Wanguo International Mining Group Limited

萬國國際礦業集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 3939

Integrate Resources, Create Values, Build Benefits and **Contribute to the Society**

Interim Report

2018

Content

Corporate Information

DIRECTORS

Executive Directors:
Gao Mingqing *(Chairman, Chief Executive Officer)*
Gao Jinzhu
Xie Yaolin
Liu Zhichun

Non-executive Directors:
Li Kwok Ping
Lee Hung Yuen
Iu Ching (appointed on 20 March 2018)

Independent non-executive Directors:
Lu Jian Zhong
Qi Yang
Shen Peng
Xiong Zeke (appointed on 20 March 2018)

AUDIT COMMITTEE

Shen Peng *(Chairman)*
Qi Yang
Lu Jian Zhong
Xiong Zeke (appointed on 20 March 2018)

REMUNERATION COMMITTEE

Qi Yang *(Chairman)*
Lu Jian Zhong
Liu Zhichun

NOMINATION COMMITTEE

Shen Peng *(Chairman)*
Qi Yang
Gao Jinzhu

COMPANY SECRETARY

Wong Chi Wah *(HKICPA, FCCA)*

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Xinzhuang Township Yifeng County
Jiangxi Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1, 28/F
Singga Commercial Centre
144-151 Connaught Road West
Hong Kong

REGISTERED OFFICE

3rd Floor, Queensgate House
113 South Church Street
P.O. Box 10240
Grand Cayman, KY1-1002
Cayman Islands

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square Grand Cayman KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISER

as to Hong Kong Law
Dentons Hong Kong LLP
3201 Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL BANKER

Bank of China, Yifeng Branch
239 Xinchang West Street
Yifeng County
Jiangxi Province
PRC

STOCK CODE

3939

COMPANY WEBSITE

www.wgmine.com

Management Discussion and Analysis

BUSINESS REVIEW

Wanguo International Mining Group Limited (our "Company") and its subsidiaries (collectively referred to as the "Group" or "We") is principally engaged in the business of mining, ore processing and sale of concentrates products in the People's Republic of China (the "PRC").

Currently, we, through our wholly-owned subsidiaries, own the entire equity interest in Jiangxi Province Yifeng Wanguo Mining Company Limited ("Yifeng Wanguo") which in turn owns the Xinzhuang Mine in which we conduct underground mining. The Xinzhuang Mine has a substantial volume of non-ferrous polymetallic mineral resources. Products of our Group primarily include copper concentrates, iron concentrates, zinc concentrates, sulfur concentrates, lead concentrates as well as by-products of gold and silver. In addition, we also own 51% attributable interest of Xizang Changdu County Dadi Mining Company Limited ("Xizang Changdu"), which in turn owns the Walege Mine in which we may further exploit for open-pit and underground mining. The Walege Mine has a significant volume of mineral resources of lead and silver.

Operating performance

The following table sets forth the volume of respective products sold during the six months ended 30 June 2018 compared to the corresponding period in 2017 at the Xinzhuang Mine.

	Six months ended 30 June 2018 Volume (tonnes)	 2017 Volume (tonnes)	 Changes (approximate %)
Copper in Copper concentrates	1,539	1,715	(10.3)
Zinc in Zinc concentrates	2,427	2,445	(0.7)
Iron concentrates	56,385	62,133	(9.3)
Sulfur concentrates	78,217	77,614	0.8
Lead in lead concentrates	395	652	(39.4)
Gold in concentrates (kg)	53	64	(17.2)
Silver in concentrates (kg)	3,048	5,369	(43.2)

The following table sets forth the volume of ores mined and processed during the six months ended 30 June 2018 and 2017 respectively at our Xinzhuang Mine.

	Six months ended 30 June 2018 Volume (tonnes)	 2017 Volume (tonnes)	 Change (approximate %)
Volume of ores mined	373,954	374,768	(0.2)
Volume of ores processed	364,609	373,610	(2.4)

The drop in volume of concentrates processed and sold during the six months ended 30 June 2018 compared with the same corresponding period in 2017 was mainly attributable to the temporary suspension of operation of the grinding mill for the purpose of upgrading as well as insufficient labour availability subsequent to the Chinese New Year holiday.

Management Discussion and Analysis

EXPANSION IN EXISTING MINES

Xinzhuang Mine

We had completed our expansion plan as disclosed in the prospectus of the Company dated 28 June 2012 (the "Prospectus") in Xinzhuang Mine, reaching 600,000 tonnes per annum ("tpa") in both mining capacity and processing capacity.

Yifeng Wanguo entered into an agreement with China Nerin Engineering Co., Ltd. (中國瑞林工程技術有限公司) for conducting a feasibility study on an expansion plan of our Xinzhuang Mine to 900,000 tpa. As at the date of this interim report, the Group has not yet received the report. It is expected that the Group will receive the report of feasibility study during the first half of 2019. China Nerin Engineering Co., Ltd. has also been appointed to prepare a feasibility study report for the tailings dam, an environmental assessment report, as well as a preliminary design and safety report for our 900,000 tpa expansion plan.

Walege Mine

We are in the progress of applying the mining license for the Walege Mine. The industrial indicators' demonstration was completed in February 2018 and was registered and filed to the National Land Bureau Evaluation Centre (國土廳評審中心). Final draft of the exploration report which was revised based on the industrial indicators has been submitted in July 2018 for review by the National Land Bureau Evaluation Centre.

HORIZONTAL EXPANSION

Proposed acquisition of majority shareholding of a gold mine in Solomon Islands

On 16 July 2017, the Company entered into the share sales and purchase agreement (the "S&P Agreement") with AXF Resources Pty Limited ("AXF Resources") pursuant to which the Company has conditionally agreed to acquire, and AXF Resources has conditionally agreed to dispose of, 611 shares out of 1,000 shares in AXF Gold Ridge Pty Limited ("AXF Gold Ridge") (representing 61.1% equity interest of AXF Gold Ridge) in consideration of AUD58.35 million. Pursuant to the terms of the S&P Agreement, the Company has agreed an estimated maximum commitment of AUD50 million for the Reconstruction Works and the AM Costs. Hence, the total amount of commitment by the Company for the acquisition as well as the Reconstruction Works and the AM Costs is AUD108.35 million.

Due to a material difference between the aforesaid consideration to be paid and the draft valuation amount of the asset to be acquired made by an independent third party during the due diligence review, the Company and AXF Resources re-negotiated the terms of the acquisition, and entered into a deed of amendment and restatement (the "Deed") on 20 February 2018 to supersede the S&P Agreement. Pursuant to the Deed, the Company has conditionally agreed to acquire, and AXF Resources has conditionally agreed to dispose of, 7,778 shares out of 10,000 shares in AXF Gold Ridge (representing 77.78% equity interest of AXF Gold Ridge) in consideration of AUD53.473 million (including the AUD11.11 million of the Reconstruction Works taken to be paid by the Company on behalf of AXF Resources) and the net consideration is AUD42.363 million. Pursuant to the terms of the Deed, the Company has agreed a maximum commitment of AUD50 million for the Reconstruction Works.

