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## **China Gold International Resources Corp. Ltd.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations Six months ended June 30, 2013 (Stated in U.S. dollars, except as otherwise noted)**

## 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, 2013. It should be read in conjunction with the condensed consolidated interim 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, 2013 and the six months ended June 30, 2012, 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 August 14, 2013 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 Company's technical reports for its CSH Gold Mine and Jiama Mine; 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 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 trial 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 about the Company, including the Company's Annual Information Form, is available on SEDAR at [sedar.com](http://sedar.com) as well as Hong Kong Exchange News at [hkexnews.hk](http://hkexnews.hk).

#### Performance Highlights

##### *Three months ended June 30, 2013*

- Revenue increased by 7% to US\$81.6 million from US\$76.5 million for the same period in 2012;
- Net profit after income taxes increased by 55% to US\$19.6 million from US \$12.6 million for the same period in 2012.
- Gold production from the CSH Mine decreased by 10% to 32,111 ounces from 35,848 ounces for the same period in 2012.
- Copper production from the Jiama Mine increased significantly, by 31% to 3,493 tonnes (approximately 7.7 million pounds) from 2,663 tonnes (5.9 million pounds) for the same period in 2012.

##### *Six months ended June 30, 2013*

- Revenue increased by 3% to US\$158.4 million from US\$154.1 million for the same period in 2012;
- Net profit after income taxes increased by 33% to US\$34.6 million from US\$26.1 million for the same period in 2012.
- Gold production from the CSH Mine decreased by 8% to 64,274 ounces from 69,678 ounces for the same period in 2012.
- Copper production from the Jiama Mine increased significantly, by 44% to 6,576 tonnes (approximately 14.5 million pounds) from 4,563 tonnes (10.1 million pounds) for the same period in 2012.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OUTLOOK

- Budgeted production of 145,000 ounces of gold from the CSH Mine in 2013.
- Budgeted production of 26.5 million pounds of copper from the Jiama Mine in 2013.
- At CSH, the Company is building a new 30,000 tonne per day (“tpd”) stand-alone crushing, heap leaching and ADR (Absorption, Desorption and Refining) plant system in addition to the existing 30,000 tpd facility. Expansion construction is expected to be completed during the fourth quarter of 2013.
- The Company expects to complete the Jiama Mine’s Phase II Independent Feasibility Study and to release an updated NI 43-101 compliant report in the fourth quarter of 2013.
- Jiama’s production capacity expansion will be implemented in two stages. Stage one, which is expected to be completed during the fourth quarter of 2013, includes completion of a new 20,000 tpd mill. Stage two is expected to be completed by 2014. By 2015, Jiama anticipates reaching its planned full capacity of 40,000 tpd of ore.
- 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 its mines. In addition, the Company continues to focus its efforts on increasing 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 acquisition opportunities, namely projects outside of China, which can be readily and quickly brought into production with the possibility of further expansion through continued exploration.

### RESULTS OF OPERATIONS

#### Selected Quarterly Financial Data

QUARTER ENDED (US\$ in thousands except per share)	2013			2012			2011	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Revenues	<b>81,622</b>	76,746	93,387	84,938	76,484	77,578	93,544	89,407
Cost of sales	<b>53,809</b>	47,456	54,190	51,207	49,896	52,165	61,428	53,017
Mine operating earnings	<b>27,813</b>	29,290	39,197	33,731	26,588	25,413	32,114	36,391
General and administrative expenses	<b>5,665</b>	7,157	7,880	6,020	5,311	5,838	4,624	3,590
Exploration and evaluation expenses	<b>50</b>	69	149	59	124	58	173	160
Income from operations	<b>22,098</b>	22,064	31,168	27,652	21,153	19,517	34,250	32,640
Foreign exchange gain (loss)	<b>684</b>	152	(844)	1,976	(1,125)	164	1,596	326
Finance costs	<b>2,500</b>	2,573	3,230	3,080	3,416	2,823	4,798	3,862
Profit before income tax	<b>24,769</b>	20,755	28,545	32,903	18,188	20,041	33,805	30,520
Income tax expense	<b>5,208</b>	5,676	7,506	6,508	5,564	6,585	6,597	6,689
Net income	<b>19,561</b>	15,079	21,039	26,395	12,624	13,456	27,209	23,830
Basic earnings per share (cents)	<b>4.78</b>	3.66	5.13	6.44	3.07	3.27	6.86	5.79
Diluted earnings per share (cents)	<b>4.78</b>	3.66	5.13	6.44	3.07	3.27	6.86	5.79

**Selected Quarterly Production Data and Analysis**

<b>CSH Mine</b>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
Gold produced (ounces)	<b>32,111</b>	35,848	<b>64,274</b>	69,678
Gold sold (ounces)	<b>34,364</b>	34,113	<b>64,461</b>	67,875
Total production cost (US\$) of gold per ounce	<b>877</b>	858	<b>912</b>	907
Cash production cost* (US\$) of gold per ounce	<b>734</b>	753	<b>770</b>	802

\* Non-IFRS measure

Gold production at the CSH Mine decreased by 10% from 35,848 ounces for the three months ended June 30, 2012 to 32,111 ounces for the three months ended June 30, 2013. The major reasons for the decrease in production are lower grade ore being placed on the leach pad from January to April 2013, increased height of leaching heap which led to a longer gold recovery period, and a temporary production interruption caused by maintenance work on the gold absorption tank.

The cash production cost of gold per ounce for the three months ended June 30, 2013 decreased compared with the same period in 2012, mainly because of lower waste rock expenditures in 2013, which are included in the cash production cost of gold per ounce. The total production cost of gold per ounce for the three months ended June 30, 2013 slightly increased compared with 2012, due primarily to the higher depletion of mineral assets in the period.

<b>Jiama Mine</b>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
Copper produced (tonnes)	<b>3,493</b>	2,663	<b>6,576</b>	4,563
Copper produced (pounds)	<b>7,700,575</b>	5,871,653	<b>14,498,013</b>	10,059,540
Copper sold (tonnes)	<b>3,810</b>	2,602	<b>6,839</b>	4,853
Copper sold (pounds)	<b>8,399,073</b>	5,735,678	<b>15,077,771</b>	10,699,311
Gold produced (ounces)	<b>4,789</b>	3,142	<b>8,128</b>	5,595
Gold sold (ounces)	<b>4,886</b>	3,092	<b>8,325</b>	5,858
Silver produced (ounces)	<b>274,316</b>	194,311	<b>539,590</b>	335,637
Silver sold (ounces)	<b>288,329</b>	189,840	<b>533,447</b>	355,618
Total production cost* (US\$) of copper per pound	<b>3.56</b>	4.41	<b>3.68</b>	4.72
Total production cost* (US\$) of copper per pound after by-products credits***	<b>2.11</b>	2.75	<b>2.25</b>	3.09
Cash production cost** (US\$) per pound of copper	<b>3.00</b>	3.06	<b>3.01</b>	3.35
Cash production cost** (US\$) of copper per pound after by-products credits***	<b>1.55</b>	1.40	<b>1.59</b>	1.71

\* Production costs include expenditures incurred at the mine sites for the activities related to 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

During the three months ended June 30, 2013, the Jiama Mine produced 3,493 tonnes (approximately 7.7 million pounds) of copper, which increased by 31% compared with the three months ended June 30, 2012 (2,663 tonnes, or 5.9 million pounds). The significant increase in production was mainly due to an increased volume of ore mined and processed, as well as a better copper recovery rate realized during the current quarter.

Cash production cost of copper per tonne and per pound decreased due to a substantial increase in recovery rates during the period. Also, the decrease in total production cost was due to a lower amortization of mining rights with increased ore reserve base in Jiama Mine. 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, 2013 compared to three months ended June 30, 2012*

**Revenue** of US\$81.6 million for the second quarter of 2013 increased by US\$5.1 million, from US\$76.5 million for the same period in 2012, primarily due to Jiama's significantly improved copper production and sales.

