

INTEGRATE RESOURCES,
CREATE VALUES, BUILD BENEFITS AND
CONTRIBUTE TO THE SOCIETY



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

INTERIM REPORT 2019

江西萬國礦業



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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

Independent non-executive Directors:

Lu Jian Zhong
Qi Yang
Shen Peng
Xiong Zeke

AUDIT COMMITTEE

Shen Peng (*Chairman*)
Qi Yang
Lu Jian Zhong
Xiong Zeke

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
Singa Commercial Centre
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Hong Kong

REGISTERED OFFICE

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113 South Church Street
P.O. Box 10240
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Cayman Islands

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

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Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
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LEGAL ADVISER

as to Hong Kong Law
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PRINCIPAL BANKER

Bank of China, Yifeng Branch
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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 at the Xinzhuang Mine during the six months ended 30 June 2019 compared to the corresponding period in 2018.

	Six months ended 30 June		Changes (approximate %)
	2019 Volume (tonnes)	2018 Volume (tonnes)	
Copper in copper concentrates	1,443	1,539	(6.2)
Zinc in zinc concentrates	1,755	2,427	(27.7)
Iron concentrates	49,683	56,385	(11.9)
Sulfur concentrates	66,645	78,217	(14.8)
Lead in lead concentrates	225	395	(43.0)
Gold in concentrates (kg)	37	53	(30.2)
Silver in concentrates (kg)	2,667	3,048	(12.5)
Copper in concentrates (kg)	99	–	N/A

The following table sets forth the volume of ores mined and processed at our Xinzhuang Mine during the six months ended 30 June 2019 and 2018 respectively.

	Six months ended 30 June		Changes (approximate %)
	2019 Volume (tonnes)	2018 Volume (tonnes)	
Volume of ores mined	346,146	373,954	(7.4)
Volume of ores processed	342,223	364,609	(6.1)

The drop in volume of concentrates processed and sold during the six months ended 30 June 2019 compared with the same corresponding period in 2018 was mainly attributable to a decrease in volume of concentrates produced by the Group resulted from upgrading works in processing plant and a drop in average prices of concentrates during the first half of 2019.

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 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) (“Nerin”) for conducting a feasibility study on an expansion plan of our Xinzhuang Mine to 900,000 tpa. Nerin is still revising the feasibility study report and the Group expects to receive it during 2020 for the purpose of commencing the 900,000 tpa expansion plan.

Walege Mine

We are in the progress of applying for 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).

Additional samplings and chemical tests have been finished and submitted in 2018, results were satisfactory. We are in the progress of updating exploration report for re-submission to 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).

On 19 October 2018, AXF Resources and the Company entered into an amendment to the Deed to amend the payment schedule of the consideration for the acquisition.

Management Discussion and Analysis

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 km² and surrounding this is a prospecting license (SPL 194) that covers an area of 130 km². 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

Mine deposits	Measured		Indicated		Inferred		Total	
	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, 30 April 2018, 31 July 2018, 28 September 2018, 22 October 2018, 31 December 2018, 31 March 2019, 31 May 2019 and 31 July 2019 for details.

Possible Disposal and Subscription of Shares of the Company

On 14 November 2018, the Company, Victor Soar Investments Limited (“Victor Soar”), Achieve Ample Investments Limited (“Achieve Ample”) and the potential buyer (the “Potential Buyer”) entered into the memorandum of understanding (the “MOU”) in respect of the possible disposal of 80,000,000 Shares from Victor Soar and Achieve Ample to the Potential Buyer (the “Possible Disposal”) and the possible subscription of a new issue of 232,000,000 Shares from the Company to the Potential Buyer (the “Possible Subscription”) (collectively referred to as the “Possible Transaction”).

After the reporting period, the Company has been informed that on 26 August 2019, the Potential Buyer, Victor Soar and Achieve Ample have agreed to terminate the MOU, and their negotiations in respect of the Possible Transaction have been terminated as the parties were unable to reach an agreement on the terms of the formal agreements in relation to the Possible Transaction. For details, please refer to the Company's announcement dated 27 August 2019.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group's overall revenue decreased by approximately 22.7% from approximately RMB153.8 million for the six months ended 30 June 2018 to approximately RMB118.9 million for the six months ended 30 June 2019. The decrease was primarily attributable to the decrease in volume of ores processed and concentrates sold.

