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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 2020**

HIGHLIGHTS

The highlights operating and financial results of the Group for the six months ended 30 June 2020 are as follows:

- Gold production is decreased by 42% to 20,544 ounces from the corresponding period of 2019;
- Revenue from gold mining segment is decreased by 13% to RMB253 million from the corresponding period of 2019;
- Net profit after tax is decreased by 27% to RMB55 million from the corresponding period of 2019;
- All-in sustaining cost for the first half of 2020 is RMB262 per gram (equivalent to US\$1,151/oz at the exchange rate of RMB7.0795/US\$ as at 30 June 2020).

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 2020 (the “**Period Under Review**”), together with comparative figures for the corresponding period in year 2019, as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Unaudited	
		Six months ended 30 June	
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	253,332	290,894
Cost of sales		<u>(161,519)</u>	<u>(181,301)</u>
Gross profit		91,813	109,593
Other income		381	350
Other gains — net	4	225	9,973
Selling and marketing expenses		(78)	(107)
General and administrative expenses		<u>(20,104)</u>	<u>(27,096)</u>
Operating profit	5	72,237	92,713
Finance income		1,647	327
Finance costs		<u>(1,412)</u>	<u>(2,349)</u>
Finance costs-net		<u>235</u>	<u>(2,022)</u>
Profit before income tax		72,472	90,691
Income tax expense	6	<u>(17,318)</u>	<u>(14,989)</u>
Profit for the period, all attributable to shareholders of the Company		<u>55,154</u>	<u>75,702</u>
Total comprehensive income for the period, all attributable to shareholders of the Company		<u>55,154</u>	<u>75,702</u>
Earnings per share attributable to shareholders of the Company for the period (Express in RMB per share)			
— Basic and diluted	8	<u>0.06</u>	<u>0.08</u>

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 2020

		Unaudited	Audited
		30 June	31 December
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	346,798	358,159
Intangible assets	10	275,863	266,394
Right-of-use assets	11	15,922	16,576
Deferred income tax assets	12	3,433	–
Prepayment for purchase of property, plant and equipment		1,770	3,530
Restricted bank balance		10	10
		<hr/>	<hr/>
Total non-current assets		643,796	644,669
		<hr/>	<hr/>
Current assets			
Inventories	13	158,402	140,226
Trade receivables	14	41,705	70,607
Other receivables and prepayments		21,584	25,920
Financial assets at fair value through profit or loss	15	20,192	19,883
Cash and cash equivalents		271,859	323,845
		<hr/>	<hr/>
Total current assets		513,742	580,481
		<hr/>	<hr/>
Total assets		1,157,538	1,225,150
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to shareholders of the Company			
Share capital		7,362	7,362
Reserves		200,042	285,138
Retained earnings	16	823,140	767,986
		<hr/>	<hr/>
Total equity		1,030,544	1,060,486
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 30 JUNE 2020

		Unaudited	Audited
		30 June	31 December
		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Provision for reclamation and restoration	<i>17</i>	28,064	23,721
Deferred income tax liabilities	<i>12</i>	–	2,286
Deferred income		6,783	6,995
Lease liabilities	<i>11</i>	–	484
		<hr/>	<hr/>
Total non-current liabilities		34,847	33,486
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	<i>18</i>	73,072	91,113
Current income tax liabilities		18,092	38,146
Financial liabilities at fair value through profit or loss	<i>15</i>	–	978
Lease liabilities	<i>11</i>	983	941
		<hr/>	<hr/>
Total current liabilities		92,147	131,178
		<hr/>	<hr/>
Total liabilities		126,994	164,664
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		1,157,538	1,225,150
		<hr/> <hr/>	<hr/> <hr/>

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2020 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 2019, 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 applicable for the current reporting period.

