



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

(Incorporated in British Columbia, Canada with limited liability)

HK Stock Exchange Stock Code: 2099

Toronto Stock Exchange Stock Code: CGG



2014 Interim Report

MANAGEMENT'S DISCUSSION AND ANALYSIS

*Management's Discussion and Analysis of Financial Condition and Results of Operations for the six month ended June 30, 2014
(Stated in U.S. dollars, except as otherwise noted)*

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis of financial condition and results of operations ("MD&A") is prepared as of August 14, 2014. 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, 2014 and the six months ended June 30, 2013, respectively. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries collectively on a consolidated basis.

The following discussion contains certain forward-looking statements relating to the Company's plans, objectives, expectations and intentions, which are based on the Company's current expectations and are subject to risks, uncertainties and changes in circumstances. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties outlined further in the Company's Annual Information Form ("Annual Information Form" or "AIF") dated March 25, 2014 on SEDAR at 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, exploration, development and exploitation 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. The CSH Mine commenced commercial production on July 1, 2008. The Company holds a 100% interest in the Jiama Mine. Jiama hosts a large scale polymetallic deposit containing 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 as well as Hong Kong Exchange News at hkexnews.hk.

Performance Highlights

Three months ended June 30, 2014

- Revenue decreased by 41% to US\$48.5 million from US\$81.6 million for the same period in 2013;
- Net profit after income taxes decreased by 57% to US\$8.4 million from US\$19.6 million for the same period in 2013.
- Gold production from the CSH Mine decreased by 23% to 24,571 ounces from 32,111 ounces for the same period in 2013.
- Copper production from the Jiama Mine increased by 25% to 4,376 tonnes (approximately 9.6 million pounds) from 3,493 tonnes (approximately 7.7 million pounds) for the same period in 2013.

Six months ended June 30, 2014

- Revenue decreased by 46% to US\$85.2 million from US\$158.4 million for the same period in 2013;
- Net profit after income taxes decreased by 72% to US\$9.8 million from US\$34.6 million for the same period in 2013.
- Gold production from the CSH Mine decreased by 20% to 51,689 ounces from 64,274 ounces for the same period in 2013.
- Copper production from the Jiama Mine decreased by 23% to 5,087 tonnes (approximately 11.2 million pounds) from 6,576 tonnes (approximately 14.5 million pounds) for the same period in 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

- On May 15, 2014, the Company reported expected 2014 annual gold production guidance to be 208,000 ounces. The Company revises this 2014 annual gold production guidance to 165,000 ounces. This is an 11% increase from the 2013 actual gold output of 148,326 ounces of gold. The revision of the forecast is due to the longer commissioning period of the expansion at CSH, caused by repair and reinforcement of the heap leach pad. In addition, the revision is in consideration of the longer gold recovery period due to the increased heap leach height which resulted in reduced gold production in the first half of 2014. The Company has sufficient funding and operational and technical expertise to successfully resolve those challenges.
- In the first half of 2014 the Company had reported that its ongoing initiatives to increase production, productivity and efficiency at the Jiama Mine were expected to enable it to meet its previously mentioned 2014 production guidance of approximately 50 million pounds of copper. The Company revises its 2014 expected copper production guidance to 28.6 million pounds, which is a slight increase from the 2013 actual copper output of 28.3 million pounds. This revision is due to the reduced production in the first quarter of 2014, as Jiama experienced power supply shortages. In addition, the revision is in consideration of expected lower recovery rate from the high oxide ore from the south pit during the second half of 2014, uncertainties relating to power supply shortage in the fourth quarter and duration of the commissioning period of the Phase II expansion.
- The Company will continue to leverage the technical and operating experience of the Company's controlling shareholder, China National Gold Group Corporation ("CNG"), to improve operations at 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 expansion potential through continued exploration.
- On July 17, 2014, the Company completed a bond issuance with an aggregate principal amount of US\$500 million at an issue price of 99.634%. The three year bond has a coupon rate of 3.5% with a maturity date of July 17, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Selected Quarterly Financial Data

QUARTER ENDED	2014		2013			2012		
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
(US\$ in thousands except per share)								
Revenues	48,541	36,659	68,507	75,733	81,622	76,746	93,387	84,938
Cost of sales	29,084	22,285	50,990	48,478	53,809	47,456	54,190	51,207
Mine operating earnings	19,457	14,374	17,517	27,255	27,813	29,290	39,197	33,731
General and administrative expenses	5,892	6,015	5,471	7,410	5,665	7,157	7,880	6,020
Exploration and evaluation expenses	53	45	83	45	50	69	149	59
Income from operations	13,512	8,314	11,962	19,800	22,098	22,064	31,168	27,652
Foreign exchange gain (loss)	182	752	(216)	894	684	152	(844)	1,976
Finance costs	3,781	3,398	2,916	2,665	2,500	2,573	3,230	3,080
Profit before income tax	11,147	5,863	8,861	19,162	24,769	20,755	28,545	32,903
Income tax expense	2,759	4,498	2,202	3,279	5,208	5,676	7,506	6,508
Net income	8,388	1,365	6,659	15,883	19,561	15,079	21,039	26,395
Basic earnings per share (cents)	1.93	0.29	1.60	3.84	4.78	3.66	5.13	6.44
Diluted earnings per share (cents)	1.93	0.29	1.60	3.84	4.78	3.66	5.13	6.44

Selected Quarterly Production Data and Analysis

CSH Mine	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Gold sales (US\$ million)	27.74	46.20	59.33	93.60
Realized average price ⁽¹⁾ (US\$) of gold per ounce	1,235	1,344	1,254	1,452
Gold produced (ounces)	24,571	32,111	51,689	64,274
Gold sold (ounces)	22,467	34,364	47,297	64,461
Total production cost ⁽²⁾ (US\$ per ounce)	733	877	759	912
Cash production cost ⁽²⁾ (US\$ per ounce)	446	734	519	770

(1) Net of resource compensation fees that is based on revenue and paid to PRC government

(2) Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

Gold production at the CSH Mine decreased by 23% from 32,111 ounces for the three months ended June 30, 2013 to 24,571 ounces for the three months ended June 30, 2014. The major reasons for the decrease in production are an increased height of the leaching heap leading to a longer gold recovery period.

The cash production cost, and total production cost of gold for the three months ended June 30, 2014 both decreased compared with the same period in 2013. The major reason is lower processing and waste rock removal costs during the current quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Jiama Mine	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Copper sales ⁽¹⁾ (million US\$)	14.89	26.97	18.78	50.49
Realized average price ⁽²⁾ (US\$ per pound of copper) after smelting fee discount	2.40	2.74	2.55	2.88
Copper produced (tonne)	4,376	3,493	5,087	6,576
Copper produced (pound)	9,646,650	7,700,575	11,215,140	14,498,013
Copper sold (tonne)	2,794	3,810	3,356	6,839
Copper sold (pound)	6,158,932	8,399,073	7,397,630	15,077,771
Gold produced (ounce)	5,590	4,789	6,335	8,128
Gold sold (ounce)	3,762	4,886	4,458	8,325
Silver produced (ounce)	332,129	274,316	377,972	539,590
Silver sold (ounce)	204,533	288,329	242,129	533,447
Total copper production cost ⁽³⁾ (US\$ per pound)	2.87	3.56	3.33	3.68
Total copper production cost ⁽³⁾ (US\$ per pound after by-products credits ⁽⁴⁾)	1.78	2.11	2.21	2.25
Cash copper production cost ⁽⁴⁾ (US\$ per pound)	2.18	3.00	2.25	3.01
Cash copper production cost ⁽⁴⁾ (US\$ per pound after by-products credits ⁽⁴⁾)	1.09	1.55	1.12	1.59

(1) Net of resource compensation fees that is based on revenue and paid to PRC government

(2) a discount factor of 15-17% is applied to the copper bench mark price to compensate the refinery costs incurred by the buyers

(3) 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.

