



中國黃金國際資源有限公司  
China Gold International Resources Corp. Ltd.



# China Gold International Resources

(Incorporated in British Columbia, Canada with limited liability)

HK Stock Exchange      Stock Code: 2099

Toronto Stock Exchange      Stock Code: CGG



**2012**  
INTERIM REPORT

# MANAGEMENT'S DISCUSSION AND ANALYSIS

*Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months ended June 30, 2012  
(Stated in U.S. dollars, except as otherwise noted)*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis of financial condition and results of operations ("MD&A") is prepared as of August 14, 2012. It should be read in conjunction with the condensed interim consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (referred to herein as "China Gold International", the "Company", "we" or "our" as the context may require) for the six months ended June 30, 2012 and the six months ended June 30, 2011, respectively. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries collectively on a consolidated basis.

The following discussion contains certain forward-looking statements relating to the Company's plans, objectives, expectations and intentions, which are based on the Company's current expectations and are subject to risks, uncertainties and changes in circumstances. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties outlined further in the Company's Annual Information Form ("Annual Information Form" or "AIF") dated March 27, 2012 on SEDAR at [www.sedar.com](http://www.sedar.com). For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of the Company, please refer to the sections titled "Forward Looking Statements" and "Risk Factors" and to discussions elsewhere within this MD&A. China Gold International's business, financial condition or results of operations could be materially and adversely affected by any of these risks.

### FORWARD LOOKING STATEMENTS

Certain statements made herein, other than statements of historical fact relating to the Company, represent forward-looking information. In some cases, this forward-looking information can be identified by words or phrases such as "may", "will", "expect", "anticipate", "contemplates", "aim", "estimate", "intend", "plan", "believe", "potential", "continue", "is/are likely to", "should" or the negative of these terms, or other similar expressions intended to identify forward-looking information. This forward looking information includes, among other things; China Gold International's production estimates, business strategies and capital expenditure plans; the development and expansion plans and schedules for the CSH Gold Mine and the Jiama Mine; China Gold International's financial condition; the regulatory environment as well as the general industry outlook; general economic trends in China; and statements respecting anticipated business activities, planned expenditures, corporate strategies, participation in projects and financing, and other statements that are not historical facts.

By their nature, forward-looking information involves numerous assumptions, both general and specific, which may cause the actual results, performance or achievements of China Gold International and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. Some of the key assumptions include, among others, the absence of any material change in China Gold International's operations or in foreign exchange rates, the prevailing price of gold, copper and other non-ferrous metal products; the absence of lower-than-anticipated mineral recovery or other production problems; effective income and other tax rates and other assumptions underlying China Gold International's financial performance as stated in the Technical Reports as defined below; China Gold International's ability to obtain regulatory confirmations and approvals on a timely basis; continuing positive labor relations; the absence of any material adverse effects as a result of political instability, terrorism, natural disasters, litigation or arbitration and adverse changes in government regulation; the availability and accessibility of financing to China Gold International; and the performance by counterparties of the terms and conditions of all contracts to which China Gold International and its subsidiaries are a party. The forward-looking information is also based on the assumption that none of the risk factors identified in this MD&A or in the AIF that could cause actual results to differ materially from the forward-looking information actually occurs.

Forward-looking information contained herein as of the date of this MD&A is based on the opinions, estimates and assumptions of management. There are a number of important risks, uncertainties and other factors that could cause actual actions, events or results to differ materially from those described as forward-looking information. China Gold International disclaims any obligation to update any forward-looking information, whether as a result of new information, estimates, opinions or assumptions, future events or results, or otherwise except to the extent required by law. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The forward-looking information in this MD&A is expressly qualified by this cautionary statement. The reader is cautioned not to place undue reliance on forward-looking information.

### THE COMPANY

#### Overview

China Gold International is a gold and base metal mining company based in Vancouver, Canada. The Company's main business involves the acquisition, development and exploration of gold and base metal mineral properties.

The Company's principal mining operations are the Chang Shan Hao Gold Mine ("CSH Gold Mine" or "CSH Mine" or "CSH"), located in Inner Mongolia, China and the Jiama Copper-Gold Polymetallic Mine ("Jiama Mine" or "Jiama"), located in Tibet, China. China Gold International holds a 96.5% interest in the CSH Gold Mine, while its Chinese joint venture ("CJV") partner holds the remaining 3.5% interest. China Gold International commenced gold production at the CSH Gold Mine in July 2007 and commercial production on July 1, 2008. The Company acquired a 100% interest in the Jiama Mine on December 1, 2010. Jiama hosts a large scale copper-gold polymetallic deposit consisting of copper, gold, molybdenum, silver, lead and zinc. The Jiama Mine commenced commercial production in September 2010.

China Gold International's common shares are listed on the Toronto Stock Exchange ("TSX") and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange" or "HKSE") under the symbol CGG and the stock code 2099, respectively. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) as well as Hong Kong Exchange News at [www.hkexnews.hk](http://www.hkexnews.hk).

#### Performance Highlights

- Revenue increased by 20% from US\$128.4 million in the six months ended June 30, 2011 to US\$154.1 million in the six months ended June 30, 2012.
- Comprehensive income decreased by 21% from US\$31.4 million in the six months ended June 30, 2011 to US\$24.8 million for the six months ended June 30, 2012.
- Gold production from the CSH Mine increased by 26% from 55,259 ounces in the six months ended June 30, 2011 to 69,678 ounces in the six months ended June 30, 2012.
- Copper production from the Jiama Mine increased by 9% from 4,180 tonnes (9,215,380 pounds) in the six months ended June 30, 2011 to 4,563 tonnes (10,059,540 pounds) in the six months ended June 30, 2012.
- The Company subscribed for a total of 70,545,000 shares of China Nonferrous Mining Corporation Limited ("CNMC") for an aggregate price of US\$20,010,702 (HK\$155,199,000) in CNMC's initial global offering and listing on the HKSE (stock code: 1258) on June 29, 2012.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OUTLOOK

- For 2012, the Company has budgeted production of 130,000-135,000 ounces of gold from the CSH Mine.
- For 2012, the Company has budgeted production of 9,800-11,500 tonnes (21,599,200 – 25,346,000 pounds) of copper from the Jiama Mine.
- At the CSH Mine, a 59,000 metre (108 holes) drilling program was completed at the end of October 2011 in the mining permit area. A full evaluation on the mine's potential for gold mineralization is in progress, for both down depth and surrounding the mining permit area. The Company is in preparation for a mine expansion feasibility study and reserve analysis.
- At the Jiama Mine, a 37,000 metre (71 holes) drilling program was completed in the fourth quarter of 2011 within the mining permit area. In order to increase production and mining capacity, the Company is in the process of updating the early feasibility study and reserve estimate. The feasibility study update and reserve estimate are expected to be completed in 2012 and will be used in to determine the optimal scope and scale of Phase II mine expansion.
- The Company will continue to leverage the technical and operating experience of the Company's controlling shareholder, China National Gold Group Corporation ("CNG"), to improve operations at the CSH Mine and the Jiama Mine. In addition, the Company continues to focus its efforts on increasing and optimizing production while minimizing costs at both mines.
- To fulfill its growth strategy, the Company is continually working with CNG and other interested parties to identify potential international mining opportunities, namely projects outside of China, which can be readily and quickly brought into production with the possibility of further expansion through continued exploration.

### HISTORICAL FINANCIAL INFORMATION

The condensed interim consolidated financial statements of the Company include the condensed interim consolidated financial statements of China Gold International and its subsidiaries. The Company's financial statements are presented in U.S. dollars.

#### Principal Income Statement Components

**Revenue** is derived from the principal product at the CSH Mine, which is gold dore bars, and the principal product at the Jiama Mine, which is copper concentrate with gold and silver credits.

The sales price of gold dore bars is primarily determined by spot gold prices in the market, with reference to prices on the Shanghai Gold Exchange. The sales price of copper concentrate is based on a sales contract which is primarily based on spot copper prices in the market, with reference to prices on the Shanghai Futures Exchange Sight Contract. The sales price for copper concentrate is then reduced by approximately 10% to 16% to cover shipping and smelting costs of the contained copper value in the copper concentrate.

Historically, the market prices for these metals have fluctuated significantly, influenced by numerous factors beyond the Company's control such as world demand and supply, selling and purchasing activities by central banks and other macro-economic factors such as expectations regarding inflation rates, interest rates, currency exchange rates, as well as general global economic conditions and political trends. The Company does not currently employ any financial instruments to hedge market fluctuations. Fluctuations in market prices will lead to fluctuations in the Company's financial results.

The Company's gold production volume is primarily determined by ore grade, mining and processing capacity and metal recovery rates. Production volume at the CSH Mine is also adversely affected by low temperatures during the winter months as the leaching of gold slows.

The Jiama Mine commenced production in September 2010 and has since then continuously increased production of copper concentrate. Revenue generated by the Jiama Mine represents 30.1% of the Company's total revenue in the first half of 2012 compared to 36.1% in the same period of 2011.

**Cost of sales** primarily includes mining costs (primarily fees paid to third-party contractors for providing mining services), ore processing costs (primarily costs of crushing, chemicals, drip metres, labor and utilities costs), other mine operating costs (primarily administrative and management staff salaries, benefits and office expenses), taxes, depreciation and depletion. Historically, mining costs have been the largest component of costs of sales. Increases in depreciation and depletion expenses due to additional capital expenditures also increased cost of sales.

Depreciation and depletion primarily consist of (i) depreciation of property, plant and equipment; and (ii) depletion of exploration expenditures incurred on sites within an existing mine or in areas within the boundary of a known mineral deposit which contain proven and probable reserves, provided that mineral deposits are economically recoverable and commercial production has already commenced at such mineral deposits. For the accounting treatment of exploration expenditure incurred at other stages, see "Exploration and evaluation expenditures" below.

**General and administrative expenses** primarily consists of staff salaries, benefits and travel expenses of administrative and management staff of the Company's head office in Canada and at the mine sites, office expenses, investor relations, professional fees, and other miscellaneous expenses relating to the general administration of the Company.

**Exploration and evaluation expenditures** primarily consist of fees paid to third-party contractors for exploration activities, such as drilling on sites other than operating mines and on areas outside the boundary of a known mineral deposit which contains proved and probable reserves, and preparing drilling reports, fees paid to obtain exploration permits, and in-house exploration staff costs.

Exploration and evaluation expenditures are charged to the consolidated statement of comprehensive income in the period incurred until it is determined that a mineral property has economically recoverable reserves. For the criteria used when assessing economic recoverability, see Note 3 in the Company's annual audited consolidated financial statements for the year ended December 31, 2011. Following the establishment of economic recoverability, exploration and evaluation expenditures are capitalized and are included in the carrying amount of mineral assets under property, plant and equipment.

**Foreign exchange gain (loss)** primarily consists of foreign exchange differences arising from the translation of the balances of RMB-denominated term loans and the syndicated loan facility into U.S. dollars, and the translation of the RMB-denominated financial statements of the foreign subsidiaries into U.S. dollars.

With the exception of the subsidiaries in the Skyland Group, the Company's reporting currency and the functional currency of the operations is the U.S. dollar. Transactions in currencies other than the U.S. dollar are initially recorded at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the U.S. dollar are translated at the exchange rate at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a currency other than the U.S. dollar are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a currency other than the U.S. dollar are translated using exchange rates at the dates when fair values are determined. All gains and losses realized on translation of these foreign currency transactions are included in the Company's consolidated statements of comprehensive income.

**Interest and other income** primarily consist of interest earned on bank deposits.

**Finance costs** consist of interest on the Company's borrowings recognized using the effective interest method and accretion of environmental rehabilitation liabilities, net of capitalized interest. Interest is capitalized if the borrowings underlying the interest expenditures are for the construction or development of qualifying assets.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company expects its working capital and capital expenditures will continue to be partially funded with bank loans. Accordingly, the Company expects finance costs will continue to affect the results of operations. Fluctuations in interest rates in the future will affect the Company's finance costs, which in turn will affect the results of operations.

**Income taxes** for the Company are provided at the combined Canadian federal and provincial income tax rates of 26.5% for the six months ended June 30, 2012 and June 30, 2011. The Company is incorporated in Canada; however, it has had no taxable profits since incorporation. During the same periods, the Company's CSH Chinese Joint Venture was subject to the PRC enterprise income tax at a rate of 25% for the six months ended June 30, 2012 and June 30, 2011. The Company's subsidiaries, Tibet Huatailong Mining Development Co., Ltd. and Jiama Industry and Trade, established in Tibet, PRC, are subject to a preferential enterprise income tax rate of 15%, applicable to enterprises in western China.

### RESULTS OF OPERATIONS

#### Selected Quarterly Financial Data

QUARTER ENDED (US\$ in thousands except per share)	2012			2011			2010	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Revenues	<b>76,484</b>	77,578	93,544	89,407	92,938	35,423	48,886	46,631
Cost of sales	<b>49,896</b>	52,165	61,428	53,017	52,519	23,587	26,824	23,179
Mine operating earnings	<b>26,588</b>	25,413	32,114	36,391	40,419	11,837	22,063	23,452
General and administrative expenses	<b>5,311</b>	5,838	4,624	3,590	5,217	3,937	1,828	1,396
Exploration and evaluation expenses	<b>124</b>	58	173	160	70	64	559	69
Income from operations	<b>21,153</b>	19,517	34,250	32,640	35,132	7,836	19,675	21,987
Foreign exchange gain (loss)	<b>(1,125)</b>	164	1,596	326	397	34	(595)	(631)
Finance costs	<b>3,416</b>	2,823	4,798	3,862	2,882	2,511	2,164	1,450
Listing expenses	—	—	—	—	—	—	43	514
Profit before income tax	<b>18,188</b>	20,041	33,805	30,520	34,713	5,444	16,923	19,405
Income tax expense	<b>5,564</b>	6,585	6,597	6,689	7,293	1,941	4,392	5,581
Net income	<b>12,624</b>	13,456	27,209	23,830	27,420	3,503	12,530	13,825
Basic earnings per share (cents)	<b>3.07</b>	3.27	6.86	5.79	6.78	0.82	5.89	7.71
Diluted earnings per share (cents)	<b>3.07</b>	3.27	6.86	5.79	6.78	0.81	5.85	7.69

#### Selected Quarterly Production Data and Analysis

CSH Mine	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Gold produced (ounces)	<b>35,848</b>	37,519	<b>69,678</b>	55,259
Gold sold (ounces)	<b>34,113</b>	39,225	<b>67,875</b>	56,190
Total production cost (US\$) of gold per ounce	<b>858</b>	821	<b>907</b>	804
Cash production cost* (US\$) of gold per ounce	<b>753</b>	743	<b>802</b>	696

\* Non-IFRS measure

Gold production at the CSH Mine decreased by 4% from 37,519 ounces for the three months ended June 30, 2011 to 35,848 ounces for the three months ended June 30, 2012. The decrease in production is due to the low grade of ores placed on the heap during the second quarter of 2012 as compared to the same period in 2011.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Total production costs of gold per ounce and cash cost of gold per ounce for the three months ended June 30, 2012 both increased as compared to the same period in 2011 due to increased amounts of waste rock mined, in addition to higher mining costs. The CSH Mine is making continuous efforts to lower future production costs.