Standards

IAS 1 and IAS 8 (Amendments) ‘Definition of Material’
IFRS 3 (Amendments) ‘Definition of a Business’
Revised Conceptual Framework for Financial Reporting
IFRS 9, IAS 39 and IFRS 7 (Amendments) ‘Interest Rate Benchmark Reform’
HKFRS 16 (Amendments) ‘Covid-19-related Rent Concessions’

The new and amended 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 2020 and have not been early adopted by the Group:

Standards	Effective for annual periods beginning on or after
HKAS 1 (Amendments) ‘Classification of Liabilities as Current or Non-current’	1 January 2022
HKAS 16 (Amendments) ‘Property, Plant and Equipment: Proceeds before intended use’	1 January 2022
HKAS 37 (Amendments) ‘Onerous Contracts — Cost of Fulfilling a Contract’	1 January 2022
HKFRS 3 (Amendments) ‘Reference to the Conceptual Framework’	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
HKFRS 17 ‘Insurance contracts’	1 January 2023
HKFRS 10 and HKAS 28 (Amendments) ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined

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. 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 2020 and 2019, 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	
	2020	2019
	RMB'000	RMB'000
Sales of processed gold	<u>253,332</u>	<u>290,894</u>

The Group operates in mainland China and Hong Kong, and revenue for the six months ended 30 June 2020 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	
	2020	2019
	RMB'000	RMB'000
Investment gains on debt investments (<i>Note 15(b)</i>)	1,365	1,285
Net fair value gains on financial assets at fair value through profit or loss (<i>Note 15(a)</i>)	845	2,914
Net fair value losses on financial liabilities at fair value through profit or loss	–	(950)
Net foreign exchange gains/(losses)	536	(443)
Gains/(losses) on disposal of property, plant and equipment	56	(153)
Investment gains on trust investments	–	3,313
Investment (losses)/gains on futures contracts	<u>(2,577)</u>	<u>4,007</u>
	<u>225</u>	<u>9,973</u>

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	
	2020	2019
	RMB'000	RMB'000
Charging:		
Raw materials and consumables used	96,327	122,025
Changes in inventories of finished goods and work in progress	(10,172)	(28,126)
Staff cost	19,876	21,294
Professional service fee	1,280	8,059
Depreciation and amortisation of		
— property, plant and equipment (Note 9)	23,487	22,698
— intangible assets (Note 10)	14,948	16,502
— right-of-use assets (Note 11)	654	654
	<u>654</u>	<u>654</u>

6. INCOME TAX EXPENSE

For the six months ended 30 June 2020, the Company's PRC subsidiaries are subjected to income tax rate of 25% (2019: 25%), except for Xinjiang Gold Mountain Mining Company Limited ("Jinchuan Mining") which is subjected to income tax rate of 15% (2019: 15%).

Hong Kong and overseas profit tax has been provided at the rates of taxation prevailing in the places in which the Group operates.

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current income tax		
— Current tax on profit for the period	11,599	14,830
Deferred income tax	5,719	159
	<u>17,318</u>	<u>14,989</u>

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 the six months ended 30 June 2020 is 24% including PRC withholding income tax on dividends from PRC subsidiaries, compared to 17% for the six months ended 30 June 2019.

7. DIVIDENDS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Ordinary shares		
Dividends provided for or paid during the period	<u>85,096</u>	<u>81,369</u>

Pursuant to the resolution of the Company's Annual General Meeting on 2 June 2020, dividends of RMB85,096,000 (2019: RMB81,369,000) relating to the year ended 31 December 2019 (2019: relating to the year ended 31 December 2018) was approved for distribution from the share premium account of the Company to the shareholders. Such dividends were paid in June 2020.

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2020 (2019: Nil).