(4) Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

During the three months ended June 30, 2014, the Jiama Mine produced 4,376 tonnes (approximately 9.6 million pounds) of copper, an increase of 25% compared with the three months ended June 30, 2013 (3,493 tonnes, or 7.7 million pounds). The increase in production was mainly due to higher grade ores are mined during the current period.

The cash production cost of copper per pound, and the total production cost of copper per pound both decreased due to the increase in the grade of ores during the current period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Review of Quarterly Data

Three months ended June 30, 2014 compared to three months ended June 30, 2013

Revenue of US\$48.5 million for the second quarter of 2014 decreased by US\$33.1 million, from US\$81.6 million for the same period in 2013.

Revenue from the CSH Mine was US\$28.1 million (2013: US\$46.2 million), a decrease of US\$18.1 million, due to a 35% decrease in gold sales volume and significantly lower gold prices. Gold produced by the CSH Mine was 24,571 ounces (gold sold: 22,467), compared to 32,111 ounces (gold sold: 34,363 ounces) for the same period in 2013. Despite the higher grade of ore, gold output decreased from the comparative period due to lower recovery rates as a result of a longer leaching time with an increased height of the leaching heap.

Revenue from the Jiama Mine was US\$20.4 million compared to US\$35.4 million for the same period in 2013. Total copper sold was 2,794 tonnes (6.16 million pounds) for the three months ended June 30, 2014, a decrease of 27% from 3,810 tonnes (8.4 million pounds) for the same period in 2013 primarily due to changes in market demand. During the three month period, the Company was stockpiling the copper concentrate until market demand improves.

Cost of sales of US\$29.1 million for the quarter ended June 30, 2014, a decrease of US\$24.7 million from US\$53.8 million for the same period in 2013. CSH contributed to 55% of the decrease in cost of sales, primarily due to lower production volume and reduced processing costs. Jiama contributed to 45% of the decrease in cost of sales. Cost of sales as a percentage of revenue for the Company decreased to 60% from 66% for the three months ended June 30, 2014 compared to 2013.

Mine operating earnings of US\$19.5 million for the three months ended June 30, 2014 a decrease of 30%, or US\$8.3 million, from US\$27.8 million for the same period in 2013 period. Mine operating earnings as a percentage of revenue increased to 40% from 34% for the three months ended June 30, 2014 compared to 2013.

General and administrative expenses increased by US\$0.2 million, from US\$5.6 million for the quarter ended June 30, 2013 to US\$5.8 million for the quarter ended June 30, 2014. The increase is consistent with the Company's overall growth strategy.

Income from operations for the second quarter of 2014 of US\$13.5 million, a decrease of US\$8.6 million from US\$22.1 million for the same period in 2013.

Finance costs of US\$3.8 million for the three months ended June 30, 2014 increased by US\$1.3 million, from US\$2.5 million for the same period in 2013. The increase is due to interest expense incurred from short-term loans obtained by CSH during the third quarter of 2013 and the first half of 2014. During the three months ended June 30, 2014, interest payments of US\$3.7 million (2013: US\$1.2 million) were capitalized for borrowing costs related to the Jiama Mine expansion.

Foreign exchange gain decreased to a gain of US\$0.18 million for the three months ended June 30, 2014 from a gain of US\$0.68 million for the same 2013 period. The 2014 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\$1.2 million for the three months ended June 30, 2014 decreased from US\$4.5 million for the three months ended June 30, 2013, due to reduced interest income earned on term deposits which were utilized during the second half of 2013.

Income tax expense of US\$2.7 million for the second quarter of 2014 decreased by 48%, from US\$5.2 million for the comparative 2013 period, primarily due to Jiama's reduced income tax expense. During the current quarter, the Company had US\$0.8 million of deferred tax expense compared to US\$3.7 million deferred tax credit in 2013, the change is attributed to the depreciation of the RMB.

Net income of the Company decreased by US\$11.1 million from US\$19.5 million for the three months ended June 30, 2013 to US\$8.4 million for the three months ended June 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Six months ended June 30, 2014 compared to six months ended June 30, 2013

Revenue of US\$85.2 million for the first half of 2014 decreased by US\$73.2 million, from US\$158.4 million for the same period in 2013.

Revenue from the CSH Mine was US\$59.7 million (2013: US\$93.6 million), a decrease of US\$33.9 million, due to a 27% decrease in gold sales volume and significantly lower gold prices. Gold produced by the CSH Mine was 51,689 ounces (gold sold: 47,297), compared to 64,274 ounces (gold sold: 64,641 ounces) for the same period in 2013, due to longer recovery periods as a result of the increased height of the leaching heap.

Revenue from the Jiama Mine was US\$25.5 million compared to US\$64.7 million for the same period in 2013. Total copper sold was 3,356 tonnes (7.4 million pounds) for the six months ended June 30, 2014, a decrease of 51% from 6,839 tonnes (15.08 million pounds) for the same period in 2013. The decrease in revenue is primarily attributed to a significant decrease in copper production during the first quarter of 2014, due to a seasonal electricity shortage experienced by the Jiama Mine. Refer to the "Power Shortage" section for more details.

Cost of sales of US\$51.4 million for the six months ended June 30, 2014, a decrease of US\$49.9 million from US\$101.3 million for the same period in 2013. The decrease in cost of sales was substantially due to Jiama's lower production volume during the first quarter of 2014 (Refer to the "Power Shortage" section for further discussion). CSH contributed to 46% of the decrease in cost of sales, primarily due to reduced processing costs. Cost of sales as a percentage of revenue for the Company decreased to 60% from 64% for the six months ended June 30, 2014 compared to 2013.

Mine operating earnings of US\$33.8 million for the six months ended June 30, 2014 decreased by 41%, or US\$23.3 million, from US\$57.1 million for the comparative 2013 period. Mine operating earnings as a percentage of revenue increased to 40% from 36% for the six months ended June 30, 2014 compared to 2013.

General and administrative expenses decreased by US\$0.9 million, from US\$12.8 million for the six months ended June 30, 2013 to US\$11.9 million for the comparative period in 2014. The decrease is due to the Company's implementation of an overall cost reduction program.

Income from operations for the first half of 2014 of US\$21.8 million, decreased by US\$22.3 million from US\$44.1 million for the same period in 2013.

Finance costs of US\$7.2 million for the six months ended June 30, 2014 increased by US\$2.1 million, from US\$5.07 million for the same period in 2013. The increase is due to interest expense incurred from short-term loans obtained by CSH during the third quarter of 2013 and the first half of 2014. During the six months ended June 30, 2014, US\$7.2 million (2013: US\$1.9 million) of interest payments were capitalized for borrowing costs related to the Jiama Mine expansion.

Foreign exchange gain increased to a gain of US\$0.9 million for the six months ended June 30, 2014 from a gain of US\$0.8 million for the same 2013 period. The 2014 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\$1.4 million for the six months ended June 30, 2014 decreased from US\$5.6 million for the six months ended June 30, 2013, due to reduced interest income earned on term deposits which were utilized during 2013 and a government grant received by the Jiama Mine in 2013.