For the six months ended 30 June 2019, we sold 1,443 tonnes of copper in copper concentrates, 1,755 tonnes of zinc in zinc concentrates and 49,683 tonnes of iron concentrates, compared to 1,539 tonnes, 2,427 tonnes and 56,385 tonnes, respectively, for the six months ended 30 June 2018, representing a decrease of approximately 6.2%, 27.7% and 11.9% for copper in copper concentrates, zinc in zinc concentrates and iron concentrates, respectively. Such decreases were principally attributable to the conducting process trials and technical transformation in processing plant.

The average prices of copper in copper concentrates, zinc in zinc concentrates and iron concentrates for the six months ended 30 June 2019 were approximately RMB35,236, RMB11,198 and RMB496 per tonne respectively, compared to approximately RMB37,079, RMB16,423 and RMB390 per tonne respectively, for the six months ended 30 June 2018, representing a decrease of approximately 5.0%, 31.8% and an increase of approximately 27.2%, respectively. During the six months ended 30 June 2019, some of the metal prices have decreased continuously. Our Directors believe that such decrease was mainly due to the outbreak of US-China tensions since the second half of 2018.

Cost of sales

Our cost of sales decreased by approximately 14.3% from approximately RMB93.6 million for the six months ended 30 June 2018 to approximately RMB80.2 million for the six months ended 30 June 2019, which was mainly due to the decrease in material consumption and safety production fee which were in line with production volume.

Gross profit and gross profit margin

The overall gross profit of our Group for the six months ended 30 June 2019 was approximately RMB38.7 million, representing a decrease of approximately 35.7% compared to approximately RMB60.2 million for the six months ended 30 June 2018. Our overall gross profit margin decreased from approximately 39.1% for the six months ended 30 June 2018 to approximately 32.5% for the six months ended 30 June 2019. Such decrease was mainly attributable to the drop in the selling price of concentrates.

Other income

Our other income comprised mainly bank interest income of approximately RMB0.4 million, incentives received from a local governmental authority of approximately RMB0.1 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 2019. Other income decreased by approximately RMB0.2 million compared with the corresponding period in 2018, which was attributable to the decrease in incentives received from a local governmental authority.

Other gains and losses

Our other gains and losses increased by approximately RMB0.4 million, which comprised mainly loss on disposal of property, plant and equipment of approximately RMB0.1 million and unrealised exchange gain of approximately RMB0.3 million for the six months ended 30 June 2019 as a result of the translation of Australian dollars and Hong Kong dollars into Renminbi, whereas for the six months ended 30 June 2018, loss on disposal of property, plant and equipment of approximately RMB0.4 million and unrealised exchange loss of approximately RMB0.2 million was incurred from the depreciation of Australian dollars against Renminbi.

Management Discussion and Analysis

Distribution and selling expenses

Our distribution and selling expenses decreased by approximately 31.7% from approximately RMB1.9 million for the six months ended 30 June 2018 to approximately RMB1.3 million for the six months ended 30 June 2019. The decrease was mainly attributable to the decrease in sales volume.

Administrative expenses

Our administrative expenses increased by approximately 36.9% from approximately RMB16.2 million for the six months ended 30 June 2018 to approximately RMB22.1 million for the six months ended 30 June 2019. The increase was principally attributable to the research and development expenses incurred in connection with the technical transformation in processing plant.

Finance costs

Our finance costs increased by approximately 11.9% from approximately RMB5.3 million for the six months ended 30 June 2018 to approximately RMB6.0 million for the six months ended 30 June 2019, primarily due to the increase in imputed interest expenses on consideration payable to a former non-controlling shareholder of a subsidiary and interest from right-to-used liabilities.

Income tax expense

Our income tax expense was approximately RMB0.6 million for the six months ended 30 June 2019, consisting of PRC corporate income tax payable of approximately RMB0.4 million and withholding tax payable of approximately RMB0.2 million. 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.

The decrease in our income tax expense for the six months ended 30 June 2019 was primarily due to the granting of the High and New-Technology Enterprise (“HNTE”) certificate to Yifeng Wanguo resulting in a reduction in the corporate income tax rate from 25% to 15% for three consecutive years from 2018 to 2020.