8. EARNINGS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2020	2019
Profit attributable to shareholders of the Company (<i>in RMB'000</i>)	<u>55,154</u>	<u>75,702</u>
Weighted average number of the Company's shares in issue (<i>in thousands</i>)	<u>925,000</u>	<u>925,000</u>
Basic earnings per share (<i>in RMB</i>)	<u>0.06</u>	<u>0.08</u>

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

9. PROPERTY, PLANT AND EQUIPMENT

	Unaudited							
	Buildings and structures RMB'000	Mining structures and equipment RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture & office equipment RMB'000	Electronic equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2019								
Cost	128,564	353,234	58,239	8,185	2,338	18,766	6,345	575,671
Accumulated depreciation	(34,558)	(146,412)	(22,658)	(3,985)	(846)	(9,053)	-	(217,512)
Net book amount	<u>94,006</u>	<u>206,822</u>	<u>35,581</u>	<u>4,200</u>	<u>1,492</u>	<u>9,713</u>	<u>6,345</u>	<u>358,159</u>
Six months ended 30 June 2020								
Opening net book amount	94,006	206,822	35,581	4,200	1,492	9,713	6,345	358,159
Additions	-	1,457	545	-	-	641	9,616	12,259
Disposals	-	(118)	(1)	-	-	(14)	-	(133)
Transfers	113	-	-	-	-	164	(277)	-
Depreciation charge (Note 5)	(3,458)	(15,723)	(2,711)	(535)	(102)	(958)	-	(23,487)
Closing net book amount	<u>90,661</u>	<u>192,438</u>	<u>33,414</u>	<u>3,665</u>	<u>1,390</u>	<u>9,546</u>	<u>15,684</u>	<u>346,798</u>
At 30 June 2020								
Cost	128,677	353,017	58,782	8,185	2,338	19,382	15,684	586,065
Accumulated depreciation	(38,016)	(160,579)	(25,368)	(4,520)	(948)	(9,836)	-	(239,267)
Net book amount	<u>90,661</u>	<u>192,438</u>	<u>33,414</u>	<u>3,665</u>	<u>1,390</u>	<u>9,546</u>	<u>15,684</u>	<u>346,798</u>

10. INTANGIBLE ASSETS

	Unaudited					
	Mining rights RMB'000	Restoration costs RMB'000	Stripping costs RMB'000	Meadow compensation costs and others RMB'000		Total RMB'000
At 31 December 2019						
Cost	141,380	57,106	215,759	55,151		469,396
Accumulated amortisation	(52,677)	(25,696)	(112,360)	(12,269)		(203,002)
Net book amount	<u>88,703</u>	<u>31,410</u>	<u>103,399</u>	<u>42,882</u>		<u>266,394</u>
Six months ended 30 June 2020						
Opening net book amount	88,703	31,410	103,399	42,882		266,394
Additions	-	5,732	17,766	919		24,417
Amortisation charge (Note 5)	(4,532)	(2,364)	(6,595)	(1,457)		(14,948)
Closing net book amount	<u>84,171</u>	<u>34,778</u>	<u>114,570</u>	<u>42,344</u>		<u>275,863</u>
At 30 June 2020						
Cost	141,380	62,838	233,525	56,070		493,813
Accumulated amortisation	(57,209)	(28,060)	(118,955)	(13,726)		(217,950)
Net book amount	<u>84,171</u>	<u>34,778</u>	<u>114,570</u>	<u>42,344</u>		<u>275,863</u>

11. LEASES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Right-of-use assets		
Land use rights	14,972	15,151
Offices	950	1,425
	<u>15,922</u>	<u>16,576</u>
Lease liabilities		
— Current	983	941
— Non-current	—	484
	<u>983</u>	<u>1,425</u>

The consolidated statement of profit or loss and other comprehensive income shows the following amounts relating to leases:

	Unaudited Six months ended 30 June 2020 RMB'000	2019 RMB'000
Depreciation of right-of-use assets (<i>Note 5</i>)		
— Land use rights	179	179
— Offices	475	475
	<u>654</u>	<u>654</u>
Interest expenses	95	115
Expenses relating to short-term leases	168	151

The total cash payment for leases during the six months ended 30 June 2020 was RMB738,000 (2019: RMB741,000).