Jiama Mine	Three months ended June 30,		Six months ended June 30	
	2012	2011	2012	2011
Copper produced (tonnes)	<b>2,663</b>	2,813	<b>4,563</b>	4,180
Copper produced (pounds)	<b>5,871,653</b>	6,201,664	<b>10,059,540</b>	9,215,380
Copper sold (tonnes)	<b>2,602</b>	3,280	<b>4,853</b>	4,385
Copper sold (pounds)	<b>5,735,678</b>	7,230,648	<b>10,699,311</b>	9,666,753
Gold produced (ounces)	<b>3,142</b>	1,821	<b>5,595</b>	2,644
Gold sold (ounces)	<b>3,092</b>	2,642	<b>5,858</b>	3,507
Total production cost* (US\$) of copper per tonne	<b>9,726</b>	7,820	<b>10,415</b>	8,957
Total production cost* (US\$) of copper per pound	<b>4.41</b>	3.55	<b>4.72</b>	4.06
Total production cost* (US\$) of copper per tonne after by-products credit***	<b>6,059</b>	4,825	<b>6,809</b>	6,028
Total production cost* (US\$) of copper per pound after by-products credits***	<b>2.75</b>	2.19	<b>3.09</b>	2.73
Cash production cost** (US\$) per tonne of copper	<b>6,750</b>	5,969	<b>7,387</b>	6,627
Cash production cost** (US\$) per pound of copper	<b>3.06</b>	2.71	<b>3.35</b>	3.01
Cash production cost** (US\$) of copper per tonne after by-products credit***	<b>3,083</b>	2,974	<b>3,781</b>	3,699
Cash production cost** (US\$) of copper per pound after by-products credits***	<b>1.40</b>	1.35	<b>1.71</b>	1.68

\* The production costs include the expenditures incurred on the mine sites for the activities related to the production including mining, processing, mine site G&A and royalties etc.

\*\* Non-IFRS measure

\*\*\* By-products credit refers to the sales of gold and silver during the corresponding period.

During the three months ended June 30, 2012, the Jiama Mine produced 2,663 tonnes (5,871,653 pounds) of copper, which was slightly lower than the comparative period in 2011 (2,813 tonnes, or 6,201,664 pounds). The major reason for the decrease is due to the low grade of ores mined from January to May 2012. However, higher grades of ore mined during June 2012 resulted in increased production output during the month. A continuous increase is expected in production output as higher grades of ore are expected to be mined in the remainder of 2012.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Total production cost and cash cost of copper per tonne and per pound both increased due to the temporarily low grade of ore mined. The Company is closely monitoring production costs at the Jiama Mine and will continue to make efforts to reduce costs.

### Review of Quarterly Data

#### *Three months ended June 30, 2012 compared to three months ended June 30, 2011*

**Revenue** decreased by 18%, or US\$16.4 million, from US\$92.9 million for the three months ended June 30, 2011, to US\$76.5 million for the three months ended June 30, 2012. Revenue from the CSH Mine accounted for 70%, or US\$53.3 million (2011: US\$58.4 million), of total revenue for the quarter. The decrease in production, due to higher amounts of waste rock mined, attributed to the 13% decrease in gold sold from 39,225 ounces (gold produced: 37,519 ounces) in 2011 to 34,113 ounces (gold produced: 35,848 ounces) for the same period in 2012. Revenue from the Jiama Mine accounted for 30%, or US\$23.1 million (2011: US\$34.5 million), of total revenue for the quarter. Total copper sold decreased by 21% from 3,280 tonnes (7,230,648 pounds) for the three months ended June 30, 2011 to 2,602 tonnes (5,735,678 pounds) for the same comparative period in 2012. The Jiama Mine also experienced decreased production levels due to lower grades of ore mined during the first five months of the year.

**Cost of sales** decreased by 5% or US\$2.6 million, from US\$52.5 million for the three months ended June 30, 2011 to US\$49.9 million, for the same period in 2012. Jiama's cost of sales contributed US\$20.6 million, or 41%, compared to US\$20.3 million in 2011. The increase in cost of sales during the second quarter of 2012 is attributed to higher amounts waste rock mined in the process of increasing production at the CSH Mine and to the temporarily low grade of ore mined at the Jiama Mine. Cost of sales as a percentage of revenue for the Company increased from 57% to 65% for the three months ended June 30, 2011 compared to the same period in 2012.

**Mine operating earnings** for the Company decreased by 34%, or US\$13.8 million, from US\$40.4 million for the three months ended June 30, 2011 to US\$26.6 million for the three months ended June 30, 2012 due to the decreased production and sales revenue from both mines. Mine operating earnings as a percentage of revenue decreased from 43% to 35% for the three months ended June 30, 2011 and June 30, 2012.

**General and administrative expenses** increased by 2%, or US\$95,000, from US\$5.2 million for the three months ended June 30, 2011 to US\$5.3 million for the three months ended June 30, 2012. The slight increase in general and administrative expenses is in line with the Company's overall growth.

**Exploration and evaluation expenditures** increased by 77%, or US\$54,000, from US\$70,000 for the three months ended June 30, 2011 to US\$124,000 for the three months ended June 30, 2012. (The capitalized exploration expenditures for the CSH Mine and the Jiama Mine can be found in the section titled "Mineral Properties").

**Income from operations** for the second quarter of 2012 decreased by 31%, or US\$11 million, from US\$35.1 million for the three months ended June 30, 2011 to US\$21.2 million for the three months ended June 30, 2012. The decrease was primarily attributable to a decrease of US\$11.6 million in Jiama's mine operating earnings.

**Finance costs** increased by 19%, or US\$0.5 million, from US\$2.9 million for the three months ended June 30, 2011 to US\$3.4 million for the three months ended June 30, 2012, primarily attributed to higher interest rates on loans payable by CSH and Jiama. There was no capitalized interest for the three months ended June 30, 2012.

**Foreign exchange gain** decreased by 383%, or US\$1.5 million, from a gain of US\$397,000 for the three months ended June 30, 2011 to a loss of US\$1.1 million for the three months ended June 30, 2012. The current period's loss is related to the revaluation of monetary items held in Chinese RMB and Hong Kong Dollars based on changes in the RMB/HKD/USD exchange rates.

**Interest and other income** decreased from US\$2.06 million for the three months ended June 30, 2011 to US\$1.6 million for the three months ended June 30, 2012.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Income tax expense** decreased by 24%, or US\$1.7 million, from US\$7.3 million for the three months ended June 30, 2011 to US\$5.6 million for the same period in 2012. The decrease is primarily attributable to the decrease in taxable income.

**Net income** of the Company decreased by US\$14.8 million from US\$27.4 million for the three months ended June 30, 2011 to US\$12.6 million for the three months ended June 30, 2012.

### *Six months ended June 30, 2012 compared to six months ended June 30, 2011*

**Revenue** increased by 20%, or US\$25.7 million, from US\$128.4 million for the six months ended June 30, 2011, to US\$154.1 million for the six months ended June 30, 2012. Revenue from the CSH Mine accounted for 70%, or US\$107.7 million (2011: US\$82.0 million), of total revenue for the six month period. The increase in revenue was attributed to the 21% increase in gold sold, from 56,190 ounces (gold produced: 55,259 ounces) in 2011 to 67,875 ounces (gold produced: 69,678 ounces) for the same period in 2012, due to improvements in ore crushing, management of heap leaching and improved grades of ore in month of June. Revenue from the Jiama Mine accounted for 30%, or US\$46.4 million (2011: US\$46.4 million), of total revenue for the six month period. Total copper sold increased by 11% from 4,385 tonnes (9,666,753 pounds) for the six months ended June 30, 2011 to 4,853 tonnes (10,699,311 pounds) for the same period in 2012.

**Cost of sales** increased by 34% or US\$26 million, from US\$76.1 million for the six months ended June 30, 2011 to US\$102.1 million for the same period in 2012. Jiama's cost of sales contributed US\$40.5 million, or 40%, compared to US\$30.9 million in 2011. The increase in cost of sales during the first half of 2012 is attributed to higher amounts of waste rock mined in the process of increasing production at the CSH Mine and to the temporarily low grade of ore mined at the Jiama Mine. Cost of sales as a percentage of revenue for the Company slightly increased from 59% to 66% for the six months ended June 30, 2011 compared to 2012 due to increased production at both the CSH and Jiama Mines.

**Mine operating earnings** for the Company remained consistent from US\$52.3 million for the six months ended June 30, 2011 to US\$52.0 million for the six months ended June 30, 2012 due to the increased production and sales revenue from both mines. Mine operating earnings as a percentage of revenue decreased from 41% for six months ended June 30, 2011 to 34% for the six months ended June 30, 2012.

**General and administrative expenses** increased by 22%, or US\$2.0 million, from US\$9.2 million for the six months ended June 30, 2011 to US\$11.15 million for the six months ended June 30, 2012. A significant portion of the costs were attributable to Jiama's expenses, totaling US\$7.2 million, of which US\$3.5 million related to salaries and benefits and US\$0.9 million related to administration and office expenses. The increase in general and administrative expenses is in line with the Company's overall growth.

**Exploration and evaluation expenditures** increased by 36%, or US\$48,000, from US\$134,000 for the six months ended June 30, 2011 to US\$182,000 for the six months ended June 30, 2012. (The capitalized exploration expenditures for the CSH Mine and the Jiama Mine can be found in the section titled "Mineral Properties.")

**Income from operations** for the first six months of 2012 decreased by 5%, or US\$2.3 million, from US\$42.9 million for the six months ended June 30, 2011 to US\$40.6 million for the six months ended June 30, 2012.

**Finance costs** increased by 16%, or US\$0.8 million, from US\$5.4 million for the six months ended June 30, 2011 to US\$6.2 million for the six months ended June 30, 2012, primarily attributed to higher interest rates on loans payable by CSH and Jiama. There was no capitalized interest for the three months ended June 30, 2012.

**Foreign exchange gain** decreased by 323%, or US\$1.4 million, from a gain of US\$431,000 for the six months ended June 30, 2011 to a loss of US\$961,000 for the six months ended June 30, 2012. The current period's gain is related to the translation of the foreign subsidiaries' books of account denominated in Chinese RMB to US dollar.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Interest and other income** increased from US\$2.1 million for the six months ended June 30, 2011 to US\$4.8 million for the six months ended June 30, 2012. During the third quarter of 2011, a portion of the cash proceeds from the Company's 2010 IPO were invested in term deposits, which resulted in approximately US\$2.5 million of interest income earned by June 30, 2012. Additional interest-bearing short-term deposits were also purchased during the first six months of 2012 with the cash generated from net income.

**Income tax expense** increased by 32%, or US\$2.9 million, from US\$9.2 million for the six months ended June 30, 2011 to US\$12.1 million for the same period in 2012. The increase is primarily attributable to the rise in taxable income from the CSH Mine.

**Net income** of the Company decreased by US\$4.8 million from US\$30.9 million for the six months ended June 30, 2011 to US\$26.1 million for the six months ended June 30, 2012.

### NON-IFRS MEASURES

The following table provides certain unit cost information on a cash cost of production per ounce (non-IFRS) basis for the CSH Gold Mine for the three and six months ended June 30, 2012 and 2011:

	CSH Mine			
	Three months ended June 30,		Six months ended June 30,	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$
Cost of mining per tonne of ore	1.28	1.28	1.24	1.28
Cost of mining waste per tonne of ore	4.47	2.61	3.79	1.96
Other mining costs per tonne of ore	0.42	0.39	0.44	0.37
Total mining costs per tonne of ore	6.17	4.28	5.47	3.61
Cost of reagents per tonne of ore	0.70	1.08	0.88	0.94
Other processing costs per tonne of ore	1.08	0.81	1.13	0.93
Total processing cost per tonne of ore	1.78	1.89	2.01	1.87

The cash cost of production is a measure that is not in accordance with IFRS.

The Company has included cash cost per gold ounce data to supplement its condensed interim consolidated financial statements, which are presented in accordance with IFRS. Non-IFRS measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance, operating results or financial condition prepared in accordance with IFRS. The Company has included cash cost per ounce data because it understands that certain investors use this information to determine the Company's ability to generate earnings and cash flow. The measure is not necessarily indicative of operating results, cash flow from operations, or financial condition as determined under IFRS. Cash costs are determined in accordance with the Gold Institute's Production Cost Standard.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table provides a reconciliation of cost of sales to the cash costs of production in total dollars and in dollars per gold ounce for the CSH Mine or per copper tonne for the Jiama Mine:

	CSH Mine (Gold)							
	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	US\$	Per ounce	US\$	Per ounce	US\$	Per ounce	US\$	Per ounce
Total Production Costs	29,262,773	858	32,204,611	821	61,533,892	907	45,173,942	804
Adjustments	(3,586,868)	(105)	(3,058,551)	(78)	(7,077,098)	(105)	(6,069,272)	(108)
Total cash production costs	25,675,905	753	29,146,060	743	54,456,794	802	39,104,670	696

	Jiama Mine (Copper)							
	Three months ended June 30,				Six months ended June 30,			
	2012		2011		2012		2011	
	US\$	Per pound	US\$	Per pound	US\$	Per pound	US\$	Per pound
Total production costs	25,304,817	4.41	25,650,733	3.55	50,545,668	4.72	39,274,604	4.06
Adjustments	(7,743,699)	(1.35)	(6,073,230)	(0.84)	(14,694,645)	(1.37)	(10,213,447)	(1.05)
Total cash production costs	17,561,118	3.06	19,577,503	2.71	35,851,023	3.35	29,061,157	3.01

Production costs above include expenditures incurred on the mine sites for activities related to production. The adjustments above include depreciation and depletion, amortization of intangible assets, and selling expenses included in total production costs. The total cash costs per gold ounce above differ from the unit cash costs disclosed in the Behre Dolbear (“BD”) Independent Technical Report (“ITR”) for the CSH Mine for two reasons. First, the BD ITR is prepared on a cash basis while the calculation above is prepared on an accrual basis. This means that the cost of sales above includes an allocation of costs incurred over time while the BD ITR does not. Second, the BD ITR is prepared based on units produced while the calculations above are based on units sold.