Profit and total comprehensive income

As a result of the foregoing, our profit after taxation decreased by approximately 62.8% or approximately RMB17.1 million, from approximately RMB27.3 million for the six months ended 30 June 2018 to approximately RMB10.2 million for the six months ended 30 June 2019. Our net profit margin decreased from approximately 17.7% for the six months ended 30 June 2018 to approximately 8.5% for the six months ended 30 June 2019 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 61.7% or approximately RMB16.9 million, from approximately RMB27.4 million for the six months ended 30 June 2018 to approximately RMB10.5 million for the six months ended 30 June 2019.

Liquidity and financial resources

During the six months ended 30 June 2019, the Group’s net cash from operating activities was approximately RMB29.1 million (net cash from operating activities for the six months ended 30 June 2018: RMB23.1 million) and the Group’s bank balances and cash was approximately RMB0.7 million as at 30 June 2019 (as at 31 December 2018: RMB22.0 million). Included in bank balances and cash, approximately RMB0.3 million (as at 31 December 2018: RMB1.0 million) were denominated in Hong Kong dollars, Australian dollars and US dollars. Such decrease was mainly attributable to the deposits paid for acquisition of a subsidiary and repayment of bank loans.

Management Discussion and Analysis

Gearing ratio

The Group had a gearing ratio of approximately 14.1% (representing total bank and other borrowings and payables to former non-controlling shareholder of a subsidiary divided by total assets) as at 30 June 2019. The gearing ratio was approximately 16.5% as at 31 December 2018. The decrease in gearing ratio was mainly attributable to the repayment of bank borrowings of approximately RMB75.5 million.

Bank and other borrowings

As at 30 June 2019, the Group had secured bank borrowings of RMB103.7 million and unsecured other borrowings of RMB8.0 million in aggregate with maturity from one year to nine years and effective interest rate of 5.54%.

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 2019, capital expenditure of approximately RMB43.0 million has been incurred (for the six months ended 30 June 2018: RMB173.6 million). Such decrease was mainly due to partial settlements to the consideration for the acquisition of Xizang Changdu and AXF Gold Ridge during the first half of 2018.

Contractual obligations and capital commitment

As at 30 June 2019, the Group has entered into a non-cancellable operating lease with lease payables of approximately RMB0.9 million for certain properties of the Group.

As at 30 June 2019, the Group's capital commitments amounted to approximately RMB299.9 million, and decreased by approximately RMB12.5 million as compared to approximately RMB312.4 million as at 31 December 2018, which was primarily due to partial payments for consideration of the acquisition of the gold mine in Solomon Islands.

Contingent liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities or guarantees.

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 2019.

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 2019, the Group's right-of-use assets, mining rights and building with carrying value of approximately RMB79.5 million (as at 31 December 2018: RMB81.7 million) were pledged to secure the Group's bank borrowings and facilities. Details have been set out in note 16 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 2019.

Management Discussion and Analysis

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 both periods.

SHARE OPTION SCHEME

During the six months ended 30 June 2019, 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 2019, the Group employed approximately 348 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 include social insurance together with housing provident funds for our PRC employees, contributions to statutory provident funds for our Hong Kong employees and superannuation for our Australia employees.

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

Since 2019, the price of non-ferrous metals has dropped significantly year-on-year. Looking forward to the second half of the year, we believe that the supply of non-ferrous metals continues to fluctuate, and the global economic uncertainty and risk will put pressure on the pricing. On the contrary, the value of gold has steadily grown and it is expected to achieve better relative returns

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. In addition, the Group will comprehensively strengthen our operation and management, strive to improve the business performance and achieve the Group's production target.

Management Discussion and Analysis

EXPLORATION, DEVELOPMENT AND MINING ACTIVITIES

Xinzhuang Mine

Mineral exploration

During the six months ended 30 June 2019, the exploration activities in the Xinzhuang Mine was within 4-29 exploration line. We have completed underground geological drilling of 9,874 m, with drill size of 60-108 mm for the six months ended 30 June 2019. For the six months ended 30 June 2019, we have also finished tunnel drilling of 426 m and completed adit mapping of 6,422 m.

For the six months ended 30 June 2019, no expenditure of mineral exploration was incurred.