12. DEFERRED INCOME TAX

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Deferred income tax assets	7,050	6,545
Deferred income tax liabilities	(3,617)	(8,831)
	<u>3,433</u>	<u>(2,286)</u>
Deferred tax assets/(liabilities) — net		

13. INVENTORIES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Raw materials	9,215	3,157
Gold in process	126,883	116,102
Gold dore bars	787	1,396
Consumables and spare parts	21,517	19,571
	<u>158,402</u>	<u>140,226</u>

14. TRADE RECEIVABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade receivables	41,705	70,607
Loss allowance	—	—
	<u>41,705</u>	<u>70,607</u>

As at 30 June 2020, the aging of trade receivables was within one month.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Current assets		
Financial assets at fair value through profit or loss		
Equity investments, listed (a)	20,192	19,883
Debt investments, unlisted (b)	—	—
	<u>20,192</u>	<u>19,883</u>
Current liabilities		
Financial liabilities at fair value through profit or loss		
Fair value of gold future contracts — liabilities (c)	—	978
	<u>—</u>	<u>978</u>

(a) Equity investments

Movements in equity investments are analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Securities listed in Hong Kong		
At 1 January	19,883	26,761
Dividend declared	(536)	(538)
Fair value gains (<i>Note 4</i>)	845	2,884
	<hr/>	<hr/>
At 30 June	<u>20,192</u>	<u>29,107</u>

(b) Debt investments

Movements in debt investments are analysed as follows:

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Bank financial products		
At 1 January	–	3,700
Additions	693,880	828,000
Disposals	(695,245)	(824,365)
Gains on disposal (<i>Note 4</i>)	1,365	1,285
Fair value gains (<i>Note 4</i>)	–	30
	<hr/>	<hr/>
At 30 June	<u>–</u>	<u>8,650</u>

(c) Futures contracts

The Group used futures contracts to mitigate its exposure to fluctuations in gold prices. The Group does not currently designate any hedging relationship on the gold futures contracts for the purpose of hedge accounting.

16. RETAINED EARNINGS

Pursuant to the relevant regulations in the PRC, the Group's PRC subsidiaries are required to appropriate a portion of the profits for the period/year to reserve funds. The consolidated retained earnings of the Group as at 30 June 2020 included the balances of the reserve funds of the Group's PRC subsidiaries totalling RMB95,050,000 (31 December 2019: RMB89,425,000) which would be specifically used to offset accumulated losses or to increase capital of the subsidiaries but not available for profit distribution according to relevant PRC regulations.

In addition, pursuant to the relevant regulations in the PRC, the Group's PRC subsidiary with mining activities is required to appropriate safety production fund based on production volume of gold ores during the period/year. For the six months ended 30 June 2020, the Group appropriated RMB9,540,000 (six months ended 30 June 2019: RMB12,866,000) from retained earnings, and utilised RMB1,182,000 (six months ended 30 June 2019: RMB1,376,000) of the safety production fund. As at 30 June 2020, the consolidated retained earnings of the Group included the balance of safety production fund amounting to RMB71,139,000 (31 December 2019: RMB62,781,000) which is not available for profit distribution according to relevant PRC regulations.

17. PROVISION FOR RECLAMATION AND RESTORATION

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

Movements of provision during the periods are as follows:

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
At 1 January	23,721	30,087
Additions	5,732	3,056
Accretion incurred in the period	1,317	1,205
Payment of reclamation and restoration	(2,706)	(3,475)
	<hr/>	<hr/>
At 30 June	28,064	30,873

18. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Trade payables	41,287	46,736
Payables for capital expenditure	20,314	18,233
Staff salaries payables	3,337	13,608
Other tax payables	4,014	10,354
Other payables and accrued expenses	4,120	2,182
	<hr/>	<hr/>
	73,072	91,113

As at 30 June 2020, the aging of trade payables was within one year.