### MINERAL PROPERTIES

#### The CSH Mine

The CSH Mine is located in Inner Mongolia Autonomous Region of China (Inner Mongolia). The property hosts two low-grade, near surface gold deposits, along with other mineralized prospects. The main deposit is called the Northeast Zone (the “Northeast Zone”), while the second, smaller deposit is called the Southwest Zone (the “Southwest Zone”).

The CSH Mine is owned and operated by Inner Mongolia Pacific Mining Co. Limited, a Chinese Joint Venture in which China Gold International holds a 96.5% interest and Ningxia Nuclear Industry Geological Exploration Institution (formerly known as Brigade 217) holds the remaining 3.5%.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Mineral Resources and Reserves

An updated mine plan for the CSH Mine was developed and reported as at June 30, 2010 in the BD ITR dated November 17, 2010. This plan was prepared based on heap leaching with a crushing plant at a throughput of 30,000 tonnes per day ("tpd") which was achieved as planned, by March 31, 2010. The detailed technical information can be found in the technical report filed at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).

Mineral reserves were calculated in the final pit designs at a positive net value cutoff that corresponds to a gold grade cutoff of approximately 0.3 grams per tonne (g/t) gold as scheduled in the mine plan. The proven and probable reserves at the CSH Mine as of December 31, 2009 stood at approximately 138 million tonnes of ore with an average grade of 0.67 g/t gold, representing approximately 3.0 million ounces of contained gold. After two years of mining, the remaining reserves at CSH are summarized in the table below with CIM compliance:

*CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2011:*

CSH Gold Mine Total Reserves at December 31, 2011					
Classification	Cutoff Au (g/t)	Insitu Ore (Million tonnes)	Contained Grade Au (g/t)	Au (Kg)	Contained Au (Million oz)
Proven	0.3	67.2	0.70	47,150	1.51
Probable	0.3	47.6	0.66	31,603	1.02
Total	0.3	114.8	0.69	78,753	2.53

The latest CSH Mine resource estimate was also reported in the BD ITR as at June 30, 2010. The 2008 drilling campaign added significant tonnages above cutoff and also improved the grade compared to prior resource estimates, partly due to the confirmation of grades and upgrade in resource classification down-dip and laterally. The CSH deposit in the Southwest (SW) area is now well delineated, and still significant potential exists for down-dip extensions of the mineralization. Mineralization at depth in the Northeast (NE) has been confirmed, with increases in both tonnages and confidence.

At December 31, 2011, the project's Measured and Indicated Gold Resources, using 0.3 grams per tonne ("g/t") Au cut-off grade, stand at 219 million tonnes averaging 0.64 g/t gold. This translates into 4.53 million ounces of contained gold (inclusive of reserves) in the deposit.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Details of the resources update based on the BD ITR dated June 30, 2010 after depletion in the balance of 2011 are summarized in the following table with CIM compliance:

*CSH Mine Resources by category, Northeast and Southwest Zones (inclusive of reserves).*

Resource Estimates for the CSH Mine at December 31, 2011										
Cutoff (g/t)	Measured		Indicated		Measured +Indicated			Inferred		
	Million Tonnes	Au Grade (g/t)	Million Tonnes	Au Grade (g/t)	Million Tonnes	Au Grade (g/t)	Au Million Ounces	Million Tonnes	Au Grade (g/t)	Au Million Ounces
<b>0.3</b>	<b>89.71</b>	<b>0.68</b>	<b>129.71</b>	<b>0.62</b>	<b>219.41</b>	<b>0.64</b>	<b>4.53</b>	<b>0.51</b>	<b>0.44</b>	<b>0.007</b>
0.35	81.26	0.71	114.87	0.65	196.13	0.68	4.28	0.35	0.49	0.005
0.4	72.97	0.75	99.80	0.70	172.77	0.72	4.00	0.24	0.54	0.004
0.45	64.82	0.79	85.96	0.74	150.78	0.76	3.70	0.18	0.57	0.003
0.5	57.01	0.84	73.87	0.78	130.88	0.81	3.40	0.12	0.62	0.002

### Production Update

According to the most recent column leach test completed by Metcon Research of KD Engineering, gold recovery greatly improves when ore is crushed to 9 millimeters. Higher gold grades also result in better gold recovery rates. Since March 2010, all mined ores have been crushed before being placed on the leach pad. The crusher facility has consistently operated at its design capacity of 30,000 tpd.

	CSH Mine			
	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Ore mined and placed on pad (tonnes)	<b>2,916,181</b>	3,153,662	<b>5,552,443</b>	5,498,050
Average grade of ore (g/t)	<b>0.47</b>	0.52	<b>0.48</b>	0.56
Recoverable gold (ounces)	<b>41,830</b>	26,267	<b>66,676</b>	48,683
Ending ore inventory (ounces)	<b>35,941</b>	49,128	<b>35,941</b>	49,128
Waste rock mined (tonnes)	<b>11,697,192</b>	11,179,419	<b>17,196,018</b>	12,754,271

For three months ended June 30, 2012, the total amount of ore put on the leach pad was 2,916,181 tonnes, with total contained gold of 1,301,058 grams (41,830 ounces). The accumulative project-to-date gold recovery rate has increased from approximately 43% to 51% between the twelve months ended June 30, 2011 and the twelve months ended June 30, 2012. The Company continues to carefully monitor the behavior of gold inventory in the process.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Exploration

The Company continues drilling at its CSH Mine for the purpose of exploring for higher grade mineralization down depth and mineralization in between the two open pits, where previous drilling was limited due to very broken ground. As at June 30, 2012, the Company has successfully completed approximately 4,600 meters of its planned 10,200 meter drilling for the year. The drill program is expected to be completed by the third quarter of 2012.

The following table shows the exploration expenditures expensed and capitalized during the three and six months ended June 30, 2012 and June 30, 2011.

	<b>CSH Mine</b>			
	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>US\$</b>	US\$	<b>US\$</b>	US\$
Exploration expensed	<b>121,516</b>	55,311	<b>176,821</b>	76,486
Exploration capitalized	<b>5,418,811</b>	1,334,232	<b>6,210,743</b>	1,334,232
	<b>5,540,327</b>	1,389,543	<b>6,387,564</b>	1,410,718

### The Jiama Mine

The Company acquired the Jiama Mine on December 1, 2010. Jiama is a large copper-gold polymetallic deposit containing copper, gold, silver, molybdenum, and other metals located in the Gandise metallogenic belt in Tibet, Autonomous Region of China.

The Jiama Mine presently has both open-pit and underground mining operations. The open-pit mining operation includes two open pits, being the smaller Tongqianshan pit and the larger Niumatang Pit. The underground mining operation is accessed through two shafts having an initial 355 metre depth which is planned to extend to a final depth of 600 metres. Phase I of the mine development includes the open-pit infrastructure at the Tongqianshan pit, an underground ore transportation system, and a 6,000 tpd mineral processing plant. Phase I of the Jiama Mine commenced mining operations in the latter half of 2010 and reached its design capacity of 6,000 tpd in early 2011. The Phase II development, which contemplated an expansion to a 12,000 tpd mining operation, is under review. The Company has retained engineering firms to conduct a feasibility study in contemplation of building a larger scale mining operation using the additional drilling results as the basis for expanding the mine to support an even larger scale of operations.

### Mineral Resources and Reserves

On October 6, 2011, Behre Dolbear completed a technical review and, as part of its engagement, produced a Canadian National Instrument 43-101 compliant technical report ("the Jiama Technical Report") on the Jiama Mine as at June 30, 2011. Set forth below are the mineral resource estimates for the Jiama Mine. Further information can be found in the technical report filed at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).

The 2010 drill program was completed at the Jiama Mine in December 2010 with 76 drill holes totaling 45,537 meters. The 2010 drill program defined and upgraded a significant amount of Jiama's inferred resources to measured and indicated resources. As a result, the total measured and indicated resources increased by 443% from 185.1 million tonnes mineralized materials averaging 0.74 percent copper and containing 1.38 million tonnes of copper to 1,006.0 million tonnes averaging 0.41 percent copper and containing 4.08 million tonnes of copper.

The resources for the Jiama project as of June 2011 are summarized in tables 1.1 and 1.2.

**TABLE 1.1**  
**BEHRE DOLBEAR'S JORC MEASURED AND INDICATED MINERAL RESOURCES**  
**ESTIMATES FOR THE JIAMA PROJECT AS OF JUNE 2011**  
**(CUT OFF GRADE FOR THE RESOURCE ESTIMATE IS 0.3% COPPER OR 0.03% MOLYBDENUM)**

Model	Category	Tonnes (kt)	Average grade			
			Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)
Shallow Skarn	Measured	60,579	0.82	0.057	0.33	15.47
	Indicated	210,722	0.75	0.061	0.29	14.07
	Meas+Ind	271,301	0.77	0.06	0.30	14.38
Steep Skarn	Measured	4,012	0.76	0.031	0.27	17.59
	Indicated	18,971	0.76	0.032	0.26	17.62
	Meas+Ind	22,983	0.76	0.032	0.26	17.61
Hornfels	Measured	0	0.00	0.000	0.00	0.00
	Indicated	655,089	0.27	0.037	0.03	1.04
	Meas+Ind	655,089	0.27	0.037	0.03	1.04
Porphyry	Measured	0	0.00	0.000	0.00	0.00
	Indicated	56,596	0.11	0.056	0.01	0.74
	Meas+Ind	56,596	0.11	0.056	0.01	0.74
All Models	<b>Total</b>	<b>1,005,969</b>	<b>0.41</b>	<b>0.044</b>	<b>0.10</b>	<b>5.00</b>

**TABLE 1.2**  
**BEHRE DOLBEAR'S JORC INFERRED MINERAL RESOURCE ESTIMATES FOR THE**  
**JIAMA PROJECT AS OF JUNE 2011**  
**(CUT OFF GRADE FOR THE RESOURCE ESTIMATE IS 0.3% COPPER OR 0.03% MOLYBDENUM**  
**OR 1% LEAD OR 1% ZINC)**

Model	Category	Tonnes (kt)	Average grade			
			Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)
Shallow Skarn	Inferred	94,325	0.61	0.056	0.23	11.66
Steep Skarn	Inferred	26,012	0.71	0.026	0.21	17.88
Hornfels	Inferred	39,460	0.23	0.039	0.03	1.02
Porphyry	Inferred	10,356	0.13	0.058	0.01	0.74
All Models	<b>Total</b>	<b>170,153</b>	<b>0.51</b>	<b>0.048</b>	<b>0.17</b>	<b>9.48</b>

### Mineral Reserves

The reserve for the Jiama Mine will be updated following completion of the ongoing feasibility study that will define the scope and scale of the Phase II mine expansion at the Jiama Mine.

On September 17, 2010, Behre Dolbear completed a technical review and produced an NI 43-101 technical report on the Jiama Property as at June 30, 2010. Set forth below are the mineral reserve estimates for the property as of December 31, 2011. Further information can be found in the technical report filed at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).



## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the reserves remaining as at December 31, 2011:

**Reserve Estimated for the Jiama Mine as at December 31, 2011**  
(Cut Off grade for the resource estimate is 0.3% Copper or 0.03% Molybdenum)

Type	Grade					Contained Metals			
	Kt	Cu %	Mo %	Au g/t	Ag g/t	Cu Kt	Mo Kt	Au t	Ag t
Total Proven and Probable	<b>103,440</b>	0.84	0.039	0.31	16.40	868.90	40.34	32.07	1,696.42

### Exploration

As of June 30, 2012, the Company successfully completed 10,750 meters of its planned 44,900 meter drilling program for 2012. The 2012 drilling program is expected to be completed by the third quarter of 2012. The resource model has indicated that a significant amount of inferred resource in skarn-type has been identified between exploration lines 42 and 92. The proposed infill drillings will use a 50x50 meter grid to further delineate the mineralization between exploration lines 42 and 64, and use a 100x100 meter grid to control the ore body between lines 64 and 92. The purpose of the drilling program is to upgrade a significant portion of the Inferred resource to the Measured and Indicated resource categories, which in turn, can be used to evaluate additional ore reserves for both open pit and underground.

The following table shows the exploration expenditures expensed and capitalized during the three and six months ended June 30, 2012 and June 30, 2011.

	Jiama Mine			
	Three months ended June 30,		Six months ended June 30,	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$
Exploration expensed	—	—	—	1,201
Exploration capitalized	<b>3,480,099</b>	2,179	<b>3,929,115</b>	3,637,371
	<b>3,480,099</b>	2,179	<b>3,929,115</b>	3,638,572

### LIQUIDITY AND CAPITAL RESOURCES

The Company operates in a capital intensive industry. The Company's liquidity requirements arise principally from the need for working capital to finance the expansion of our mining and processing operations, exploration activities and acquisition of exploration and mining rights. The Company's principal sources of funds have been proceeds from borrowing from commercial banks in China, equity financings, and cash generated from operations. The Company's liquidity primarily depends on its ability to generate cash flow from its operations and to obtain external financing to meet its debt obligations as they become due, as well as the Company's future operating and capital expenditure requirements.

At June 30, 2012, the Company had an accumulated surplus of US\$65.3 million and working capital of US\$232.1 million. China Gold International's cash balance at June 30, 2012 was US\$333.9 million.

For the CSH Mine, the fourth principal repayment of RMB20 million (approximately US\$3.1 million) on the Company's RMB290 million (approximately US\$42.3 million) term loan from the Agricultural Bank of China ("ABC") was made in June 2012. The aggregate amount of the three principal repayments due in 2012 is RMB80 million (US\$12.6 million). Interest payments of approximately US\$200,000 are paid monthly on the ABC loan and will continue to be paid throughout 2012.

