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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)

Change In Use Of Proceeds

Reference is made to the prospectus (the “**Prospectus**”) issued by Hengxing Gold Holding Company Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) dated 19 May 2014 relating to the global offering (the “**Global Offering**”) of the Company’s shares for the listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Prospectus.

Use of Proceeds

The net proceeds of the Global Offering (the “**IPO Proceeds**”), after deducting the underwriting fees, commissions and estimated expenses payable by the Company in relation to the Global Offering, was approximately HK\$330.4 million. It was disclosed in the section headed “FUTURE PLANS AND USE OF PROCEEDS” in the Prospectus and further disclosed in the clarification announcement (the “**Clarification Announcement**”) made by the Company on 28 May 2014 that the Company intended to use the IPO Proceeds for the following purposes:

- approximately 45% of the IPO proceeds, which represents approximately HK\$150.1 million, will be used to finance the Company’s CIL Project by the end of 2015. The Company plans to allocate 36% of these proceeds to construct and install the carbon-in-leach production and ancillary facilities and purchase relevant equipment, and 9% to acquire land use right, hire project design and supervisory experts, implement work safety measures and apply for relevant licenses;

- approximately 42% of the IPO proceeds, which represents approximately HK\$138.8 million, will be used to repay a portion of outstanding loans with interests and advances from our controlling shareholder Mr. Ke upon Listing;
- approximately 5% of the IPO proceeds, which represents approximately HK\$15.1 million, will be used to finance the Company's potential acquisitions of gold mineral resources and/or gold mining companies;
- approximately 5% of the IPO proceeds, which represents approximately HK\$15.1 million, will be used to finance the Company's future exploration works at the Gold Mountain Mine and its surrounding areas for which the Company holds exploration licenses; and
- approximately 3% of the IPO proceeds, which represents approximately HK\$11.3 million, will be used for working capital and other general corporate purposes.

As at the date of this announcement, the Company utilized approximately HK\$150.1 million of the IPO Proceeds, of which approximately HK\$138.8 million was utilised to repay outstanding loans with interests and advances from our controlling shareholder Mr. Ke, and approximately HK\$11.3 million was utilised for working capital and other general purposes.

Change In Use Of Proceeds

On 15 June 2015, the board (“**Board**”) has resolved to change the use of the unutilized IPO Proceeds, amounting to approximately HK\$150.1 million, and apply for new specific purposes, details of which are tabulated below:

	Use of IPO Proceeds as stated in the clarification announcement			Use of the unutilized IPO Proceeds after the proposed change
	Proposed use	Utilized up to the date of this announcement	Unutilized IPO Proceed	
	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)
Financing the Company's CIL Project, including:				
• Constructing and installing the carbon-in-leach production and ancillary facilities, purchases of relevant equipment	120.1	-	120.1	-
• Acquiring land use right, hiring project design and supervisory experts, implementing work safety measures and applying for relevant licenses	30.0	-	30.0	-
Upgrading the crushing system in order to improve the efficiency of current production process of Gold Mountain Mine	-	-	-	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

	Use of IPO Proceeds as stated in the clarification announcement			Use of the unutilized IPO Proceeds after the proposed change
	Proposed use	Utilized up to the date of this announcement	Unutilized IPO Proceed	
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
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
Financing the Company's potential acquisitions of gold resources, including expenses for due diligence, environmental and exploratory studies	15.1	-	15.1	77.6
Financing further exploration works at the Gold Mountain Mine and its surrounding areas where the Company holds exploration licenses	15.1	-	15.1	15.1
Working capital use and other general corporate purposes	11.3	11.3	-	-

Reasons For The Proposed Change in Use of Proceeds

As stated in the Prospectus and the Clarification Announcement, approximately 45% of the IPO proceeds or HK\$150.1 million is intended to be applied for the development of the CIL Project, which has been under planning and subject to pre-implementation reviews. In April 2015, the Company engaged four external independent experts in mining industry to conduct respectively technical and economic assessments of the CIL Project based on the feasibility study report of the Gold Mountain Mine CIL project with daily ore processing capacity of 5,000 tonnes (新疆伊寧縣金山金礦 5,000 噸/日全泥氰化碳浸工藝改技工程可行性研究報告) prepared by Beijing Institute General Research of Mining & Metallurgy (北京礦冶研究總院) in August 2013. The assessments indicated, among others, that given the prevailing gold price and the price trend, the CIL Project would not be economically feasible at the current stage due to: (a) the significant increase in production costs resulting from additional consumption of grinding materials to treat ore from Gold Mountain Mine which is rated as having high degree of hardness, (b) the recent continuously declining gold price prolonging the estimated investment return of the CIL Project and presenting significant downside risk, and (c) the inability of achieving the required final particle ore size, which may adversely affect the gold recovery rate.