Pursuant to the terms of the Deed, on the completion date, both parties shall sign the Put Option Agreement, pursuant to which AXF Resources will agree to pay AUD10 to the Company and the Company will grant AXF Resources an option (the "Put Option") to require the Company to purchase all of the remaining interest in AXF Gold Ridge held by AXF Resources (i.e. 22.22% equity interest of AXF Gold Ridge). The aforesaid consideration payable by the Company on exercise of the Put Option shall be AUD26.388 million plus any premium to be agreed by the parties. Hence, the total maximum amount of commitment of the Company for the acquisition (together with the Reconstruction Works) and the Put Option is approximately AUD118.751 million (subject to any premium to be added to the consideration on the exercise of the Put Option).

The Gold Ridge Project is a gold resource project located at lower northern slopes of Mount Chaunapaho in the central ranges of Guadalcanal Island. The Gold Ridge deposits are concentrations of low-sulphidation intrusion related epithermal gold mineralisation. It consists of five known mineralised deposits of Valehaichichi, Charivunga, Namachamata, Kupers and Dawsons.

The Gold Ridge Project consists of a mining lease (No. 1/1997) that covers an area of 30 km^2 and surrounding this is a prospecting license (SPL 194) that covers an area of 130 km^2. Set out below is the estimated resources of the Gold Ridge Mine under JORC code prepared by Independent Technical Expert.

Gold Ridge Mineral Resources (August 2016) at a cut-off grade of 0.5g/t Au

	Measured		**Indicated**		**Inferred**		**Total**	
Mine deposits	**kt**	**Au g/t**	**kt**	**Au g/t**	**kt**	**Au g/t**	**Kt**	**Au g/t**
Valehaichichi	434	1.26	3,118	1.28	867	1.48	4,419	1.32
Namachamata	166	2.03	457	1.66	146	1.36	769	1.68
Charivunga	–	–	8,437	1.51	16,905	2.06	25,342	1.88
Kupers	2,640	1.50	7,662	1.18	3,004	1.30	13,306	1.27
Dawsons	1,056	1.42	15,932	1.30	2,895	1.60	19,883	1.35
Total	4,296	1.48	35,606	1.33	23,817	1.88	63,719	1.52

At the date of this report, the conditions precedent of the proposed acquisition has not fulfilled. The Group is now in progress of conducting due diligences. Since the Gold Ridge Project has substantial reserves of gold, it is expected to be further exploited, and the processing plant will be renovated upon completion by the Group. The Gold Ridge Project would therefore contribute sales revenue and profits to the Group. Unlike most other commodities, gold has been a stable performer in recent years, which is expected to enhance the stability of the Group's income in the future under impact of economy fluctuation. Please refer to the announcement of the Company dated 22 February 2018 for details.

Subscription of new shares under general mandate

On 3 November 2017, the Company entered into a subscription agreement with Cheng Tun Prime Shine Limited (formerly known as Prime Shine Limited)(the "Subscriber"), an indirectly wholly owned subsidiary of Cheng Tun Mining Group Company Limited (盛屯礦業股份有限公司), a company listed on the Shanghai Stock Exchange (Stock code: 600711), and is principally engaged in the business of mining and ore-processing of non-ferrous metals and providing value-added services in the metals industry. Pursuant to the subscription agreement, the Subscriber agreed to subscribe for an aggregate of 120,000,000 subscription shares, being the first subscription shares of 66,000,000 shares (the "First Subscription") and the second subscription shares of 54,000,000 shares (the "Second Subscription") at the subscription price of HK$1.86 per subscription share. Please refer to the Company's announcement dated 3 November 2017 for details.

The net proceeds for the subscription was intended to be used in the following:

a) payment of the consideration in relation to the acquisition of 35% equity interest of Xizang Changdu by the Group;

b) payment of the consideration in relation to the acquisition of majority shareholding of AXF Gold Ridge by the Group; and

c) funding of the project concerning the exploitation and operations of the gold mine located on the island of Guadalcanal, the central island of the Solomon Islands, approximately 30 kilometers south-east of the capital city Honiara in Solomon Islands.

Management Discussion and Analysis

On 28 February 2018, the subscription was completed where an aggregate of 120,000,000 shares in the subscription price of HK$1.86 per share had been allotted and issued to the Subscriber under the general mandate granted to the Directors at the annual general meeting of the Company held on 9 June 2017. Net proceeds of the subscription were approximately HK$223.0 million. As at 30 June 2018, the utilisation of the net proceeds from the subscription was as follows:

	Net proceeds from the subscription utilised (up to 30 June 2018) (HK$ million)
Net proceeds from the subscription	223.0
Payment of the consideration in relation to the acquisition of 35% equity interest of Xizang Changdu by the Group;	(105.3)
Payment of the consideration in relation to the acquisition of majority shareholding of AXF Gold Ridge;	(86.2)
Funding of the project concerning the exploitation and operations of the gold mine located on the island of Guadalcanal, the central island of the Solomon Islands, approximately 30 kilometers south-east of the capital city Honiara in Solomon Islands.	(17.8)
Balance of the net proceeds	13.7

The unutilised balance of net proceeds from the subscription has been used for the payment of the consideration in relation to the acquisition of 35% equity interest of Xizang Changdu of approximately HK$13.2 million and funding of gold mine project in Soloman Islands of approximately HK$0.5 million in July and August 2018, respectively.

FINANCE REVIEW

Revenue

The Group's overall revenue decreased by approximately 6.5% from approximately RMB164.5 million for the six months ended 30 June 2017 to approximately RMB153.8 million for the six months ended 30 June 2018. The decrease was primarily attributable to the decrease in volume of ores processed and concentrates sold.

For the six months ended 30 June 2018, we sold 1,539 tonnes of copper in copper concentrates, 2,427 tonnes of zinc in zinc concentrates and 56,385 tonnes of iron concentrates, compared to 1,715 tonnes, 2,445 tonnes and 62,133 tonnes, respectively, for the six months ended 30 June 2017, representing a decrease of approximately 10.3%, 0.7% and 9.3% for copper in copper concentrates, zinc in zinc concentrates and iron concentrates, respectively. The decrease was principally attributable to the temporary suspension of operation of the grinding mill for the purpose of upgrading as well as the insufficient labour availability subsequent to the Chinese New Year holiday.

