date of this announcement.

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 deliver an stable production of gold in the next few years.

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.

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 2019, the Company has used approximately HK$252.4 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 2019** *(HK$ million)*	**Balance of unutilized IPO proceeds as at 30 June 2019** *(HK$ million)*	**Expected timeframe for utilizing the remaining unused net proceeds**
Financing the Company's CIL Project, including:					
• Constructing and installing the carbon-in-leach production and ancillary facilities, purchases of relevant equipment	120.1	–	–	–	–
• Acquiring land use right, hiring project design and supervisory experts, implementing work safety measures and applying for relevant licenses	30.0	–	–	–	–
Upgrading the crushing system in order to improve the efficiency of current production process of Gold Mountain Mine	–	12.5	12.5	–	–
Developing a new open pit at the Kuangou prospect and a new leach pad to accommodate ore mined from the Kuangou prospect for the purpose of increasing production	–	27.5	27.5	–	–
Repaying outstanding loans with interests and advances from controlling shareholder Mr. Ke	138.8	–	138.8	–	–
Repaying part of the outstanding gold lease facilities	–	47.6	47.6	–	–
Financing the Company's potential acquisitions of gold resources, including expenses for due diligence, environmental and exploratory studies	15.1	77.6	9.4	68.2	Within next 2 years
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	Within next 2 years
Working capital use and other general corporate purposes	11.3	–	11.3	–	–
Total	330.4	180.3	252.4	78.0	

Notes:

(1) The figures in the table are approximate figures.

(2) The expected timeline for utilizing the remaining proceeds is based on the best estimation of the potential acquisition and the plan for further exploration works. It will be subject to change based the progress of potential acquisition and the further exploration works.

(3) The Company has made in-depth desktop reviews of multiple acquisition targets in 2019 and the reviews are ongoing while the Company has not reached any definitive agreements in relation to any acquisition targets as at the date of this announcement.

Financial Review

During the Period Under Review, the Group recorded revenue of processed gold of RMB290,894,000 for the six months ended 30 June 2019, while the revenue recorded for the corresponding period of 2018 was RMB383,321,000 representing approximately an decrease of 24.11%.

The Group started to record a consolidated profit of the Group of RMB75,702,000 for the six months ended 30 June 2019, while there is a profit of RMB120,654,000 in the corresponding period of 2018.

Revenue

During the Period Under Review, the Group's revenue of processed gold was approximately RMB290,894,000, compared with RMB383,321,000 in the corresponding period of 2018, because the gold production and sales volume decreased.

Cost of sales

During the Period Under Review, the Group's cost of sales amounted to approximately RMB181,301,000 compared with RMB204,251,000 in the corresponding period of 2018, 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 decrease in cost of sales was due to the decline of production volume.

Gross profit

During the Period Under Review, the Group's gross profit amounted to approximately RMB109,593,000, compared with RMB179,070,000 in the corresponding period of 2018, and the gross profit ratio of Gold mining segment was 38%, compared with 47% in the corresponding period of 2018, resulted from decrease of production volume.

EBITDA

During the Period Under Review, the Group's earnings before interest, tax, depreciation and amortization ("**EBITDA**") was RMB132,900,000 compared with RMB203,751,000 in the corresponding period of 2018.

Selling and distribution expenses

During the Period Under Review, the Group's selling and distribution expenses amounted to approximately RMB107,000 compared with RMB197,000 in the corresponding period of 2018.

Administration Expenses

During the Period Under Review, the Group's administration expense was approximately RMB27,096,000 (six months ended 30 June 2018: RMB16,816,000).

Finance Costs

During the Period Under Review, the Group's finance costs was RMB2,349,000 (six months ended 30 June 2018: RMB4,513,000), representing a decrease by 48%, compared with the corresponding period of 2018. 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 18 in interim condensed consolidated financial statements.

Profit before taxation

As a result of the foregoing, the profit before taxation was RMB90,691,000 for the six months ended 30 June 2019, compared with a profit of RMB162,127,000 in the corresponding period of 2018.

Total comprehensive income

As a result of the foregoing, the total comprehensive income was RMB75,702,000 for the six months ended 30 June 2019, compared with the total comprehensive income of RMB120,654,000 in the corresponding period of 2018.

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 2019, the Group's bank balances and cash and Financial assets at amortised cost were RMB269,579,000 (as of 31 December 2018, it was RMB301,477,000). Net assets were RMB921,681,000 (as of 31 December 2018, it was approximately RMB927,348,000).

The Group recorded net current assets were RMB323,693,000 as of 30 June 2019, compared with RMB306,885,000 as of 31 December 2018.

Current ratio and gearing ratio

As of 30 June 2019, the Group's current ratio (current assets divided by current liabilities) was 2.77 (31 December 2018: 3.01).

As of 30 June 2019, the Group's gearing ratio (total borrowings divided by total equity) was 0.02 (31 December 2018: 0.06).

