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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 RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

RESULTS HIGHLIGHT:

- Revenue increased by approximately 70.1% to approximately RMB202.3 million
- Gross profit increased by approximately 8.8% to approximately RMB42.1 million
- Gross profit margin was approximately 20.8%
- Net profit margin was approximately 7.7%
- Profit and total comprehensive income for the six months ended 30 June 2020 (or referred to as the “**reporting period**”) attributable to owners of the Company increased by approximately 52.4% to approximately RMB16.0 million
- Basic earnings per share was approximately RMB2.2 cents (six months ended 30 June 2019: RMB1.5 cents)
- The Board did not declare an interim dividend (six months ended 30 June 2019: Nil)

Note: Compared to the six months ended 30 June 2019

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Wanguo International Mining Group Limited (the “**Company**”) is pleased to announce the following unaudited interim results of the Company and its subsidiaries (collectively referred to as the “**Group**” or “**We**”) for the six months ended 30 June 2020 together with comparative figures for the corresponding period in 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	202,288	118,909
Cost of sales		<u>(160,219)</u>	<u>(80,215)</u>
Gross profit		42,069	38,694
Other income		1,465	1,178
Other gains and losses		1,402	239
Distribution and selling expenses		(820)	(1,287)
Administrative expenses		(22,203)	(22,126)
Finance costs	4	<u>(2,657)</u>	<u>(5,951)</u>
Profit before tax		19,256	10,747
Income tax expense	5	<u>(3,630)</u>	<u>(600)</u>
Profit for the period	6	<u>15,626</u>	<u>10,147</u>
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		<u>(74)</u>	<u>23</u>
Total comprehensive income for the period		<u>15,552</u>	<u>10,170</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME (CONTINUED)**

For the six months ended 30 June 2020

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit (loss) for the period attributable to:			
Owners of the company		16,111	10,441
Non-controlling interests		(485)	(294)
		<u>15,626</u>	<u>10,147</u>
 Total comprehensive income (expense) for the period attributable to:			
Owners of the company		16,037	10,464
Non-controlling interests		(485)	(294)
		<u>15,552</u>	<u>10,170</u>
 Earnings per share			
Basic (<i>RMB cents</i>)	<i>7</i>	<u>2.2</u>	<u>1.5</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 June 2020*

		30.6.2020	31.12.2019
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		462,020	438,219
Right-of-use assets		58,122	58,965
Mining right		286,880	13,690
Exploration and evaluation assets		188,090	187,436
Other intangible asset		319,288	319,288
Development costs		4,206	4,249
Deposit for purchase of property, plant and equipment		2,187	725
Deposits for acquisitions		–	184,338
Deferred tax assets		3,901	3,897
Restricted bank balances		2,658	2,654
		1,327,352	1,213,461
CURRENT ASSETS			
Inventories		10,280	9,275
Trade and other receivables	<i>9</i>	34,858	36,086
Bank balances and cash		25,005	4,662
		70,143	50,023
CURRENT LIABILITIES			
Trade and other payables	<i>10</i>	95,095	98,693
Contract liabilities		63,330	57,262
Lease liabilities		359	330
Tax payable		1,205	7,823
Amounts due to related parties		42,286	37,977
Consideration payable to a former non-controlling shareholder of a subsidiary		33,284	32,806
Dividend payable		808	20,000
Bank borrowings		61,219	33,876
		297,586	288,767

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)*At 30 June 2020*

	30.6.2020	31.12.2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
NET CURRENT LIABILITIES	<u>(227,443)</u>	<u>(238,744)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,099,909</u>	<u>974,717</u>
NON-CURRENT LIABILITIES		
Consideration payable to a former non-controlling shareholder of a subsidiary	26,805	27,262
Bank borrowings	48,500	16,000
Lease liabilities	38	218
Deferred income	9,243	9,842
Deferred tax liabilities	85,095	85,142
Provisions	6,119	5,746
	<u>175,800</u>	<u>144,210</u>
CAPITAL AND RESERVES		
Share capital	58,882	58,882
Reserves	577,219	561,182
	<u>636,101</u>	<u>620,064</u>
Equity attributable to owners of the Company	636,101	620,064
Non-controlling interests	288,008	210,443
	<u>924,109</u>	<u>830,507</u>
TOTAL EQUITY	<u>1,099,909</u>	<u>974,717</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2020, the Group's current liabilities exceeded its current assets by approximately RMB227,443,000. In preparing the condensed consolidated financial statements, the directors of the Company have reviewed the Group's financial and liquidity position, and taken into account the following relevant matters:

- (i) Mr. Gao Mingqing, substantial shareholder and executive director of the Company, had committed to further support the Group financially to enable it to meet its financial obligations as they fall due for the foreseeable future;
- (ii) In January 2020, the Company obtained a credit facility of approximately RMB300,000,000 from an entity, which is the subsidiary of a reputable stated-owned enterprise in the PRC which is listed in the HKEx. The new credit facility granted is for the Group's mining project of AXF Gold Ridge Pty Limited;
- (iii) A loan facility of approximately RMB104,000,000 was granted by a bank in 2020. The new loan facility granted is mainly for the Group's working capital purposes at present;
- (iv) Bank borrowings of approximately RMB61,219,000 will be due within one year or contain a repayment on demand clause and the directors are confident that the Group is able to extend the bank borrowings in full upon their maturity, and the banks will not demand for early repayment, based on the past history of renewals and good relationship of the Group with the banks; and
- (v) Amounts due to related parties of approximately RMB42,286,000 as at 30 June 2020 are repayable on demand. Since the related parties are substantial shareholders of the Company or controlled by the substantial shareholders of the Company, the directors of the Company are confident that the related parties will not demand for repayment until the Group has improved its liquidity position.

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 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

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 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

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.

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	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Sales of processed concentrates		
– Copper concentrates	50,259	50,846
– Iron concentrates	22,784	24,627
– Zinc concentrates	24,181	19,652
– Sulfur concentrates	4,266	5,239
– Gold in copper and zinc concentrates	10,251	4,742
– Gold in lead concentrates	9,287	3,939
– Silver in lead concentrates	3,816	2,919
– Silver in copper and zinc concentrates	4,778	2,664
– Lead concentrates	2,712	2,446
– Copper in lead concentrates	1,693	1,835
Sales of Electrolytic copper	68,261	–
	202,288	118,909
By revenue source		
– Own mined products	125,375	118,909
– Sourced outside	76,913	–
	202,288	118,909

4. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank borrowings	2,612	3,700
Imputed interest expenses on consideration payable to a former non-controlling shareholder of a subsidiary	21	2,239
Imputed interest expenses on lease liabilities	24	12
	<u>2,657</u>	<u>5,951</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax charge:		
PRC Enterprise Income Tax (“EIT”)		
– Current period	2,631	1,730
– Over provision in prior years	–	(1,308)
	<u>2,631</u>	<u>422</u>
Deferred tax charge:		
– Current period	999	178
	<u>3,630</u>	<u>600</u>

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.

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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit before tax	<u>19,256</u>	<u>10,747</u>
Tax at the EIT rate of 25%	4,814	2,687
Tax effect of expenses not deductible for tax purpose	865	982
Over provision in respect of prior year	–	(1,308)
Tax effect of tax losses not recognised	–	259
Income tax at concessionary rate	(2,268)	(1,393)
Tax effect of additional tax benefit on research and development expenses	(784)	(802)
Withholding tax on distributable earnings of a subsidiary established in the PRC	<u>1,003</u>	<u>175</u>
Tax charge for the period	<u><u>3,630</u></u>	<u><u>600</u></u>

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging the following items:		
Directors' emoluments	1,950	1,985
Other staff costs	17,203	12,274
Retirement benefit scheme contributions, excluding those of directors	<u>395</u>	<u>550</u>
Total staff costs	<u>19,548</u>	<u>14,809</u>
Depreciation of property, plant and equipment	16,354	15,710
Depreciation of right-of-use assets	852	859
Amortisation of mining right	532	533
Amortisation of development costs	<u>42</u>	<u>–</u>
Total depreciation and amortisation	<u>17,780</u>	<u>17,102</u>
Research and development costs	6,966	6,816
Minimum lease payments for rented properties classified as operating leases under HKAS 17	–	23
Cost of inventories recognised as an expense	<u><u>160,219</u></u>	<u><u>80,215</u></u>

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	
	2020 (Unaudited)	2019 (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 (<i>in RMB'000</i>)	<u>16,111</u>	<u>10,441</u>
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>in thousand</i>)	<u>720,000</u>	<u>720,000</u>