Revenue from the CSH Mine accounted for 57%, or US\$46.2 million (2012: US\$53.3 million), a decrease of US\$7.1 million due to significantly lower gold prices, and a decrease in gold produced. Gold produced by the CSH Mine decreased from 35,848 ounces (gold sold: 34,113 ounces) in 2012 to 32,111 ounces (gold sold: 34,363) in 2013 due to lower grades of ore placed on the heap leach pad, a longer recovery period due to increased height of leach heap and production interruption due to maintenance.

Revenue from the Jiama Mine accounted for 43% of total revenue, or US\$35.4 million (2012: US\$23.2 million), an increase of US\$12.2 million for 2013 compared to 2012. Total copper sold increased by 46% from 2,602 tonnes (5.74 million pounds) for the three months ended June 30, 2012 to 3,810 tonnes (8.4 million pounds) for the same comparative period in 2013, due to an increased volume of ore mined and processed, and improved recovery rates.

**Cost of sales** of US\$53.8 million for the quarter ended June 30, 2013, increased by US\$3.9 million, from US\$49.9 million for the three months ended June 30, 2012. The increase in cost of sales was primarily due to Jiama's significantly higher sales volume during the three month period in 2013, while CSH's cost of sales remained relatively consistent with comparative quarters. Cost of sales as a percentage of revenue for the Company remained consistent at approximately 66% for the three months ended June 30, 2013 compared to 2012.

**Mine operating earnings** of US\$27.8 million for the three months ended June 30, 2013 increased by 5%, or US\$1.2 million, from US\$26.6 million for the comparative 2012 period. Mine operating earnings as a percentage of revenue remained consistent at 34% for the three months ended June 30, 2013 compared to 2012.

**General and administrative expenses** increased by US\$0.3 million, from US\$5.3 million for the three months ended June 30, 2012 to US\$5.6 million for the three months ended June 30, 2013. Despite the slight increase, the Company has taken steps to implement an ongoing cost reduction program aimed at facilitating its growth and development strategy.

**Income from operations** for the second quarter of 2013 of US\$22.1 million increased by 4%, or US\$0.9 million, from US\$21.2 million for 2012.

**Finance costs** of US\$2.5 million for the three months ended June 30, 2013 decreased by 27%, from US\$3.4 million for the same period in 2012, primarily due to increased interest capitalization. During the three months ended June 30, 2013 US\$1.2 million (2012: Nil) of interest payments were capitalized for borrowing costs relating to Jiama's Phase II expansion project.

**Foreign exchange gain** increased by 161%, to a gain of US\$0.68 million for the three months ended June 30, 2013 from a loss of US\$1.1 million for the same 2012 period. The 2013 gain is related to the revaluation of monetary items held in Chinese RMB and Hong Kong Dollars, which was based on changes in the RMB/HKD/USD exchange rates.

**Interest and other income** of US\$4.5 million for the three months ended June 30, 2013 increased from US\$1.6 million for the three months ended June 30, 2012. The increase is primarily due to a government grant received by the Jiama Mine for its ongoing efforts and contribution to local communities.

**Income tax expense** for the second quarter of 2013 decreased by 6%, to US\$5.2 million from US\$5.6 million for the three months ended June 30, 2012, primarily due to an increase in deferred tax credits realized during the period. During the current quarter, the Company had US\$3.7 million of deferred tax credits. (2012: US\$2.7 million)

**Net income** of the Company increased by US\$6.9 million from US\$12.6 million for the three months ended June 30, 2012 to US\$19.5 million for the three months ended June 30, 2013.

*Six months ended June 30, 2013 compared to six months ended June 30, 2012*

**Revenue** of US\$158.4 million for the first half of 2013 increased by US\$4.3 million, from US\$154.1 million for the same period in 2012. The consolidated revenue increase is primarily due to Jiama's significant increase in copper production and sales, offsetting the decline in gold sales experienced by CSH during the six month period.

Revenue from the CSH Mine, which was significantly affected by the substantial drop in gold prices and lower production level, accounted for 59%, or US\$93.6 million (2012: US\$107.7 million), of total revenue for the six month period. The decrease in CSH's production, due to lower grades of ore mine and longer recovery periods caused by the growing height of the leaching heap, contributed to the 5% decrease in gold sold from 67,875 ounces (gold produced: 69,678 ounces) in 2012 to 64,641 ounces (gold produced: 64,274 ounces) in 2013.

Revenue from the Jiama Mine accounted for 41% of total revenue, or US\$64.7 million (2012: US\$46.4 million), an increase of US\$18.4 million for 2013 compared to 2012. Total copper sold increased by 41% from 4,853 tonnes (10.7 million pounds) for the six months ended June 30, 2012 to 6,839 tonnes (15.08 million pounds) for the same comparative period in 2013 due to increased volumes of ore mined and processed, and to improved copper recovery rates.

**Cost of sales** of US\$101.3 million for the six months ended June 30, 2013, decreased by US\$0.8 million, from US\$102.1 million for the comparative period in 2012. The decrease in cost of sales is primarily attributable to the increase in recovery rates, in addition to operation optimization of ore processing facilities at both mines. Cost of sales as a percentage of revenue decreased to 64% from 66% for the six months ended June 30, 2013 compared to 2012.

**Mine operating earnings** of US\$57.1 million for the six months ended June 30, 2013 increased by 10%, or US\$5.1 million, from US\$52 million for the comparative 2012 period. Mine operating earnings as a percentage of revenue increased to 36% from 34% for the six months ended June 30, 2013 compared to 2012.

**General and administrative expenses** increased by US\$1.7 million, from US\$11.2 million for the six months ended June 30, 2012 to US\$12.8 million for the six months ended June 30, 2013. Increased administrative costs, in addition to professional services provided in relation to the expansion projects resulted from, and are in line with the Company's overall growth and development strategy.

**Income from operations** for the first six months of 2013 of US\$44.1 million increased by 9%, or US\$3.5 million, from US\$40.6 million for 2012.

**Finance costs** of US\$5.07 million for the six months ended June 30, 2013 decreased by 19%, from US\$6.2 million for the same period in 2012, primarily due to increased interest capitalization. During the six months ended June 30, 2013 US\$1.9 million (2012: Nil) of interest payments were capitalized for borrowing costs relating to Jiama's Phase II expansion project.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Foreign exchange gain** increased by 187%, to US\$0.8 million for the six months ended June 30, 2013 from a loss of US\$0.96 million for the same 2012 period. The 2013 gain is related to the revaluation of monetary items held in Chinese RMB and Hong Kong Dollars, which is based on changes in the RMB/HKD/USD exchange rates.

**Interest and other income** of US\$5.6 million for the six months ended June 30, 2013 increased from US\$4.8 million for the six months ended June 30, 2012. The increase is primarily due to a government grant received by the Jiama Mine during 2013, offset by a decrease in interest income earned on term deposits held during the 2012 comparative period. A portion of the term deposits were used to fund phase II expansion costs incurred by Jiama.

**Income tax expense** for the first half of 2013 decreased by 10%, to US\$10.9 million from US\$12.1 million for the six months ended June 30, 2012, primarily due to an increase in deferred tax credits realized during the period. During the current period, the Company had US\$4.4 million of deferred tax credits. (2012: US\$3.4 million).

**Net income** of the Company increased by US\$8.5 million from US\$26.1 million for the six months ended June 30, 2012 to US\$34.6 million for the six months ended June 30, 2013.