For the Jiama Mine, the second principal repayment on the loan for RMB200 million (approximately US\$31.5 million) from the Bank of China (“BOC”) will be paid on December 28, 2012. During 2012, monthly interest payments of approximately US\$340,000 will be made on the BOC loan. As at June 30, 2012 the total balance of the BOC loan was RMB500 million (approximately US\$78.7 million). During the first quarter of 2012, an additional RMB48 million was drawn down from the syndicate loan facility, of which the first principal repayment of RMB100 million on the syndicated loan facility (“SLF”) balance with various banks is due in June 2013. Interest payments of approximately US\$450,000 will be paid monthly on the SLF during 2012. As at June 30, 2012 the total balance of the syndicate loan facility was RMB750 million (approximately US\$118.05 million).

Management believes that its forecasted operating cash flows from the Company are sufficient to cover the next twelve months of the CSH Mine and Jiama operations factoring in its planned capital expenditures and current debt repayments. Revenue and related expenses should increase as production increases. Some of the Company's available cash will be used to fund the capital expenditures being planned for Phase II of Jiama as well as other business expenses. The Company may seek further financing to fund the balance of capital expenditures being contemplated for Phase II of Jiama's expansion.

### **Restrictive covenants**

The Company is subject to various customary conditions and covenants under the terms of its financing agreements.

Under the loan agreement between the CSH CJV and the Agricultural Bank of China, the CSH CJV is prohibited from distributing dividends before repaying amounts due under the loan agreement in the same fiscal year. In addition, the CSH CJV is required to obtain the lender's consent prior to carrying out certain activities or entering into certain transactions such as a reduction of registered capital, disposal of assets, mergers and acquisitions and provision of guarantee or creating charges over its material assets in favor of third-parties. The ABC loan is secured by the relevant mining rights of the CSH Mine.

Under the loan agreements between Jiama and the Bank of China and between Jiama and the various banks providing the syndicated loan facility, Jiama is prohibited from distributing dividends before offsetting accumulated losses of the prior accounting year, repaying the principal, interest, and other expenses due under the loan agreement in the current fiscal year, and repaying the principal, interest and other expenses due under the loan agreement in the next fiscal year. In addition, Jiama is required to obtain the lender's written approval prior to reducing registered capital, processing one or more transactions or a series of transactions in the form of a sale, lease, transfer or other way leading to the disposal of assets that together total over RMB5.0 million, entering into any merger or acquisition, providing a guarantee or creating charges over its material assets in favor of third parties. The BOC and Syndicate loan facility are secured by the relevant mining rights and assets of the Jiama Mine.

### **Acquisition of Shares in China Nonferrous Mining Corporation Limited**

The Company subscribed for a total of 70,545,000 shares of China Nonferrous Mining Corporation Limited (“CNMC”) for an aggregate price of US\$20,010,702 (HK\$155,199,000) in CNMC's initial global offering and listing on the HKSE (stock code: 1258) on June 29, 2012. CNMC is a copper producer based in Zambia, focusing on mining, ore processing, leaching, smelting and the sale of copper. It is incorporated in Hong Kong with limited liability. This transaction complies with the Company's prospectus (the “Prospectus”) in relation to the Company's global offering and listing on the HKSE in 2010 (the “Global Offering”), which states that approximately 30% of the proceeds from the offering are to be allocated for potential acquisition of gold and non-ferrous mineral resources outside of China.

### **Change of Use of Proceeds**

As stated in the section headed “Future Plans and Use of Proceeds” of the Prospectus, the Company intended to use approximately 30% of the net proceeds from its Global Offering for potential acquisition of gold and non-ferrous mineral resources outside of China by focusing on mines at operating stages and advanced mining or exploration projects with high growth prospect. As at the date of June 29, 2012, the aforesaid 30% net proceeds (approximately HK\$631.6 million or US\$81.4 million) have not been used, except for HK\$155,199,000 (equivalent to US\$20,016,896) which has been used for the acquisition of a total of 70,545,000 shares of CNMC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The production expansion of the Jiama Mine now under study is integral to the strategic development of the Company. In line with this development strategy, the Company wishes to enable the further production expansion now under study at the Jiama Mine. Accordingly, the Company intends to use US\$50 million (equivalent to HK\$388 million) of the 30% net proceeds from its original intended use to increase the capitalization of the Company's subsidiary that owns the Jiama Mine in anticipation of the expansion of production facilities at the Jiama mine.

### COMMITMENTS AND CONTINGENCIES

Commitments and contingencies include principal payments on the Company's bank loans and syndicated loan facility, material future aggregate minimum operating lease payments required under the operating leases and capital commitments in respect of the future acquisition of property, plant and equipment and construction for both the CSH Mine and the Jiama Mine.

The Company has leased certain properties in China and Canada, which are all under operating lease arrangements and are negotiated for terms of between one year and seventeen years. The Company is required to pay a fixed rental amount under the terms of these leases.

The Company's capital commitments relate primarily to payments for purchase of equipment and machinery for both mines and payments to third-party contractors for provision of mining and exploration engineering work and mine construction work for both mines. The Company has entered into contracts that prescribe such capital commitments; however, liabilities relating to them have not yet been incurred. Therefore, capital commitments have not been included in the Company's consolidated financial statements.

The following table outlines payments for commitments for the periods indicated:

	Payment Due by Period						
	Total	Less than	Between	Between	Between	Between	Over
	US\$	1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 years
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Principal repayment on ABC term loan	<b>33,052,649</b>	15,739,357	12,591,485	4,721,807	—	—	—
Principal repayment on BOC loan	<b>78,696,781</b>	31,478,713	23,609,034	23,609,034	—	—	—
Principal repayment on Syndicated loan	<b>118,045,172</b>	15,739,356	23,609,034	31,478,713	47,218,069	—	—
Operating leases Vancouver(a)	<b>815,700</b>	634,844	103,347	77,509	—	—	—
Operating leases CSH Mine(a)	<b>500,432</b>	32,905	32,905	32,905	32,905	32,905	335,907
Operating leases Jiama(a)	<b>1,479,424</b>	213,561	160,602	160,602	160,602	160,602	623,455
Capital commitments of CSH Mine(b)	<b>1,003,612</b>	1,003,612	—	—	—	—	—
Capital commitments of the Jiama Mine(b)	<b>40,813,880</b>	40,813,880	—	—	—	—	—
<b>Total</b>	<b>274,407,650</b>	105,656,228	60,106,407	60,080,570	47,411,576	193,507	959,362

(a) Operating leases are primarily for premises and production.

(b) Capital commitments relate to contracts signed for construction and equipment supply.

In addition to the table set forth above, the Company has entered into service agreements with third-party contractors such as China Railway and China Metallurgical for the provision of mining and exploration engineering work and mine construction work for the CSH Mine. The fees for such work performed and to be performed each year varies depending on the amount of work performed. The Company has similar agreements with third party contractors for the Jiama Mine.

## Cash flows

The following table sets out selected cash flow data from the Company's consolidated cash flow statements for the periods ended June 30, 2012 and June 30, 2011.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	US\$	US\$	US\$	US\$
Net cash from operating activities	54,205,914	36,388,681	20,463,017	18,474,568
Net cash used in investing activities	(35,541,076)	(4,479,156)	(46,474,937)	(28,622,425)
Net cash from (used in) financing activities	(2,922,900)	17,161,283	7,116,167	48,157,728
Net increase (decrease) in cash and cash equivalents	15,741,938	49,070,808	(18,895,753)	38,009,871
Effect of foreign exchange rate changes on cash and cash equivalents	(1,270,023)	274,938	(1,528,345)	275,505
Cash and cash equivalents, beginning of period	319,416,892	290,548,347	354,312,905	301,608,717
<b>Cash and cash equivalents, end of period</b>	<b>333,888,807</b>	<b>339,894,093</b>	<b>333,888,807</b>	<b>339,894,093</b>

### Operating cash flow

For the three months ended June 30, 2012, net cash outflow from operating activities was US\$54.2 million which was primarily attributable to (i) interest paid of US\$3.2 million, (ii) income tax paid of US\$7.6 million, (iii) a decrease of US\$0.4 million in accounts payable and (iv) an increase in inventory of US\$3.9 million, partially offset by (i) profit before income tax of US\$18.2 million, (ii) depreciation and depletion of US\$6.4 million, (iii) amortization of intangible assets of US\$4.5 million, (iv) finance costs of US\$3.4 million and (v) a decrease in accounts receivable of US\$38.2 million.

For the six months ended June 30, 2012, net cash outflow from operating activities was US\$20.5 million which was primarily attributable to (i) interest paid of US\$5.9 million, (ii) income tax paid of US\$25 million, (iii) a decrease of US\$15.7 million in accounts payable and (iv) an increase in accounts receivables of US\$0.4 million, partially offset by (i) profit before income tax of US\$38.2 million, (ii) depreciation and depletion of US\$12.6 million, (iii) amortization of intangible assets of US\$8.2 million, (iv) finance costs of US\$6.2 million and (v) a decrease in inventory of US\$4.8 million.

### Investing cash flow

For the three months ended June 30, 2012, net cash outflow from investing activities was US\$35.5 million, which was primarily attributable to available-for-sale investments of US\$20 million, and the acquisition of property, plant and equipments of US\$15.5 million.

For the six months ended June 30, 2012, net cash outflow from investing activities was US\$46.5 million, which was primarily attributable to available-for-sale investments of US\$20 million, the acquisition of property, plant and equipments of US\$26.9 million, partially offset by receipt of deferred consideration from disposal of a mining project to a related company for US\$1.4 million.

### Financing cash flow

For the three months ended June 30, 2012, net cash outflow from financing activities was US\$2.9 million, which is primarily attributable to repayments of borrowings of US\$3.1 million, offset by US\$0.24 million for the excise of common shares issued.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the six months ended June 30, 2012, net cash inflow from financing activities was US\$7.1 million, which is primarily attributable to proceeds from the syndicated loan facility of US\$7.5 million and deemed capital contribution of US\$2.7 million from shareholders by way of shared cost on the recent HK IPO listing fee, primarily offset by repayments of borrowings of US\$3.1 million and dividend paid to a non-controlling shareholder of US\$0.18 million by a subsidiary.

### RELATED PARTY TRANSACTIONS

CNG owns 39.3 percent of the outstanding common shares of the Company as at June 30, 2012 and at December 31, 2011.

The Company had related party transactions with the following companies, related by way of shareholders and shareholder in common:

On October 24, 2008, the Company's subsidiary, Inner Mongolia Pacific entered into a non-exclusive contract for the purchase and sale of dore with CNG (the "2008 Contract") pursuant to which Inner Mongolia Pacific sold gold dore bars to CNG from time to time through to December 31, 2011, with pricing referenced to the daily average price of Au9995 gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of No. 2 silver as quoted on the Shanghai Huatong Platinum & Silver Exchange prevailing at the time of each relevant purchase order during the contract period. On January 27, 2012, Inner Mongolia Pacific entered into a contract for purchase and sale of dore with CNG for the purpose of regulating the sale and purchase of gold dore to be carried out between them for the three years ending December 31, 2012, 2013 and 2014 on the same pricing terms as the 2008 Contract. Revenue from sales of gold dore bars to CNG increased from US\$76.8 million for the six months ended June 30, 2011 to US\$106.3 million for the comparative period ended June 30, 2012. For the six months ended June 30, 2012, construction services of US\$15.4 million were provided to the Group by subsidiaries of CNG.

On December 30, 2011, Inner Mongolia Pacific entered into a lease contract with China Gold Beijing Property Management Center, a wholly-owned subsidiary of CNG. The contract is in relation to the lease of the office premises to which the Beijing operating centre of the Group has relocated to, for a term from January 1, 2012 to December 31, 2012 for an annual rental payment of RMB6,719,395.

On January 5, 2012, Inner Mongolia Pacific entered into a geological exploration technical service contract with Beijing Jinyou Geological Surveillance Company Limited ("Beijing Jinyou"), a wholly-owned subsidiary of CNG, for the provision of geological exploration technical services by Beijing Jinyou for Inner Mongolia Pacific in the Haoyaoerhudong area of the CSH Mine for a total fee of RMB6,469,800.

### PROPOSED TRANSACTIONS

The Company does not have significant asset and/or business acquisitions proposed and/or approved by the Board of Directors. The Company is in the process of closing Gansu Pacific Mining Ltd., a subsidiary in China, subsequent to the disposal of the exploration permit of Gansu Pacific Mining Ltd. in October 2011. The Board of Directors has given the Company approval to conduct reviews of a number of potential assets and/or business acquisitions.

### CRITICAL ACCOUNTING ESTIMATES

In the process of applying the Company's accounting policies, the directors of the Company have identified accounting judgments and key sources of estimation uncertainty that have a significant effect on the amounts recognized in the condensed interim consolidated financial statements.

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 4 of the audited annual consolidated financial statements for the year ended December 31, 2011.

### **CHANGE IN ACCOUNTING POLICIES**

A summary of new and revised IFRS standards and interpretations are outlined in Note 2 of the condensed interim consolidated financial statements as at June 30, 2012.

### **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company holds a number of financial instruments, the most significant of which are investments, accounts receivable, accounts payable, cash and loans. The financial instruments are all recorded at fair values on the balance sheet.

The company did not have any derivatives as at June 30, 2012.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As at June 30, 2012, the Company had not entered into any material off-balance sheet arrangements.

### **DIVIDEND AND DIVIDEND POLICY**

The Company has not paid any dividends since incorporation and does not currently have a fixed dividend policy. The Directors will determine any future dividend policy on the basis of, among others things, the results of operations, cash flows and financial conditions, operating and capital requirements, the amount of distributable profits and other relevant factors.

Subject to the British Columbia Business Corporations Act, the Directors may from time to time declare and authorize payment of such dividends as they may deem advisable, including the amount thereof and the time and method of payment provided that the record date for the purpose of determining shareholders entitled to receive payment of the dividend must not precede the date on which the dividend is to be paid by more than two months.

A dividend may be paid wholly or partly by the distribution of cash, specific assets or of fully paid shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways. No dividend may be declared or paid in money or assets if there are reasonable grounds for believing that the Company is insolvent or the payment of the dividend would render the Company insolvent.

### **OUTSTANDING SHARES**

As of June 30, 2012, the Company had 396, 273,753 common shares issued and outstanding.