The average prices of copper in copper concentrates, zinc in zinc concentrates and iron concentrates for the six months ended 30 June 2018 were approximately RMB37,079, RMB16,423 and RMB390 per tonne respectively, compared to approximately RMB32,678, RMB13,899 and RMB451 per tonne respectively, for the six months ended 30 June 2017, representing an increase of approximately 13.5%, 18.2% and a drop of approximately 13.5%, respectively. During the six months ended 30 June 2018, some of the metal prices have increased continuously. Our Directors believe that such increase was mainly due to the recovery of the industry.

Cost of sales

Our cost of sales increased by approximately 2.7% from approximately RMB91.1 million for the six months ended 30 June 2017 to approximately RMB93.6 million for the six months ended 30 June 2018, which was mainly due to the increase in wages of our workers and depreciation upon completion of the 600,000 tpa expansion project.

Gross profit and gross profit margin

The overall gross profit of our Group for the six months ended 30 June 2018 was approximately RMB60.2 million, representing a decrease of approximately 18.0% compared to approximately RMB73.4 million for the six months ended 30 June 2017. Our overall gross profit margin decreased from approximately 44.6% for the six months ended 30 June 2017 to approximately 39.1% for the six months ended 30 June 2018. Such decrease was mainly attributable to the increase in cost of sales.

Other income

Our other income comprised mainly bank interest income of approximately RMB0.2 million, incentives received from a local governmental authority of approximately RMB0.3 million and government grant and subsidy to Yifeng Wanguo in relation to the mining technology improvement of approximately RMB0.6 million for the six months ended 30 June 2018. Other income increased by approximately RMB0.2 million compared with the corresponding period in 2017, which was attributable to the increase in incentives received from a local governmental authority.

Other gains and losses

Our other gains and losses decreased by approximately RMB0.1 million, which comprised mainly loss on disposal of property, plant and equipment of approximately RMB0.4 million and unrealised exchange gain of approximately RMB0.2 million for the six months ended 30 June 2018 as a result of the translation of Australian dollars and Hong Kong dollars into Renminbi. Unrealised exchange loss of approximately RMB0.1 million was incurred for the six months ended 30 June 2017 from the appreciation of Australian dollars against Renminbi.

Distribution and selling expenses

Our distribution and selling expenses decreased by approximately 5.0% from approximately RMB2.0 million for the six months ended 30 June 2017 to approximately RMB1.9 million for the six months ended 30 June 2018. The decrease was mainly attributable to the decrease in sales volume.

Administrative expenses

Our administrative expenses increased by approximately 7.3% from approximately RMB15.1 million for the six months ended 30 June 2017 to approximately RMB16.2 million for the six months ended 30 June 2018. The increase was principally attributable to the increase in staff salaries.

Finance costs

Our finance costs decreased by approximately 39.8% from approximately RMB8.8 million for the six months ended 30 June 2017 to approximately RMB5.3 million for the six months ended 30 June 2018, primarily due to the decrease in imputed interest expenses on consideration payable to a former non-controlling shareholder of a subsidiary.

Income tax expense

Our income tax expense was approximately RMB10.8 million for the six months ended 30 June 2018, consisting of PRC corporate income tax payable of approximately RMB9.2 million and withholding tax payable of approximately RMB1.6 million. Our income tax expense was approximately RMB16.0 million for the six months ended 30 June 2017, consisting of PRC corporate income tax payable of approximately RMB14.2 million, withholding tax payable of approximately RMB1.9 million and deferred tax credit of approximately RMB0.1 million.

The decrease in our income tax expense for the six months ended 30 June 2018 was primarily due to the decrease in the PRC corporate income tax expense as a result of decrease in operating profit.

Profit and total comprehensive income

As a result of the foregoing, our profit after taxation decreased by approximately 16.3% or approximately RMB5.3 million, from approximately RMB32.6 million for the six months ended 30 June 2017 to approximately RMB27.3 million for the six months ended 30 June 2018. Our net profit margin decreased from approximately 19.8% for the six months ended 30 June 2017 to approximately 17.7% for the six months ended 30 June 2018 mainly as a result of the decrease in profit margin of concentrates sold.

Profit and total comprehensive income attributable to owners of our Company

Profit and total comprehensive income attributable to owners of our Company decreased by approximately 16.0% or approximately RMB5.2 million, from approximately RMB32.6 million for the six months ended 30 June 2017 to approximately RMB27.4 million for the six months ended 30 June 2018.

Liquidity and financial resources

During the six months ended 30 June 2018, the Group's net cash from operating activities was approximately RMB23.1 million (net cash from operating activities for the six months ended 30 June 2017: RMB71.2 million) and the Group's bank balances and cash was approximately RMB24.1 million as at 30 June 2018 (as at 31 December 2017: RMB108.6 million). Included in bank balances and cash, approximately RMB8.9 million (as at 31 December 2017: RMB79.1 million) were denominated in Hong Kong dollars and Australian dollars. Such decrease was mainly attributable to the deposits paid for the potential acquisition project in Soloman Islands and partial settlement of consideration for acquisition of Xizang Changdu.

Gearing ratio

The Group had a gearing ratio of approximately 19.4% (representing total bank borrowings and payables to former non-controlling shareholder of a subsidiary divided by total assets) as at 30 June 2018. The gearing ratio was approximately 20.8% as at 31 December 2017. The decrease in gearing ratio was mainly attributable to the repayment of approximately RMB18.0 million to a former non-controlling shareholder of a subsidiary during the six months ended 30 June 2018.

Bank borrowings

As at 30 June 2018, the Group had secured bank borrowings of RMB145.5 million in aggregate with maturity from one year to nine years and effective interest rate of 5.45%.

Capital expenditure

Capital expenditure mainly includes purchase of mining equipment, construction of mining structures at the Xinzhuang Mine, acquisition of Xizang Changdu, deposit paid for acquisition of a subsidiary, payment for land use right as well as payment for exploration and evaluation assets. For the six months ended 30 June 2018, capital expenditure of approximately RMB173.6 million has been incurred (for the six months ended 30 June 2017: RMB10.9 million).

Contractual obligations and capital commitment

As at 30 June 2018, the Group has entered into a non-cancellable operating lease with lease payables of approximately RMB0.1 million for certain properties of the Group.

As at 30 June 2018, the Group's capital commitments amounted to approximately RMB330.1 million, and decreased by approximately RMB193.1 million as compared to approximately RMB523.2 million as at 31 December 2017, which was primarily due to reduction of consideration for the acquisition of a gold mine in Solomon Islands.

Contingent liabilities

As at 30 June 2018, the Group did not have any material contingent liabilities or guarantees.

Management Discussion and Analysis

Material acquisition and disposal of subsidiaries, associates and joint ventures

Save as disclosed in this interim report, the Group had no material acquisition and disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2018.

Significant investments and future plan for material investments or capital assets

Save as disclosed in this interim report, the Group had no significant investment nor were there any plan for material investments or additions of capital assets authorised by the board of Directors (the "Board") as at the date of this interim report.