### 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, 2013 and 2012:

	CSH Mine			
	Three months ended June 30,		Six months ended June 30,	
	2013 US\$	2012 US\$	2013 US\$	2012 US\$
Cost of mining per tonne of ore	1.35	1.28	1.42	1.24
Cost of mining waste per tonne of ore	2.20	4.47	2.32	3.79
Other mining costs per tonne of ore	0.51	0.42	0.50	0.44
<b>Total mining costs per tonne of ore</b>	<b>4.06</b>	6.17	<b>4.24</b>	5.47
Cost of reagents per tonne of ore	1.28	0.70	1.39	0.88
Other processing costs per tonne of ore	1.07	1.08	1.15	1.13
<b>Total processing cost per tonne of ore</b>	<b>2.35</b>	1.78	<b>2.54</b>	2.01

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

The Company has included cash production cost per ounce gold data to supplement its condensed consolidated interim 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 production 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 production 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:

<b>CSH Mine (Gold)</b>								
	<b>Three months ended June 30,</b>				<b>Six months ended June 30,</b>			
	<b>2013</b>		2012		<b>2013</b>		2012	
	US\$	Per		US\$	US\$	Per		US\$
	US\$	ounce	US\$	ounce	US\$	ounce	US\$	ounce
Total Production Costs	<b>30,130,588</b>	<b>877</b>	29,262,773	858	<b>58,817,491</b>	<b>912</b>	61,533,892	907
Adjustments	<b>(4,917,191)</b>	<b>(143)</b>	(3,586,868)	(105)	<b>(9,172,062)</b>	<b>(142)</b>	(7,077,098)	(105)
<b>Total cash production costs</b>	<b>25,213,397</b>	<b>734</b>	25,675,905	753	<b>49,645,429</b>	<b>770</b>	54,456,794	802

  

<b>Jiama Mine (Copper)</b>								
	<b>Three months ended June 30,</b>				<b>Six months ended June 30,</b>			
	<b>2013</b>		2012		<b>2013</b>		2012	
	US\$	Per		US\$	US\$	Per		US\$
	US\$	tonne	US\$	tonne	US\$	tonne	US\$	tonne
Total production costs	<b>29,884,906</b>	<b>3.56</b>	25,304,817	4.41	<b>55,451,224</b>	<b>3.67</b>	50,545,668	4.72
Adjustments	<b>(4,717,582)</b>	<b>(0.56)</b>	(7,743,699)	(1.35)	<b>(10,008,495)</b>	<b>(0.66)</b>	(14,694,645)	(1.37)
<b>Total cash production costs</b>	<b>25,167,324</b>	<b>3.00</b>	17,561,118	3.06	<b>45,442,729</b>	<b>3.01</b>	35,851,023	3.35

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.

### MINERAL PROPERTIES

#### The CSH Mine

The CSH Mine is located in the 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%.

#### CSH Mine Expansion

The CSH Mine is currently operating at a 30,000 tpd capacity, producing over 133,000 ounces of gold per annum. A NI 43-101 compliant Technical Report Expansion Feasibility Study for the CSH Gold Project ("CSH Technical Report") has been completed by a group of Qualified Persons ("QP"). This report was prepared following the 2011 drilling campaign. The CSH Technical Report supports an expansion plan to increase the processing capacity from 30,000 tpd to 60,000 tpd with a mine life of 11 years. The CSH Technical Report delineates the open pit reserves at the CSH Mine at over 213 million tonnes of ore containing about 4.08 million ounces of gold. Gold production will be increased from the current 133,000 ounces per annum to about 260,000 ounces per annum by 2014. The estimated capital expenditure is US\$212.9 million. The After-Tax Net Present Value (NPV) is US\$642 million using a discount rate of 9% and an assumed gold price of \$1,380/oz.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The CSH Technical Report is available at [sedar.com](http://sedar.com) and [hkexnews.hk](http://hkexnews.hk).

The expansion construction is progressing rapidly and is in line with the expected timeline. As of August 1, 2013, the Company reached a milestone in the expansion construction process by completing its new additional 30,000 tpd crushing system, which is currently being tested.

The heap leaching system construction is progressing according to schedule. The leach pad liner bedding is 100% complete, with 50% of the geomembrane complete and 25% of the overliner material complete and is now ready for newly crushed ore stacking.

Construction of the new ADR (Absorption, Desorption and Refining) plant system is completed. The Company expects the first gold pour on this new plant in the fourth quarter of 2013.

### *Production Update*

	CSH Mine			
	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Ore mined and placed on pad (tonnes)	<b>3,264,226</b>	2,916,181	<b>6,510,994</b>	5,552,443
Average grade of ore (g/t)	<b>0.48</b>	0.47	<b>0.46</b>	0.48
Recoverable gold (ounces)	<b>36,553</b>	41,830	<b>70,717</b>	66,676
Ending ore inventory (ounces)	<b>43,195</b>	35,941	<b>43,195</b>	35,941
Waste rock mined (tonnes)	<b>22,098,696</b>	11,697,192	<b>44,389,687</b>	17,196,018

For the three months ended June 30, 2013, the total amount of ore put on the leach pad was 3.3 million tonnes, with total contained gold of 36,553 ounces (1,137 kilograms). The accumulative project-to-date gold recovery rate has increased from approximately 53.24% at the end of March 2013 to 53.72% to the end of June 2013.

### *Exploration*

The company has no current drilling program at CSH in 2013.

### **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 has both underground mining and open-pit mining operations. The open-pit mining operation consists of the smaller Tongqianshan Pit and the larger Niumatang Pit. The underground mining operation consists of two shafts which will extend from an initial depth of 355 metres to a final depth of 600 metres.

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.

*Phase II Expansion*

The Company has retained the engineering firm Minarco-Mine Consult (MMC), part of the Runge Limited Group of Companies, in conjunction with independent consulting engineers and management to complete a prefeasibility study for the Jiama Mine Phase II expansion. On October 25, 2012, MMC completed a project review and, as part of its engagement, produced a NI 43-101 compliant Independent Pre-Feasibility Study Technical Report ("Jiama Technical Report") on the Jiama Mine. The Jiama Technical Report was filed at [sedar.com](http://sedar.com) and [hkexnews.hk](http://hkexnews.hk) on November 12, 2012. The Company plans to expand the Jiama Mine from its current mining and processing capacity of 6,000 tpd to 40,000 tpd of ore through the expansion of current open-pit operations and the development of new open-pit and underground mining operations. Phase II Expansion will include four open pits, one underground mine, and a new floatation plant with a processing capacity of 34,000 tpd. The annual mill processing capacity will be increased from the current 1.8 million tonnes of ore per year to 12.3 million tonnes of ore per year, producing approximately 176 million pounds of copper, 2,300 tonnes of molybdenum, 35,000 ounces of gold, 2.7 million ounces of silver annually over a 31 year mine life. LOM (Life Of Mine) average head grade will be 0.77% copper, 0.03% molybdenum, 0.22 g/t gold and 12 g/silver, respectively. The estimated capital expenditure is US\$705 million. The project has after-tax Net Present Value (NPV) of US\$1.2 billion at a discount rate of 9% at metal price assumptions of \$2.90/lb copper, \$18/lb molybdenum, \$1,380/oz gold, and \$16.5/oz silver. The project has after-tax Internal Rate of Return (IRR) of 53.7% and payback period of 4.5 years.

The Company is currently preparing an independent feasibility study for the Jiama Mine's Phase II Expansions and expects to complete it in the fourth quarter of 2013.

Since its commencement, the Phase II Expansion has progressed as scheduled. The first stage of construction to expand mining operations from 6,000 tpd to 20,000 tpd is expected to be completed by the end of 2013. Stage two construction for an additional 20,000 tpd is expected to be completed by the end of 2014.