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for the design of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting ("ICFR") to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the Company's DC&P and ICFR as of June 30, 2012 and, in accordance with the requirements established under Canadian National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of June 30, 2012 and provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian Securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the Company's ICFR as of June 30, 2012 and have concluded that these controls and procedures were effective as of June 30, 2012 and provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected. During the quarter ended June 30, 2012, there were no changes in the Company's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### RISK FACTORS

There are certain risks involved in the Company's operations, some of which are beyond the Company's control. Aside from risks relating to business and industry, the Company's principal operations are located within the PRC and are governed by a legal and regulatory environment that in some respects differs from that which prevails in other countries. Readers of this MD&A should give careful consideration to the information included in this document and the Company's audited annual consolidated financial statements and related notes. Significant risk factors for the Company are metal prices, government regulations, foreign operations, environmental compliance, the ability to obtain additional financing, risk relating to recent acquisitions, dependence on management, title to the Company's mineral properties, and litigation. China Gold International's business, financial condition or results of operations could be materially and adversely affected by any of these risks. For details of risk factors, please refer to the Company's annual audited consolidated financial statements, and Annual Information Form filed from time to time on SEDAR at [www.sedar.com](http://www.sedar.com).

### ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the Hong Kong Stock Exchange in the half-year interim report and not shown elsewhere in this report is as follows:

#### A1. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2012.

#### A2. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as of June 30, 2012, the Company's directors were not aware of any other person (other than a director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register kept pursuant to Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO"):

Name	Nature of interest	Number of Shares held	Approximate percentage of outstanding shares
China National Gold Group Corporation <sup>(1)</sup>	Indirect	155,794,830	39.3%

Note:

China National Gold Group Corporation holds its shares of the Company indirectly through its wholly owned subsidiary China National Gold Group Hong Kong Limited.

**A3. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND STOCK OPTIONS**

As of June 30, 2012, the interests of the directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer, were as follows:

**Shares**

<b>Name</b>	<b>Position</b>	<b>Company</b>	<b>Number of shares held</b>	<b>Nature of interest</b>	<b>Approximate percentage of interest in the Company</b>
Ian He	Director	China Gold International Resources Corp. Ltd.	120,000	Personal	0.0303%
Xiangdong Jiang	Director and Vice President of Production	China Gold International Resources Corp. Ltd.	13,500	Personal	0.0034%

**Stock Options**

<b>Name</b>	<b>Position</b>	<b>Company</b>	<b>Number of stock options held to purchase shares</b>
Ian He	Director	China Gold International Resources Corp. Ltd.	140,000
Yunfei Chen	Director	China Gold International Resources Corp. Ltd.	100,000
Gregory Hall	Director	China Gold International Resources Corp. Ltd.	100,000
John King Burns	Director	China Gold International Resources Corp. Ltd.	100,000
Xiangdong Jiang	Director and Vice President of Production	China Gold International Resources Corp. Ltd.	80,000

Other than the holdings disclosed in the table above, none of the directors, chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as at June 30, 2012.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### A4. STOCK OPTION PLAN

The Company adopted an incentive stock option plan with approval from its shareholders and pursuant to the policies of the Toronto Stock Exchange dated May 9, 2007 (the "2007 Stock Option Plan"). The 2007 Stock Option Plan was adopted to provide the Company's directors, officers, employees and consultants with an opportunity to acquire a proprietary interest in the Company thereby incentivizing the Company's directors, officers, employees and consultants in order to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Company. As of June 30, 2012, an aggregate of 585,000 common shares were issuable upon the exercise of outstanding stock options granted under the 2007 Stock Option Plan, representing approximately 0.15% of the Company's outstanding common shares.

The principal terms of the 2007 Stock Option Plan are as follows:

- a) the exercise price per share under the 2007 Stock Option Plan cannot be less than 100% of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant;
- b) the total number of shares which may be issued upon the exercise of the stock options granted under the 2007 Stock Option Plan is 10% of the issued shares of the Company;
- c) the stock options granted to former directors, senior management and employees expire (i) 12 months after the date of termination of such individual's employment with the Company or (ii) another date approved by the Board;
- d) the stock options granted are valid for five years commencing from the date of grant of such options or such greater or lesser duration as the Board may determine; and
- e) the stock options may be exercised as determined from time to time by the Board or (i) at any time during the first year from the grant date for up to 20% of the total number of shares reserved for issuance pursuant to the stock options, and (ii) at any time during each additional year an additional 20% of the total number of shares reserved for issuance pursuant to the stock options plus any shares not purchased in accordance with (i) until, the fifth year from the grant date, at which time 100% of the stock options will be exercisable.

### A5. MOVEMENTS IN STOCK OPTIONS

The following table discloses movements in the Company's stock options during the six months ended June 30, 2012:

Name	Position	Number of stock options outstanding at the beginning of the year	Number of stock options granted during the six month period	Number of stock options exercised during the six month period	Number of stock options forfeited during the six month period	Number of stock options expired during the six month period	Number of stock options outstanding at the end of the six month period
Ian He	Director	250,000	Nil	(110,000) <sup>(1)</sup>	Nil	Nil	140,000 <sup>(2)</sup>
Yunfei Chen	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(3)</sup>
Gregory Hall	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(3)</sup>
John King Burns	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(3)</sup>
Xiangdong Jiang	Director and Vice President of Production	80,000	Nil	Nil	Nil	Nil	80,000 <sup>(4)</sup>
Total for directors and senior executives		630,000	Nil	(110,000)	Nil	Nil	520,000
Total for other stock option holders		65,000	Nil	Nil	Nil	Nil	65,000 <sup>(5)</sup>
TOTAL		695,000	Nil	(110,000)	Nil	Nil	585,000

## Notes:

1. Consists of 110,000 stock options exercised on April 5, 2012 at an exercise price of CAD\$2.20. The closing price of the Company's common shares on the Toronto Stock Exchange on the trading day immediately preceding the date of exercise was CAD\$4.45 and the closing price of the Company's common shares on the HKSE on the trading day immediately preceding the date of exercise was HK \$37.55
2. Consists of 40,000 of 200,000 stock options granted on July 20, 2007 pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at an exercise price of CAD\$2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter and 100,000 stock options granted on June 1, 2010 pursuant to the 2007 Stock Option Plan and expiring on June 1, 2015 at an exercise price of CAD\$4.35 from June 1, 2010 until June 1, 2011; CAD\$4.78 from June 2, 2011 until June 1, 2012; CAD\$5.21 from June 2, 2012 until June 1, 2013; CAD\$5.64 from June 2, 2013 until June 1, 2014 and CAD\$6.09 from June 2, 2014 until June 1, 2015 with 20% vesting immediately and an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 respectively.
3. Consists of 100,000 stock options granted on June 1, 2010 pursuant to the 2007 Stock Option Plan and expiring on June 1, 2015 at an exercise price of CAD\$4.35 from June 1, 2010 until June 1, 2011; CAD\$4.78 from June 2, 2011 until June 1, 2012; CAD\$5.21 from June 2, 2012 until June 1, 2013; CAD\$5.64 from June 2, 2013 until June 1, 2014 and CAD\$6.09 from June 2, 2014 until June 1, 2015 with 20% vesting immediately and an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 respectively.
4. Consists of 80,000 of 200,000 stock options granted on July 20, 2007 pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at exercise price of CAD\$2.20 with vesting as to 20% on first anniversary of the date of grant and 20% each anniversary thereafter.
5. Consists of 65,000 of 3,283,000 stock options granted on July 20, 2007 to various employees of the Company pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at an exercise price of CAD\$2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter.

## A6. EMOLUMENT POLICY

The Company's executive emolument policy and compensation program is administered by the Compensation and Benefits Committee which consists solely of independent directors. The Compensation and Benefits Committee reviews levels of cash compensation as needed and at least annually, and makes recommendations to the Board to adjust cash compensation in light of merit, qualifications and competence. The Compensation and Benefits Committee also reviews the corporate goals and objectives relevant to the compensation of the senior executive officers as needed and at least annually and based on recommendations from the Chief Executive Officer and other members of the management team. The Compensation and Benefits Committee makes its determinations as to overall compensation levels on the basis of both available third party data regarding comparable compensation at similar size companies as well as their own industry experience and the Company's hiring and retention needs. Decisions relating to executive compensation are reported by the Compensation and Benefits Committee to the Board for approval.

The Company's director emolument policy is administered by the Compensation and Benefits Committee with regard to comparable market statistics. Decisions relating to the compensation of directors are reported by the Compensation and Benefits Committee to the Board for approval.

As of June 30, 2012 the Company had 1,281 employees working at various locations. The emolument policy for the Company's employees is determined on a department by department basis with the Chief Executive Officer determining the emoluments for employees and managers based on merit, qualifications and the Company's hiring and retention needs.

The Company has also adopted stock option plans to incentivize its directors, officers and eligible employees. The details of the stock options which remain outstanding under the Company's 2007 Stock Option Plan are set out in the sections titled "Stock Option Plan" and "Movements in Stock Options".

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### **A7. COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Company has, throughout the six months ended June 30, 2012, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards, in particular, the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing Securities of The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

### **A8. COMPLIANCE WITH MODEL CODE ON DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted policies regarding directors' securities transactions in its Corporate Disclosure, Confidentiality and Securities Trading Policy that has terms which are no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules.

After specific enquiry with all members of the Board, the Board confirms that all of the directors of the Company have complied with the required policies in the Company's Corporate Disclosure, Confidentiality and Securities Trading Policy throughout the six months ended June 30, 2012.

### **A9. INTERIM DIVIDENDS**

The Board did not recommend the payment of interim dividends in respect of the six months ended June 30, 2012.

### **A10. AUDIT COMMITTEE**

Pursuant to the requirements under the Hong Kong Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all the existing Independent Non-executive Directors, namely Ian He (chairman of the Audit Committee), Yunfei Chen, Gregory Hall and John King Burns. The Audit Committee has reviewed and discussed with the Company's auditors the unaudited interim results of the Group for the six months ended June 30, 2012.

### **QUALIFIED PERSON**

The scientific and technical information in respect of the CSH Gold Project contained in this section of the MD&A represents a summary from the CSH Technical Report. A complete copy of the CSH Technical Report is available on SEDAR at [www.sedar.com](http://www.sedar.com). Disclosure of a scientific or technical nature in this section of the MD&A in respect of updates at the CSH Gold Project since the date of the CSH Technical Report was prepared by or under the supervision of Mr. Mario Rossi and Mr. Songlin Zhang, each a qualified person for the purposes of NI 43-101.

Disclosure of a scientific or technical nature in this MD&A in respect of the Jiama Mine was prepared by or under the supervision of Dr. Yingting Tony Guo, P. Geo, a qualified person for the purposes of NI 43-101.

Further information can be found in the technical report dated November 17, 2010 for the CSH Mine and the technical report dated October 6, 2011 for the Jiama Mine filed at [www.sedar.com](http://www.sedar.com) and [www.hkexnews.hk](http://www.hkexnews.hk).

August 14, 2012

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2012

	Notes	Three months ended June 30,		Six months ended June 30,	
		2012 US\$	2011 US\$	2012 US\$	2011 US\$
Revenues	19	76,484,859	92,937,971	154,062,847	128,361,468
Cost of sales		(49,896,600)	(52,519,246)	(102,061,340)	(76,106,001)
Mine operating earnings		26,588,259	40,418,725	52,001,507	52,255,467
Expenses					
General and administrative	3	(5,311,390)	(5,216,800)	(11,149,162)	(9,153,315)
Exploration and evaluation expenditure		(124,134)	(70,021)	(182,272)	(134,004)
		(5,435,524)	(5,286,821)	(11,331,434)	(9,287,319)
Income from operations		21,152,735	35,131,904	40,670,073	42,968,148
Other income (expenses)					
Foreign exchange (loss) gain		(1,124,985)	397,324	(960,744)	431,736
Interest and other income		1,576,670	2,065,384	4,759,345	2,149,693
Finance costs	4	(3,416,409)	(2,881,656)	(6,239,593)	(5,393,030)
		(2,964,724)	(418,948)	(2,440,992)	(2,811,601)
Profit before income tax		18,188,011	34,712,956	38,229,081	40,156,547
Income tax expense	5	(5,564,010)	(7,292,539)	(12,149,280)	(9,233,196)
Profit for the period		12,624,001	27,420,417	26,079,801	30,923,351
Other comprehensive (loss) income for the period					
Exchange difference arising on translation		(1,216,177)	23,770	(1,325,227)	482,596
Total comprehensive income for the period		11,407,824	27,444,187	24,754,574	31,405,947
Profit for the period attributable to					
Non-controlling interests		473,235	568,599	986,724	842,848
Owners of the Company		12,150,766	26,851,818	25,093,077	30,080,503
		12,624,001	27,420,417	26,079,801	30,923,351
Total comprehensive income for the period attributable to					
Non-controlling interests		470,526	568,599	984,015	842,848
Owners of the Company		10,937,298	26,875,588	23,770,559	30,563,099
		11,407,824	27,444,187	24,754,574	31,405,947
Basic earnings per share	6	3.07 cents	6.78 cents	6.33 cents	7.59 cents
Diluted earnings per share	6	3.07 cents	6.78 cents	6.33 cents	7.59 cents
Basic weighted average number of common shares outstanding		396,267,709	396,144,554	396,215,731	396,143,176
Diluted weighted average number of common shares outstanding		396,350,031	396,321,383	396,316,456	396,339,577

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2012

	Notes	June 30, 2012 US\$	December 31, 2011 US\$
<b>Current assets</b>			
Cash and cash equivalents		333,888,807	354,312,905
Accounts receivable	7	2,100,740	5,844,620
Prepaid expenses and deposits	8	9,679,970	6,371,619
Prepaid lease payments		191,192	192,425
Inventory	9	24,384,638	27,104,701
		<u>370,245,347</u>	<u>393,826,270</u>
<b>Non-current assets</b>			
Prepaid expense and deposits	8	5,420,141	5,442,920
Prepaid lease payments		6,590,868	6,731,565
Amount due from a non-controlling shareholder		414,979	415,839
Inventory	9	12,148,361	14,292,189
Deferred tax asset		2,996,034	769,493
Available-for-sale investment	10	20,010,702	–
Property, plant and equipment	11	386,287,271	361,060,501
Mining rights	12	953,326,339	962,004,395
		<u>1,387,194,695</u>	<u>1,350,716,902</u>
<b>Total assets</b>		<u>1,757,440,042</u>	<u>1,744,543,172</u>
<b>Current liabilities</b>			
Accounts payable and accrued expenses	13	66,888,239	70,535,963
Borrowings	14	62,957,426	44,491,761
Tax liabilities		8,313,407	17,838,522
		<u>138,159,072</u>	<u>132,866,246</u>
<b>Net current assets</b>		<u>232,086,275</u>	<u>260,960,024</u>
<b>Total assets less current liabilities</b>		<u>1,619,280,970</u>	<u>1,611,676,926</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2012