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	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Final dividend for the year ended 31 December 2018: RMB2.78 cents per share	<u>-</u>	<u>20,000</u>

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

9. TRADE AND OTHER RECEIVABLES

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 <i>RMB'000</i> (Audited)
Trade receivables from contracts with customers	1,462	7,510
Bills receivables	100	364
	<u>1,562</u>	<u>7,874</u>
Prepayments and other receivables		
– prepayments	28,920	14,763
– other receivables	4,376	13,449
	<u>33,296</u>	<u>28,212</u>
Total trade and other receivables	<u>34,858</u>	<u>36,086</u>

No allowance of credit losses was provided for the six months ended 30 June 2020 and year ended 31 December 2019, 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. For others, the Group generally requests for deposits in advance from customers.

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

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 <i>RMB'000</i> (Audited)
Within 30 days	<u>1,562</u>	<u>7,874</u>

10. TRADE AND OTHER PAYABLES

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 <i>RMB'000</i> (Audited)
Trade payables	<u>41,765</u>	<u>37,941</u>
Value-added tax, resource tax and other tax payables	7,938	13,805
Payables for construction in progress and property, plant and equipment	23,056	22,700
Accrued expenses and other payables		
– Accrued expenses	1,209	1,276
– Accrued staff cost	10,401	7,243
– Other payables	<u>10,726</u>	<u>15,728</u>
	<u>53,330</u>	<u>60,752</u>
	<u>95,095</u>	<u>98,693</u>

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

	30.6.2020 RMB'000 (Unaudited)	31.12.2019 <i>RMB'000</i> (Audited)
Within 30 days	6,800	12,288
31 – 60 days	2,398	7,350
61 – 90 days	646	7,078
91 – 180 days	30,884	11,217
Over 180 days	<u>1,037</u>	<u>8</u>
	<u>41,765</u>	<u>37,941</u>

11. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF SUBSIDIARIES

On 16 July 2017, the Group as the purchaser entered into a conditional sale and purchase agreement, as subsequently revised by supplementary agreements, with an independent third party as the vendor to acquire the 77.78% issued share capital of AXF Gold Ridge Pty Ltd (“AXF Gold Ridge”) which indirectly owns a gold mine in the Solomon Islands at the total consideration of AUD39.215 million (equivalent to approximately RMB182,127,000). The total consideration was settled by cash amounted to AUD22.105 (equivalent to approximately RMB102,663,000) million and reconstruction works and other recommissioning activities undertaken by the Group whereby the Group incurred a cost of approximately AUD17.11 million (equivalent to approximately RMB 79,464,000).

AXF Gold Ridge is an investment holding company which through its subsidiaries (together with AXF Gold Ridge, the “AXF Gold Ridge Group”) indirectly owns a 90% attributable interest of Gold Ridge Mining Limited (“GRML”). GRML owns the mining license and the exploration license in respect of Gold Ridge Project on Guadalcanal in the Solomon Islands. The directors of the Company are of the opinion that the acquisition of AXF Gold Ridge is a purchase of net assets of AXF Gold Ridge Group which does not constitute a business combination for accounting purpose as AXF Gold Ridge Group was not a business at the acquisition date.

The Group has elected to measure the non-controlling interests in AXF Gold Ridge Group at the non-controlling interest’s proportionate share of fair values of AXF Gold Ridge Group’s identifiable net assets.

The fair value of the identifiable assets acquired and liabilities assumed of the acquiree as at the date of acquisition were as follows:

RMB’000

Net assets acquired:

Mining rights	260,177
Non-controlling interests	<u>(78,050)</u>

Consideration	<u>182,127</u>
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Total purchase consideration satisfied by:

Deposits for acquisitions	<u>182,127</u>
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Net cash inflow arising on acquisition:

Cash and cash equivalents acquired	<u><u>–</u></u>
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MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Our Group 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 Copper, Lead, Zinc Mine, an operating mine located in Jiangxi Province, the PRC (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 lead mine in Walege of Changdu Country, the PRC (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. On 30 April 2020, the Group has completed the acquisition of 77.78% equity interest of AXF Gold Ridge Pty Limited ("AXF Gold Ridge"), which in turn owns 90% interest of a gold mine located in the Solomon Islands (the "Gold Ridge Mine"). The Gold Ridge Mine has substantial reserves of gold, which is expected to be further exploited and the processing plant will be renovated, it would therefore contribute revenue and profits to the Group.