*Production Update*

	Jiama Mine			
	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Ore mined (tonnes)	<b>644,333</b>	493,313	<b>1,134,010</b>	902,540
Waste mined (tonnes)	<b>287,681</b>	1,346,842	<b>765,581</b>	2,749,156
Average copper grade of ore	<b>0.67%</b>	0.68%	<b>0.65%</b>	0.62%
Copper recovery rate	<b>90%</b>	84%	<b>89%</b>	84%
Average gold grade of ore (g/t)	<b>0.37</b>	0.38	<b>0.34</b>	0.34
Gold recovery rate	<b>70%</b>	55%	<b>65%</b>	60%
Average silver grade of ore (g/t)	<b>20.69</b>	22.73	<b>21.02</b>	20.09
Silver recovery rate	<b>65%</b>	53%	<b>64%</b>	55%

*Exploration*

In the second quarter of 2013, the Company modified its exploration plan for the Jiama Mine and plans to drill 4,500 meters in the existing Tongqianshan open pit. The major goals are to further define the main high grade ore body in the current open pit mining area and also to better understand the geological structural on controlling metallogenic regularity. Exploration work is expected to be complete by the fourth quarter of 2013.

The following table shows exploration expenditures expensed and capitalized during the three months and six months ended June 30, 2013 and June 30, 2012.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	Jiama Mine			
	Three months ended June 30,		Six months ended June 30,	
	2013 US\$	2012 US\$	2013 US\$	2012 US\$
Exploration expensed	–	–	–	–
Exploration capitalized	<b>2,162,009</b>	3,480,099	<b>2,450,027</b>	3,929,115
	<b>2,162,009</b>	3,480,099	<b>2,450,027</b>	3,929,115

### 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 its 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, 2013, the Company had an accumulated surplus of US\$140.6 million, working capital deficit of US\$53.6 million and bank borrowings of US\$315 million. The Company's cash balance at June 30, 2013 was US\$96.3 million.

Management believes that its forecast operating cash flows are sufficient to cover the next twelve months of the Company's operations including its planned capital expenditures and current debt repayments. Revenue and related expenses should increase as production increases subsequent to the completion of the planned expansions. Some of the Company's available cash will be used to fund capital expenditures planned for Phase II expansion at the Jiama Mine as well as other business expenses. As of June 30, 2013, the Company has an additional RMB450 million (approximately equivalent to US\$73 million) unutilized loan facility designated for the expansion project. The Company is also in advanced discussions to arrange project debt financing to support expansion of the Jiama Mine. The CSH Mine's expansion is funded by cash generated from its existing operations in addition to borrowing proceeds from commercial banks in China.

### CASH FLOWS

The following table sets out selected cash flow data from the Company's consolidated interim cash flow statements for the periods ended June 30, 2013 and June 30, 2012.

	Three months ended June 30,		Six months ended June 30,	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
	Net cash from (used in) operating activities	<b>16,414</b>	54,206	<b>32,739</b>
Net cash used in investing activities	<b>(107,103)</b>	(35,541)	<b>(217,551)</b>	(46,475)
Net cash from financing activities	<b>31,406</b>	(2,923)	<b>97,731</b>	7,116
Net increase (decrease) in cash and cash equivalents	<b>(59,283)</b>	15,742	<b>(87,081)</b>	(18,896)
Effect of foreign exchange rate changes on cash and cash equivalents	<b>1,393</b>	(1,270)	<b>1,673</b>	(1,528)
Cash and cash equivalents, beginning of period	<b>154,222</b>	319,417	<b>181,740</b>	354,313
<b>Cash and cash equivalents, end of period</b>	<b>96,332</b>	333,889	<b>96,332</b>	333,889

**Operating cash flow**

For the three months ended June 30, 2013, net cash inflow from operating activities was US\$16.4 million which is primarily attributable to (i) profit before income tax of US\$24.8 million, (ii) depreciation and depletion of US\$8.6 million, and (iii) decrease in inventory of US\$5.9 million, partially offset by (i) a decrease in accounts payable and accrued liabilities of US\$17.7 million, (ii) income tax paid of US\$7.9 million, and (iii) interest paid of US\$3.5 million.

For the six months ended June 30, 2013, net cash inflow from operating activities was US\$32.7 million which is primarily attributable to (i) profit before income tax of US\$45.5 million, (ii) depreciation and depletion of US\$16.3 million and (iii) finance cost of US\$5.1 million, partially offset by (i) income tax paid of US\$20.3 million, (ii) decrease in accounts payable and accrued liabilities of US\$12.6 million, and (iii) interest paid of US \$6.6 million.

**Investing cash flow**

For the three months ended June 30, 2013, net cash outflow from investing activities was US\$107.1 million, which is primarily attributable to the acquisition of property, plant and equipment of US\$125.4 million, partially offset by repayment of loan to CNG of US\$16.1 million and receipt of government grant of US\$1.8 million.

For the six months ended June 30, 2013, net cash outflow from investing activities was US\$217.6 million, which is primarily attributable to the payment of acquisition of property, plant and equipment of US\$230.8 million and deposit paid for acquisition of property, plant and equipment of US\$3.3 million, partially offset by an entrusted loan repayment from CNG of US\$16.1 million and receipt of government grant of US\$1.8 million.

**Financing cash flow**

For the three months ended June 30, 2013, net cash inflow from financing activities was US\$31.4 million, which is primarily attributable to proceeds from a bank loan of US\$50.9 million, partially offset by repayments of borrowings of US\$19.5 million.

For the six months ended June 30, 2013, net cash inflows from financing activities was US\$97.7 million, which is primarily attributable to proceeds from a bank loan of US\$120.6 million, partially offset by repayments of borrowings of US\$22.7 million.

*Gearing ratio*

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at June 30, 2013, the Company's total debt was US\$544 million and the total equity was US\$1,410 million. The Company's gearing ratio was therefore 0.39 as at June 30, 2013 and 0.34 as at June 30, 2012.

*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 ("ABC"), 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 ("BOC") 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Entrustment Loan Agreement*

On October 18, 2012, the Company entered into an entrustment loan agreement with CNG and the head office of ABC, pursuant to which Inner Mongolia Pacific provided an entrustment loan in the sum of RMB100 million (approximately US\$16 million) to CNG through ABC as the entrusted bank.

In May 2013, the loan principal and interest were repaid by CNG at maturity.

### *BOC Short-term loan*

On July 5, 2013, the Company entered into a loan agreement amounting to RMB400 million (equivalent to US\$65 million) with BOC. The loan matures in 36 months and carries interest of 4.17% per annum.

### *ABC Short-term loan*

On July 9 and July 10, 2013, the Company entered into two one-year loan agreements with ABC, with each agreement of RMB100 million (equivalent to US\$16 million). The loans carry interest at a floating rate based on the People's Bank of China base rate.

## 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 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 the payments for purchase of equipment and machinery for both mines and payments to third-party contractors for the 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 are not included in the Company's consolidated financial statements.

There were no significant changes in capital commitments and operating lease commitments between December 31, 2012 and June 30, 2013. The following table outlines principal payments on bank loans for the periods indicated:

	Payment Due by Period			
	Total	Within one year	Within two	Over five years
			to five years	
US\$'000	US\$'000	US\$'000	US\$'000	
Principal repayment of bank loans	314,919	114,482	200,437	–

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.

## RELATED PARTY TRANSACTIONS

CNG owned 39.3 percent of the outstanding common shares of the Company as at June 30, 2013 and December 31, 2012.

The Company had major 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 doré with CNG (the "2008 Contract") pursuant to which Inner Mongolia Pacific occasionally sold gold doré bars to CNG through to December 31, 2011. The pricing was based on 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 with CNG in order to regulate the sale and purchase of gold doré that was to be carried out between them for the three years ending December 31, 2012, 2013 and 2014, for the purpose of keeping the same pricing terms as the 2008 Contract.

Revenue from sales of gold doré bars to CNG decreased from US\$106.3 million for the six months ended June 30, 2012 to US\$90.3 million for the six months ended June 30, 2013. For the six months ended June 30, 2013, construction services of US\$137.2 million were provided to the Group by subsidiaries of CNG (US\$15.4 million for the six months ended June 30, 2012).