Income tax expense of US\$7.3 million for the first half of 2014 decreased by 33%, from US\$10.9 million for the comparative 2013 period, primarily due to Jiama's reduced income tax expense. During the current period, the Company had US\$3.8 million of deferred income tax expense compared to US\$4.4 million deferred income tax credit in 2013, the change is attributed to the depreciation of the RMB.

Net income of the Company decreased by US\$24.9 million from US\$34.6 million for the six months ended June 30, 2013 to US\$9.7 million for the six months ended June 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NON-IFRS MEASURES

The following table provides certain unit cost information on a cash cost of production per tonne (non-IFRS) basis for the CSH Gold Mine for the three and six months ended June 30, 2014 and 2013:

	CSH Mine			
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
	US\$	US\$	US\$	US\$
Cost of mining per tonne of ore	1.37	1.35	1.37	1.42
Cost of mining waste per tonne of ore	1.70	2.20	1.47	2.32
Other mining costs per tonne of ore	0.34	0.51	0.38	0.50
Total mining costs per tonne of ore	3.41	4.06	3.22	4.24
Cost of reagents per tonne of ore	0.59	1.28	0.61	1.39
Other processing costs per tonne of ore	0.55	1.07	0.59	1.15
Total processing cost per tonne of ore	1.14	2.35	1.20	2.54

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 consolidated financial statements, which are presented in accordance with IFRS. Non-IFRS measures do not have any standardized meaning prescribed under IFRS, and therefore they may not be comparable to similar measures employed by other companies. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance, operating results or financial condition prepared in accordance with IFRS. The Company has included cash 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.

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

	CSH Mine (Gold)							
	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	US\$	US\$ Per ounce	US\$	US\$ Per ounce	US\$	US\$ Per ounce	US\$	US\$ Per ounce
Total production costs	16,472,437	733	30,130,588	877	35,921,442	759	58,817,491	912
Adjustments	(6,453,006)	(287)	(4,917,191)	(143)	(11,380,113)	(241)	(9,172,062)	(142)
Total cash production costs	10,019,431	446	25,213,397	734	24,541,329	518	49,645,429	770

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	Jiama Mine (Copper)							
	Three months ended June 30,				Six months ended June 30,			
	2014		2013		2014		2013	
	US\$	US\$ Per Pound	US\$	US\$ Per Pound	US\$	US\$ Per Pound	US\$	US\$ Per Pound
Total production costs	17,683,434	2.87	29,884,906	3.56	24,665,546	3.33	55,451,224	3.67
Adjustments	(4,243,415)	(0.69)	(4,717,582)	(0.56)	(8,015,042)	(1.08)	(10,008,495)	(0.66)
Total cash production costs	13,440,019	2.18	25,167,324	3.00	16,650,504	2.25	45,442,729	3.01
By-product credits	(6,704,343)	(1.09)	(12,143,093)	(1.45)	(8,332,636)	(1.13)	(21,543,181)	(1.42)
Total cash production costs after by-products credits	6,735,677	1.09	13,024,231	1.55	8,317,868	1.12	23,899,548	1.59

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. The mining rate will be gradually increased to 60,000 tpd by the end of 2014. 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 2016. 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.

The CSH Technical Report is available at sedar.com and hkexnews.hk.

As of October 31, 2013, expansion construction for the additional 30,000 tpd three stage closed circuit crushing system, the new heap leach pad and the new ADR (Adsorption, Desorption and Refining) plant were all completed. The new 80 kilometer long 110 kilovolt ("KV") power line was also completed by the end of November 2013 and began providing power for testing in December 2013. The Company is currently performing test runs on the new 30,000 tpd crushing and processing system, from which gold output is expected to commence during the second half of 2014.

The capital expenditure incurred in the CSH Mine for the six months ended June 30, 2014 was US\$15.2 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The major new contracts entered into during the six months ended June 30, 2014

Item No.	Contact Name	Counterpart	Subject amount (US\$ millions)	Contract period (effective day and expiration date)	Date of Contract
1	Geomembrane Laying Contract of Remaining Heap Leaching of 2B, 2A	Beijing LAN Environment Engineering Co., LTD	3.6	3/11/2014 – 3/10/2015	3/20/2014
2	Sodium Cyanide Purchase and Sales Contract	Hebei Integrity Co., LTD	15.6	3/1/2014 – 12/30/2014	3/1/2014
3	Carriage Contract of Crushing Finished Products from Crushing Plants to Heap Leaching	Baotou TED Earthwork Engineering Co., LTD	16.5	1/16/2014 – 1/15/2017	2/27/2014
4	Earthwork Engineering Contract of Remaining Heap Leaching of 2B, 2A	Changchun Xinxingyu Building Installation Co., LTD	3.1	2/16/2014 – 2/16/2015	2/25/2014

Production Update

	CSH Mine			
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Ore placed on pad (tonnes)	5,986,675	3,264,226	11,005,818	6,510,994
Average grade of ore (g/t)	0.57	0.48	0.54	0.46
Recoverable gold (ounces)	64,055	36,553	112,951	70,717
Ending ore inventory (ounces)	127,041	43,195	127,041	43,195
Waste rock mined (tonnes)	22,723,797	22,098,696	36,308,720	44,389,687

For the three months ended June 30, 2014, the total amount of ore put on the leach pad was 6.0 million tonnes, with total contained gold of 64,055 ounces. The accumulative project-to-date gold recovery rate has decreased from approximately 53.47% at the end of March 2014 to 50.45% at the end of June 2014.

Exploration

The Company did not conduct drilling at CSH during the first half of 2014. The Company continues to conduct surface reconnaissance and exploration for expansion opportunities around the CSH Mine.

Mineral Reserves Update

CSH Mine Resources by category, Northeast and Southwest pits combined at December 31, 2013 under NI 43-101:

Category	Quantity Mt	Au g/t	Metal	
			Au t	Au Moz
Measured	68.91	0.65	44.83	1.44
Indicated	156.75	0.59	92.79	2.98
M+I	225.66	0.61	137.62	4.42
Inferred	85.89	0.51	43.59	1.40

MANAGEMENT'S DISCUSSION AND ANALYSIS

CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2013 under NI 43-101:

Category	Quantity Mt	Metal		
		Au g/t	Au t	Au Moz
Proven	67.83	0.64	43.09	1.39
Probable	115.75	0.59	68.02	2.19
Total	183.58	0.61	111.12	3.57

Reserves reported at cutoff grade of 0.28g/t Au for open cut mining methods

The Jiama Mine

The Jiama Mine is a large scale 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 second half of 2010 and reached its design capacity of 6,000 tpd in early 2011.

Phase II Expansion

The Company plans to expand the Jiama Mine from its current mining and processing capacity of 6,000 tpd to 50,000 tpd of ore through the expansion of current open-pit and the development of new open-pits and underground mining operations.

The Company retained the engineering firm Mining One Pty Ltd, in collaboration with independent consulting engineers and management to review the feasibility study on the Jiama Mine Phase II expansion. On December 20, 2013, Mining One Pty Ltd submitted a NI 43-101 Technical report – Phase 2 Expansion Project based on the “Feasibility Study for the Phase II Expansion Project” prepared by the Changchun Gold Design Institute (“Jiama Technical Report”). The Jiama Technical Report was filed at sedar.com and hkexnews.hk on February 4th, 2014. Phase II Expansion will include four open pits, one underground mine, and a new mill with a processing capacity of 44,000 tpd. The annual mill processing capacity will be increased from the current 1.8 million tonnes of ore per year to 16.5 million tonnes of ore per year, producing an average of 67,000 tonnes (148 million pounds) of copper, 2,400 tonnes (5.3 million pounds) of molybdenum, 42,000 ounces of gold, 2.8 million ounces of silver, 10,400 tonnes of lead and 4,000 tonnes of zinc annually over a 35 year mine life. The estimated capital expenditure is US\$716.2 million. The project has after-tax Net Present Value (NPV) of US\$1.3 billion at a discount rate of 9% at metal price assumptions of US\$2.90/lb copper, US\$15.5/lb molybdenum, US\$1,300/oz gold, and US\$20/oz silver. The project has after-tax Internal Rate of Return (IRR) of 24% and payback period of 6.7 years.