Operating performance

The following table sets forth the volume of respective products sold at the Xinzhuang Mine during the six months ended 30 June 2020 compared to the corresponding period in 2019.

	Six months ended 30 June		
	2020	2019	Changes
	Volume	Volume	(approximate %)
	(tonnes)	(tonnes)	
Copper in copper concentrates	1,491	1,443	3.3
Zinc in zinc concentrates	1,968	1,755	12.1
Iron concentrates	44,231	49,683	(11.0)
Sulfur concentrates	72,937	66,645	9.4
Lead in lead concentrates	318	225	41.3
Gold in concentrates (kg)	65	37	75.7
Silver in concentrates (kg)	2,818	2,667	5.7
Copper in concentrates (kg)	108	99	9.1

The following table sets forth the volume of ores mined and processed at our Xinzhuang Mine during the six months ended 30 June 2020 and 2019 respectively.

	Six months ended 30 June		Changes (approximate %)
	2020 Volume (tonnes)	2019 Volume (tonnes)	
Volume of ores mined	384,231	346,146	11.0
Volume of ores processed	375,667	342,223	9.8

The increase in volume of ore mined, processed and concentrates sold during the six months ended 30 June 2020 compared with the corresponding period in 2019 was mainly attributable to an increase in volume of concentrates produced by the Group following the completion of upgrading works in processing plant in 2019.

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 the 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 has provided the preliminary draft of the feasibility study report to the Group by end of 2019. Due to outbreak of the coronavirus disease (“**COVID-19**”) in the first half of 2020, the Group has temporarily postponed the 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) (the “**Evaluation Centre**”).

In September 2019, the Evaluation Centre completed evaluation of the exploration report and issued a review opinion for the registration of mineral resource reserves and the verification of the mineral ore-body resources. Due to outbreak of COVID-19, the Group has suspended to proceed with the design and feasibility study of the Walege Mine in the first quarter of 2020. The Group has resumed the work in the second quarter of 2020 and a technical consultancy contract for the development plan has been executed.

HORIZONTAL EXPANSION

Acquisition of the majority shareholding in AXF Gold Ridge in which indirectly owns 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 (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 all administration and maintenance costs associated with the project of the exploitation and operations of the gold mine contemplated under the S&P Agreement (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 24 April 2020, the Company and AXF Resources entered into an amendment agreement to the S&P Agreement, pursuant to which, amongst other things, the consideration for the acquisition has been adjusted to AUD39.215 million (including the AUD17.110 million that has already been paid for the reconstruction works) and that the Company’s obligations for the reconstruction works and for entering into the Put Option Agreement to acquire the remaining interest in AXF Gold Ridge has ceased.

On 30 April 2020, the aforesaid acquisition has been completed. AXF Gold Ridge becomes an indirect non-wholly owned subsidiary of the Company with 77.78% equity interest owned by the Group. Please refer to the Company’s announcements dated 30 April 2020 and 21 May 2020 for details. For additional information in respect of the project concerning the development and operation of the Gold Ridge Mine, please refer to the Company’s announcement dated 18 August 2020.

FINANCIAL REVIEW

	Six months ended 30 June			
	Concentrated products (own mined)		Trading of electrolytic copper and other concentrates (sourced outside)	
	RMB'000	RMB'000	2020 Total	2019 Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	125,375	76,913	202,288	118,909
Cost of sales	(83,385)	(76,834)	(160,219)	(80,215)
Gross profit	41,990	79	42,069	38,694
Gross profit margin	33.5%	0.1%	20.8%	32.5%

Revenue, cost of sales, gross profit and gross profit margin

The Group's overall revenue increased by approximately 70.1% from approximately RMB118.9 million for the six months ended 30 June 2019 to approximately RMB202.3 million for the six months ended 30 June 2020. Our cost of sales increased by approximately 99.8% from approximately RMB80.2 million for the six months ended 30 June 2019 to approximately RMB160.2 million for the six months ended 30 June 2020.

The overall gross profit of the Group increased by approximately 8.8% from approximately RMB38.7 million for the six months ended 30 June 2019 to approximately RMB42.1 million for the six months ended 30 June 2020. Gross profit margin decreased from approximately 32.5% for the six months ended 30 June 2019 to approximately 20.8% for the six months ended 30 June 2020.