19. RELATED PARTY TRANSACTIONS

- (a) No significant transactions with related parties occurred during the six months ended 30 June 2020 and 30 June 2019.
- (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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other short-term benefits	2,826	2,331
Retirement benefit scheme contributions	65	42
	2,891	2,373

20. CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no significant contingent liability (31 December 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the Period Under Review, the average realised gold price was consistent with the global gold price trend and achieved RMB381.9 gram, 32% higher than the same period of 2019. The Group recorded revenue from the gold mining segment RMB253 million and net profit after tax RMB55 million, lower by 13% and 27% than that of the same period of 2019 respectively. The Group still has a healthy balance sheet with a debt ratio of 11% without bank borrowings.

The lower net profit for the Period Under Review as compared to the same period in 2019 was mainly attributed to lower gold production level. With the outbreak of the novel coronavirus (“COVID-19”) in Mainland China at the beginning of 2020, the strict travel restrictions and quarantine measures imposed by the government had led to a major delay in work force returning and the delivery of necessary production materials. Gold Mountain Mine only gradually started to return to normal operation from the end of March 2020. In addition, maintenance work for the roads connecting to Gold Mountain Mine was carried out which had further disrupted the mining and production for about 10 days. For these reasons, the full operational days were significantly reduced resulting in gold production of approximately 20,544 ounces (equivalent to approximately 661kg) in the Period Under Review, which represented 42% decrease compared to that of the same period last year. The lower gold production led to an all-in sustaining cost of RMB262/gram (equivalent to US\$1,151/oz calculated on basis of an exchange rate of RMB7.0795/USD1 as at 30 June 2020), which is 63% higher than RMB161/gram from the same period last year.

The Group remains committed to continuously improving recovery rate through technical optimization, including the biological pre-oxidation test. The semi-industrial test has begun in June 2020.

During the Period Under Review, RMB3.5 million was invested for ecological recovery and remediation approximately 114,000 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.

Development Strategy

The principal business objectives of the Group 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 Group aims at transition from a single mine company to a mid-tier gold producer through the following strategies:

Operation stability

The Group is determined to be focused on gold exploration and mining operation activities. In the past years the Group has successfully and significantly improved the operational results of Gold Mountain Mine, it helped to secure a healthy ground for the Group for further growth. The Company will continue 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 80,000 ounces of gold in the next few years.

Further strengthening work safety and environmental protection

The Group 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 the Company 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 Group'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 Group relating to the IPO and further disclosed in the clarification announcement made by the Group 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 2020, the Group has used approximately HK\$254.2 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 <i>(HK\$ million)</i>	Revisions per announcement of proposed changes dated 16 June 2015 <i>(HK\$ million)</i>	Amount utilised up to 30 June 2020 <i>(HK\$ million)</i>	Balance of unutilised IPO proceeds as at 30 June 2020 <i>(HK\$ million)</i>	Expected timeframe for utilising the remaining unused net proceeds
Financing the Group'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 Group's potential acquisitions of gold resources, including expenses for due diligence, environmental and exploratory studies	15.1	77.6	11.2	66.4	Within next 2 years
Financing further exploration works at the Gold Mountain Mine and its surrounding areas where the Group 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	<u>330.4</u>	<u>180.3</u>	<u>254.2</u>	<u>76.2</u>	

Financial Review

During the Period Under Review, the Group recorded revenue of processed gold of RMB253,332,000 for the six months ended 30 June 2020, while the revenue recorded for the corresponding period of 2019 was RMB290,894,000 representing approximately a decrease of 12.91%.

The Group recorded a consolidated profit of the Group of RMB55,154,000 for the six months ended 30 June 2020, while there is a profit of RMB75,702,000 in the corresponding period of 2019.

Revenue

During the Period Under Review, the Group's revenue of processed gold was approximately RMB253,332,000, compared with RMB290,894,000 in the corresponding period of 2019, 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 RMB161,519,000 compared with RMB181,301,000 in the corresponding period of 2019, which primarily included mining costs, processing costs, labor costs related to mining and processing activities as well as depreciation and amortisation costs including depreciation costs of property, plant and equipment and amortisation 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 RMB91,813,000, compared with RMB109,593,000 in the corresponding period of 2019, and the gross profit ratio of Gold mining segment was 36%, compared with 38% in the corresponding period of 2019, resulted from decrease of production volume.