Since its commencement, the expansion program including civil engineering and procurement of long lead time items have progressed as scheduled. The first stage of construction, including ore storage silo, crusher, mills floatation circuits, thickeners, and power and water supply system was completed in the second quarter of 2014. The mill processing capacity was increased from 6,000 tpd to 28,000 tpd. The pre-striping for open pits and ore transportation system for the first stage of the production facility will be completed at 2015. The new production facility is under ramp up. The output of copper concentrate from the first stage of the production facility is expected during the second half of 2014. In the second stage, the construction of an additional 22,000 tpd mining and milling capacity is expected to be completed by the second half of 2015.

Capital expenditures incurred at the Jiama Mine for the six months ended June 30, 2014 was US\$90.9 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The major new contracts entered into during the six months ended June 30, 2014

Item No.	Contact Name	Counterpart	Subject amount (US \$ millions)	Contract period (effective day and expiration date)	Date of Contract
1	High Chromium Ball Purchase and Sales Contract	Anhui Province Fengxing Wear-resisting Material Co., LTD	2.6	2014.2.26 to 2014.12.31.	2014.2.16
2	South Pit Outdoor Campaign Stripping Engineering Contract (China Railway 17th Bureau)	China Railway 17th Bureau Group Second Engineering Co., Ltd.	38.4	2014.8.1 to 2015.12.31	2014.6.2
3	Second Phase of Underground Mining Engineering bid (4400m the second bid section)	China Nonferrous Metals Industry 14th Metallurgical Construction Company	198.4	2014.9.1 to 2024.8.31	2014.4.28

Production Update

	Jiama Mine			
	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Ore mined (tonnes)	417,236	644,333	654,716	1,134,010
Waste mined (tonnes)	–	287,681	–	765,581
Average copper grade of ore (%)	0.79	0.67	0.82	0.65
Copper recovery rate(%)	90	90	92	89
Average gold grade of ore (g/t)	0.42	0.37	0.43	0.34
Gold recovery rate(%)	67	70	66	65
Average silver grade of ore (g/t)	23.09	20.69	27.69	21.02
Silver recovery rate(%)	66	65	65	64

Exploration

The Company has not carried out any additional exploration at the Jiama Mine in 2014 as it has been focusing on the phase II expansion plan.

Mineral Resources Estimate

Jiama Mine Resource by category at November 20, 2013 under NI 43-101:

Category	Grade							Contained Metal					
	Ore (mt)	Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (Moz)	Ag (Moz)	Pb (kt)	Zn (kt)
Measured	100	0.41	0.035	0.11	6.53	0.04	0.02	415	36	0.35	21.04	43	24
Indicated	1,386	0.41	0.034	0.11	6.11	0.05	0.03	5,772	468	4.99	272.35	751	470
Total M&I	1,486	0.41	0.034	0.11	6.14	0.05	0.03	6,138	503	5.3	293.39	794	495
Inferred	406	0.31	0.03	0.1	5.13	0.08	0.04	1,247	124	1.3	66.9	312	174

Note: Lead and zinc metal values are distributed unevenly with higher concentrations in certain parts of the deposit. The table gives of average lead and zinc grades over the entire resources of the deposit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mineral Reserve Estimate

Jiama Mine Reserve by category at November 20, 2013 under NI 43-101:

Category	Grade							Contained Metal					
	Ore (Mt)	Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (Moz)	Ag (Moz)	Pb (kt)	Zn (kt)
Proved	25	0.64	0.04	0.35	11.35	0.05	0.03	160	10	0.2	9.1	12	8
Probable	416	0.61	0.03	0.21	11.52	0.13	0.08	2,548	133	2.5	154.1	551	319
Total	441	0.61	0.03	0.22	11.51	0.13	0.07	2,708	143	2.7	163.2	563	327

Reserves reported at cutoff grade of 0.3% Cu-eq for open cut and 0.45% for underground mining methods

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, 2014, the Company had an accumulated surplus of US\$165 million, working capital deficit of US\$221.7 million and bank borrowings of US\$611.8 million. The Company's cash balance at June 30, 2014 was US\$106.4 million.

Management notes the working capital deficit, which resulted from the current year's intensive capital investment in expansion projects at both mine sites. In order to ensure the liquidity requirements of the Company are met, the following actions have been taken and are in: (1) On July 17, 2014, the Company announced the issuance of a bond with an aggregate principal amount of US\$500 million at an issue price of 99.634% bearing interest at the rate of 3.5% per annum with a maturity date of July 17, 2017. The bonds are unconditionally and irrevocably guaranteed by the Company. The net proceeds of the bonds offer will be used for working capital, capital expenditures and general corporate purposes of the Group. The bonds are listed on the Hong Kong Stock Exchange; (2) the management is negotiating with the Company's banks to extend the terms for repayment of loan principals maturing in 2014; (3) the management is in advanced discussions with the commercial banks in China to arrange for permanent long term project debt financing; (4) the Jiama local management is negotiating with the key construction contractors to extend the terms of payment for amounts due; and (5) management is examining a number of additional project financing options.

As a result, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CASH FLOWS

The following table sets out selected cash flow data from the Company's condensed consolidated interim cash flow statements for the periods ended June 30, 2014 and June 30, 2013.

	Three months ended June 30,		Six months ended June 30,	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Net cash from (used in) operating activities	(11,372)	16,414	(9,814)	32,739
Net cash used in investing activities	(54,551)	(107,103)	(139,658)	(217,551)
Net cash from financing activities	52,377	31,406	152,393	97,731
Net increase (decrease) in cash and cash equivalents	(13,546)	(59,283)	2,921	(87,081)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,021)	1,393	(2,393)	1,673
Cash and cash equivalents, beginning of period	120,982	154,222	105,887	181,740
Cash and cash equivalents, end of period	106,415	96,332	106,415	96,332

Operating cash flow

For the three months ended June 30, 2014, the net cash outflow from operating activities was US\$11.3 million which is primarily attributable to (i) increase in inventory of US\$30.9 million, (ii) interest paid of US\$9.7 million (iii) increase in accounts payable and accrued liabilities of US\$3.5 million, partially offset by (i) depreciation and depletion of US\$12.8 million, (ii) profit before income tax of US\$11.1 million and (iii) finance cost of US\$3.8 million.

For the six months ended June 30, 2014, the net cash outflow from operating activities was US\$9.8 million which is primarily attributable to (i) increase in inventory of US\$50.9 million, (ii) interest paid of US\$13.1 million, and (iii) income tax paid of US\$4.8 million, partially offset by (i) depreciation and depletion of US\$23.2 million, (ii) profit before income tax of US\$17.0 million and (iii) finance cost of US \$7.2 million

Investing cash flow

For the three months ended June 30, 2014, the net cash outflow from investing activities was US\$54.6 million, which is primarily attributable to payment for the acquisition of property, plant and equipment of US\$53.6 million.

For the six months ended June 30, 2014, the net cash outflow from investing activities was US\$139.7 million, which is primarily attributable to payment for the acquisition of property, plant and equipment of US\$136.8 million.