Charge on group assets

As at 30 June 2018, the Group's prepaid lease payment, mining rights and building with carrying value of approximately RMB83.4 million (as at 31 December 2017: RMB85.3 million) were pledged to secure the Group's bank borrowings and facilities. Details have been set out in note 17 to the condensed consolidated financial statements.

Exposure to fluctuations in exchange rates

The Group's businesses are located primarily in the PRC and most of the transactions are conducted in Renminbi. Except for certain Group's bank balance and cash which are denominated in Hong Kong dollars and Australian dollars, the majority of the Group's assets and liabilities are denominated in Renminbi.

As Renminbi fluctuates against Hong Kong dollars and Australian dollars in a limited extent during the reporting period, the Group had no material adverse exposure to foreign exchange fluctuations during the six months ended 30 June 2018.

Interest rate risk

Our bank borrowings are denominated in Renminbi and Hong Kong dollars borrowed from domestic commercial banks at interest rates that are determined by reference to the benchmark interest rates set by the People's Bank of China ("PBoC") and Hong Kong Interbank Offered Rate ("HIBOR") respectively. Interest rates on our bank loans are subject to adjustments by our lenders in accordance with changes in the PBoC benchmark rates and HIBOR. We are exposed to interest rate risk resulting from changes in interest rates on our short-term and long-term bank borrowings. Increases in benchmark interest rates will increase the interest rates on our bank loans. Increases in interest rates will increase our expense on outstanding borrowings and the cost of new borrowings, and therefore could have a material adverse effect on our financial results. We have not used any interest rate swaps or other derivatives to hedge against interest rate risk.

INTERIM DIVIDEND

The Board did not declare an interim dividend for six months ended 30 June 2018 (six months ended 30 June 2017: RMB0.50 cents per share).

SHARE OPTION SCHEME

During the six months ended 30 June 2018, no share option was granted, exercised, expired or lapsed and there was no outstanding share option under the share option scheme.

HUMAN RESOURCES

As at 30 June 2018, the Group employed approximately 334 employees. Remuneration is determined and reviewed based on fair principles with reference to market conditions and individual performances.

The Group also provides other benefits to its employees in the PRC including medical insurances and retirement benefits. The Group's employees in Hong Kong are also enrolled in the mandatory provident fund scheme.

Management Discussion and Analysis

PROSPECT

We intend to continue to grow our business into a leading copper and iron mining company in the PRC through the following major strategies.

Growing production at our mine and outsourcing our mining works

The scale of our production operation in the Xinzhuang Mine has increased to our targeted mining capacity and processing capacity of 600,000 tpa by end of 2014. We planned to further upgrade the mining capacity to 900,000 tpa in coming years. To minimise costs, we will continue to outsource our underground mining works to third-party contractors.

Horizontal expansion through future acquisitions of new mines

We intend to further expand our mineral resources and ore reserves through the acquisitions of new mines. We will consider and balance assessment criteria carefully in respect of our acquisition targets, in order to pursue acquisitions prudently with a view to further growing our business and maximising returns to the Shareholders.

OUTLOOK

In the second half of 2018, metal prices are expected to stabilise and the US dollar may be suppressed. In terms of demand, PRC government policies may continue to expand domestic demand, which is expected to boost demand for non-ferrous metals. From the perspective of monetary policy, domestic monetary policy is expected to be more flexible. The Group is optimistic about metal prices in the second half of 2018.

In order to strengthen our mineral resources, the Group is in the progress of further increasing the production capacity of Xinzhuang Mine to 900,000 tpa and applying for the mining license of Walege Mine as well as completing the acquisition of the gold mine in Solomon Islands.

EXPLORATION, DEVELOPMENT AND MINING ACTIVITIES

Xinzhuang Mine

Mineral exploration

During the six months ended 30 June 2018, the exploration activities in the Xinzhuang Mine was within 4-29 exploration line. We have completed underground geological drilling of 7,478 m, with drill size of 60-90 mm for the six months ended 30 June 2018. For the six months ended 30 June 2018, we have also finished tunnel drilling of 301 m and completed adit mapping of 8,439 m.

For the six months ended 30 June 2018, no expenditure of mineral exploration was incurred.

Development

During the six months ended 30 June 2018, the Group incurred development expenditure of approximately RMB11.7 million. Our 600,000 tpa expansion plan has been completed and a safety acceptance for the completion and renovation of the 600,000 tpa expansion project was completed and approved by end of 2017. The Group has started to prepare relevant reports for our 900,000 tpa expansion plan.

Details breakdown of development expenditure is as follows:

	RMB' (million)
Land use right	0.1
Mining structures	7.0
Office buildings	0.3
Machinery and electronic equipment for process plants	4.1
Motor vehicles	0.2
	11.7

Management Discussion and Analysis

Mining activities

During the six months ended 30 June 2018, we processed a total of 364,609 tonnes of ore in the Xinzhuang Mine. The following table shows the volume of our concentrates products sold during the six months ended 30 June 2018.

Type of concentrates sold	Volume
Copper in copper concentrates	1,539 tonnes
Iron concentrates	56,385 tonnes
Zinc in zinc concentrates	2,427 tonnes
Sulfur concentrates	78,217 tonnes
Lead in lead concentrates	395 tonnes
Gold in copper concentrates	27 kg
Silver in copper concentrates	1,311 kg
Silver in zinc concentrates	249 kg
Gold in lead concentrates	26 kg
Sliver in lead concentrates	1,488 kg
Copper in lead concentrates	137 kg

During the six months ended 30 June 2018, the Group incurred expenditures for mining and processing activities were RMB57.1 million (30 June 2017: RMB55.3 million) and RMB25.6 million (30 June 2017: RMB26.5 million) respectively. The unit expenditures for mining and processing activities for the six months ended 30 June 2018 were RMB152.6/t (30 June 2017: RMB147.5/t) and RMB70.3/t (30 June 2017: RMB70.9/t) respectively.

Walege Mine

We own 51% attributable interest of Xizang Changdu which in turn owns the Walege Mine in which we may further exploit for open-pit and underground mining. The Walege Mine has a significant volume of mineral resources of lead and silver. Xizang Changdu currently owns an exploration license and the Group is in the progress of applying for the mining license.

Mineral exploration

All the field exploration work has been completed before 2017. No exploration was conducted during the six months ended 30 June 2018.

Development

During the six months ended 30 June 2018, the Group incurred development expenditure of approximately RMB0.7 million in respect of preparation of various trials and tests for the preparation work relating to the application of mining license.

Mining activities

Since Walege Mine is still in development stage, no mining activities has incurred for the six months ended 30 June 2018.