In addition to the aforementioned major related party transactions, the Company also obtains additional services from related parties in its normal course of business.

## PROPOSED TRANSACTIONS

The Board of Directors has given the Company approval to conduct reviews of a number of projects that may qualify as acquisition targets through joint venture, merger and/or outright acquisitions. The Group did not have any material acquisition and disposal of subsidiaries and associated companies in the six months ended June 30, 2013.

## 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 audited annual 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, 2012.

## 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, 2013.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company holds a number of financial instruments, the most significant of which are available-for-sale investments, accounts receivable, accounts payable, cash and loans. The financial instruments are recorded at either fair values or amortized amount on the balance sheet.

The Company did not have any derivatives as at June 30, 2013.

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

As at June 30, 2013, the Company had not entered into any 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, 2013 the Company had 396,358,753 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, 2013 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 June 30, 2013, 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.

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, 2013 and have concluded that these controls and procedures were effective as of June 30, 2013 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 six months ended June 30, 2013, 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 People's Republic of China 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).

## QUALIFIED PERSON

Disclosure of a scientific or technical nature in this section of the MD&A in respect of updates at the CSH Gold Project and Jiama project was prepared by or under the supervision of Mr. Songlin Zhang, a qualified person for the purposes of NI 43-101.

## ADDITIONAL STOCK EXCHANGE INFORMATION

Additional information required by the Hong Kong Stock Exchange in the half-year interim report 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, 2013.

### A2. SUBSTANTIAL SHAREHOLDERS

Except as disclosed below, as of June 30, 2013, 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, 2013, 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

Name	Position	Company	Number of shares held	Nature of interest	Approximate percentage of interest in the Company
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

Name	Position	Company	Number of stock options held to purchase shares
Ian He	Director	China Gold International Resources Corp. Ltd.	100,000
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 of June 30, 2013.

**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 to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Company. As of June 30, 2013, an aggregate of 495,000 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) on 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### A5. MOVEMENTS IN STOCK OPTIONS

The following table discloses movements in the Company's stock options during the six months ended June 30, 2013:

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	140,000	Nil	40,000	Nil	Nil	100,000 <sup>(1)</sup>
Yunfei Chen	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(1)</sup>
Gregory Hall	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(1)</sup>
John King Burns	Director	100,000	Nil	Nil	Nil	Nil	100,000 <sup>(1)</sup>
Xiangdong Jiang	Director and Vice President of Production	80,000	Nil	Nil	Nil	Nil	80,000 <sup>(2)</sup>
Total for directors and senior executives		52,000	Nil	40,000	Nil	Nil	Nil <sup>(3)</sup>
Total for other stock option holders		20,000	Nil	Nil	Nil	5,000	15,000 <sup>(3)</sup>
<b>TOTAL</b>		<b>540,000</b>	<b>Nil</b>	<b>40,000</b>	<b>Nil</b>	<b>5,000</b>	<b>495,000</b>

Notes:

1. 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.
2. 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.
3. Consists of 15,000 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, 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 and 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, 2013 the Company had 1,280 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".

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

The Company has, throughout the six months ended June 30, 2013, 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 Corporate Governance Code 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, 2013.

### **A9. INTERIM DIVIDENDS**

The Board did not recommend the payment of interim dividends in respect to the six months ended June 30, 2013.

### **A10. AUDIT COMMITTEE**

Pursuant to the requirements under the Hong Kong Listing Rules, the Company has established an audit committee (the "Audit Committee") comprised of 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, 2013.

August 14, 2013

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Six Months Ended June 30, 2013

	NOTES	Three months ended June 30,		Six months ended June 30,	
		2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Revenues	14	81,622	76,485	158,368	154,063
Cost of sales		(53,809)	(49,897)	(101,265)	(102,062)
Mine operating earnings		27,813	26,588	57,103	52,001
Expenses					
General and administrative expenses	3	(5,665)	(5,311)	(12,822)	(11,149)
Exploration and evaluation expenditure		(50)	(124)	(119)	(182)
		(5,715)	(5,435)	(12,941)	(11,331)
Income from operations		22,098	21,153	44,162	40,670
Other income (expenses)					
Foreign exchange gain (loss)		684	(1,125)	836	(961)
Interest and other income		4,487	1,576	5,599	4,759
Finance costs	4	(2,500)	(3,416)	(5,073)	(6,239)
		2,671	(2,965)	1,362	(2,441)
Profit before income tax		24,769	18,188	45,524	38,229
Income tax expense	5	(5,208)	(5,564)	(10,884)	(12,149)
Profit for the period		19,561	12,624	34,640	26,080
Other comprehensive income (loss) for the period					
<i>Items that may be reclassified   subsequently to profit or loss:</i>					
Exchange difference arising on translation		3,439	(1,216)	3,931	(1,325)
Fair value gain on available-for-sale investment		3,021	–	4,262	–
Income tax relating to the gain on available-for-sale investment		(603)	–	(603)	–
Total comprehensive income for the period		25,418	11,408	42,230	24,755
Profit for the period attributable to					
Non-controlling interests		630	473	1,198	987
Owners of the Company		18,931	12,151	33,442	25,093
		19,561	12,624	34,640	26,080
Total comprehensive income for the period attributable to					
Non-controlling interests		636	471	1,205	984
Owners of the Company		24,782	10,937	41,025	23,771
		25,418	11,408	42,230	24,755
Basic earnings per share	6	4.78 cents	3.07 cents	8.44 cents	6.33 cents
Diluted earnings per share	6	4.78 cents	3.07 cents	8.44 cents	6.33 cents
Basic weighted average number of common shares outstanding	6	396,358,753	396,267,709	396,356,764	396,215,731
Diluted weighted average number of common shares outstanding	6	396,382,581	396,350,031	396,388,613	396,316,456

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2013

	NOTES	June 30, 2013 US\$'000	December 31, 2012 US\$'000 (audited)
<b>Current assets</b>			
Cash and cash equivalents		96,332	181,740
Accounts receivable	7	3,789	3,380
Prepaid expenses, deposits and other receivables		8,616	10,270
Entrusted loan receivable		—	16,052
Prepaid lease payments		231	194
Inventory	8	41,273	38,450
		<u>150,241</u>	<u>250,086</u>
<b>Non-current assets</b>			
Prepaid expense, deposits and other receivables		49,491	45,727
Prepaid lease payments		8,359	6,626
Inventory	8	6,003	10,005
Deferred tax assets		10,325	7,100
Available-for-sale investments		25,646	21,373
Property, plant and equipment	9	758,138	517,115
Mining rights		945,712	948,232
		<u>1,803,674</u>	<u>1,556,178</u>
<b>Total assets</b>		<u>1,953,915</u>	<u>1,806,264</u>
<b>Current liabilities</b>			
Accounts payable and accrued expenses	10	82,129	75,073
Borrowings	11	114,482	72,234
Tax liabilities		7,239	12,193
		<u>203,850</u>	<u>159,500</u>
<b>Net current (liabilities) assets</b>		<u>(53,609)</u>	<u>90,586</u>
<b>Total assets less current liabilities</b>		<u>1,750,065</u>	<u>1,646,764</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2013

	NOTES	June 30, 2013 US\$'000	December 31, 2012 US\$'000 (audited)
<b>Non-current liabilities</b>			
Borrowings	11	200,437	140,695
Deferred tax liabilities		130,064	130,659
Deferred income		2,503	803
Environmental rehabilitation		7,128	6,813
		<u>340,132</u>	<u>278,970</u>
<b>Total liabilities</b>		<u>543,982</u>	<u>438,470</u>
<b>Owners' equity</b>			
Share capital	12	1,228,873	1,228,731
Equity reserves		31,320	23,761
Retained profits		140,608	107,166
		<u>1,400,801</u>	<u>1,359,658</u>
Non-controlling interests		9,132	8,136
<b>Total owners' equity</b>		<u>1,409,933</u>	<u>1,367,794</u>
<b>Total liabilities and owners' equity</b>		<u>1,953,915</u>	<u>1,806,264</u>