Financing cash flow

For the three months ended June 30, 2014, the net cash inflow from financing activities was US\$52.4 million, which is primarily attributable to proceeds from a bank loan of US\$96.7 million, partially offset by repayments of borrowings of US\$44.2 million.

For the six months ended June 30, 2014, the net cash inflow from financing activities was US\$152.4 million, which is primarily attributable to proceeds from a bank loan of US\$204.5 million, and from an entrusted loan of US\$32.2 million, partially offset by repayments of borrowings of US\$84.1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenditures Incurred

For the six months ended June 30, 2014, the Company incurred mining costs of US\$23.8 million, processing costs of US\$11.5 million, transportation costs of US\$1.0 million and resource compensation fee, which was paid to the PRC government, of US\$3.1 million.

Gearing ratio

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at June 30, 2014, the Company's total debt was US\$644 million and the total equity was US\$1,432 million. The Company's gearing ratio was therefore 0.45 as at June 30, 2014 and 0.22 as at June 30, 2013.

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.

New bank loans

The Company entered into the following loan agreements during the six months ended June 30, 2014:

In January 2014, the Company entered into the following loan agreements:

- Agricultural Bank of China, pursuant to the loan agreement, agreed to provide a two year loan to the Company in the amount of RMB400 million (equivalent to US\$64,480,000). The loan is unsecured and carries interest at the local prime rate of 4.17%.
- Industrial and Commercial Bank of China, pursuant to the loan agreement, agreed to provide a one year loan to the Company in the amount of RMB50 million (equivalent to US\$8,060,000). The loan is unsecured and carries interest at the local prime rate of 4.02%.
- The Company entered into a one year entrusted loan agreement with Baotou Commercial Bank Co., Ltd. ("BCB") and Zhongyuan Fiduciary Co., Ltd. ("Zhongyuan") in which BCB provided a loan of RMB100 million (equivalent to approximately US\$16,120,000) to the Company through Zhongyuan as the entrusted bank. The entrusted loan is unsecured and carries interest at a fixed rate of 5.9% per annum.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In February 2014, the Company entered into a one year entrusted loan agreement with BCB and Zhongyuan in which BCB provided a loan of RMB100 million (equivalent to approximately US\$16,120,000) to the Company through Zhongyuan as the entrusted bank. The entrusted loan was unsecured and carried interest at fixed rate of 5.9% per annum.

In March 2014, the Company entered into a loan agreement with China Development Bank ("CDB"). Pursuant to the loan agreement, CDB agreed to provide a one year loan to the Company in the amount of RMB200 million (equivalent to US\$32,240,000). As of June 30, 2014, RMB80 million has been drawn down, with a remaining RMB120 million available. The loan is unsecured and carries interest at the local prime rate of 4.02%.

In May 2014, the Company entered into the following loan agreements:

- Agricultural Bank of China, pursuant to the loan agreement, agreed to provide a one year loan to the Company in the amount of RMB50 million (equivalent to US\$8,060,000). The loan is unsecured and carries interest at the local prime rate of 6.0%.
- Bank of Communication, pursuant to the loan agreement, agreed to provide a one year loan to the Company in the amount of RMB100 million (equivalent to US\$16,120,000). The loan is unsecured and carries interest at the local prime rate of 6.0%.
- Industrial and Commercial Bank of China, pursuant to the loan agreement, agreed to provide a one year loan to the Company in the amount of RMB50 million (equivalent to US\$8,060,000). The loan is unsecured and carries interest at the local prime rate of 4.02%.
- China Construction Bank, pursuant to the loan agreement, agreed to provide a one year loan to the Company in the amount of RMB230 million (equivalent to US\$37,076,000). The loan is unsecured and carries interest at the local prime rate of 4.02%.

In June 2014, the Company entered into two loan agreements with Agricultural Bank of China. The loans are in the amount of RMB50 million (equivalent to US\$8,060,000) each, mature in one year, are unsecured and carry interest at the prime rate of 6.0%.

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 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

There were no significant changes in capital commitments and operating lease commitments between June 30, 2014 and March 31, 2014. The following table outlines principal payments on bank loans for the periods indicated:

	Total	Within One year	Within Two to five years	Over 5 years
	US\$'000	US\$'000	US\$'000	US\$'000
Principal repayment of bank loans	611,842	325,547	286,295	–

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, 2014 and June 30, 2013.

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\$90.3 million for the six months ended June 30, 2013 to US\$59.6 million for the six months ended June 30, 2014.

On April 26, 2013, Huatailong, an indirectly wholly-owned subsidiary of the Company, entered into the Contract for Purchase and Sale of Copper Concentrate with China National Gold Group International Trading Co. Ltd, which is ultimately controlled by CNG, for the purpose of governing the sale and purchase of copper sulphide concentrates produced at the Jiama Mine for the two years ending December 31, 2013 and 2014, with pricing referenced to the prescribed figures disclosed in the contract, based on the monthly average bench mark prices of copper, gold and silver. The first sales transaction under the contract occurred in July 2013.

Revenue from sales of copper and other products to CNG was US\$5.1 million for the six months ended June 30, 2014, compared with nil in the same period in 2013.

For the six months ended June 30, 2014, construction services of US\$69.3 million were provided to the Company by subsidiaries of CNG (US\$137.2 million for the six months ended June 30, 2013).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 three months ended June 30, 2014.

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, 2013.

CHANGE IN ACCOUNTING POLICIES

A summary of new and revised IFRS standards and interpretations are outlined in Note 2 of the audited annual consolidated financial statements as at December 31, 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, 2014.

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2014, 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 Board of 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 rules promulgated by the regulators affecting dividends in both Canada and Hong Kong and at both the Toronto Stock Exchange and Hong Kong Stock Exchange, and 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, 2014 the Company had 396,413,753 common shares issued and outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014 and, in accordance with the requirements established under Canadian National Instrument 52-109 – Certification of Disclosure in Issuer’s Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of June 30, 2014, 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 of 2013 to evaluate the Company’s ICFR as of June 30, 2014 and have concluded that these controls and procedures were effective as of June 30, 2014 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, 2014, 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.

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 was prepared by or under the supervision of Mr. Songlin Zhang, a qualified person for the purposes of NI 43-101.

Disclosure of a scientific or technical nature in this MD&A in respect of the Jiama Mine for the Mineral Resources, Mineral Reserves and Phase II Expansion was prepared by or under the supervision of Mr. Bin Guo and Anthony R Cameron, both qualified person for the purposes of NI 43-101; all remaining information in regards to the Jiama project contained in this MD&A was prepared by or under the supervision of Mr. Songlin Zhang, a qualified person for the purposes of NI 43-101.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ADDITIONAL STOCK EXCHANGE INFORMATION

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

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended June 30, 2014.

A2. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as of June 30, 2014, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) ("SFO") as recorded in the register kept by the Company pursuant to Section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Name	Nature of interest	Number of Shares held	Approximate percentage of outstanding shares
China National Gold Group Corporation ⁽¹⁾	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, 2014, 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.	150,000	Personal	0.0378%
Xiangdong Jiang	Director and Vice President of Production	China Gold International Resources Corp. Ltd.	13,500	Personal	0.0034%

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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, 2014.

A4. STOCK OPTION PLAN

The Company adopted an incentive stock option plan with approval from its shareholders and pursuant to the policies of the Toronto Stock Exchange dated May 9, 2007 (the "2007 Stock Option Plan"). The 2007 Stock Option Plan was adopted to provide the Company's directors, officers, employees and consultants with an opportunity to acquire a proprietary interest in the Company thereby incentivizing the Company's directors, officers, employees and consultants in order to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Company. As of June 30, 2014, an aggregate of 400,000 common shares were issuable upon the exercise of outstanding stock options granted under the 2007 Stock Option Plan, representing approximately 0.10% of the Company's outstanding common shares.