	Notes	June 30, 2012 US\$	December 31, 2011 US\$
<b>Non-current liabilities</b>			
Deferred lease inducement		92,667	109,516
Borrowings	14	166,837,176	183,051,817
Deferred tax liabilities		131,735,410	132,865,648
Deferred income	15	790,780	864,958
Environmental rehabilitation	16	4,412,610	4,253,314
		<b>303,868,643</b>	<b>321,145,253</b>
<b>Total liabilities</b>		<b>442,027,715</b>	<b>454,011,499</b>
<b>Owners' equity</b>			
Share capital	17	1,228,570,612	1,228,183,687
Equity reserves		15,052,704	16,451,333
Retained profits		65,254,241	40,161,164
		<b>1,308,877,557</b>	<b>1,284,796,184</b>
Non-controlling interests		6,534,770	5,735,489
		<b>1,315,412,327</b>	<b>1,290,531,673</b>
<b>Total owners' equity</b>		<b>1,315,412,327</b>	<b>1,290,531,673</b>
<b>Total liabilities and owners' equity</b>		<b>1,757,440,042</b>	<b>1,744,543,172</b>

The condensed consolidated financial statements on pages 26 to 51 were approved and authorized for issue by the Board of Directors on August 14, 2012 and are signed on its behalf by:

(signed by) Xin Song

**Xin Song**  
Director

(signed by) Bing Liu

**Bing Liu**  
Director

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2012

	Attributable to owners of the Company						Non-controlling interests	Total owners' equity
	Number of shares	Share capital US\$	Equity reserve US\$ (note b)	Exchange reserve US\$	Retained (deficits) profits US\$	Subtotal US\$		
At January 1, 2011 (audited)	396,126,753	1,228,098,150	11,159,786	237,244	(39,246,500)	1,200,248,680	3,180,759	1,203,429,439
Profit for the period	-	-	-	-	30,080,503	30,080,503	842,848	30,923,351
Exchange difference arising on translation	-	-	-	482,596	-	482,596	-	482,596
Total comprehensive income for the period	-	-	-	482,596	30,080,503	30,563,099	842,848	31,405,947
Exercise of stock options	37,000	85,537	(33,405)	-	-	52,132	-	52,132
Share-based compensation (note a)	-	-	151,244	-	-	151,244	-	151,244
At June 30, 2011 (unaudited)	396,163,753	1,228,183,687	11,277,625	719,840	(9,165,997)	1,231,015,155	4,023,607	1,235,038,762
At January 1, 2012 (audited)	396,163,753	1,228,183,687	11,354,226	5,097,107	40,161,164	1,284,796,184	5,735,489	1,290,531,673
Profit for the period	-	-	-	-	25,093,077	25,093,077	986,724	26,079,801
Exchange difference arising on translation	-	-	-	(1,322,518)	-	(1,322,518)	(2,709)	(1,325,227)
Total comprehensive income (loss) for the period	-	-	-	(1,322,518)	25,093,077	23,770,559	984,015	24,754,574
Exercise of stock options	110,000	386,925	(145,869)	-	-	241,056	-	241,056
Share-based compensation (note a)	-	-	69,758	-	-	69,758	-	69,758
Dividends paid to a non-controlling shareholder	-	-	-	-	-	-	(184,734)	(184,734)
<b>At June 30, 2012 (unaudited)</b>	<b>396,273,753</b>	<b>1,228,570,612</b>	<b>11,278,115</b>	<b>3,774,589</b>	<b>65,254,241</b>	<b>1,308,877,557</b>	<b>6,534,770</b>	<b>1,315,412,327</b>

Notes:

- (a) Amounts represent equity reserve arising from share-based compensation provided to employees under the stock option plan of the Company during the six months ended June 30, 2011 and June 30, 2012.
- (b) Amounts represent reserves arising from share-based compensation provided to employees under the stock option plan of the Company and deemed contribution from shareholders in previous years.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2012

	Three months ended		Six months ended	
	June 30,	2011	June 30,	2011
	2012	2011	2012	2011
	US\$	US\$	US\$	US\$
<b>Net cash flows from operating activities</b>	<b>54,205,914</b>	36,388,681	<b>20,463,017</b>	18,474,568
<b>Investing activities</b>				
Acquisition of available-for-sale investment	(20,010,702)	–	(20,010,702)	–
Payment for acquisition of property, plant and equipment	(15,526,752)	(4,656,866)	(26,943,486)	(28,195,846)
Deposit paid for acquisition of property, plant and equipment	(3,622)	–	(248,031)	(451,766)
Repayment from a non-controlling shareholder	–	177,710	–	25,187
Receipt of deferred consideration from disposal of a mining project to a related company	–	–	1,398,312	–
Settlement of deferred consideration from disposal of a mining project to a related company	–	–	(671,030)	–
<b>Net cash (used in) from investing activities</b>	<b>(35,541,076)</b>	(4,479,156)	<b>(46,474,937)</b>	(28,622,425)
<b>Financing activities</b>				
Repayments of borrowings	(3,163,956)	(14,263,264)	(3,163,956)	(14,263,264)
Receipt of government grant	–	143,705	–	143,705
Proceeds from borrowings	–	31,255,416	7,487,949	62,225,155
Deemed capital contribution from a shareholder in payment of listing fee	–	–	2,735,852	–
Dividends paid to a non-controlling shareholder	–	–	(184,734)	–
Issuance of common shares	241,056	25,426	241,056	52,132
<b>Net cash (used in) from financing activities</b>	<b>(2,922,900)</b>	17,161,283	<b>7,116,167</b>	48,157,728
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>15,741,938</b>	49,070,808	<b>(18,895,753)</b>	38,009,871
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>(1,270,023)</b>	274,938	<b>(1,528,345)</b>	275,505
<b>Cash and cash equivalents, beginning of period</b>	<b>319,416,892</b>	290,548,347	<b>354,312,905</b>	301,608,717
<b>Cash and cash equivalents, end of period</b>	<b>333,888,807</b>	339,894,093	<b>333,888,807</b>	339,894,093
<b>Cash and cash equivalents are comprised of</b>				
<b>Cash in bank</b>	<b>333,888,807</b>	339,894,093	<b>333,888,807</b>	339,894,093

See accompanying notes to the condensed consolidated financial statements.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended June 30, 2012*

## 1. GENERAL AND BASIS OF PREPARATION

China Gold International Resources Corp. Ltd., formerly known as Jinshan Gold Mines Inc., (the “Company”) is a publicly listed company incorporated in British Columbia on May 31, 2000 with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange (“TSX”) and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company together with its subsidiaries (collectively referred to as the “Group”) is principally engaged in the acquisition, exploration, development and mining of mineral properties in the People’s Republic of China (“PRC”). The directors of the Company consider that China National Gold Group Corporation (“CNG”), a state-owned company registered in Beijing, PRC, which is controlled by State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) of the PRC, is able to exercise significant influence over the Company.

The head office, principal address and registered and records office of the Company are located at Suite 1030, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada, V7X 1M5.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with International Accounting Standard 34 (“IAS 34”), Interim Financial Reporting.

The condensed consolidated financial statements are presented in United States Dollars (“US\$”) which is the functional currency of the Company.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2012 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2011. In addition, the Group has applied the following accounting policy for available-for-sale financial assets that were acquired by the Group in the current interim period.

### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

## 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### Impairment of financial assets

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

In the current interim period, the Group has applied the following amendments to International Financial Reporting Standards (“IFRSs”) which are effective for the financial years beginning January 1, 2012:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
Amendments to IAS 12	Deferred Tax – Recovery of Underlying Assets

The application of the above amendments to IFRSs has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective.

## 3. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses of the Group are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	US\$	US\$	US\$	US\$
Administration and office	775,120	270,767	1,846,616	495,374
Investor relations	277,486	180,612	447,872	492,094
Professional fees	692,766	662,461	1,400,359	1,168,606
Salaries and benefits	2,063,957	2,057,145	4,162,979	3,630,595
Shareholder information, transfer agent and filing fees	86,587	63,570	194,486	159,534
Depreciation of property, plant and equipment	286,693	81,608	559,382	161,799
Travel	131,485	270,422	437,789	571,196
Others	997,296	1,630,215	2,099,679	2,474,117
Total general and administrative expenses	5,311,390	5,216,800	11,149,162	9,153,315

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 4. FINANCE COSTS

The finance costs of the Group are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$
Effective interest on borrowings – wholly repayable within 5 years	3,213,883	2,838,106	5,915,624	5,304,917
Accretion on environmental rehabilitation (Note 16)	202,526	43,550	323,969	88,113
Total finance costs	3,416,409	2,881,656	6,239,593	5,393,030

### 5. INCOME TAX EXPENSE

The Company and its subsidiaries in Canada are subject to Canadian federal and provincial tax which is calculated at 26.5% of the estimated assessable profit for the three and six months ended June 30, 2012 (26.5% for the three and six months ended June 30, 2011). The Company has had no assessable profit subject to Canadian federal and provincial tax since its incorporation.

PRC Enterprise Income Tax is calculated at the prevailing tax rate on taxable income determined in accordance with the relevant laws and regulations in the PRC.

For the three and six months ended June 30, 2012, the Company's subsidiaries operating in the PRC are subject to PRC Enterprise Income Tax at 25% (25% for the three and six months ended June 30, 2011) except for Tibet Huatailong Mining Development Co. Ltd (“Huatailong”) and 墨竹工卡縣甲瑪工貿有限公司 (“Metorkongka County Jiama Industry and Trade Co”, or “Jiama Industry and Trade”), established in the westward development area of PRC and are subject to preferential tax rate of 15% on taxable income. Income tax expenses for the three and six months ended June 30, 2012 represent the PRC Enterprise Income Tax of US\$8,299,700 and US\$15,506,059 respectively (US\$8,042,064 and US\$9,774,309 for the three and six months ended June 30, 2011 respectively), and deferred tax credit of US\$2,735,690 and US\$3,356,779, respectively (deferred tax credits of US\$749,525 and US\$541,113 for the three and six months ended June 30, 2011).

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended June 30, 2012*

### 6. EARNINGS PER SHARE

Data used in determining earnings per share (“EPS”) are presented below:

	Three months ended June 30,		Six months ended June 30,	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$
Profit attributable to owners of the Company for the purposes of basic and diluted earnings per share (US\$)	<u>12,150,766</u>	<u>26,851,818</u>	<u>25,093,077</u>	<u>30,080,503</u>
Weighted average number of shares, basic	<u>396,267,709</u>	396,144,554	<u>396,215,731</u>	396,143,176
Dilutive securities – Options	<u>82,322</u>	176,829	<u>100,725</u>	196,401
Weighted average number of shares, diluted	<u>396,350,031</u>	<u>396,321,383</u>	<u>396,316,456</u>	<u>396,339,577</u>
Basic earnings per share	<u>3.07 cents</u>	6.78 cents	<u>6.33 cents</u>	7.59 cents
Diluted earnings per share	<u>3.07 cents</u>	6.78 cents	<u>6.33 cents</u>	7.59 cents

### 7. ACCOUNTS RECEIVABLE

The Group’s accounts receivable arise from the following sources: trade receivables, amount due from the Group’s substantial shareholder, amounts due from related companies and goods and services tax (“GST”) receivables due from various government and taxation authorities and other receivables. Components of accounts receivables are shown as follows:

	June 30, 2012 US\$	December 31, 2011 US\$
Trade receivables	505,498	703,673
Less: allowance for doubtful debts	<u>(49,564)</u>	<u>(50,038)</u>
	455,934	653,635
GST receivables	50,460	20,802
Amount due from the Group’s substantial shareholder (Note 18(a)) <sup>(1)</sup>	–	2,735,852
Amounts due from related companies (Note 18(a)) <sup>(2)</sup>	459,407	1,398,312
Other receivables	<u>1,134,939</u>	<u>1,036,019</u>
Total accounts receivable	<u>2,100,740</u>	<u>5,844,620</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 7. ACCOUNTS RECEIVABLE (Cont'd)

- <sup>(1)</sup> The amount represents listing fee receivable from CNG and deemed as capital contribution, which is unsecured, interest free and repayable on demand. The amount has been fully settled during the six months ended June 30, 2012.
- <sup>(2)</sup> As at December 31, 2011, the amount represented consideration receivable from Gansu Zhongjin Gold Mining Co. Ltd, CNG's subsidiary, regarding the disposal of a mining project in November 2011, as disclosed in the Group's annual consolidated financial statements for the year ended December 31, 2011. The amount is unsecured, interest free and repayable on demand, and fully settled during the six months ended June 30, 2012. The outstanding balances as at June 30, 2012 represents service fee receivables arising from provision of transportation services to the subsidiaries of CNG during the six months ended June 30, 2012. The amount is unsecured, interest free and repayable on demand.

The Group's other receivables mostly represented employees' cash and travel advances as at June 30, 2012 and December 31, 2011. The other receivables are unsecured, interest free and repayable upon written notice from the Group.

The Group allows credit periods of 90 days and 180 days to its trade customers for gold dore bars sales and copper sales respectively.

Below is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period:

	June 30, 2012 US\$	December 31, 2011 US\$
Less than 30 days	176,019	68,160
31 to 90 days	150,053	162,936
91 to 180 days	32,123	119,080
Over 180 days	<u>97,739</u>	<u>303,459</u>
	<u>455,934</u>	<u>653,635</u>

The aggregate carrying amounts of US\$97,739 and US\$303,459 in trade receivables are due over 180 days as at June 30, 2012 and December 31, 2011, respectively. The Group has not provided for impairment loss for the past due amounts as there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience.

Movement in the allowance for doubtful debts:

	US\$
At January 1	41,590
Addition	<u>8,448</u>
At December 31	50,038
Exchange realignment	<u>(474)</u>
At June 30, 2012	<u>49,564</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

## 7. ACCOUNTS RECEIVABLE (Cont'd)

Management considers that the Group's accounts receivables that are neither past due nor impaired have good credit quality at the end of each reporting period with reference to past settlement history. At June 30, 2012 and December 31, 2011, all of the GST receivable was outstanding less than 3 months. The Group anticipates full recovery of these amounts and, therefore, no impairment has been recorded against these receivables.

The Group holds no collateral for any receivable amounts outstanding as at June 30, 2012 and December 31, 2011.