Development

During the six months ended 30 June 2019, the Group incurred development expenditure of approximately RMB32.8 million. Our 600,000 tpa expansion plan has been completed and the Group has been preparing relevant reports for our 900,000 tpa expansion plan.

Detailed breakdown of development expenditure is as follows:

	RMB ⁷ (million)
Mining structures	27.7
Machinery and electronic equipment for process plants	4.6
Motor vehicles	0.5
	<u>32.8</u>

Mining activities

During the six months ended 30 June 2019, we processed a total of 342,223 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 2019.

Type of concentrates sold	Volume
Copper in copper concentrates	1,443 tonnes
Iron concentrates	49,683 tonnes
Zinc in zinc concentrates	1,755 tonnes
Sulfur concentrates	66,645 tonnes
Lead in lead concentrates	225 tonnes
Gold in copper concentrates	20 kg
Silver in copper concentrates	1,116 kg
Gold in zinc concentrates	1 kg
Silver in zinc concentrates	469 kg
Gold in lead concentrates	16 kg
Sliver in lead concentrates	1,082 kg
Copper in lead concentrates	99 kg

Management Discussion and Analysis

During the six months ended 30 June 2019, the Group incurred expenditures for mining and processing activities of RMB45.7 million (30 June 2018: RMB57.1 million) and RMB22.2 million (30 June 2018: RMB25.6 million) respectively. The unit expenditures for mining and processing activities for the six months ended 30 June 2019 were RMB132.1/t (30 June 2018: RMB152.6/t) and RMB64.9/t (30 June 2018: RMB70.3/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 2019.

Development

During the six months ended 30 June 2019, the Group incurred development expenditure of approximately RMB0.5 million in respect of follow-ups activities raised by the field inspection work of the expert group of the Tibet Autonomous Region Land Mineral Rights and Resource Reserves Evaluation Center (西藏自治區土地礦權和資源儲量評審中心) in 2018. The Group is in the progress of updating the geological prospecting report for re-submission.

Mining activities

Since the Walege Mine is still in development stage, no mining activities has incurred for the six months ended 30 June 2019.

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 2019, 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 2019.

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 2019.

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

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 2018 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 2019.

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 2019 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.

Other Information

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 2019, 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 2019, 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 2019, 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.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PARTIES' INTERESTS IN SECURITIES

As at 30 June 2019, 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:

- Victor Soar Investments Limited is wholly owned and controlled by Mr. Gao Mingqing.
- 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.
- Achieve Ample Investments Limited is wholly owned and controlled by Ms. Gao Jinzhu.
- 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.
- 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.
- 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 2019, 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, 29 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	118,909	153,760
Cost of sales		(80,215)	(93,568)
Gross profit		38,694	60,192
Other income		1,178	1,416
Other gains and losses		239	(219)
Distribution and selling expenses		(1,287)	(1,884)
Administrative expenses		(22,126)	(16,163)
Finance costs	4	(5,951)	(5,320)
Profit before tax		10,747	38,022
Income tax expense	5	(600)	(10,756)
Profit for the period	6	10,147	27,266
Other comprehensive income for the period which may be reclassified subsequently to profit or loss:			
– Exchange differences on translation from functional currency to presentation currency		23	–
Total comprehensive income for the period		10,170	27,266
Profit (loss) for the period attributable to:			
Owners of the company		10,441	27,442
Non-controlling interests		(294)	(176)
		10,147	27,266
Total comprehensive income (expense) for the period attributable to:			
Owners of the company		10,464	27,442
Non-controlling interests		(294)	(176)
		10,170	27,266
Earnings per share			
Basic (RMB cents)	7	1.5	3.9