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

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

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, 2014:

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	100,000	Nil	Nil	Nil	Nil	100,000 ⁽¹⁾
Yunfei Chen	Director	100,000	Nil	Nil	Nil	Nil	100,000 ⁽¹⁾
Gregory Hall	Director	100,000	Nil	Nil	Nil	Nil	100,000 ⁽¹⁾
John King Burns	Director	100,000	Nil	Nil	Nil	Nil	100,000 ⁽¹⁾
Total for directors and senior executives		400,000	Nil	Nil	Nil	Nil	400,000
Total for other stock option holders		0	Nil	Nil	Nil	Nil	Nil
TOTAL		400,000	Nil	Nil	Nil	Nil	400,000

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.

A6. EMOLUMENT POLICY

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

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

As of June 30, 2014 the Company had 1,761 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014, 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, 2014.

A9. INTERIM DIVIDENDS

The Board did not recommend the payment of interim dividends in respect of the six months ended June 30, 2014.

A10. AUDIT COMMITTEE

Pursuant to the requirements under the Hong Kong Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all the existing Independent Non-executive Directors, namely Ian He (chairman of the Audit Committee), Yunfei Chen, Gregory Hall and John King Burns. The Audit Committee has reviewed and discussed with the Company's auditors the unaudited interim results of the Group for the six months ended June 30, 2014.

August 14, 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Six Months Ended June 30, 2014

		Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
NOTES		US\$'000	US\$'000	US\$'000	US\$'000
Revenues	15	48,541	81,622	85,200	158,368
Cost of sales		(29,084)	(53,809)	(51,369)	(101,265)
Mine operating earnings		19,457	27,813	33,831	57,103
Expenses					
General and administrative expenses	3	(5,892)	(5,665)	(11,907)	(12,822)
Exploration and evaluation expenditure		(53)	(50)	(98)	(119)
		(5,945)	(5,715)	(12,005)	(12,941)
Income from operations		13,512	22,098	21,826	44,162
Other (expenses) income					
Foreign exchange gain, net		182	684	933	836
Interest and other income		1,234	4,487	1,430	5,599
Finance costs	4	(3,781)	(2,500)	(7,179)	(5,073)
		(2,365)	2,671	(4,816)	1,362
Profit before income tax		11,147	24,769	17,010	45,524
Income tax expense	5	(2,759)	(5,208)	(7,257)	(10,884)
Profit for the period		8,388	19,561	9,753	34,640
Other comprehensive (expense) income for the period					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange difference arising on translation		533	3,439	(6,918)	3,931
Fair value gain on available-for-sale investment		652	3,021	(1,993)	4,262
Income tax relating to the gain on available-for-sale investment		—	(603)	—	(603)
Total comprehensive income (expense) for the period		9,573	25,418	842	42,230

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Six Months Ended June 30, 2014

	NOTES	Three months ended June 30,		Six months ended June 30,	
		2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Profit for the period attributable to					
Non-controlling interests		727	630	935	1,198
Owners of the Company		<u>7,661</u>	<u>18,931</u>	<u>8,818</u>	<u>33,442</u>
Income from operations		<u>8,388</u>	<u>19,561</u>	<u>9,753</u>	<u>34,640</u>
Total comprehensive income (expense) for the period attributable to					
Non-controlling interests		625	636	916	1,205
Owners of the Company		<u>8,948</u>	<u>24,782</u>	<u>(74)</u>	<u>41,025</u>
		<u>9,573</u>	<u>25,418</u>	<u>842</u>	<u>42,230</u>
Basic earnings per share	6	<u>1.93 cents</u>	<u>4.78 cents</u>	<u>2.22 cents</u>	<u>8.44 cents</u>
Diluted earnings per share	6	<u>1.93 cents</u>	<u>4.78 cents</u>	<u>2.22 cents</u>	<u>8.44 cents</u>
Basic weighted average number of common shares outstanding	6	<u>396,413,753</u>	<u>396,358,753</u>	<u>396,413,753</u>	<u>396,356,764</u>
Diluted weighted average number of common shares outstanding	6	<u>396,413,753</u>	<u>396,382,581</u>	<u>396,413,753</u>	<u>396,388,613</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2014

	NOTES	June 30, 2014 US\$'000	December 31, 2013 US\$'000 (audited)
Current assets			
Cash and cash equivalents		106,415	105,887
Accounts receivable and other receivables	7	7,927	9,714
Prepaid expenses and deposits		4,878	6,987
Prepaid lease payments		231	235
Inventory	8	113,948	61,245
		<u>233,399</u>	<u>184,068</u>
Non-current assets			
Prepaid expenses and deposits		15,266	16,706
Prepaid lease payments		8,141	8,425
Inventory	8	—	2,001
Deferred tax assets		10,113	14,501
Available-for-sale investments		19,816	21,850
Property, plant and equipment	9	1,137,348	1,027,393
Mining rights		940,607	943,557
		<u>2,131,291</u>	<u>2,034,433</u>
Total assets		<u>2,364,690</u>	<u>2,218,501</u>
Current liabilities			
Accounts payable and accrued expenses	10	123,496	115,952
Borrowings	11	325,547	232,432
Tax liabilities		6,051	7,487
		<u>455,094</u>	<u>355,871</u>
Net current liabilities		<u>(221,695)</u>	<u>(171,803)</u>
Total assets less current liabilities		<u>1,909,596</u>	<u>1,862,630</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2014

	NOTES	June 30, 2014 US\$'000	December 31, 2013 US\$'000 (audited)
Non-current liabilities			
Entrusted loan payable	12	32,240	–
Borrowings	11	286,295	272,074
Deferred tax liabilities		126,161	126,687
Deferred income		2,311	2,518
Environmental rehabilitation		30,420	29,826
		<u>477,427</u>	<u>431,105</u>
Total liabilities		<u>932,521</u>	<u>786,976</u>
Owners' equity			
Share capital	13	1,229,061	1,229,061
Reserves		27,422	36,304
Retained profits		164,884	156,066
		<u>1,421,367</u>	<u>1,421,431</u>
Non-controlling interests		10,802	10,094
Total owners' equity		<u>1,432,169</u>	<u>1,431,525</u>
Total liabilities and owners' equity		<u>2,364,690</u>	<u>2,218,501</u>

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on August 14, 2014 and are signed on its behalf by:

(Signed by) Xin Song

Xin Song
Director

(Signed by) Bing Liu

Bing Liu
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended June 30, 2014

	Number of shares	Share capital US\$'000	Equity reserve US\$'000 (note a)	Investment revaluation reserve US\$'000	Exchange reserve US\$'000	Statutory reserve US\$'000 (note b)	Retained profits US\$'000	Subtotal US\$'000	Non-controlling interests US\$'000	Total owners' equity US\$'000
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)
At June 30, 2013 (unaudited)	396,358,753	1,228,873	11,227	4,218	11,942	3,933	140,608	1,400,801	9,132	1,409,933
At January 1, 2014 (audited)	396,413,753	1,229,061	11,169	187	14,883	10,065	156,066	1,421,431	10,094	1,431,525
Profit for the period	-	-	-	-	-	-	8,818	8,818	935	9,753
Fair value loss on available-for-sale investment	-	-	-	(1,993)	-	-	-	(1,993)	-	(1,993)
Exchange difference arising on translation	-	-	-	-	(6,899)	-	-	(6,899)	(19)	(6,918)
Total comprehensive income (expense) for the period	-	-	-	(1,993)	(6,899)	-	8,818	(74)	916	842
Exercise of stock options	-	-	-	-	-	-	-	-	-	-
Share based compensation	-	-	10	-	-	-	-	10	-	10
Dividends paid to a non-controlling shareholder	-	-	-	-	-	-	-	-	(208)	(208)
At June 30, 2014 (unaudited)	396,413,753	1,229,061	11,179	(1,806)	7,984	10,065	164,884	1,421,367	10,802	1,432,169