(i) Concentrated products (own mined)

Revenue from sales of concentrates products increased by approximately 5.5% from approximately RMB118.9 million for the six months ended 30 June 2019 to approximately RMB125.4 million for the six months ended 30 June 2020.

For the six months ended 30 June 2020, we sold 1,491 tonnes of copper in copper concentrates, 1,968 tonnes of zinc in zinc concentrates and 44,231 tonnes of iron concentrates, compared to 1,443 tonnes, 1,755 tonnes and 49,683 tonnes respectively for the six months ended 30 June 2019, representing increases of approximately 3.3% and 12.1% for copper in copper concentrates and zinc in zinc concentrates which were principally attributable to the completion of technical transformation conducted in processing plant, and decrease of 11.0% in iron concentrates due to decrease in metal contained in magnetic iron within iron-copper core.

The average prices of copper in copper concentrates, zinc in zinc concentrates and iron concentrates for the six months ended 30 June 2020 were RMB32,816, RMB9,238 and RMB515 per tonne respectively, compared to RMB35,236, RMB11,198 and RMB496 per tonne respectively for the six months ended 30 June 2019, representing decreases of approximately 6.9%, 17.5% and increase of 3.8% respectively. During the six months ended 30 June 2020, most of the metal prices have dropped. Our Directors believe that such decreases were mainly due to shrinking demand under the outbreak of COVID-19 in the first half of 2020.

The cost of sales of concentrates products increased by approximately 4.0% from approximately RMB80.2 million for the six months ended 30 June 2019 to approximately RMB83.4 million for the six months ended 30 June 2020, such increase was mainly driven by the corresponding increase in revenue.

The gross profit of concentrates products for the six months ended 30 June 2020 was approximately RMB42.0 million, which represented an increase of approximately 8.5% compared to approximately RMB38.7 million for the six months ended 30 June 2019. The gross profit margin increased from approximately 32.5% for the six months ended 30 June 2019 to approximately 33.5% for the six months ended 30 June 2020. Such increase was mainly attributable to an increased grading of the ore mined, as well as decrease in mining costs by contractor under the COVID-19 incident.

(ii) Trading of electrolytic copper and other concentrates (sourced outside)

Starting from November 2019, the Group set up a branch for trading of electrolytic copper and other concentrates. Revenue from trading of electrolytic copper and other concentrates for the six months ended 30 June 2020 was approximately RMB76.9 million.

Other income

Our other income comprised mainly bank interest income of approximately RMB0.1 million, incentives received from a local governmental authority of approximately RMB0.8 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 2020. Other income increased by approximately RMB0.3 million compared with the corresponding period in 2019, which was attributable to the increase in incentives received from a local governmental authority.

Other gains and losses

Our other gains and losses increased by approximately RMB1.2 million, which comprised mainly gain on disposal of property, plant and equipment of approximately RMB0.1 million and unrealised exchange gain of approximately RMB1.3 million for the six months ended 30 June 2020 as a result of the translation of Australian dollars and Hong Kong dollars into Renminbi, whereas for the six months ended 30 June 2019, loss on disposal of property, plant and equipment of approximately RMB0.1 million and unrealised exchange gain of approximately RMB0.3 million was incurred from the depreciation of Renminbi against Hong Kong dollars.

Distribution and selling expenses

Our distribution and selling expenses decreased by approximately 38.5% from approximately RMB1.3 million for the six months ended 30 June 2019 to approximately RMB0.8 million for the six months ended 30 June 2020. The decrease was mainly attributable to the decrease in the railway and transportation fees as result of increase in the number of nearby customers.

Administrative expenses

Our administrative expenses increased by approximately 0.5% from approximately RMB22.1 million for the six months ended 30 June 2019 to approximately RMB22.2 million for the six months ended 30 June 2020. Our administrative expenses were comparable in the two periods.

Finance costs

Our finance costs decreased by approximately 55.0% from approximately RMB6.0 million for the six months ended 30 June 2019 to approximately RMB2.7 million for the six months ended 30 June 2020, primarily due to the decrease in bank loan interest expenses and imputed interest expenses on consideration payable to a former non-controlling shareholder of a subsidiary.

Income tax expense

Our income tax expense was approximately RMB3.6 million for the six months ended 30 June 2020, consisting of PRC corporate income tax payable of approximately RMB2.6 million and withholding tax payable of approximately RMB1.0 million. 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.