## 8. PREPAID EXPENSES AND DEPOSITS

	June 30, 2012 US\$	December 31, 2011 US\$
Deposits for mine supplies and services (note a)	3,034,824	3,151,621
Deposits for spare parts	5,185,145	2,235,833
Deposits for environmental protection (note b)	4,070,355	4,109,291
Deposit for acquisition of property, plant and equipment (note c)	248,031	221,336
Prepayment for the land use rights (note d)	786,968	794,496
Prepaid mine consulting fee	1,221,402	595,285
Prepaid property and machinery insurance	133,665	303,533
Rent deposits	20,665	22,589
Other	399,056	380,555
	<hr/>	<hr/>
Total prepaid expenses and deposits	15,100,111	11,814,539
Less: Amounts that are utilized within one year shown under current assets	(9,679,970)	(6,371,619)
	<hr/>	<hr/>
Amounts that are utilized for more than one year shown under non-current assets	5,420,141	5,442,920
	<hr/>	<hr/>

Notes:

- a. The amount represents deposits paid to third party vendors and related parties for purchasing of mine supplies, production safety monitoring services and inventory consumable. Included in the deposit as at June 30, 2012, US\$314,787, (December 31, 2011: US\$317,797) are deposits for production safety monitoring services that are expected to be refunded upon closure of the relevant mine and therefore shown as a non-current asset.
- b. The amount represents deposits paid to the PRC local land administration bureau for undertaking the restoration of land when the lease term is expired. Such amount is receivable upon the end of the expected mine life and is expected to be repaid after one year and therefore it is shown as a non-current asset at June 30, 2012 and December 31, 2011.
- c. The amount represents deposits paid to third party contractors for the acquisition of property, plant and equipment to expand its mining capacity in Tibet, the PRC. The amount is shown as non-current asset.
- d. The amount of RMB5,000,000 represents full amount paid to PRC local land administration bureau for the acquisition of land use rights in Tibet, the PRC as at June 30, 2012 and December 31, 2011, respectively. The approval procedure of the PRC government is still in progress and expected to be completed by the end of year 2012. The amount is shown as non-current asset at June 30, 2012 and December 31, 2011.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 9. INVENTORY

	June 30, 2012 US\$	December 31, 2011 US\$
Gold in process	19,412,409	23,407,804
Gold dore bars	6,591,079	8,506,475
Consumables	5,687,694	4,355,930
Copper	308,863	2,071,173
Spare parts	4,532,954	3,055,508
	<u>36,532,999</u>	<u>41,396,890</u>
Total inventory		
Less: Amounts expected to be recovered after 12 months (note) (shown under non-current assets)	<u>(12,148,361)</u>	<u>(14,292,189)</u>
Amounts shown under current assets	<u>24,384,638</u>	<u>27,104,701</u>

Note: Management has taken into consideration the long-term process involved in recovering gold from a heap leaching system and reclassified inventory, specifically, the gold in process, that are expected to be recovered more than twelve months after the end of the reporting period into non-current assets.

Inventory totaling US\$45,398,016 and US\$93,842,532 for the three and six months ended June 30, 2012 (US\$48,643,248 and US\$70,011,025 for the three and six months ended June 30, 2011) was recognized in cost of sales.

### 10. AVAILABLE-FOR-SALE INVESTMENT

	June 30, 2012 US\$	December 31, 2011 US\$
Listed investment:		
– Equity security listed in Hong Kong	<u>20,010,702</u>	<u>–</u>

On June 29, 2012, the Group acquired 70,545,000 shares of China Nonferrous Mining Corporation Limited (“CNMC”) at HK\$2.20 per share for a total consideration of US\$20,010,702. The Company owns 2.03% equity interest in CNMC and the Group does not possess significant influence over CNMC.

On June 30, 2012, the available-for-sale investment was stated at fair value. Fair value of the security is based on quoted market prices on June 29, 2012 which is the last trading day for the six month period ended June 30, 2012.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

## 11. PROPERTY, PLANT AND EQUIPMENT

	Buildings US\$	Crusher US\$	Furniture and office equipment US\$	Machinery and equipment US\$	Motor vehicles US\$	Leasehold improvements US\$	Mineral assets US\$	Construction in progress ("CIP") US\$	Total US\$
COST									
At December 31, 2011	141,402,423	72,282,943	1,572,657	79,031,549	5,373,236	100,458	87,215,283	16,123,407	403,101,956
At June 30, 2012	148,910,548	72,282,943	1,660,193	84,196,242	5,412,925	100,458	96,353,146	31,803,565	440,720,020
ACCUMULATED DEPRECIATION									
At December 31, 2011	(4,487,893)	(9,660,728)	(866,648)	(15,432,683)	(1,285,059)	(41,096)	(10,267,348)	-	(42,041,455)
At June 30, 2012	(8,949,010)	(12,453,066)	(1,012,104)	(17,512,230)	(1,629,190)	(47,215)	(12,829,934)	-	(54,432,749)
CARRYING VALUE									
At December 31, 2011	136,914,530	62,622,215	706,009	63,598,866	4,088,177	59,362	76,947,935	16,123,407	361,060,501
At June 30, 2012	139,961,538	59,829,877	648,089	66,684,012	3,783,735	53,243	83,523,212	31,803,565	386,287,271

Included in the cost above is US\$15,983,922 as at June 30, 2012 (December 31, 2011: US\$15,983,922) in relation to finance costs which have been capitalized as crusher and mineral assets.

Depreciation totaling US\$6,411,654 and US\$12,594,518 for the three and six months ended June 30, 2012 (US\$4,711,047 and US\$9,368,376 for the three and six months ended June 30, 2011) were included in cost of sales, general and administrative expenses and inventory.

### Mineral property interests

#### (a) Chang Shan Hao Gold Mine ("CSH Gold Mine")

The CSH Gold Mine consists of a licensed area of 36 square kilometers ("km<sup>2</sup>") in the western part of Inner Mongolia, northern China. It is centrally positioned within the east-west-trending Tian Shan Gold Belt. The site is approximately 650 kilometers ("km") northwest of Beijing. The carrying value of the mineral assets in relation to the CSH Gold Mine is US\$40,532,308 as at June 30, 2012 (December 31, 2011: US\$36,354,701).

#### (b) Jiama Mine

The Jiama Mine, is a large copper-gold polymetallic deposit consisting of skarn-type and hornfels-type mineralization located in Metrorkongka County in Tibet. The Jiama Mine holds two exploration permits covering an area of approximately 76.9 km<sup>2</sup> and 66.4 km<sup>2</sup>, respectively. The carrying value of the Jiama Mine in relation to mineral assets is US\$42,990,904 as at June 30, 2012 (December 31, 2011: US\$40,593,234).



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 12. MINING RIGHTS

	<b>Mining rights</b>
	US\$
<b>COST</b>	
At January 1, 2011	976,466,490
Exchange realignment	<u>2,455,588</u>
At December 31, 2011	978,922,078
Exchange realignment	<u>(467,788)</u>
At June 30, 2012	<u>978,454,290</u>
<b>ACCUMULATED AMORTIZATION</b>	
At January 1, 2011	(1,183,779)
Additions	(15,710,119)
Exchange realignment	<u>(23,785)</u>
At December 31, 2011	(16,917,683)
Additions	(8,218,808)
Exchange realignment	<u>8,540</u>
At June 30, 2012	<u>25,127,951</u>
<b>CARRYING VALUE</b>	
At December 31, 2011	<u>962,004,395</u>
At June 30, 2012	<u>953,326,339</u>

Note:

Mining rights represent two mining rights in the Jiama Mine, acquired through the acquisition of Skyland Mining Limited ("Skyland") and its subsidiaries (hereinafter collectively referred to as the "Skyland Group"). The two mining rights will expire in 2014 and 2015, respectively, and in the opinion of the directors of the Company, the Group will be able to renew the mining rights with the relevant government authority continuously at insignificant cost.

Amortization on mining rights acquired is provided to write off the cost of the mining rights using the unit-of-production method, based on the actual production volume over the estimated total proven and probable reserves of the mines.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended June 30, 2012*

### 13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses of the Group are principally comprised of amounts outstanding for trade purchases relating to mineral production activities and construction cost payables related to building the infrastructure of the mines. The credit period taken for trade purchases is between 120 to 150 days.

Accounts payable and accrued expenses comprise the following:

	June 30, 2012 US\$	December 31, 2011 US\$
Accounts payable <sup>(1)</sup>	47,228,327	48,388,211
Advances from customers	472,181	1,736,483
Mining cost accrual	2,333,223	2,118,338
Payroll and benefit accruals	4,036,791	5,143,046
Other accruals	2,367,856	2,320,585
Other tax payables	6,679,063	8,388,783
Other payables	2,419,346	1,250,137
Amount due to CNG (Note 18(a)) <sup>(2)</sup>	1,351,452	31,780
Amount due to CNG's subsidiaries (Note 18(a)) <sup>(3)</sup>	—	1,158,600
	<u>66,888,239</u>	<u>70,535,963</u>

The following is an aged analysis of the accounts payable other than construction cost payables presented based on invoice date at the end of the reporting period:

	June 30, 2012 US\$	December 31, 2011 US\$
Less than 30 days	12,351,489	8,242,280
31 to 90 days	1,188,172	2,280,204
91 to 180 days	122,863	2,702,724
Over 180 days	162,476	5,574,703
	<u>13,825,000</u>	<u>18,799,911</u>
Total accounts payable other than construction cost payables	<u>13,825,000</u>	<u>18,799,911</u>

<sup>(1)</sup> Amount represents trade payables and construction cost payables to third parties and related companies. Amount is unsecured, interest-free and the credit period is between 120 to 150 days. Included within the Group's accounts payable are construction cost payables of US\$33,403,327 as at June 30, 2012 (December 31, 2011: US\$29,588,300).

<sup>(2)</sup> Amount represents consultancy fees for exploration service paid by CNG to a third party on behalf of the Group. The amount is unsecured, interest-free and repayable on demand.

<sup>(3)</sup> Amount as at December 31, 2011 represented mainly disposal proceeds of US\$671,030 due to a subsidiary of CNG, the non-controlling shareholder of a mining project, as disclosed in the Group's annual consolidated financial statements for the year ended December 31, 2011 after the sale of the project. The amount was fully settled during the six months ended June 30, 2012.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 14. BORROWINGS

	Effective interest rate		Maturity	June 30,	December 31,
	For six months ended June 30, 2012	For the year ended December 31, 2011		2012	2011
	%	%		US\$	US\$
<b>Current</b>					
Current portion of long-term loan – Agricultural Bank of China (“ABC”) (a)	6.50	6.23	June 9, 2013	15,739,357	12,711,932
Current portion of long-term loan – Bank of China (“BOC”) (b)	4.85	4.62	December 28, 2012	31,478,713	31,779,829
Syndicated loan (c)	4.82	4.82	June 4, 2013	15,739,356	–
				<u>62,957,426</u>	<u>44,491,761</u>
<b>Non-current</b>					
Long-term loan – ABC (a)	6.50	6.23	September 9, 2013 to September 9, 2014	17,313,292	23,834,872
Long-term loan – BOC (b)	4.85	4.62	December 28, 2013 to December 28, 2014	47,218,068	47,669,744
Syndicated loan (c)	4.82	4.82	June 4, 2014 to June 4, 2016	102,305,816	111,547,201
				<u>166,837,176</u>	<u>183,051,817</u>
				<u>229,794,602</u>	<u>227,543,578</u>

#### (a) ABC Loan

On September 14, 2009, the Group’s subsidiary, Inner Mongolia Pacific Mining Co., Ltd. (“IMP”), secured a five-year RMB290,000,000 (US\$42,299,950) long-term loan (“Term Loan”) from ABC. The purpose of the Term Loan is to satisfy the outstanding funding requirements for the capital expansion loan provided by CNG in June 2009. The loan carries interest at floating rate based on the People’s Bank of China base rate. The Term Loan principal is repayable with instalments of RMB30,000,000 (equivalent to US\$4,721,807) due in September 2012 and December 2012. RMB20,000,000 (equivalent to US\$3,147,871), RMB20,000,000 (equivalent to US\$3,147,872), RMB30,000,000 (equivalent to US\$4,721,807) and RMB30,000,000 (equivalent to US\$4,721,807) will be repayable on each quarter ended 2013, respectively. The remaining outstanding balance of RMB50,000,000 (equivalent to US\$7,869,678) is scheduled to be repaid in full in 2014.

No additional draw down of the loan occurred during the three and six months ended June 30, 2012 and 2011. During the three and six months ended June 30, 2012, repayment of RMB20,000,000 (equivalent to US\$3,163,956) and RMB20,000,000 (equivalent to US\$3,163,956) has been made, respectively. While for the same periods during 2011, RMB30,000,000 (equivalent to US\$4,601,053) and RMB30,000,000 (equivalent to US\$4,601,053) has been repaid, respectively.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

## 14. BORROWINGS (Cont'd)

### (b) BOC Loan

The loan was borrowed from BOC in December 2009 and the loan carries interest at floating rate based on the People's Bank of China base rate and is repayable in four annual instalments starting from December 28, 2011. RMB200,000,000 (equivalent to US\$31,478,713) was paid during the year ended December 31, 2011. RMB200,000,000 (equivalent to US\$31,478,713), RMB150,000,000 (equivalent to US\$23,609,034) and RMB150,000,000 (equivalent to US\$23,609,034) will be repayable on December 28, 2012, December 28, 2013 and December 28, 2014, respectively.

No additional draw down and repayment of loan occurred during the three and six months ended June 30, 2012 and 2011.

### (c) Syndicated Loan

The Group entered into a syndicated loan facility agreement with various banks on June 4, 2010 and is available for Skyland to draw on up to June 4, 2014. As at June 30, 2012, Skyland has drawn down the amount of loan of RMB750,000,000 (equivalent to approximately US\$118,045,000) (December 31, 2011: RMB702,000,000 equivalent to US\$111,547,000). The unutilized facility was nil (December 31, 2011: RMB48,000,000 (equivalent to US\$7,620,000) as at June 30, 2012.

The loan carries interest at the rate based on the People's Bank of China base rate. RMB100,000,000 (equivalent to US\$15,739,356), RMB150,000,000 (equivalent to US\$23,609,034), RMB200,000,000 (equivalent to US\$31,478,713) and RMB300,000,000 (equivalent to US\$47,218,069) will be repayable in June 2013, June 2014, June 2015 and June 2016, respectively.

During the three months ended June 30, 2012, no additional draw down occurred, whereas RMB48,000,000 (equivalent to US\$7,487,949) was drawn down during the six months ended June 30, 2012. While for the same periods during 2011, RMB203,000,000 (equivalent to US\$31,255,416) and RMB406,000,000 (equivalent to US\$62,225,155) were drawn down, respectively.