Notes:

- Amounts represent equity reserve 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 a minimum of 10% of their profits after taxation each year to a statutory reserve until the reserve reaches 50% of the registered capital of the respective subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended June 30, 2014

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Net cash from operating activities	<u>(11,372)</u>	<u>16,414</u>	<u>(9,814)</u>	<u>32,739</u>
Net cash used in investing activities				
Payment for acquisition of property, plant and equipment	(53,589)	(125,438)	(136,787)	(230,764)
Deposit paid for acquisition of property, plant and equipment	(962)	–	(2,871)	(3,313)
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	–	16,052	–	16,052
	<u>(54,551)</u>	<u>(107,103)</u>	<u>(139,658)</u>	<u>(217,551)</u>
Net cash (used in) from financing activities				
Repayments of borrowings	(44,240)	(19,496)	(84,058)	(22,710)
Proceeds from borrowings	96,709	50,902	204,487	120,561
Proceeds from entrusted loan	–	–	32,172	–
Dividends paid to a non-controlling shareholder	(92)	–	(208)	(209)
Issuance of common shares upon exercise of stock options	–	–	–	89
	<u>52,377</u>	<u>31,406</u>	<u>152,393</u>	<u>97,731</u>
Net increase (decrease) in cash and cash equivalents	<u>(13,546)</u>	<u>(59,283)</u>	<u>2,921</u>	<u>(87,081)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(1,021)</u>	<u>1,393</u>	<u>(2,393)</u>	<u>1,673</u>
Cash and cash equivalents, beginning of period	<u>120,982</u>	<u>154,222</u>	<u>105,887</u>	<u>181,740</u>
Cash and cash equivalents, end of period	<u>106,415</u>	<u>96,332</u>	<u>106,415</u>	<u>96,332</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

1. BASIS OF PREPARATION

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*.

At June 30, 2014, the Group’s current liabilities exceeded its current assets by approximately US\$221.7 million. In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. The Group has successfully completed US\$500 million 3-year bonds issue, as disclosed in Note 19, on July 17, 2014 and taking into account the Group’s future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider 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 values.

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, 2014 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended December 31, 2013.

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

The application of the above 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, 2014

3. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended June 30,		Six months ended June 30,	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Administration and office	1,804	2,129	4,103	4,987
Professional fees	632	493	1,645	1,361
Salaries and benefits	2,508	2,452	4,239	4,827
Depreciation of property, plant and equipment	635	320	1,269	628
Others	313	271	651	1,019
Total general and administrative expenses	<u>5,892</u>	<u>5,665</u>	<u>11,907</u>	<u>12,822</u>

4. FINANCE COSTS

	Three months ended June 30,		Six months ended June 30,	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Effective interest on borrowings	6,861	3,480	13,082	6,600
Accretion on environmental rehabilitation	654	198	1,323	361
	<u>7,515</u>	<u>3,678</u>	<u>14,405</u>	<u>6,961</u>
Less: Amount capitalised to property, plant and equipment	<u>(3,734)</u>	<u>(1,178)</u>	<u>(7,226)</u>	<u>(1,888)</u>
	<u>3,781</u>	<u>2,500</u>	<u>7,179</u>	<u>5,073</u>

5. INCOME TAX EXPENSE

	Three months ended June 30,		Six months ended June 30,	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
PRC Enterprise Income Tax	1,965	8,906	3,491	15,307
Deferred tax expense (credit) (note)	794	(3,698)	3,766	(4,423)
Total income tax expense	<u>2,759</u>	<u>5,208</u>	<u>7,257</u>	<u>10,884</u>

Note: During the period, deferred tax expenses mainly arose from reversal of temporary differences associated with inventories and property, plant and equipment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

6. EARNINGS PER SHARE

Earnings used in determining earnings per share ("EPS") are presented below:

	Three months ended June 30,		Six months ended June 30,	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Profit for the period attributable to owners of the Company for the purposes of basic and diluted EPS (US\$000)	7,661	18,931	8,818	33,442
Weighted average number of shares, basic	396,413,753	396,358,753	396,413,753	396,356,764
Dilutive securities – Stock options	–	23,828	–	31,849
Weighted average number of shares, diluted	396,413,753	396,382,581	396,413,753	396,388,613
Basic EPS	1.93 cents	4.78 cents	2.22 cents	8.44 cents
Diluted EPS	1.93 cents	4.78 cents	2.22 cents	8.44 cents

The computation of diluted EPS for the three and six months ended June 30, 2014 does not assume the exercise of the Company's stock options because the exercise price of these options was higher than the average market price for shares for the current period.

7. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Trade receivables	291	740
Less: allowance for doubtful debts	(134)	(145)
	157	595
Amounts due from related companies	3,034	3,354
Other receivables	4,736	5,765
Total accounts receivable and other receivables	7,927	9,714

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

7. ACCOUNTS RECEIVABLES (Cont'd)

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

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Less than 30 days	16	40
31 to 90 days	15	480
91 to 180 days	5	45
Over 180 days	121	30
	<u>157</u>	<u>595</u>

8. INVENTORY

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Gold in process	80,708	44,628
Gold doré bars	6,690	4,182
Consumables	5,114	5,959
Copper	7,792	122
Spare parts	8,560	8,355
Copper in-process	5,084	–
	<u>113,948</u>	<u>63,246</u>
Total inventory	113,948	63,246
Less: Amounts expected to be recovered after 12 months (note) (shown under non-current assets)	<u>–</u>	<u>(2,001)</u>
Amounts shown under current assets	<u>113,948</u>	<u>61,245</u>

Note: As at December 31, 2013, management had taken into consideration the long-term process involved in recovering gold from a heap leaching system and had classified inventory, specifically, the gold in process, that was expected to be recovered more than twelve months after the end of the reporting period into non-current assets.

Inventory totaling US\$28.6 million and US\$49.6 million for the three and six months ended June 30, 2014 (three and six months ended June 30, 2013: US\$52.0 million and US\$98.0 million), respectively, were recognised in cost of sales.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended June 30, 2014, the Group incurred approximately US\$98.8 million on construction in progress (six months ended June 30, 2013: approximately US\$200.9 million) and approximately US\$46.3 million on mineral assets (six months ended June 30, 2013: approximately US\$43.7 million), respectively.

Depreciation of property, plant and equipment was US\$12.8 million and US\$23.2 million (US\$8.6 million and US\$16.3 million for the three and six months ended June 30, 2013) for three and six months ended June 30, 2014. The depreciation amounts were partly recognised in cost of sales and general and administrative expenses and partly capitalised in inventory.