The increase in our income tax expense for the six months ended 30 June 2020 was primarily due to the increase in the PRC corporate income tax expenses as a result of increase in operating profit.

Profit and total comprehensive income

As a result of the foregoing, our profit after taxation increased by approximately 52.9% or approximately RMB5.4 million, from approximately RMB10.2 million for the six months ended 30 June 2019 to approximately RMB15.6 million for the six months ended 30 June 2020. Our net profit margin decreased from approximately 8.6% for the six months ended 30 June 2019 to approximately 7.7% for the six months ended 30 June 2020 mainly as a result of the increase in income tax expense.

Profit and total comprehensive income attributable to owners of our Company

Profit and total comprehensive income attributable to owners of our Company increased by approximately 52.4% or approximately RMB5.5 million, from approximately RMB10.5 million for the six months ended 30 June 2019 to approximately RMB16.0 million for the six months ended 30 June 2020.

Liquidity and financial resources

During the six months ended 30 June 2020, the Group's net cash from operating activities was approximately RMB16.1 million (net cash from operating activities for the six months ended 30 June 2019: RMB29.1 million) and the Group's bank balances and cash was approximately RMB25.0 million as at 30 June 2020 (as at 31 December 2019: RMB4.7 million). Included in bank balances and cash, approximately RMB1.4 million (as at 31 December 2019: RMB1.1 million) were denominated in Hong Kong dollars, Australian dollars and US dollars. Such increase was mainly attributable to the increase in bank loans.

Gearing ratio

The Group had a gearing ratio of approximately 12.2% (representing total bank and other borrowings and payables to former non-controlling shareholder of a subsidiary divided by total assets) as at 30 June 2020. The gearing ratio was approximately 8.7% as at 31 December 2019. The increase in gearing ratio was mainly attributable to the increase in bank borrowings of approximately RMB60.0 million.

Bank and other borrowings

As at 30 June 2020, the Group had secured bank borrowings of approximately RMB83.7 million and unsecured other borrowings of approximately RMB26.0 million in aggregate with maturity from one year to eight years and effective interest rate of approximately 5.85%.

Capital expenditure

Capital expenditure mainly includes purchase of mining equipment, construction of mining structures at the Xinzhuang Mine, deposit paid for acquisition of a subsidiary as well as payment for exploration and evaluation assets. For the six months ended 30 June 2020, capital expenditure of approximately RMB38.3 million has been incurred (for the six months ended 30 June 2019: RMB43.0 million).

Contractual obligations and capital commitment

As at 30 June 2020, the Group's capital commitment amounted to approximately RMB32.3 million, representing a decrease of approximately RMB248.0 million as compared to approximately RMB280.3 million as at 31 December 2019, which was primarily due to the waiver of the Company's obligations for commitments in respect of the acquisition of AXF Gold Ridge.

Contingent liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities or guarantees.

Material acquisition and disposal of subsidiaries, associates and joint ventures

On 30 April 2020, the Group has completed the acquisition of AXF Gold Ridge, which becomes an indirect non-wholly owned subsidiary of the Company with 77.78% equity interest owned by the Group.

Save as disclosed above, the Group had no material acquisition and disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2020.

Significant investments and future plan for material investments or capital assets

Save as disclosed in this announcement, the Group had no significant investment nor were there any plan for material investments or additions of capital assets authorised by the Board as at the date of this announcement.

Charge on group assets

As at 30 June 2020, the Group's right-of-use assets, mining rights and buildings with carrying value of approximately RMB82.5 million (as at 31 December 2019: RMB71.4 million of right-of-use assets and buildings) were pledged to secure the Group's bank borrowings and facilities.

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 2020.

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 2020, 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 2020, the Group employed approximately 350 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 production 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

It is expected that COVID-19 will become under control in the second half of 2020 in China, coupled with the acceleration of China's infrastructure construction, would result in recovery of metal demands. However, due to adverse impacts in the supply chain, global industrial production still needs time to return to pre-epidemic levels. On the other hand, affected by investors' demand for hedging, the central bank's quantitative easing policy and the outbreak of COVID-19, gold has become a "sweet pastry" in the eyes of investors. The market generally expects that in the second half of this year, gold will continue to maintain an overall bull market. The Group therefore will speed up the reconstruction and development of the Gold Ridge Mine in order to contribute revenue and profits to the Group.