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance and has complied with all material code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2018, except for the deviation from code provision A.2.1 of the CG Code in respect of segregation of the roles of chairman and chief executive officer as mentioned below.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Gao Mingqing, in addition to his duties as the chairman of the Company, is also responsible for the strategic planning and overseeing all aspects of the Group's operations as the chief executive officer of the Company. This constitutes a deviation from code provision A.2.1 of the CG Code. Mr. Gao Mingqing as one of the founders of the Group has extensive experience and knowledge in the core business of the Group and his duties for overseeing the Group's operations is clearly beneficial to the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Group.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "Code of Conduct") regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Having made specific enquiries with all Directors, all Directors have confirmed that they had complied with the Model Code and the required standard set out in the Code of Conduct during the six months ended 30 June 2018.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by relevant employees who are likely to possess inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company for the six months ended 30 June 2018.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE LISTING RULES

Ms. Iu Ching, our non-executive Director, has been appointed as the director of Cheng Tun Prime Shine Limited, a substantial shareholder of the Company since February 2018.

Save as disclosed above, there is no other change in the Directors' biographical details which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2017 annual report of the Company up to the date of this interim report.

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

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

REVIEW OF ACCOUNTS BY THE AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") comprises four independent non-executive Directors, namely Mr. Shen Peng, Mr. Qi Yang, Dr. Lu Jian Zhong and Mr. Xiong Zeke. The purpose of the establishment of the Audit Committee is for reviewing and supervising the financial reporting process, and risk management and internal control of the Group. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended 30 June 2018 and considered that they were prepared in compliance with the relevant accounting standards, and that the Company has made appropriate disclosure thereof under the requirements of the Listing Rules.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 12 June 2012.

1. **Purpose of the Share Option Scheme**

   The purpose of the Share Option Scheme is to provide an incentive for Eligible Participants (defined below) to work with commitment towards enhancing the value of our Company and the shares of our Company (the "Shares") for the benefit of our Shareholders and to retain and attract calibres and working partners whose contributions are or may be beneficial to the growth and development of our Group.

2. **Participants of the Share Option Scheme and the basis of determining the eligibility of the participants**

   The Board may at its discretion grant options to any full-time or part-time employees, potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive Directors) of our Company or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board has contributed or will contribute to our Group (collectively "Eligible Participants").

3. **Maximum number of Shares**

   The maximum number of Shares in respect of which options may be granted under the Share Option Scheme shall not in aggregate exceed the number of Shares that shall represent 10% of the total number of Shares in issue as of the Listing Date (i.e. 10 July 2012), which is 60,000,000 Shares, being approximately 8.33% of the issued share capital of the Company as at the date of this interim report. The limit may be refreshed at any time provided that the new limit must not be in aggregate exceed 10% of the issued share capital of the Company as at the date of the Shareholders' approval in general meeting.

   However, the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the shares in issue from time to time.

4. **Maximum entitlement of each participant**

   Unless approved by our Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any participant if the acceptance of those options would result in the total number of Shares issued and to be issued to that participant on exercise of his options during any 12-month period exceeding 1% of the total Shares then in issue.

5. **Offer period and amount payable for options**

   The offer shall remain open for acceptance for a period of 14 business days from the date on which it is made provided that no such offer shall be open for acceptance after the expiry of the Scheme Period (as defined below) or after the termination of the Share Option Scheme. Unless otherwise determined by the Board and stated in the Offer Letter, there shall be no general performance target for the vesting or exercise of options.

   An option shall be deemed to have been granted to (subject to certain restrictions in the Share Option Scheme), and accepted by, the Eligible Participant (the "Grantee") and to have taken effect upon the issue of an option certificate after the duplicate offer letter comprising acceptance of the option duly signed by the Grantee together with a remittance in favor of our Company of HK$1.00 by way of consideration for the grant of the option shall have been received by our Company on or before the last day for acceptance set out above.

6. Minimum period for which an option must be held before it can be exercised

Options may be exercised at any time from the date of grant of the option in the following manner:

i. up to 25% of the option granted from the first anniversary of date of grant of the option

ii. up to 50% of the option granted from the second anniversary date of grant of the option

iii. up to 75% of the option granted from the third anniversary date of grant of the option

iv. up to 100% of the option granted from the fourth anniversary date of grant of the option

7. Basis of determining the exercise price

The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price per share as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the options; (ii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the options; or (iii) the nominal value of a share.

8. Remaining Life of the Share Option Scheme

The Share Option Scheme shall be valid and effective for 10 years from the Listing Date i.e. 10 July 2012 (the "Scheme Period"), after which time no further option will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects.

During the six months ended 30 June 2018, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30 June 2018, the interests or short positions of our Directors and chief executives in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or as recorded, pursuant to section 352 of the SFO, in the register referred to therein or which were required to be notified to our Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules, were as follows:

Long positions in shares of the Company

Name of Directors	Capacity/nature of interest	Number of issued ordinary shares held	Approximate percentage of shareholding in the Company
Mr. Gao Mingqing	Interest in controlled corporation	281,400,000[(1)]	39.08%
Ms. Gao Jinzhu	Interest in controlled corporation	138,600,000[(2)]	19.25%

Notes:

1. The 281,400,000 shares were owned by Victor Soar Investments Limited which is wholly owned and controlled by Mr. Gao Mingqing.

2. The 138,600,000 shares were owned by Achieve Ample Investments Limited which is wholly owned and controlled by Ms. Gao Jinzhu.

Save as disclosed above, as at 30 June 2018, so far as is known to any Directors or chief executives of the Company, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PARTIES' INTERESTS IN SECURITIES

As at 30 June 2018, the following persons, other than the Directors and chief executives of the Company, had or were deemed or taken to have an interest and/or short position in the shares or the underlying shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company.

Long positions in shares of the Company

Name of shareholder	Capacity/nature of interest	Number of issued ordinary shares held	Approximate percentage of shareholding in the Company
Victor Soar Investments Limited	Beneficial owner	281,400,000[(1)]	39.08%
Ms. Lin Yinyin	Interest of spouse	281,400,000[(2)]	39.08%
Achieve Ample Investments Limited	Beneficial owner	138,600,000[(3)]	19.25%
Mr. Wang Weimian	Interest of spouse	138,600,000[(4)]	19.25%
Cheng Tun Prime Shine Limited	Beneficial owner	120,000,000[(5)]	16.67%
Shenzhen Chengtun Equity Investments Company Limited	Interest in controlled corporation	120,000,000[(5)]	16.67%
Haitong International Financial Solutions Limited	Security interest	450,000,000[(6)]	62.50%
Haitong International Securities Group Limited	Interest in controlled corporation	450,000,000[(6)]	62.50%
Haitong International Holdings Limited	Interest in controlled corporation	450,000,000[(6)]	62.50%
Haitong Securities Co., Ltd.	Interest in controlled corporation	450,000,000[(6)]	62.50%

Notes:

1. Victor Soar Investments Limited is wholly owned and controlled by Mr. Gao Mingqing.

2. Ms. Lin Yinyin is the wife of Mr. Gao Mingqing and is deemed to be interested in the 281,400,000 shares of the Company held by Victor Soar Investments Limited, a company controlled by Mr. Gao Mingqing.