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on August 14, 2013 and are signed on its behalf by:

(Signed by) Xin Song

Xin Song  
Director

(Signed by) Zhanming Wu

Zhanming Wu  
Director

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At June 30, 2013

	Attributable to owners of the Company							Non-controlling interests	Total owners' equity	
	Number of shares	Share capital	Equity reserve	Investment revaluation reserve	Exchange reserve	Statutory reserve	Retained profits			
	US\$'000	US\$'000 (note a)	US\$'000	US\$'000	US\$'000	US\$'000 (note b)	US\$'000	US\$'000	US\$'000	
At January 1, 2012 (audited)	396,163,753	1,228,184	11,354	–	5,097	–	40,161	1,284,796	5,736	1,290,532
Profit for the period	–	–	–	–	–	–	25,093	25,093	987	26,080
Exchange difference arising on translation	–	–	–	–	(1,322)	–	–	(1,322)	(3)	(1,325)
Total comprehensive income (loss) for the period	–	–	–	–	(1,322)	–	25,093	23,771	984	24,755
Exercise of stock options	110,000	387	(146)	–	–	–	–	241	–	241
Share-based compensation	–	–	70	–	–	–	–	70	–	70
Dividends paid to a non-controlling shareholder	–	–	–	–	–	–	–	–	(185)	(185)
At June 30, 2012 (unaudited)	396,273,753	1,228,571	11,278	–	3,775	–	65,254	1,308,878	6,535	1,315,413
At January 1, 2013 (audited)	396,318,753	1,228,731	11,251	559	8,018	3,933	107,166	1,359,658	8,136	1,367,794
Profit for the period	–	–	–	–	–	–	33,442	33,442	1,198	34,640
Fair value gain on available-for-sale investment	–	–	–	3,659	–	–	–	3,659	–	3,659
Exchange difference arising on translation	–	–	–	–	3,924	–	–	3,924	7	3,931
Total comprehensive income for the period	–	–	–	3,659	3,924	–	33,442	41,025	1,205	42,230
Exercise of stock options	40,000	142	(53)	–	–	–	–	89	–	89
Share-based compensation	–	–	29	–	–	–	–	29	–	29
Dividends paid to a non-controlling shareholder	–	–	–	–	–	–	–	–	(209)	(209)
<b>At June 30, 2013 (unaudited)</b>	<b>396,358,753</b>	<b>1,228,873</b>	<b>11,227</b>	<b>4,218</b>	<b>11,942</b>	<b>3,933</b>	<b>140,608</b>	<b>1,400,801</b>	<b>9,132</b>	<b>1,409,933</b>

Notes:

- 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.
- Statutory reserve which consists of appropriations from the profit after taxation of the subsidiaries established in the People's Republic of China ("PRC"), forms part of the equity of PRC subsidiaries. In accordance with the PRC Company Law and the Articles of Association of the PRC subsidiaries, the PRC subsidiaries are required to appropriate an amount equal to minimum of 10% of their profits after taxation each year to a statutory reserve.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended June 30, 2013

	Three months ended		Six months ended	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
<b>Net cash from operating activities</b>	<u>16,414</u>	<u>54,206</u>	<u>32,739</u>	<u>20,463</u>
<b>Net cash used in investing activities</b>				
Acquisition of available-for-sale investment	–	(20,011)	–	(20,011)
Payment for acquisition of property, plant and equipment	(125,438)	(15,527)	(230,764)	(26,943)
Deposit paid for acquisition of property, plant and equipment	–	(3)	(3,313)	(248)
Receipt of deferred consideration from disposal of a mining project to a related company	–	–	–	1,398
Settlement of deferred consideration from disposal of a mining project to a related company	–	–	–	(671)
Payments for acquisition of land use rights	–	–	(1,809)	–
Interest received from entrusted loan from a substantial shareholder	452	–	452	–
Receipt of government grants	1,831	–	1,831	–
Repayment of entrusted loan from a substantial shareholder	<u>16,052</u>	<u>–</u>	<u>16,052</u>	<u>–</u>
	<u>(107,103)</u>	<u>(35,541)</u>	<u>(217,551)</u>	<u>(46,475)</u>
<b>Net cash (used in) from financing activities</b>				
Repayments of borrowings	(19,496)	(3,164)	(22,710)	(3,164)
Proceeds from borrowings	50,902	–	120,561	7,488
Deemed capital contribution from a shareholder through settlement of listing fee	–	–	–	2,736
Dividends paid to a non-controlling shareholder	–	–	(209)	(185)
Issuance of common shares upon exercise of stock options	–	241	89	241
	<u>31,406</u>	<u>(2,923)</u>	<u>97,731</u>	<u>7,116</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(59,283)</b>	<b>15,742</b>	<b>(87,081)</b>	<b>(18,896)</b>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>	<b>1,393</b>	<b>(1,270)</b>	<b>1,673</b>	<b>(1,528)</b>
<b>Cash and cash equivalents, beginning</b>	<u>154,222</u>	<u>319,417</u>	<u>181,740</u>	<u>354,313</u>
<b>Cash and cash equivalents, end of period</b>	<u>96,332</u>	<u>333,889</u>	<u>96,332</u>	<u>333,889</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

## 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 reserves 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 also the functional currency of the Company.

The Group had net current liabilities of approximately US\$53.6 million as at June 30, 2013, of which current liabilities of approximately US\$114.5 million were attributable to bank borrowings due within one year. Taking into account the Group’s cash flow projection, including the Group’s unutilised banking facilities, the Group’s ability to renew or refinance the banking facilities upon maturity and the Group’s future capital expenditure in respect of its non-cancellable capital commitments, the Group considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the financial statements have been prepared on a going concern basis.

## 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, 2013 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2012.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

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

In the current interim period, the Group has applied the following new and revised standards, interpretation and amendments (“new and revised IFRS”) which are mandatorily effective for the current interim period:

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 19 (Revised 2011 )	Employee Benefits
IAS 27 (Revised 2011 )	Separate Financial Statements
IAS 28 (Revised 2011 )	Investments in Associates and Joint Ventures
Amendments to IAS 1	Presentation of Items of Other Comprehensive income
IFRIC 20	Stripping costs in the Production Phase of a Surface Mine

### Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

Under the amendments to IAS 1, a ‘statement of comprehensive income’ is renamed as a ‘statement of profit or loss and other comprehensive income’. In addition, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments have been applied retrospectively. The Group has renamed its condensed consolidated statement of comprehensive income to condensed consolidated statement of profit or loss and other comprehensive income and the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### IFRS 13 Fair Value Measurement

IFRS 13 Fair Value Measurement establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for ‘fair value’ and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 15.