EBITDA

During the Period Under Review, the Group's earnings before interest, tax, depreciation and amortisation ("EBITDA") was RMB113,068,000 compared with RMB132,900,000 in the corresponding period of 2019.

Selling and distribution expenses

During the Period Under Review, the Group's selling and distribution expenses amounted to approximately RMB78,000 compared with RMB107,000 in the corresponding period of 2019.

Administration Expenses

During the Period Under Review, the Group's administration expense was approximately RMB20,104,000 (six months ended 30 June 2019: RMB27,096,000).

Finance Costs

During the Period Under Review, the Group's finance costs was RMB1,412,000 (six months ended 30 June 2019: RMB2,349,000), representing a decrease by 40%, compared with the corresponding period of 2019. The decrease was mainly due to the repayment of bank borrowings.

Profit before taxation

As a result of the foregoing, the profit before taxation was RMB72,472,000 for the six months ended 30 June 2020, compared with a profit of RMB90,691,000 in the corresponding period of 2019.

Total comprehensive income

As a result of the foregoing, the total comprehensive income was RMB55,154,000 for the six months ended 30 June 2020, compared with the total comprehensive income of RMB75,702,000 in the corresponding period of 2019.

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 2020, the Group's bank balances and cash was RMB271,859,000 (31 December 2019: RMB323,845,000). Net assets were RMB1,030,544,000 (31 December 2019: RMB1,060,486,000).

The Group recorded net current assets were RMB421,595,000 as of 30 June 2020, compared with RMB449,303,000 as of 31 December 2019.

Current ratio

As of 30 June 2020, the Group's current ratio (current assets divided by current liabilities) was 5.58 (31 December 2019: 4.43).

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 2020 and 30 June 2019.

	Unaudited	
	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Net cash inflow from operating activities	55,632	28,680
Net cash outflow from investing activities	(23,902)	(267,639)
Net cash outflow from financing activities	(85,632)	(43,310)
Net decrease in cash and cash equivalents	(53,902)	(282,269)
Cash and cash equivalents at 1 January	323,845	301,477
Effects of exchange rate changes on cash and cash equivalents	1,916	43
	<u>271,859</u>	<u>19,251</u>
Cash and cash equivalents at 30 June	<u>271,859</u>	<u>19,251</u>

For the Period Under Review, the net cash inflow from operating activities was RMB55,632,000, which was mainly attributable to (a) profit plus non cash cost as depreciation and amortisation minus financing cost and investment gains, amounted to RMB106,820,000 (b) increase in inventory of RMB18,176,000 (c) decrease in trade receivable and other receivables and prepayments of RMB33,774,000 (d) increase in trade payables, accruals and other payables of RMB20,122,000, (e) others impact of RMB3,573,000 and (f) Enterprise income tax paid amounted to RMB43,091,000.

For the Period Under Review, the net cash outflow from investing activities was RMB23,902,000, which was mainly attributable to (a) purchase of property, plant and equipment of RMB8,418,000 and disposal of property, plant and equipment of RMB189,000, (b) increase of intangible assets of RMB18,685,000, (c) Placement of debt investment of RMB693,880,000 and (d) redemption of debt investment of RMB693,880,000 and interests received of RMB3,012,000.

For the Period Under Review, the net cash outflow from financing activities was RMB85,632,000, which was primarily attributable to (a) dividend paid of RMB85,096,000 (b) lease payment of RMB536,000.

Capital Structure

As of 30 June 2020, the total number of issued ordinary shares of the Group was 925,000,000 shares (31 December 2019: 925,000,000 shares), each at HK\$0.01.