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	Notes	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	438,091	438,651
Mining right		14,223	14,755
Exploration and evaluation assets	9	185,010	184,548
Other intangible asset		319,288	319,288
Right-of-use assets		59,869	–
Prepaid lease payments		–	58,455
Deposit for purchase of property, plant and equipment		407	2,067
Deposits and payments for acquisition of a subsidiary	10	157,531	147,669
Deferred tax assets		3,900	3,903
Restricted bank balances		2,660	2,655
		1,180,979	1,171,991
CURRENT ASSETS			
Inventories		8,416	7,314
Trade and other receivables	11	28,934	29,930
Prepaid lease payments		–	1,379
Bank balances and cash			
– cash and cash equivalents		739	21,989
– restricted bank balance		2,000	5,000
		40,089	65,612
CURRENT LIABILITIES			
Trade and other payables	12	82,356	98,939
Lease liabilities		343	–
Contract liabilities		29,157	24,633
Tax payable		3,227	11,392
Amounts due to related parties	13	31,663	4,780
Consideration payable to a former non-controlling shareholder of a subsidiary	14	36,459	32,333
Bank and other borrowings	15	92,145	126,696
		275,350	298,773
NET CURRENT LIABILITIES		(235,261)	(233,161)
TOTAL ASSETS LESS CURRENT LIABILITIES		945,718	938,830

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	Notes	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Consideration payable to a former non-controlling shareholder of a subsidiary	14	23,936	40,823
Bank and other borrowings	15	19,583	3,792
Lease liabilities		394	–
Deferred income		10,442	11,042
Deferred tax liabilities		80,497	82,822
Provisions		5,395	5,050
		140,247	143,529
CAPITAL AND RESERVES			
Share capital		58,882	58,882
Reserves		536,307	525,843
Equity attributable to owners of the company		595,189	584,725
Non-controlling interests		210,282	210,576
TOTAL EQUITY		805,471	795,301
		945,718	938,830

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the Company							Non-controlling interests	Total
	Share capital	Share premium	Capital reserve	Statutory and surplus reserves	Translation reserve	Retained profits	Sub-total		
	RMB'000	RMB'000	RMB'000 (note a)	RMB'000 (note b)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 new ordinary 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
At 1 January 2019 (audited)	58,882	213,956	71,005	152,844	1,287	86,751	584,725	210,576	795,301
Profit (loss) for the period	–	–	–	–	–	10,441	10,441	(294)	10,147
Other comprehensive income for the period	–	–	–	–	23	–	23	–	23
Total comprehensive income (expense) for the period	–	–	–	–	23	10,441	10,464	(294)	10,170
At 30 June 2019 (unaudited)	58,882	213,956	71,005	152,844	1,310	97,192	595,189	210,282	805,471

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 2019

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
NET CASH FROM OPERATING ACTIVITIES	29,065	23,092
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(32,812)	(11,624)
Deposits and payments paid for acquisition of a subsidiary	(9,719)	(94,929)
Payment for exploration and evaluation assets	(462)	(730)
Placement of restricted bank balances	(5)	(34)
Interest received	429	174
Release of restricted bank balances	3,000	5,000
Payment for acquisition of a subsidiary in previous year	–	(66,175)
Payment for land use right	–	(107)
Proceeds from disposal of property, plant and equipment	–	14
Proceeds from disposals of exploration and evaluation assets	–	1,500
NET CASH USED IN INVESTING ACTIVITIES	(39,569)	(166,911)
FINANCING ACTIVITIES		
Repayment of bank borrowings	(75,527)	(56,256)
Consideration paid for redemption of non-controlling interests	(15,000)	(18,000)
Interest paid	(3,712)	(3,632)
Repayment to related parties	(396)	–
Repayments of lease liabilities	(159)	–
Advance from related parties	27,274	–
New bank borrowing raised	56,750	56,050
Proceeds from issue of shares, net	–	81,136
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(10,770)	59,298
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,274)	(84,521)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	21,989	108,639
Effect of foreign exchange rate changes	24	1
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	739	24,119

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 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 condensed consolidated financial statements have been prepared on a going concern basis. As at 30 June 2019, the Group's current liabilities exceeded its current assets by RMB235,261,000. 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 of RMB200,000,000, as well as the substantial shareholders and related companies have executed a letter of support and will continue to provide financial support to the Company to meet its financial obligations. 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 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 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

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 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and on the disclosures set out in these condensed consolidated financial statements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentive received;
- any initial direct costs incurred by the Group.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of RMB892,000 and right-of-use assets of RMB60,726,000 at 1 January 2019.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee (Continued)

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 2.66%.