No repayment of the loan was made for the three and six months ended June 30, 2012. While for the same periods during 2011, RMB63,000,000 (equivalent to US\$9,662,211) and RMB63,000,000 (equivalent to 9,662,211) were repaid, respectively.

The Group pledged certain assets to secure the BOC and syndicated loans. The carrying values of the pledged assets are as follows:

	June 30, 2012 US\$	December 31, 2011 US\$
Property, plant and equipment	249,064,208	246,992,832
Mining rights	953,326,339	962,004,395
	<u>1,202,390,547</u>	<u>1,208,997,227</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 15. DEFERRED INCOME

Pursuant to the approval notices issued by the Ministry of Finance of the PRC in July 2010 and by the Provincial Bureau of Finance in Inner Mongolia of the PRC in December 2010, IMP received government grants in relation to the construction of property, plant and equipment of the Group amounting to approximately RMB4,839,000 (equivalent to approximately US\$715,000) during the year ended December 31, 2010. In addition, approximately RMB930,000 (equivalent to approximately US\$144,000) was further granted to IMP by local Finance Bureau in Inner Mongolia of the PRC in May 2011, in relation to construction of property, plant and equipment of the Group. The grants have been recorded as deferred income in the consolidated statement of financial position and will be credited to profit or loss on a straight-line basis over the expected useful lives of the related assets. During the three and six months ended June 30, 2012, deferred income of approximately US\$38,000 and US\$66,000 (three and six months ended June 30, 2011: US\$7,000 and US\$14,000) have been credited to profit or loss, respectively.

Movement in deferred income:

	January 1, to June 30, 2012 US\$	January 1, to December 31, 2011 US\$
Balance beginning of period/year	864,958	712,610
Addition	–	143,739
Credited to other income	(66,048)	(28,378)
Exchange realignment	(8,130)	36,987
	<u>790,780</u>	<u>864,958</u>
Balance, end of period/year		

### 16. ENVIRONMENTAL REHABILITATION

Reclamation and closure costs have been estimated based on the Group's interpretation of current regulatory requirements and determined based on the present value of future cash expenditures upon reclamation and closure. Reclamation and closure costs are capitalized as mine development costs (under mineral assets), and amortized over the life of the mine on a unit-of-production basis.

Environmental rehabilitation relates to reclamation and closure costs relating to the Group's mine operations at the CSH Gold Mine and the Jiama Mine. Environmental rehabilitation is calculated as the present value of estimated future cash flows of the reclamation and closure costs, which total US\$23,893,000 (December 31, 2011: US\$24,429,000), discounted at 10.1% (December 31, 2011: 10.1%) per annum at June 30, 2012.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

## 16. ENVIRONMENTAL REHABILITATION (Cont'd)

The following is an analysis of environmental rehabilitation:

	January 1, to June 30, 2012 US\$	January 1, to December 31, 2011 US\$
At January 1	4,253,314	1,887,923
Additions to site reclamation	–	2,224,138
(Reductions) resulted from change in discount rate during the year	–	(127,101)
Accretion incurred in the current period/year	323,969	179,190
Exchange realignment	(164,673)	89,164
	<u>4,412,610</u>	<u>4,253,314</u>
Balance, end of period/year	<u>4,412,610</u>	<u>4,253,314</u>

## 17. SHARE CAPITAL, OPTIONS AND WARRANTS

### (a) Common shares

Authorized – Unlimited common shares without par value

Issued and outstanding – 396,273,753 (December 31, 2011: 396,163,753) common shares at June 30, 2012

### (b) Stock options

The Group has a stock option plan which permits the board of directors of the Company to grant options to directors, employees of the Group and non-employees to acquire common shares of the Company at the fair market value on the date of approval by the board of directors. A portion of the stock options vest immediately on the grant date and the balance vest over a period of up to five years from the grant date.

The stock options have a life of up to six years from the grant date. The fair market value of the exercise price was the weighted average price of the common shares for the five days on which they were traded immediately preceding the date of approval by the board of directors.

The following is a summary of option transactions under the Company's stock option plan:

	January 1, 2012 to June 30, 2012		January 1, 2011 to December 31, 2011	
	Number of options	Weighted average exercise price CAD	Number of options	Weighted average exercise price CAD
Balance at January 1	695,000	3.98	780,000	3.71
Options exercised	(110,000)	2.18	(37,000)	1.45
Options forfeited	–	(48,000)	3.95	
	<u>585,000</u>	<u>4.44</u>	<u>695,000</u>	<u>3.98</u>
Balance, end of period/year	<u>585,000</u>	<u>4.44</u>	<u>695,000</u>	<u>3.98</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 17. SHARE CAPITAL, OPTIONS AND WARRANTS (Cont'd)

#### (b) Stock options (Cont'd)

No stock options were granted during the six months ended June 30, 2012 and the year ended December 31, 2011.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2012.

Expiring in	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2012	Remaining contractual life (years)	Weighted average exercise price CAD	Number exercisable at June 30, 2012	Weighted average exercise price CAD
2013	185,000	1.05	2.20	89,000	2.20
2015	400,000	2.92	5.47	240,000	5.21
	<u>585,000</u>		<u>4.44</u>	<u>329,000</u>	<u>4.40</u>

The following table summarizes information about stock options outstanding and exercisable at December 31, 2011:

Expiring in	Options outstanding			Options exercisable	
	Number of stock options	Remaining contractual life (years)	Weighted average exercise price CAD	Number of stock options	Weighted average exercise price CAD
2013	295,000	1.56	2.20	199,000	2.20
2015	400,000	3.42	5.30	160,000	4.78
	<u>695,000</u>		<u>3.98</u>	<u>359,000</u>	<u>3.35</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

## 18. RELATED PARTY TRANSACTIONS

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled or significantly influenced by the PRC government (hereinafter collectively referred to as “government-related entities”). In addition, the Group itself is a government-related entity. CNG, a substantial shareholder with significant influence over the Group, is a state-owned company registered in Beijing, PRC, which is controlled by SASAC of the PRC.

During the period/year, except as disclosed below, the Group did not have any individually significant transactions with other government-related entities in its ordinary and usual course of business.

Name and relationship with related parties during the period/year is as follows:

CNG owned the following percentages of outstanding common shares of the Company:

	June 30, 2012 %	December 31, 2011 %
CNG	<u>39.3</u>	<u>39.3</u>

### (a) Transactions/balances with government – related entities in the PRC

#### (i) Transactions/balances with CNG and its subsidiaries

The Group had the following significant transactions with CNG and CNG’s subsidiaries:

	Three months ended June 30,		Six months ended June 30,	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$
Gold dore bar sales by the Group	<u>53,297,726</u>	<u>56,542,364</u>	<u>106,270,502</u>	<u>76,847,866</u>
Provision of transportation services by the Group	<u>306,013</u>	–	<u>664,926</u>	–
Construction services provided to the Group	<u>5,825,936</u>	–	<u>15,421,691</u>	–



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 18. RELATED PARTY TRANSACTIONS (Cont'd)

#### (a) Transactions/balances with government – related entities in the PRC (Cont'd)

##### (i) Transactions/balances with CNG and its subsidiaries (Cont'd)

The Group has the following significant balances with CNG and its subsidiaries at the end of each reporting period:

	June 30, 2012 US\$	December 31, 2011 US\$
<b>Assets</b>		
Listing expense receivable (Note 7)	–	2,735,852
Other receivables (Note 7)	459,407	1,398,312
Deposits for mine supplies and services (Note 8)	92,805	730,301
	<u>552,212</u>	<u>4,864,465</u>
Total amounts due from CNG and its subsidiaries		

The amounts due from CNG and its subsidiaries, which are included in accounts receivable, are non-interest bearing, unsecured and have no fixed terms of repayments.

	June 30, 2012 US\$	December 31, 2011 US\$
<b>Liabilities</b>		
Construction cost payable to CNG's subsidiaries (Note 13)	932,202	–
Other payable to CNG (Note 13)	1,351,452	31,780
Other payable to CNG's subsidiaries (Note 13)	–	1,158,600
	<u>2,283,654</u>	<u>1,190,380</u>
Total amount due to CNG and its subsidiaries		

##### (ii) Transactions/balances with other government – related entities in the PRC

Apart from the transactions with CNG and its subsidiaries disclosed above, the Group also conducts business with other government – related entities. The Group has entered into various transactions, including deposit placements, borrowings and other general banking facilities which are government – related entities in its ordinary course of business. Over 91% (2011: over 79%) of its bank deposits and borrowings are with government-related banks.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

## 18. RELATED PARTY TRANSACTIONS (Cont'd)

### (b) Transactions/balances with non-government related parties/entities

The Group had the following significant balance with other related party at the end of each reporting period:

	June 30, 2012 US\$	December 31, 2011 US\$
<b>Asset</b>		
Amount due from a non-controlling shareholder with significant influence over a subsidiary	<u>414,979</u>	<u>415,839</u>

The amount due from the related party is non-interest bearing, unsecured and has no fixed terms of repayment.

The Group had the following compensation to other key management personnel during the period:

	Three months ended June 30,		Six months ended June 30,	
	2012 US\$	2011 US\$	2012 US\$	2011 US\$
Salaries and other benefits	119,123	194,261	240,265	356,939
Post employment benefits	<u>45</u>	<u>2,526</u>	<u>4,586</u>	<u>9,125</u>
	<u>119,168</u>	<u>196,787</u>	<u>244,851</u>	<u>366,064</u>

## 19. SEGMENT INFORMATION

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance.

The chief operating decision-maker which is responsible for allocating resources and assessing performance of the operating segments, has been defined as the executive directors of the Company. The chief operating decision-maker has identified two operating segments as follows:

- (i) The mine-produced gold segment – the production of gold bullion through the Group's integrated operation, i.e., mining, metallurgical processing, production and selling of gold dore bars to external clients.
- (ii) The mine-produced copper segment – the production of copper concentrate and other by-products through the Group's integrated operation, i.e., mining, metallurgical processing, production and selling to external clients.

Information regarding the above segments is reported below.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 19. SEGMENT INFORMATION (Cont'd)

#### (a) Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

#### For the six months ended June 30, 2012

	Mine- produced gold US\$	Mine- produced copper US\$	Segment total and consolidated US\$
REVENUE – EXTERNAL	<u>107,738,956</u>	<u>46,323,891</u>	<u>154,062,847</u>
SEGMENT PROFIT	<u>46,205,064</u>	<u>5,796,443</u>	52,001,507
General and administrative			(11,149,162)
Exploration and evaluation expenditure			(182,272)
Foreign exchange loss			(960,744)
Interest and other income			4,759,345
Finance costs			<u>(6,239,593)</u>
Profit before income tax			<u>38,229,081</u>

#### For the six months ended June 30, 2011

	Mine- produced gold US\$	Mine- produced copper US\$	Segment total and consolidated US\$
REVENUE – EXTERNAL	<u>81,999,296</u>	<u>46,362,172</u>	<u>128,361,468</u>
SEGMENT PROFIT	<u>36,825,354</u>	<u>15,430,113</u>	52,255,467
General and administrative			(9,153,315)
Exploration and evaluation expenditure			(134,004)
Foreign exchange gain			431,736
Interest and other income			2,149,693
Finance costs			<u>(5,393,030)</u>
Profit before income tax			<u>40,156,547</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the mine operating earnings by each segment, representing the revenues less direct cost of sales as shown on the condensed consolidated statement of comprehensive income. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

## 19. SEGMENT INFORMATION (Cont'd)

### (b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

<b>Segment assets</b>	<b>June 30, 2012 US\$</b>	<b>December 31, 2011 US\$</b>
Mine-produced gold	183,381,351	179,358,098
Mine-produced copper	<u>1,216,642,452</u>	<u>1,205,136,024</u>
<b>Total segment assets</b>	<b>1,400,023,803</b>	<b>1,384,494,122</b>
Available-for-sale investment	20,010,702	–
Cash and cash equivalents	333,888,807	354,312,905
Accounts receivable	52,196	4,435,819
Prepaid expenses and deposits	316,260	412,019
Property, plant and equipment	152,240	118,814
Deferred tax assets	<u>2,996,034</u>	<u>769,493</u>
<b>Consolidated assets</b>	<b><u>1,757,440,042</u></b>	<b><u>1,744,543,172</u></b>
<b>Segment liabilities</b>	<b>June 30, 2012 US\$</b>	<b>December 31, 2011 US\$</b>
Mine-produced gold	35,043,074	43,675,240
Mine-produced copper	<u>43,431,191</u>	<u>47,602,072</u>
<b>Total segment liabilities</b>	<b>78,474,265</b>	<b>91,277,312</b>
Accounts payable and accrued expenses	1,930,771	2,215,445
Borrowings	229,794,602	227,543,578
Deferred lease inducement	92,667	109,516
Deferred tax liabilities	<u>131,735,410</u>	<u>132,865,648</u>
<b>Consolidated liabilities</b>	<b><u>442,027,715</u></b>	<b><u>454,011,499</u></b>

For the purposes of monitoring segment performance and allocating resources between segments, allocated to operating segments are all assets other than corporate assets, deferred tax assets, and cash and cash equivalents; allocated to operating segments are all liabilities other than corporate liabilities, deferred tax liabilities and borrowings.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2012

### 20. COMMITMENTS AND CONTINGENCIES

#### Operating lease commitments

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	June 30, 2012 US\$	December 31, 2011 US\$
Within one year	881,309	1,415,220
Between two to five years	954,887	976,804
Over five years	959,362	1,055,166
	<u>2,795,558</u>	<u>3,447,190</u>

Operating lease payments represent rentals payable by the Group for its premises. Leases are negotiated for an average term of three to five years.

	June 30, 2012 US\$	December 31, 2011 US\$
<b>Capital commitments</b>		
Capital expenditure in respect of acquisition of property, plant and equipment – contracted but not provided for in the condensed consolidated financial statements	<u>41,817,492</u>	<u>58,440,653</u>

#### Other commitments and contingencies existed at June 30, 2012 and December 31, 2011

In October 2006, the Group signed a ten year service contract with a third party to provide mining services for the CSH Gold Mine commencing in the first quarter of 2007. The value of the mining service each year will vary and is dependent upon the amount of mining work performed.

### 21. EVENTS AFTER THE REPORTING PERIOD

The Group has no material event after the end of the reporting period.



**中國黃金國際資源有限公司**  
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