The application of the other new and revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosure set out in these condensed consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

## 3. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Administration and office	2,129	1,773	4,987	3,947
Professional fees	493	692	1,361	1,400
Salaries and benefits	2,452	2,064	4,827	4,163
Depreciation of property, plant and equipment	320	286	628	559
Others	271	496	1,019	1,080
	<u>5,665</u>	<u>5,311</u>	<u>12,822</u>	<u>11,149</u>

## 4. FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Effective interest on borrowings wholly repayable within 5 years	3,480	3,213	6,600	5,915
Accretion on environmental rehabilitation	198	203	361	324
	<u>3,678</u>	<u>3,416</u>	<u>6,961</u>	<u>6,239</u>
Less: Amount capitalised to property, plant and equipment	<u>(1,178)</u>	<u>–</u>	<u>(1,888)</u>	<u>–</u>
	<u>2,500</u>	<u>3,416</u>	<u>5,073</u>	<u>6,239</u>

## 5. INCOME TAX EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
PRC Enterprise Income Tax	8,906	8,300	15,307	15,506
Deferred tax credits	<u>(3,698)</u>	<u>(2,736)</u>	<u>(4,423)</u>	<u>(3,357)</u>
Total income tax expense	<u>5,208</u>	<u>5,564</u>	<u>10,884</u>	<u>12,149</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

### 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,	
	2013	2012	2013	2012
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share (US\$'000)	<u>18,931</u>	<u>12,151</u>	<u>33,442</u>	<u>25,093</u>
Weighted average number of shares, basic	<u>396,358,753</u>	<u>396,267,709</u>	<u>396,356,764</u>	<u>396,215,731</u>
Dilutive securities – Stock options	<u>23,828</u>	<u>82,322</u>	<u>31,849</u>	<u>100,725</u>
Weighted average number of shares, diluted	<u>396,382,581</u>	<u>396,350,031</u>	<u>396,388,613</u>	<u>396,316,456</u>
Basic EPS (US\$ cents)	<u>4.78</u>	<u>3.07</u>	<u>8.44</u>	<u>6.33</u>
Diluted EPS (US\$ cents)	<u>4.78</u>	<u>3.07</u>	<u>8.44</u>	<u>6.33</u>

### 7. ACCOUNTS RECEIVABLE

	June 30, 2013 US\$'000	December 31, 2012 US\$'000
Trade receivables	395	1,234
Less: allowance for doubtful debts	<u>(50)</u>	<u>(50)</u>
	345	1,184
Amounts due from related companies	2,318	1,354
Other receivables	<u>1,126</u>	<u>842</u>
Total accounts receivable	<u>3,789</u>	<u>3,380</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

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

The Group allows an average credit period ranging from 90 days to 180 days to its trade customers for gold doré bars sales and copper sales, respectively.

Below is an aged analysis of trade receivables presented based on invoice date, which approximated the respecting revenue recognition dates, at the end of the reporting period:

	June 30, 2013 US\$'000	December 31, 2012 US\$'000
Less than 30 days	87	372
31 to 90 days	108	343
91 to 180 days	88	249
Over 180 days	62	220
	<u>345</u>	<u>1,184</u>

### 8. INVENTORY

	June 30, 2013 US\$'000	December 31, 2012 US\$'000
Gold in process	27,214	26,192
Gold doré bars	3,045	4,127
Consumables	6,076	7,677
Copper concentrates	3,893	5,004
Spare parts	7,048	5,455
	<u>47,276</u>	<u>48,455</u>
Total inventory	47,276	48,455
Less: Amounts expected to be recovered after 12 months (note) (shown under non-current assets)	<u>(6,003)</u>	<u>(10,005)</u>
Amounts shown under current assets	<u>41,273</u>	<u>38,450</u>

Note: Management has taken into consideration the long-term process involved in recovering gold from a heap leaching system and classified 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\$51,974,000 and US\$98,013,000 for the three and six months ended June 30, 2013 (US\$45,398,000 and US\$93,842,000 for the three and six months ended June 30, 2012), respectively, was recognized in cost of sales.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

### 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2013, the Group incurred approximately US\$200.9 million on construction in progress (six months ended June 30, 2012: approximately US\$15.7 million) and approximately US\$43.7 million on mineral assets (six months ended June 30, 2012: approximately US\$9.1 million), respectively.

Depreciation of property, plant and equipment was US\$8.6 million and US\$16.3 million (for the three and six months ended June 30, 2012: US\$6.4 million and US\$12.6 million) for the three and six months ended June 30, 2013. The depreciation amount was partly recognised in cost of sales and general and administrative expenses and partly capitalised in inventory.

### 10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses comprise the following:

	June 30, 2013 US\$'000	December 31, 2012 US\$'000
Accounts payable	12,802	18,837
Construction cost payables	31,536	27,697
Advances from customers	1,408	6,221
Mining cost accrual	8,982	3,747
Payroll and benefit accruals	2,661	4,631
Other accruals	2,486	1,643
Other tax payables	2,208	6,803
Other payables to CNG	16,296	–
Other payables	3,750	5,494
	<u>82,129</u>	<u>75,073</u>

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

	June 30, 2013 US\$'000	December 31, 2012 US\$'000
Less than 30 days	7,849	9,872
31 to 90 days	1,269	3,944
91 to 180 days	1,012	244
Over 180 days	2,672	4,777
	<u>12,802</u>	<u>18,837</u>
Total accounts payable	<u>12,802</u>	<u>18,837</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

## 11. BORROWINGS

	Effective interest rate		Repayment date <sup>(3)</sup>	June 30,	December 31,
	For six months ended June 30, 2013	For the year ended December 31, 2012		2013	2012
	%	%		US\$'000	US\$'000
<b>Current</b>					
Current portion of long-term loan – Agricultural Bank of China (“ABC”) <sup>(1)</sup>	6.08	6.28	September 9, 2013	13,037	16,052
Current portion of long-term loan – Bank of China (“BOC”)	4.57	5.00	December 28, 2013	24,444	24,078
Syndicated loan	4.82	4.82	June 4, 2014	24,444	16,052
Current portion of long-term loan – China Construction Bank (“CCB”)	4.17	4.17	November 9, 2013	16,296	16,052
Bank loan – Industrial and Commercial Bank of China	4.02	–	January 27, 2014	8,148	–
Bank loan – China Development Bank	4.02	–	February 28, 2014	24,853	–
Current portion of long-term loan – Agricultural Bank of China (“ABC”) <sup>(2)</sup>	4.17	–	June 25, 2014	3,260	–
				<u>114,482</u>	<u>72,234</u>
<b>Non-current</b>					
Long-term loan – ABC <sup>(1)</sup>	6.08	6.28	September 9, 2014	4,889	8,026
Long-term loan – BOC	4.57	5.00	December 28, 2014	24,444	24,078
Syndicated loan	4.82	4.82	June 4, 2015 to June 4, 2016	81,478	104,337
Long-term loan – CCB	4.17	4.17	November 9, 2014	48,887	4,254
Long-term loan – ABC <sup>(2)</sup>	4.17	–	December 25, 2014	40,739	–
				<u>200,437</u>	<u>140,695</u>
				<u>314,919</u>	<u>212,929</u>

Note:

- (1) The loan was obtained by Inner Mongolia Pacific Mining Co. Ltd., a subsidiary of the Company.
- (2) The loan was obtained by Tibet Huatailong Mining Development Co. Ltd., a subsidiary of the Company.
- (3) The dates represent repayment schedules for current and non-current portions of each bank loan as at June 30, 2013.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

### 12. SHARE CAPITAL, OPTIONS AND WARRANTS

#### (a) Common shares

Authorized – Unlimited common shares without par value

Issued and outstanding – 396,358,753 (December 31, 2012: 396,318,753) common shares at June 30, 2013

#### (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 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 approval by the board of directors.

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

	January 1, 2013 to June 30, 2013		January 1, 2012 to December 31, 2012	
	Weighted average Number of options	Weighted average exercise price CAD	Number of options	exercise price CAD
Balance, beginning of period	540,000	4.62	695,000	3.98
Options exercised	(40,000)	2.20	(155,000)	2.18
Options expired	(5,000)	2.20	–	–
Balance, end of period/year	<u>495,000</u>	<u>4.91</u>	<u>540,000</u>	<u>4.62</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For The Six Months Ended June 30, 2013*

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

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

No stock options were granted during the six months ended June 30, 2013 and the year ended December 31, 2012.

The following table summarizes information about stock options outstanding and exercisable at June 30, 2013.