	At 1 January 2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	1,172
Less: Recognition exemption – short-term leases	(245)
	927
Lease liabilities discounted at relevant incremental borrowing rates	892
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	892
Analysed as	
Current	345
Non-current	547
	892

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	At 1 January 2019
	RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	892
Reclassified from prepaid lease payments (Note)	59,834
	60,726
By class:	
Leasehold lands	59,834
Land and buildings	892
	60,726

Note: Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB1,379,000 and RMB58,455,000 respectively were reclassified to right-of-use assets.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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	
	2019 RMB’000 (Unaudited)	2018 RMB’000 (Unaudited)
Sales of processed concentrates		
– Copper concentrates	50,846	57,065
– Iron concentrates	24,627	21,973
– Zinc concentrates	19,652	39,859
– Sulfur concentrates	5,239	8,319
– Gold in copper and zinc concentrates	4,742	5,841
– Gold in lead concentrates	3,939	5,976
– Silver in lead concentrates	2,919	4,037
– Silver in copper and zinc concentrates	2,664	3,028
– Lead concentrates	2,446	5,186
– Copper in lead concentrates	1,835	2,476
	118,909	153,760

4. FINANCE COSTS

	Six months ended 30 June	
	2019 RMB’000 (Unaudited)	2018 RMB’000 (Unaudited)
Interest on bank borrowings	3,700	3,632
Imputed interest expenses on consideration payable to a former non-controlling shareholder of a subsidiary	2,239	1,688
Imputed interest expenses on lease liabilities	12	–
	5,951	5,320

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Current tax charge:		
PRC Enterprise Income Tax (“EIT”)		
– Current period	1,730	10,651
– Over provision in prior years	(1,308)	(1,495)
	422	9,156
Deferred tax charge:		
– Current period	178	1,600
	600	10,756

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.

Jiangxi Province Yifeng Wanguo Mining Company Ltd (“Yifeng Wanguo”), a subsidiary of the Company, is approved as an enterprise that satisfied the conditions as high and new technology enterprises and obtained the Certificate of High and New Technology Enterprises enjoying the preferential enterprise income tax rate of 15% for a consecutive three calendar years from 2018 to 2020.

In addition, pursuant to the relevant rules and regulations, certain qualified research and development costs incurred by the Group during the year and endorsed by a local tax authority in the PRC is eligible for further deduction for PRC EIT up to 75% of the relevant costs incurred.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

5. INCOME TAX EXPENSE (Continued)

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	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Profit before tax	10,747	38,022
Tax at the EIT rate of 25%	2,687	9,506
Tax effect of expenses not deductible for tax purpose	982	665
Over provision in respect of prior year	(1,308)	(1,495)
Tax effect of tax losses not recognised	259	510
Income tax at concessionary rate	(1,393)	–
Tax effect of additional tax benefit on research and development expenses	(802)	–
Withholding tax on distributable earnings of a subsidiary established in the PRC	175	1,570
Tax charge for the period	600	10,756

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging the following items:		
Directors' emoluments	1,985	1,892
Other staff costs	12,274	15,325
Retirement benefit scheme contributions, excluding those of directors	550	847
Total staff costs	14,809	18,064
Depreciation of property, plant and equipment	15,710	13,072
Depreciation of right-of-use assets	859	–
Amortisation of mining right	533	533
Release of prepaid lease payments	–	688
Total depreciation and amortisation	17,102	14,293
Minimum lease payments under operating leases in respect of properties	23	138
Cost of inventories recognised as an expense	80,215	93,568

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

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	
	2019 (Unaudited)	2018 (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)	10,441	27,442
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousand)	720,000	702,696

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	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Final dividend for the year ended 31 December 2018 of RMB2.78 cents (2018: final dividend for the year ended 31 December 2017: RMB3.89 cents) per share	20,000	28,000

The board of directors of the company does not recommend an interim dividend for both periods.

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 RMB15,147,000 (six months ended 30 June 2018: RMB15,066,000).

During the current interim period, the Group incurred costs directly associated with the exploration and evaluation assets of RMB462,000 (six months ended 30 June 2018: RMB730,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

10. DEPOSITS AND PAYMENTS FOR ACQUISITION OF A SUBSIDIARY

The amount represents deposits and payments paid for acquisition of AXF Gold Ridge Pty Limited (“AXF Gold Ridge”). During the current interim period, the Group made further payments of Australian dollar (“AU\$”) 2,018,000 relating to acquisition.