In view of the above, the Company considers that the re-allocation of the IPO Proceeds from the CIL Project for the following revised purposes would optimize the use of the Group's financial resources. Of the HK\$150.1 million unutilised IPO proceeds under the proposed change, (i) HK\$12.5 million will be re-allocated for the technical improvement of the current crushing system, (ii) HK\$27.5 million for the developments of 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, (iii) an additional HK\$ 62.5 million to finance potential acquisitions of gold mineral resources for which the Company is actively seeking domestically and abroad, (iv)

lastly, HK\$47.6 million to be re-allocated for repaying part of the outstanding gold lease facilities and reduce finance cost. Details of the revised uses of the IPO Proceeds are as follows:

(i) The Company has taken continuous effort to upgrade the current crushing system by, among others, testing alternative crushers with the purpose of reaching designed ore processing capacity of 5 million tonnes per annum and average gold recovery rates set out in the Independent Technical Report issued by Micromine (Beijing) International Software Co., Ltd (the Independent Technical Adviser) on 31 December 2013. The current crushing system fails to meet certain defined acceptance criteria during the trial production period of Gold Mountain Mine as disclosed in the announcement dated 1 April 2015 regarding Arbitration initiated against Trio China Ltd. Therefore studies have been conducted to identify and compare the merits of various alternative crushers produced by different manufacturers. As disclosed in the announcement dated 16 April 2015 regarding the Operational Updates of Gold Mountain Mine for the First Quarter of 2015, the Company is considering the applications of Gaoke Crusher (高科破碎機) supplied by Shenyang Metallurgy Mine Heavy Equipment Co., Ltd (瀋陽冶礦重型設備有限公司) and vibrating crusher supplied by Xuzhou Qiaoxin Mining Machinery Manufacturing Company Limited (徐州喬鑫礦業機械製造有限公司).

On 1 December 2014, the Company signed a purchase contract ordering a vibrating crusher with Xuzhou Qiaoxin Mining Machinery Manufacturing Company Limited for RMB2 million. At present, the manufacturer is arranging and scheduling the on-site trial run of such vibrating crusher. The Company plans to purchase additional four sets of the vibrating crushers if the first set runs smoothly. Meanwhile the company is considering the Gaoke crusher, subject to satisfactory trial runs. Given the quotes from suppliers, the aggregate amount of purchases is estimated to be HK\$12.5 million.

(ii) The Company completed in 2014 a pre-feasibility study on developing the Kuangou prospect, including the developments of a new open pit and a new leaching pad to accommodate ore mined from the Kuangou prospect. In May 2015, the Company finalized a joint study with external independent experts on the preliminary design and economic feasibility of the Kuangou prospect. The total development costs is approximately RMB148.77 million, 30% of which is intended to be financed by internal funding and part of the unutilized IPO Proceeds, with the rest to be funded by bank loans. The project will have a designed ore processing capability of 1.5 million ton per annum and expected to be completed in one year. The development of the Kuangou prospect has been given priority, considering that ore from the Kuangou prospect has a relatively higher average gold grade and is relatively better oxidized compared with ore mined from other prospects within the Gold Mountain Mine. Therefore it can be crushed more easily and reacts with chemicals more fully to get a higher gold recovery rate.

(iii) In addition, the Company believes the current gold price is at a relatively low level, presenting opportunities of gold resources acquisitions at a lower cost. As stated in its announcement dated 9 January 2015, the Company has been seeking and assessing acquisition targets to increase its gold mineral resources.

The increased re-allocation of the IPO Proceeds for acquisitions of gold resources is based on the Company's recent negotiations with third parties, which covers, among others, the estimated amount of cash consideration and related due diligence expenses for technical, environmental

and geological studies. Negotiations with owners of the acquisition targets have been ongoing and relevant letters of intent are not signed. Overseas field trips and geological reviews of the acquisition targets have been conducted. Initial investment in the acquisition targets is estimated to be in the range of USD10 million to USD40 million, depending on the acquiring shareholding percentage, the quality and amount of gold resources.

The acquisition targets are either located in the PRC or overseas with total gold resources ranging from 10 ton to 40 ton by JORC standard. Some of the acquisition targets are at late stage of exploration, while the others are in operation.

(iv) The Company intends to apply HK\$47.6 million of the unutilized IPO Proceeds for repaying part of the two existing gold lease facilities, which will mature on 24 December 2015 and 19 November 2015 respectively. The existing gold lease facilities involve two advances of 200 kg of gold from Agricultural Bank of China Xinjiang Branch at an interest rate of 5.2% per annum and 190 kg of gold from Industrial Bank of China Xiamen Branch at 3.8% per annum.

The Company confirms that there are no material changes in the nature of business as set out in the Prospectus. The Company has considered the impact of the proposed changes on the Group's business and believes that the above re-allocations of the unutilised IPO Proceeds are appropriate as these will allow the Company to deploy its financial resources more effectively to enhance operational efficiency, production scale and future business opportunities. The Board considers the proposed changes in the use of the IPO Proceeds is in the best interest of the Company and its shareholders as a whole.

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

Xiamen, the PRC, 16 June 2015

As at the date of this announcement, the executive directors of the Company are Mr. KE Xiping, Mr. CHEN, David Yu and Mr. Albert Fook Lau HO, and the independent non-executive directors of the Company are Ms. WONG, Yan Ki Angel, Mr. XIAO Wei and Dr. Tim SUN.