Expiring in	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2013	Remaining contractual life (years)	Weighted average exercise price CAD	Number exercisable at June 30, 2013	Weighted average exercise price CAD
2013	95,000	0.05	2.20	95,000	2.20
2015	<u>400,000</u>	1.92	<u>5.56</u>	<u>320,000</u>	<u>5.43</u>
	<u>495,000</u>		<u>4.91</u>	<u>415,000</u>	<u>4.69</u>

The following table summarizes information about stock options outstanding and exercisable at December 31, 2012:

Expiring in	Options outstanding			Options exercisable	
	Number of stock options	Remaining contractual life (years)	Weighted average exercise price CAD	Number exercisable at December 31, 2012	Weighted average exercise price CAD
2013	140,000	0.55	2.20	140,000	2.20
2015	<u>400,000</u>	2.42	<u>5.47</u>	<u>240,000</u>	<u>5.21</u>
	<u>540,000</u>		<u>4.62</u>	<u>380,000</u>	<u>4.10</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

### 13. 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 State-owned Assets Supervision and Administration Commission of the State Council 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, 2013 %	December 31, 2012 %
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,	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Gold doré bar sales by the Group	<u>45,034</u>	<u>53,298</u>	<u>90,334</u>	<u>106,271</u>
Provision of transportation services by the Group	<u>1,514</u>	<u>306</u>	<u>1,514</u>	<u>665</u>
Construction services provided to the Group	<u>70,754</u>	<u>5,826</u>	<u>137,237</u>	<u>15,422</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

## 13. 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, 2013 US\$'000	December 31, 2012 US\$'000
<b>Assets</b>		
Entrusted loan receivable from CNG	–	16,052
Other receivables	<u>2,447</u>	<u>1,929</u>
Total amounts due from CNG and its subsidiaries	<u>2,447</u>	<u>17,981</u>

With the exception of the Entrusted loan, the amounts due from CNG and its subsidiaries, which are included in accounts receivables, are non-interest bearing, unsecured and have no fixed terms of repayment.

	June 30, 2013 US\$'000	December 31, 2012 US\$'000
<b>Liabilities</b>		
Accounts payable to CNG's subsidiaries	489	–
Other payables to CNG	<u>16,296</u>	<u>–</u>
Total amounts due to CNG and its subsidiaries	<u>16,785</u>	<u>–</u>

The amounts due to CNG and its subsidiaries, which are included in accounts payable and accrued expenses, are non-interest bearing, unsecured and have no fixed terms of repayment.

#### (ii) Transactions/balances with other Government-related entities in the PRC

Apart from the transactions with CNG and its subsidiaries disclosed above, the Group has also entered into various transactions, including bank deposits, borrowings and other general banking facilities with other Government-related entities in its ordinary course of business. Over 95% (2012: over 86%) of its bank deposits and borrowings are with Government-related entities.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2013

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

#### (b) Transactions/balances with related parties other than Government-related entities

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

<b>Asset</b>	<b>June 30, 2013 US\$'000</b>	<b>December 31, 2012 US\$'000</b>
Amount due from a non-controlling shareholder of a subsidiary (included in other receivables)	<u>429</u>	<u>423</u>

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

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
Salaries and other benefits	249	119	382	240
Post employment benefits	4	–	9	5
	<u>253</u>	<u>119</u>	<u>391</u>	<u>245</u>

### 14. SEGMENT INFORMATION

IFRS 8 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.

- (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 doré 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, 2013*

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

#### (a) Segment revenue and results

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

#### For the six months ended June 30, 2013

	Mine- produced gold US\$'000	Mine- produced copper US\$'000	Segment total and consolidated US\$'000
REVENUE – EXTERNAL	<u>93,636</u>	<u>64,732</u>	<u>158,368</u>
SEGMENT PROFIT	<u>34,819</u>	<u>22,284</u>	57,103
General and administrative expenses			(12,822)
Exploration and evaluation expenditure			(119)
Foreign exchange gain			836
Interest and other income			5,599
Finance costs			<u>(5,073)</u>
Profit before income tax			<u>45,524</u>

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

	Mine- produced gold US\$'000	Mine- produced copper US\$'000	Segment total and consolidated US\$'000
REVENUE – EXTERNAL	<u>107,739</u>	<u>46,324</u>	<u>154,063</u>
SEGMENT PROFIT	<u>46,205</u>	<u>5,796</u>	52,001
General and administrative expenses			(11,149)
Exploration and evaluation expenditure			(182)
Foreign exchange loss			(961)
Interest and other income			4,759
Finance costs			<u>(6,239)</u>
Profit before income tax			<u>38,229</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 revenue less direct cost of sales as shown on the condensed consolidated statement of profit or loss and other 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, 2013

## 14. SEGMENT INFORMATION (Cont'd)

### (a) Segment revenue and results (Cont'd)

There were no inter-segment sales for the three and six months ended June 30, 2013 and 2012.

As of June 30, 2013, the total assets of Mine-produced gold and Mine-produced copper reportable segments are approximately US\$346.7 million and US\$1,475 million, respectively (2012: US\$261.4 million and US\$1,335 million, respectively).

As of June 30, 2013, the total liabilities of Mine-produced gold and Mine-produced copper reportable segments are US\$46.3 million and US\$40.5 million, respectively (2012: US\$38.2 million and US\$54.9 million, respectively).

## 15. FINANCIAL INSTRUMENTS

As at June 30, 2013 and December 31, 2012, the Group's available-for-sale investment include investment in equity securities listed in Hong Kong and investment in an unlisted company incorporated in the PRC.

Subsequent to initial recognition at fair value, investment in equity securities listed on the Stock Exchange is measured from quoted price (unadjusted) in active market (Level 1 fair value measurement). As at June 30, 2013, US\$24,832,000 (December 31, 2012: US\$20,570,000) investment in listed equity securities is measured at fair value on a recurring basis. The Group's investment in listed equity securities represent investment in a company engaged in mining, processing and trading of nonferrous metals in the PRC. For the six months ended June 30, 2013, the fair value increase of US\$4,262,000 was recorded in other comprehensive income.

As at June 30, 2013, US\$814,000 (December 31, 2012: US\$803,000) investment in an unlisted company incorporated in the PRC is measured at cost since the investment in unlisted equity instrument does not have a quoted market price and the fair value cannot be measured reliably.

Fair value hierarchy has been defined in the Group's consolidated financial statements for the year ended December 31, 2012. There was no transfer between Levels 1, 2 and 3 in the current and prior periods.

## 16. CONTINGENT LIABILITIES

During the year ended December 31, 2012, the Company received a notice from China International Economic and Trade Arbitration Commission (the "Commission") alleging that the Company breached the agreement with one of its construction suppliers. The Company filed a countersuit against the construction suppliers to the Commission for the unsatisfactory result of the construction and the destruction of certain plant, property and equipment. As a result, the Commission assigned a third party expert for evaluation of the validity of the claims made by both parties. As of the date of the report, the evaluation is still in progress, and therefore, the management considers the arbitration to be in a preliminary stage and the potential loss cannot be measured reliably.

## 17. EVENTS AFTER THE REPORTING PERIOD

On July 5, 2013, the Group entered into a three-year loan agreement with BOC. Pursuant to the loan agreement, BOC agreed to provide a loan to the Group in the amount of RMB400 million (equivalent to US\$64 million). The loan is unsecured and carries interest at a fixed rate of 4.17% during the first year of the loan period. The interest rate is subject to an annual review with reference to the People's Bank of China base rate.

On July 9 and July 10, 2013, the Group entered into two one-year loan agreements with ABC. Pursuant to the loan agreements, ABC agreed to provide two loans to the Group in the amounts of RMB100 million (equivalent to US\$16 million) each and the entire loans have been drawn down on July 9 and July 10, 2013, respectively. The loans are unsecured and carry interest at a floating rate based on the People's Bank of China base rate.



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