EXPLORATION, DEVELOPMENT AND MINING ACTIVITIES

Xinzhuang Mine

Mineral exploration

During the six months ended 30 June 2020, the exploration activities in the Xinzhuang Mine was within 4-29 exploration line. We have completed underground geological drilling of 9,470 m, with drill size of 60-108 mm for the six months ended 30 June 2020. For the six months ended 30 June 2020, we have also finished tunnel drilling of 312 m and completed adit mapping of 1,321 m.

For the six months ended 30 June 2020, no expenditure of mineral exploration was incurred.

Development

During the six months ended 30 June 2020, the Group incurred development expenditure of approximately RMB14.3 million.

Detailed breakdown of development expenditure is as follows:

	<i>RMB'</i> <i>(million)</i>
Mining structures	5.7
Machinery and electronic equipment for process plants	6.5
Motor vehicles	2.1
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	14.3
	<hr/> <hr/>

Mining activities

During the six months ended 30 June 2020, we processed a total of 375,667 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 2020.

Type of concentrates sold	Volume
Copper in copper concentrates	1,491 tonnes
Iron concentrates	44,231 tonnes
Zinc in zinc concentrates	1,968 tonnes
Sulfur concentrates	72,937 tonnes
Lead in lead concentrates	318 tonnes
Gold in copper concentrates	32 kg
Silver in copper concentrates	1,315 kg
Gold in zinc concentrates	4 kg
Silver in zinc concentrates	247 kg
Gold in lead concentrates	29 kg
Sliver in lead concentrates	1,256 kg
Copper in lead concentrates	108 kg

During the six months ended 30 June 2020, the Group incurred expenditures for mining and processing activities of RMB45.5 million (30 June 2019: RMB45.7 million) and RMB24.2 million (30 June 2019: RMB22.2 million) respectively. The unit expenditures for mining and processing activities for the six months ended 30 June 2020 were RMB118.4/t (30 June 2019: RMB132.1/t) and RMB64.4/t (30 June 2019: RMB64.9/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 intended to proceed with the application for the mining license in 2020. However, due to the outbreak of COVID-19, the application progress has been temporarily suspended in the first quarter of 2020.

Mineral exploration

All the field exploration work has been completed before 2017. No exploration was conducted during the six months ended 30 June 2020.

Development

During the six months ended 30 June 2020, the Group incurred development expenditure of approximately RMB0.7 million in respect of conversion exploration license to mining license. A technical consultancy contract has been executed for the purpose of design and development of the Walege Mine.

Mining activities

Since the Walege Mine is still in development stage, no mining activities has incurred for the six months ended 30 June 2020.

Gold Ridge Mine

The Group (through the holding of 77.78% equity interest in AXF Gold Ridge) owns 70% attributable interest of Gold Ridge Mining Limited (“GRML”) which in turn owns the Gold Ridge Mine. The Gold Ridge Mine is currently under reconstruction, which aims to commence production of gold concentrate in the second half of 2021. GRML has full mining lease which is valid until 2034 with a right of renewal for additional successive terms up to 10 years.

Mineral exploration

In order to upgrade and increase mineral resources as well as undertake metallurgical recovery optimization tests, the Gold Ridge Mine has performed 4 diamond drill holes (“DDH”) with drilling hole diameter of 75.7mm-122.6mm, totaling 710 meters drilled.

Development

During the six months ended 30 June 2020, the Group incurred mainly development expenditure of approximately RMB13.9 million for tidy up the mining area for the preparation of recommissioning.

Mining activities

Since the Gold Ridge Mine is still in pre-commissioning stage, no mining activities have incurred for the six months ended 30 June 2020.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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 2020, 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 2020.

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 2020.

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 2020.

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. Wang Xin. 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 2020 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.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.wgmine.com. The 2020 interim report of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the above websites in due course.

By Order of the Board
Wanguo International Mining Group Limited
Gao Mingqing
Chairman

Hong Kong, 25 August 2020

As at the date of this announcement, the Board comprises Mr. Gao Mingqing (Chairman), Ms. Gao Jinzhu, Mr. Xie Yaolin and Mr. Liu Zhichun as executive Directors; Mr. Li Kwok Ping and Mr. Lee Hung Yuen as non-executive Directors; and Dr. Lu Jian Zhong, Mr. Qi Yang, Mr. Shen Peng and Mr. Wang Xin as independent non-executive Directors.