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 2019 and 30 June 2018.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Net cash inflow from operating activities	**28,680**	95,104
Net cash (outflow)/inflow from investing activities	**(267,639)**	14,138
Net cash outflow from financing activities	**(43,310)**	(52,336)
Net (decrease)/increase in cash and cash equivalents	**(282,269)**	56,906
Cash and cash equivalents at 1 January	**301,477**	161,697
Effects of exchange rate changes on cash and cash equivalents	**43**	468
Cash and cash equivalents at 30 June	**19,251**	219,071

For the Period Under Review, the net cash inflow from operating activities was RMB28,680,000, which was mainly attributable to (a) profit plus non cash cost as depreciation and amortisation and financing cost minus investing gain, amounted to RMB127,212,000 (b) increase in inventory of RMB25,197,000 (c) increase in trade receivable and other receivables and prepayments of RMB48,188,000 (d) increase in trade payables, accruals and other payables of RMB4,068,000, and (e) enterprise income tax paid amounted to RMB29,215,000.

For the Period Under Review, the net cash outflow from investing activities was RMB267,639,000, which was mainly attributable to (a) purchase of property, plant and equipment of RMB14,270,000, (b) increase of intangible assets of RMB3,056,000, (c) placement of trust investment and debt investment of RMB1,078,000,000 and (d) partially offset by redemption of debt investment of RMB823,080,000 and interests received of RMB327,000, and (e) proceeds from debt investment and trust investment with a cash inflow of RMB4,280,000.

For the Period Under Review, the net cash outflow from financing activities was RMB43,310,000, which was primarily attributable to (a) repayment of bank and other borrowings of RMB40,000,000 (b) interest paid for bank and other borrowings of RMB3,310,000.

Capital Structure

As of 30 June 2019, the total number of issued ordinary shares of the Company was 925,000,000 shares (as of 31 December 2018: 925,000,000 shares), each at HK$0.01.

Indebtedness and charge on assets

As at 30 June 2019, the Group had the bank and other borrowings of approximately RMB20,000,000 which was were secured by the Group's intangible assets of mining rights with a net book value of approximately RMB97,393,000 (31 December 2018: approximately RMB103,245,000) and property, plant and equipment with a net book value of approximately RMB111,102,000 (31 December 2018: approximately RMB116,145,000).

Save as stated above, as of 30 June 2019, 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 2019, the Group did not have any material contingent liabilities or guarantees (as of 31 December 2018: nil). The Group is not currently involved in any material legal proceedings, nor is the Group is 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$, EURO€ and US$. 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 2019, the Group employed approximately 375 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 3.30 million tones. As of 30 June 2019, Gold Mountain Mine has conducted mining activities mainly in the Yelmand pit and the Jingxi-Balake pit. The Mayituobi pit has been closed and is being reclaimed.

		Six months ended 30 June	
	Unit	**2019**	2018
Ore mined	*Kt*	**2,574**	2,747
Yelmand pit	*Kt*	**383**	1,748
Mayituobi pit	*Kt*	**–**	309
Kuangou pit	*Kt*	**959**	136
Jingxi-Balake pit	*Kt*	**1,232**	554
Overburden mined	*m^3*	**3,911,408**	5,755,080
Yelmand pit	*m^3*	**38,609**	892,728
Mayituobi pit	*m^3*	**–**	117,520
Kuangou pit	*m^3*	**1,260,398**	1,341,728
Jingxi-Balake pit	*m^3*	**2,612,401**	3,403,104
Strip ratio	*:*	**3.96**	5.35
Ore processed	*Kt*	**3,304**	3,032
newly mined ore	*Kt*	**2,574**	3,032
ore in the existing pad	*Kt*	**730**	–
Feed-in grade of ore	*g/t*	**0.64**	0.77
newly mined ore	*g/t*	**0.72**	0.77
ore in the existing pad	*g/t*	**0.38**	–
Recovery rate	*%*	**61.2**	66.7
Gold produced	*Oz*	**35,511**	48,432

During the Period Under Review, the aggregate expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB90.0 million as compared to approximately RMB122.0 million for the six months ended 30 June 2018.

Exploration

For the Period Under Review, the is no expenditure directly relating to exploration, as compared to approximately RMB1,369,000 for the six months ended 30 June 2018.

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as of 30 June 2019: (Adjusted by internal geological department on JORC Mineral Resources and reserves statement estimated 31 December 2018.)

Henxing Gold — Resources as at 30 June 2019

Category	**Tonnes** *(kt)*	**Gold Grade** *(g/t)*	**Contained Gold** *(kg)*
Measured	18,470	0.78	14,320
Indicated	79,300	0.67	53,190
Total Measured + Indicated	97,770	0.69	67,510
Inferred	20,870	0.73	15,300
Total Including Inferred	118,640	0.70	82,810

Henxing Gold — Reserves as at 30 June 2019

Category	**Tonnes** *(kt)*	**Gold Grade** *(g/t)*	**Contained Gold** *(kg)*
Proved	13,390	0.72	9,640
Probable	44,900	0.78	34,900
Total Proved + Probable	58,290	0.76	44,540

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

Mine Development

For the first half of 2019, the Company continued its construction and development activities in Gold Mountain Mine, such as the expansion project of heap leaching pad, the renovation of boiler room and the maintenance of haul road.

For the Period Under Review, the aggregate expenditure on the mine development and construction amounted to approximately RMB14.3 million, as compared to approximately RMB7.9 million for the six months ended 30 June 2018.

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 2019 (six months ended 30 June 2018: 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 2019 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 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2019, 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 for the six months ended 30 June 2019 and has also reviewed and confirmed the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters.

The external auditor has reviewed the Group's unaudited consolidated interim results for the six months ended 30 June 2019 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 2019

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.