3. Achieve Ample Investments Limited is wholly owned and controlled by Ms. Gao Jinzhu.

4. Mr. Wang Weimian is the husband of Ms. Gao Jinzhu and is deemed to be interested in the 138,600,000 shares of the Company held by Achieve Ample Investments Limited, a company controlled by Ms. Gao Jinzhu.

5. Cheng Tun Prime Shine Limited is a wholly-owned subsidiary of Shenzhen Chengtun Equity Investments Company Limited (深圳盛屯股權投資有限公司), which in turn is wholly-owned by Chengtun Mining Group Co., Ltd., a company listed on Shanghai Stock Exchange with stock code: 600711.

6. Haitong International Financial Solutions Limited is indirectly owned by Haitong International Securities Group Limited which in turn is owned as to 62.43% by Haitong International Holdings Limited and is ultimately owned Haitong Securities Co., Ltd.

Other than as disclosed above, as at 30 June 2018, the Company has not been notified by any person (other than the Directors or chief executive of the Company) who had interests or short position in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

By Order of the Board
Wanguo International Mining Group Limited

Gao Mingqing
Chairman

Hong Kong, 24 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	**RMB'000**	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	**153,760**	164,483
Cost of sales		**(93,568)**	(91,119)
Gross profit		**60,192**	73,364
Other income		**1,416**	1,151
Other gains and losses		**(219)**	(99)
Distribution and selling expenses		**(1,884)**	(1,980)
Administrative expenses		**(16,163)**	(15,061)
Finance costs	4	**(5,320)**	(8,757)
Profit before tax		**38,022**	48,618
Income tax expense	5	**(10,756)**	(15,986)
Profit and total comprehensive income for the period	6	**27,266**	32,632
Profit (loss) and total comprehensive income (expense) for the period attributable to:			
Owners of the company		**27,442**	32,632
Non-controlling interests		**(176)**	–
		27,266	32,632
Earnings per share			
Basic (RMB cents)	7	**3.9**	5.4

Condensed Consolidated Statement of Financial Position

At 30 June 2018

	Notes	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	397,603	395,955
Mining right		15,289	15,822
Exploration and evaluation assets	9	186,369	187,139
Other intangible asset		319,288	319,288
Prepaid lease payments		59,145	59,729
Deposit for purchase of property, plant and equipment		2,131	6,376
Deposit for acquisition of subsidiaries	10	129,262	35,393
Deferred tax assets		3,141	3,170
Restricted bank balances		2,649	7,615
		1,114,877	1,030,487
CURRENT ASSETS			
Inventories		10,924	9,302
Trade and other receivables	11	42,208	42,657
Prepaid lease payments		1,379	1,377
Bank balances and cash			
— cash and cash equivalents		24,119	108,639
— restricted bank balance		25,000	25,000
		103,630	186,975
CURRENT LIABILITIES			
Trade and other payables	12	58,524	79,671
Contract liabilities		11,161	–
Tax payable		10,525	26,214
Amounts due to a shareholder	13	354	351
Consideration payable for acquisition of a subsidiary		47,435	113,610
Consideration payable to a former non-controlling shareholder of a subsidiary	14	32,835	72,378
Secured bank borrowings	15	141,677	122,411
		302,511	414,635
NET CURRENT LIABILITIES		(198,881)	(227,660)
TOTAL ASSETS LESS CURRENT LIABILITIES		915,996	802,827
NON-CURRENT LIABILITIES			
Consideration payable to a former non-controlling shareholder of a subsidiary	14	58,585	35,356
Secured bank borrowings	15	3,859	23,293
Deferred income		11,642	12,565
Deferred tax liabilities		83,892	82,322
Provisions		4,724	4,399
		162,702	157,935
CAPITAL AND RESERVES			
Share capital	16	58,882	54,516
Reserves		507,853	403,641
Equity attributable to owners of the company		566,735	458,157
Non-controlling interests		186,559	186,735
TOTAL EQUITY		753,294	644,892
		915,996	802,827

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the Company							
	Share capital RMB'000	**Share premium** RMB'000	**Capital reserve** RMB'000 (note a)	**Statutory and surplus reserves** RMB'000 (note b)	**Retained profits** RMB'000	**Sub-total** RMB'000	**Non-controlling interests** RMB'000	**Total** RMB'000
At 1 January 2017 (audited)	48,955	70,418	71,005	77,270	19,316	286,964	–	286,964
Profit and total comprehensive income for the period	–	–	–	–	32,632	32,632	–	32,632
At 30 June 2017 (unaudited)	48,955	70,418	71,005	77,270	51,948	319,596	–	319,596
At 1 January 2018 (audited)	54,516	165,186	71,005	123,889	43,561	458,157	186,735	644,892
Profit (loss) and total comprehensive income (expense) for the period	–	–	–	–	27,442	27,442	(176)	27,266
Issue of new shares	4,366	76,848	–	–	–	81,214	–	81,214
Transaction costs attributable to issue of shares	–	(78)	–	–	–	(78)	–	(78)
At 30 June 2018 (unaudited)	58,882	241,956	71,005	123,889	71,003	566,735	186,559	753,294

Notes:

(a) The capital reserve represents contributions from an equity participant in 2011.

(b) The statutory reserve represents the appropriation of 10% of profit after taxation determined based on the relevant accounting rules and regulations of the People's Republic of China (the "PRC") in accordance with the relevant PRC laws until the PRC statutory reserve reaches 50% of the registered capital of the relevant subsidiaries. The statutory reserve can be applied either to set off accumulated losses or to increase capital.