Indebtedness and charge on assets

As of 30 June 2020, the Group did not have bank and other borrowings and 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 2020, the Group did not have any material contingent liabilities or guarantees (31 December 2019: Nil). Except for the litigation as disclosed in the announcement dated 8 June 2020, the Group did not aware of any pending or potential material legal proceedings, involving us. Based on the information currently available to the Group, it is unlikely that a claim has been incurred or may be incurred.

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 Group may experience more pressure in production and operation. So the Group 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 2020, the Group employed approximately 400 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 2.41 million tones. As of 30 June 2020, Gold Mountain Mine has conducted mining activities mainly in the Jingxi-Balake and the Kuangou pit. The Mayituobi pit and the Yelmand pit have been closed.

	Unit	Six months ended 30 June	
		2020	2019
Ore mined	<i>Kt</i>	1,908	2,574
<i>Yelmand pit</i>	<i>Kt</i>	–	383
<i>Mayituobi pit</i>	<i>Kt</i>	–	–
<i>Kuangou pit</i>	<i>Kt</i>	37	959
<i>Jingxi-Balake pit</i>	<i>Kt</i>	1,871	1,232
Overburden mined	<i>m³</i>	4,838,565	3,911,408
<i>Yelmand pit</i>	<i>m³</i>	–	38,609
<i>Mayituobi pit</i>	<i>m³</i>	–	–
<i>Kuangou pit</i>	<i>m³</i>	2,140,641	1,260,398
<i>Jingxi-Balake pit</i>	<i>m³</i>	2,697,924	2,612,401
Strip ratio	:	6.64	3.96
Ore processed	<i>Kt</i>	2,405	3,304
<i>newly mined ore</i>	<i>Kt</i>	1,849	3,574
<i>ore in the existing pad</i>	<i>Kt</i>	556	730
Feed-in grade of ore	<i>g/t</i>	0.60	0.64
<i>newly mined ore</i>	<i>g/t</i>	0.65	0.72
<i>ore in the existing pad</i>	<i>g/t</i>	0.41	0.38
Recovery rate	%	53.4	61.2
Gold produced	<i>Oz</i>	20,544	35,511

During the Period Under Review, the aggregate expenditure on the ore mining operation and construction of stripping activities of the Group was approximately RMB85.0 million as compared to approximately RMB90.0 million for the six months ended 30 June 2019.

Exploration

For the Period Under Review, there is no expenditure directly relating to exploration, as the same as the six months ended 30 June 2019.

The following tables set forth the gold resources and reserves at the Gold Mountain Mine as of 30 June 2020: (Adjusted by internal geological department on JORC Mineral Resources and reserves statement estimated 31 December 2018.)

Hengxing Gold — Resources as at 30 June 2020

Category	Tonnes (<i>kt</i>)	Gold Grade (<i>g/t</i>)	Contained Gold (<i>kg</i>)
Measured	15,407	0.79	12,125
Indicated	76,388	0.67	51,177
Total Measured + Indicated	91,795	0.69	63,302
Inferred	19,246	0.73	13,975
Total Including Inferred	<u>111,041</u>	<u>0.70</u>	<u>77,277</u>

Hengxing Gold — Reserves as at 30 June 2020

Category	Tonnes (kt)	Gold Grade (g/t)	Contained gold (kg)
Proved	9,221	0.77	7,100
Probable	41,156	0.79	32,662
Total Proved + Probable	<u>50,377</u>	<u>0.79</u>	<u>39,762</u>

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

Mine Development

For the first half of 2020, the Company continued its construction and development activities in Gold Mountain Mine, such as the expansion project of heap leaching pad, construction of a new cement warehouse and purchase of automatic control equipment.

For the Period Under Review, the aggregate expenditure on the mine development and construction amounted to approximately RMB8.4 million, as compared to approximately RMB14.3 million for the six months ended 30 June 2019.

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 any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 (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 2020 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 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2020, 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 2020 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 2020 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, 26 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. KE Xiping, 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.