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

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Trade receivables from contracts with customers	4,760	4,484
Prepayments and other receivables	24,174	25,446
Total	28,934	29,930

No allowance of credit losses was provided for the six months ended 30 June 2019 and 30 June 2018, and no provision for trade and other receivables were recognised as at the end of the reporting period.

For long-term customers with good credit quality and payment history, the Group allows credit periods of no longer than 60 days for sales of certain products.

The following is an aging analysis of trade receivables, presented based on the invoice dates.

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Within 30 days	4,760	4,484

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

12. TRADE AND OTHER PAYABLES

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Trade payables	29,367	15,924
Value-added tax, resource tax and other tax payables	17,517	30,068
Payables for construction in progress and property, plant and equipment	23,793	43,118
Accrued expenses and other payables	11,679	9,829
	52,989	83,015
	82,356	98,939

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

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Within 30 days	13,519	7,693
31 – 60 days	7,616	5,004
61 – 90 days	6,592	1,180
91 – 180 days	1,100	1,596
Over 180 days	540	451
	29,367	15,924

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For the six months ended 30 June 2019

13. AMOUNTS DUE TO RELATED PARTIES

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Mr. Gao Mingqing	16,250	174
Victor Soar Investments Limited (“Victor Soar”)	2,861	1,512
Ms. Gao Jinzhu	8,530	531
Achieve Ample Investments Limited (“Achieve Ample”)	302	–
Fujian Jianyang Wanguo Electric Appliance Co. Ltd (“Jianyang Wanguo”)	3,720	2,563
	31,663	4,780

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

Victor Soar held approximately 39.08% of the issued share capital of the Company and is wholly owned and controlled by Mr. Gao Mingqing.

Achieve Ample held approximately 19.25% of the issued share capital of the Company and is wholly owned and controlled by Ms. Gao Jinzhu.

Jianyang Wanguo is owned as to 98.9% and controlled by Mr. Gao Mingqing.

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

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

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Within one year	36,459	32,333
More than one year, but not exceeding two years	23,936	34,212
More than two years, but not exceeding five years	–	6,611
	60,395	73,156
Less: amount due within one year shown under current liabilities	(36,459)	(32,333)
Amount shown under non-current liabilities	23,936	40,823

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15. BANK AND OTHER BORROWINGS

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Secured bank borrowings, at:		
– fixed rate	41,778	49,257
– floating rate	61,950	81,231
	103,728	130,488
Unsecured other borrowings	8,000	–
	111,728	130,488
The carrying amounts of the above borrowing are repayable:		
– within one year	92,145	126,696
– within a period of more than one year but not exceeding two years	16,457	450
– within a period of more than two years but not exceeding five years	1,440	1,417
– a period of more than five years	1,686	1,925
	111,728	130,488
Less: amount due within one year shown under current liabilities	(92,145)	(126,696)
Amount shown under non-current liabilities	19,583	3,792

The unsecured other borrowings above were borrowings from a financial institution independent with the Group.

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.

16. PLEDGE OF ASSETS

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

	30.6.2019 RMB'000 (Unaudited)	31.12.2018 RMB'000 (Audited)
Property, plant and equipment	39,540	40,912
Right-of-use assets/prepaid lease payments	25,705	26,028
Mining right	14,223	14,755
	79,468	81,695

In addition to the above, the entire shareholding of Yifeng Wanguo as at 30 June 2019 and 31 December 2018 was also pledged to a bank for a bank facility provided to the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2019

17. CAPITAL COMMITMENTS

	30.6.2019	31.12.2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Capital expenditure 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)		
– contracted for but not provided in the consolidated financial statements	103,641	105,933
– authorised but not contracted for	181,925	192,049
	285,566	297,982
– acquisition property plant and equipment contracted for but not provided in the consolidated financial statements	14,296	14,444
	299,862	312,426

18. 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 2019 and 31 December 2018 are set out in the condensed consolidated statement of financial position and in note 13.

In addition, certain of the Group's bank borrowing as set out in note 15 as at 30 June 2019 and 31 December 2018 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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees, salaries and other allowances	2,447	2,322
Retirement benefit scheme contributions	12	16
	2,459	2,338

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