The surplus reserve represents further appropriation out of the retained profits of the subsidiaries established in the PRC for any amount approved by its board of directors after the appropriation to the statutory reserve.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	**23,092**	71,199
INVESTING ACTIVITIES		
Deposits paid for acquisition of a subsidiary	**(94,929)**	–
Payment for acquisition of a subsidiary in previous year	**(66,175)**	–
Purchase of property, plant and equipment	**(11,624)**	(10,853)
Payment for exploration and evaluation assets	**(730)**	–
Payment for land use right	**(107)**	–
Placement of restricted bank balances	**(34)**	(34)
Proceeds from disposal of property, plant and equipment	**14**	–
Interest received	**174**	317
Proceeds from disposals of exploration and evaluation assets	**1,500**	–
Release of restricted bank balances	**5,000**	14,750
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(166,911)**	4,180
FINANCING ACTIVITIES		
Proceeds from issue of shares, net	**81,136**	–
New bank borrowing raised	**56,050**	36,800
Interest paid	**(3,632)**	(4,297)
Consideration paid for redemption of non-controlling interests	**(18,000)**	(16,000)
Repayment of bank borrowings	**(56,256)**	(67,325)
Repayment to shareholders	**–**	(6,120)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**59,298**	(56,942)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(84,521)**	18,437
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**108,639**	8,777
Effect of foreign exchange rate changes	**1**	(27)
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**24,119**	27,187

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated financial statements have been prepared on a going concern basis. As at 30 June 2018, the Group's current liabilities exceeded its current assets by RMB198,881,000. In preparing the condensed consolidated financial statements, the directors of the Company have reviewed the Group's financial and liquidity position, and taken into consideration the loan facility obtained in prior years, fund raising activities should needs arise to finance its capital expenditures and potential acquisitions and working capital estimated to be generated from operating activities. The directors of the Company believe that the Group will have sufficient working capital to satisfy its existing liabilities as and when they fall due and the Group's future expansion for the foreseeable future and, accordingly, have prepared the condensed consolidated financial statements on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfer of Investment Property

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies amounts reported and/or disclosures as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from sales of processed concentrates of various metal, as set out in further details in note 3.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

2.1.2 Summary of effects arising from initial application of HKFRS 15

As at 1 January 2018, receipts in advance from customers of RMB9,263,000 previously included in trade and other payables were reclassified to contract liabilities for the same amount. The directors of the Company assessed that the application of HKFRS 15 in the current interim period had no material impact on the timing and amounts of revenue recognised.

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments

In the current period, the Group has applied HKFRS 9 *Financial instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and bills receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and collectively for others using a provision matrix based primarily on internal credit ratings assigned to the debtors.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model *(Continued)*

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments and the related amendments *(Continued)*

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9 (Continued)

Impairment under ECL model *(Continued)*

Measurement and recognition of ECL *(Continued)*

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in note 2.2.2.

Classification and measurement of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

2.2.2 Summary of effects arising from initial application of HKFRS 9

The application of HKFRS 9 in the current interim period had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

2.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	**1 January 2018 (Restated) RMB'000**
NON-CURRENT ASSETS				
Sub-total: with no adjustments	1,030,487	–	–	**1,030,487**
CURRENT ASSETS				
Sub-total: with no adjustments	186,975	–	–	**186,975**
CURRENT LIABILITIES				
Trade and other payables	79,671	(9,263)	–	**70,408**
Contract liabilities	–	9,263	–	**9,263**
Others with no adjustments	334,964	–	–	**334,964**
NET CURRENT LIABILITIES	(227,660)	–	–	**(227,660)**
TOTAL ASSETS LESS CURRENT LIABILITIES	802,827	–	–	**802,827**
NON-CURRENT LIABILITIES				
Sub-total: with no adjustments	157,935	–	–	**157,935**
NET ASSETS	644,892	–	–	**644,892**
CAPITAL AND RESERVES				
Share capital	54,516	–	–	**54,516**
Reserves	403,641	–	–	**403,641**
Non-controlling interests	186,735	–	–	**186,735**
TOTAL EQUITY	644,892	–	–	**644,892**

3. REVENUE AND 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.

The Group operates in and all revenue is generated from the PRC. The Group's principal non-current assets are also located in the PRC.

The Group determines that it has only one operating segment and revenue represents revenue arising on sales of processed concentrates of various metals. All of the revenue of the Group is recognised at a point in time. An analysis of the Group's revenue from its major products for the reporting period is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of processed concentrates		
— Copper concentrates	**57,065**	56,043
— Zinc concentrates	**39,859**	33,982
— Iron concentrates	**21,973**	28,048
— Sulfur concentrates	**8,319**	7,936
— Gold in lead concentrates	**5,976**	7,966
— Gold in copper concentrates	**5,841**	6,577
— Lead concentrates	**5,186**	7,894
— Silver in lead concentrates	**4,037**	6,270
— Silver in copper and zinc concentrates	**3,028**	7,031
— Copper in lead concentrates	**2,476**	2,736
	153,760	164,483

4. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**3,632**	4,297
Imputed interest expenses on consideration payable to a former non-controlling shareholder of a subsidiary	**1,688**	4,460
	5,320	8,757

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax charge:		
PRC Enterprise Income Tax ("EIT")		
— Current period	**10,651**	14,218
— (Over)underprovision in prior years	**(1,495)**	78
	9,156	14,296
Deferred tax charge:		
Current period	**1,600**	1,690
	10,756	15,986

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit subject to Hong Kong Profits Tax during both periods.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of EIT Law, the tax rate of the PRC subsidiary was 25% during both periods.

The tax charge for the reporting period can be reconciled to the profit before tax per the condensed consolidated statement of profit or loss and other comprehensive income as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax	**38,022**	48,618
Tax at the EIT rate of 25%	**9,506**	12,155
Tax effect of expenses not deductible for tax purpose	**665**	1,676
(Over)underprovision in respect of prior year	**(1,495)**	78
Tax effect of tax losses not recognised	**510**	201
Withholding tax on distributable earnings of a subsidiary established in the PRC	**1,570**	1,876
Tax charge for the period	**10,756**	15,986

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging the following items:		
Directors' emoluments	**1,892**	1,502
Other staff costs	**15,325**	13,536
Retirement benefit scheme contributions, excluding those of directors	**847**	850
Total staff costs	**18,064**	15,888
Depreciation of property, plant and equipment	**13,072**	11,167
Amortisation of mining right	**533**	591
Release of prepaid lease payments	**688**	694
Total depreciation and amortisation	**14,293**	12,452
Auditor's remuneration (including audit and non-audit services)	**–**	285
Minimum lease payments under operating leases in respect of properties	**138**	111
Cost of inventories recognised as an expense	**93,568**	91,119

7. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Earnings figures are calculated as follows:		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (in RMB'000)	**27,442**	32,632
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousand)	**702,696**	600,000

No diluted earnings per share are presented as there were no potential dilutive ordinary shares in issue during both periods.

8. DIVIDENDS

During the period, the Company recognised the following dividends as distribution:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final dividend for the year ended 31 December 2017 of RMB3.89 cents (2017: final dividend for the year ended 31 December 2016: nil) per share	**28,000**	–

The board of directors of the company does not recommend an interim dividend for the current interim period (six months ended 30 June 2017: RMB0.5 cent per share).

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT/EXPLORATION AND EVALUATION ASSETS

During the current interim period, the Group acquired property, plant and equipment and incurred construction costs of RMB15,066,000 (six months ended 30 June 2017: RMB13,236,000), with no interest capitalised (six months ended 30 June 2017: nil).

During the current interim period, the Group incurred costs directly associated with the exploration and evaluation assets of RMB730,000 (six months ended 30 June 2017: nil).

10. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES

	30.6.2018	31.12.2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Deposits paid for acquisitions of AXF Gold Ridge Pty Limited ("AXF Gold Ridge")	**129,262**	35,393

Being amounts paid to AXF Resources Pty Limited ("AXF Resources") pursuant to a non-legally binding investment framework agreement under which the Group proposed to acquire certain equity interests in AXF Gold Ridge.

On 16 July 2017, the Group entered into a sales and purchase agreement with AXF Resources pursuant to which the Group has conditionally agreed to acquire 61.1% equity interest of AXF Gold Ridge.

On 20 February 2018, the Group and AXF Resources re-negotiated the terms of the acquisition of interests in AXF Gold Ridge, and entered into a deed of amendment and restatement (the "Deed") to which the Group has conditionally agreed to acquire 77.78% equity interest of AXF Gold Ridge. In addition, pursuant to the terms of the Deed, on the date of completion, both parties shall sign a put option agreement, pursuant to which the Group will grant AXF Resources an option to require the Group to purchase all of the remaining 22.22% equity interest of AXF Gold Ridge held by AXF Resources.

During the current interim period, the Group paid a further deposit of Australian dollar ("AU$") 19,020,000 (equivalent to RMB94,929,000) to AXF Resources.

Up to the date these condensed consolidated financial statements are approved for issuance, this transaction has not yet been completed.

11. TRADE AND OTHER RECEIVABLES

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Trade and bills receivables	8,499	16,098
Prepayments to suppliers	29,206	23,116
Other receivables	4,503	3,443
	33,709	26,559
Total	42,208	42,657

The Group allows an average credit periods of 30 days to its trade customers.

The following is analysis of trade and bills receivables by age, presented based on the invoice dates.

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Within 30 days	8,499	16,098

12. TRADE AND OTHER PAYABLES

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Trade payables	10,609	16,013
Receipts in advance from customers	–	9,263
Value-added tax, resource tax and other tax payables	13,285	18,085
Amounts due to non-controlling interests of a subsidiary (note)	7,100	7,100
Advance from a supplier	10,330	10,330
Payables for construction in progress and property, plant and equipment	13,245	14,048
Payables for evaluation and exploration assets	115	115
Accrued expenses and other payables	3,840	4,717
	47,915	63,658
	58,524	79,671

Note: The amounts are non-trade in nature, interest free and repayable on demand.

The following is analysis of trade payables by age, presented based on the invoice dates.

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Within 30 days	5,094	10,962
31-60 days	2,991	2,397
61-90 days	1,715	613
91-180 days	517	1,234
Over 180 days	292	807
	10,609	16,013

13. AMOUNTS DUE TO A SHAREHOLDER

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Victor Soar Investments Limited ("Victor Soar")	354	351

All of the amounts above are denominated in HK$, non-trade in nature, interest free, unsecured and repayable on demand.

Victor Soar held approximately 39.08% (31 December 2017: 45.27%) of the issued share capital of the Company and is wholly owned and controlled by Mr. Gao Mingqing.

14. CONSIDERATION PAYABLE TO A FORMER NON-CONTROLLING SHAREHOLDER OF A SBUSIDARY

At the end of the reporting period, the carrying amount of consideration payable is repayable as below:

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Within one year	32,835	72,378
More than one year, but not exceeding two years	34,421	35,356
More than two years, but not exceeding five years	24,164	–
	91,420	107,734
Less: amount due within one year shown under current liabilities	(32,835)	(72,378)
Amount shown under non-current liabilities	58,585	35,356

During the current period, an amount of RMB42,468,000 fall due in December 2018 is agreed to be extended to more than 2 years after the end of the reporting period.

15. SECURED BANK BORROWINGS

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Secured bank borrowings, at:		
— fixed rate	61,786	64,758
— floating rate	83,750	80,946
	145,536	145,704
The carrying amounts of the above borrowing are repayable:		
— within one year	141,677	122,411
— within a period of more than one year but not exceeding two years	429	19,678
— within a period of more than two years but not exceeding five years	1,349	1,322
— a period of more than five years	2,081	2,293
	145,536	145,704
Less: amount due within one year shown under current liabilities	(141,677)	(122,411)
Amount shown under non-current liabilities	3,859	23,293

The interest rates of the Group's floating rate borrowings are based on interest at RMB Benchmark Loan Rates issued by the People's Bank of China. Interest is reset every year.

15. SECURED BANK BORROWINGS *(Continued)*

The effective interest rates on the Group's borrowings were as follows:

	30.6.2018 %	31.12.2017 %
Effective interest rate (per annum)	**2.35 to 6.50**	2.22 to 6.50

The secured bank borrowings that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
HK$	**4,278**	4,446

16. SHARE CAPITAL

	Number of shares '000	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 30 June 2018	1,000,000	100,000
Issued:		
At 1 January 2017 and 30 June 2017	600,000	60,000
Issue of shares pursuant to a subscription agreement	66,000	6,600
At 31 December 2017	666,000	66,600
Issue of shares pursuant to a subscription agreement	54,000	5,400
At 30 June 2018	720,000	72,000

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Shown in the condensed consolidated statement of financial position	**58,882**	54,516

17. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to banks for loan facilities granted to the Group:

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Property, plant and equipment	41,720	42,779
Prepaid lease payments	26,351	26,674
Mining right	15,289	15,822
	83,360	85,275

In addition to the above, the entire shareholding of Yifeng Wanguo as at 30 June 2018 and 31 December 2017 was also pledged to a bank for a bank facility provided to the Group.

18. CAPITAL COMMITMENTS

	30.6.2018 RMB'000 (Unaudited)	31.12.2017 RMB'000 (Audited)
Capital expenditure contracted for but not provided for in the condensed consolidated financial statements in respect of:		
— acquisition of equity interest in; and construction, installation of machines and other relevant works for the mining project of AXF Gold Ridge (see note 10)	319,927	516,412
— acquisition of land use right and property, plant, and equipment	10,172	6,837
	330,099	523,249

19. RELATED PARTY DISCLOSURES

(a) Related party transactions and balances

During the period, there was no material transaction occurred between the Group and any related party.

Details of the balances with a related party as at 30 June 2018 and 31 December 2017 are set out in the condensed consolidated statement of financial position and in note 14. In addition, certain of the Group's bank borrowing as set out in note 15 as at 30 June 2018 and 31 December 2017 were personally guaranteed by Mr. Gao Mingqing and Ms. Gao Jinzhu.

(b) Compensation of key management personnel

The remuneration of directors of the Company and other key management personnel during the period were as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees, salaries and other allowances	**2,322**	1,854
Retirement benefit scheme contributions	**16**	17
	2,338	1,871

The remuneration of directors and key executives is determined having regard to the performance of individuals and market trends.