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payables and accrued expenses comprise the following:

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Accounts payable	30,680	33,053
Construction cost payables	64,097	57,010
Advances from customers	15	513
Mining cost accrual	15,304	2,872
Payroll and benefit payables	3,750	4,551
Other accruals	3,529	4,253
Other tax payable	1,218	4,526
Other payables	4,903	9,174
	<u>123,496</u>	<u>115,952</u>

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

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Less than 30 days	13,934	28,533
31 to 90 days	3,186	214
91 to 180 days	936	141
Over 180 days	12,624	4,165
	<u>30,680</u>	<u>33,053</u>
Total accounts payable		

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

11. BORROWINGS

The borrowings are repayable as follows:

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Carrying amount repayable within one year	325,547	232,432
Carrying amount repayable within one to two years	266,144	181,217
Carrying amount repayable within two to five years	<u>20,151</u>	<u>90,857</u>
	611,842	504,506
Less: Amounts due within one year (shown under current liabilities)	<u>(325,547)</u>	<u>(232,432)</u>
Amounts shown under non-current liabilities	<u>286,295</u>	<u>272,074</u>

Analysed as:

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Secured	156,769	188,734
Unsecured	<u>455,073</u>	<u>315,772</u>
	<u>611,842</u>	<u>504,506</u>

Borrowings carry interest at effective interest rates ranging from 2.85% to 6.08% (December 31, 2013: 2.85% to 6.08%) per annum.

12. ENTRUSTED LOAN PAYABLE

On January 17, 2014, the Group entered into a three year entrusted loan agreement with China National Gold Group Corporation ("CNG"), a substantial shareholder (see Note 14) and China Construction Bank ("CCB") in which CNG provided a loan of RMB200 million (equivalent to approximately US\$32,240,000) to the Group through CCB as the entrusted bank. The entrusted loan is unsecured and carries interest at a fixed rate of 3% per annum. The principal amount is to be repaid on January 17, 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

13. SHARE CAPITAL AND OPTIONS

(a) Common shares

Authorized – Unlimited common shares without par value

Issued and outstanding – 396,413,753 (December 31, 2013: 396,413,753) common shares at June 30, 2014.

(b) Stock options

The Group has a stock option plan which permits the Board of Directors of the Company to grant options to directors and employees of the Group 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 is 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, 2014 to June 30, 2014		January 1, 2013 to December 31, 2013	
	Number of options	Weighted average exercise price CAD	Number of options	Weighted average exercise price CAD
Balance at January 1	400,000	5.56	540,000	4.62
Options exercised	–	–	(95,000)	2.20
Options expired	–	–	(45,000)	2.20
Balance, end of period	<u>400,000</u>	<u>5.56</u>	<u>400,000</u>	<u>5.56</u>

No stock options were granted during the six months ended June 30, 2014 and the year ended December 31, 2013.

The following table summarises information about stock options outstanding and exercisable at June 30, 2014.

	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2014	Remaining contractual life (years)	Weighted average exercise price CAD	Number exercisable at June 30, 2014	Weighted average exercise price CAD
Expiring in					
2015	<u>400,000</u>	0.92	<u>5.56</u>	<u>400,000</u>	<u>5.56</u>
	<u>400,000</u>		<u>5.56</u>	<u>400,000</u>	<u>5.56</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

13. SHARE CAPITAL AND OPTIONS (Cont'd)

(b) Stock options (Cont'd)

The following table summarises information about stock options outstanding and exercisable at December 31, 2013.

Expiring in	Number of stock options	Options outstanding		Options exercisable	
		Remaining contractual life (years)	Weighted average exercise price CAD	Number of stock options	Weighted average exercise price CAD
2015	<u>400,000</u>	1.42	<u>5.56</u>	<u>320,000</u>	<u>5.43</u>
	<u>400,000</u>		<u>5.56</u>	<u>320,000</u>	<u>5.43</u>

14. 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, 2014 %	December 31, 2013 %
CNG	<u>39.3</u>	<u>39.3</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

14. RELATED PARTY TRANSACTIONS (Cont'd)

(a) Transactions/balances with Government-related entities in the PRC

(i) Transactions/balances with CNG and its subsidiaries

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

	Three months ended June 30,		Six months ended June 30,	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Gold doré bar sales by the Group	28,068	45,034	59,661	90,334
Copper and other product sales by the Group	—	—	5,066	—
Provision of transportation services by the Group	—	1,514	1,187	1,514
Construction services provided to the Group	16,096	70,754	69,303	137,237
Entrusted loan provided to the Group	—	—	32,240	—

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

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Assets		
Amounts due from related companies	3,034	3,354
Deposits	88	931
Total amounts due from CNG and its subsidiaries	3,122	4,285

The amounts due from CNG and its subsidiaries which are included in accounts receivable, are non-interest bearing, unsecured and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

14. 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)

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Liabilities		
Other payable to CNG's subsidiaries	19,502	2,185
Customer advance paid by CNG's subsidiary	–	6,595
Entrusted loan payable to CNG	<u>32,240</u>	<u>–</u>
Total amounts due to CNG and its subsidiaries	<u>51,742</u>	<u>8,780</u>

With the exception of the entrusted loan payable to CNG (see Note 12), the amounts due to CNG and its subsidiaries which are included in other payables, are non-interest bearing, unsecured and repayable on demand.

(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 transactions of bank deposits, borrowings and other general banking facilities with other Government-related entities in its ordinary course of business.

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

The Group has the following significant balances with related parties at the end of each reporting period:

	June 30, 2014 US\$'000	December 31, 2013 US\$'000
Asset		
Amount due from a non-controlling shareholder of a subsidiary (included in other receivable)	<u>449</u>	<u>435</u>

The amount due from the related party is non-interest bearing, unsecured and repayable on demand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

14. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Transactions/balances with other non-government related parties/entities (Cont'd)

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000
Salaries and other benefits	211	249	417	382
Post employment benefits	4	4	11	9
	<u>215</u>	<u>253</u>	<u>428</u>	<u>391</u>

15. 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 ("CODM") to allocate resources to the segments and to assess their performance.

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

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

During the year ended December 31, 2013, for performance assessment and resources allocation, the CODM not just focused on mining operating earnings but also profit (loss) before income tax attributable to respective segment. The change in basis, since December 31, 2014, is to align with the Group's long term strategy. Following the change, the segment information for the six months period ended June 30, 2013 has been represented to conform to the presentation of current period's financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

15. SEGMENT INFORMATION (Cont'd)

(a) Segment revenues and results

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

For the six months ended June 30, 2014

	Mine – produced gold US\$'000	Mine – Produced copper US\$'000	Segment Total US\$'000	Unallocated US\$'000	Consolidated US\$'000
Revenue – External	59,661	25,539	85,200	–	85,200
Cost of sales	(35,921)	(15,448)	(51,369)	–	(51,369)
Mining operating Earnings	23,740	10,091	33,831	–	33,831
Income from operations	23,642	2,315	25,957	(4,131)	21,826
Foreign exchange gain (loss), net	1,058	(183)	875	58	933
Interest and other income	399	(616)	(217)	1,647	1,430
Finance costs	(2,753)	(4,426)	(7,179)	–	(7,179)
Profit (loss) before income tax	22,346	(2,910)	19,436	(2,426)	17,010

For the six months ended June 30, 2013

	Mine – produced gold US\$'000	Mine – Produced copper US\$'000	Segment Total US\$'000	Unallocated US\$'000	Consolidated US\$'000
Revenue – External	93,636	64,732	158,368	–	158,368
Cost of sales	(58,817)	(42,448)	(101,265)	–	(101,265)
Mining operating Earnings	34,819	22,284	57,103	–	57,103
Income from operations	34,699	13,597	48,296	(4,134)	44,162
Foreign exchange gain (loss), net	184	591	775	61	836
Interest and other income	1,083	2,751	3,834	1,765	5,599
Finance costs	(903)	(4,170)	(5,073)	–	(5,073)
Profit (loss) before income tax	35,063	12,769	47,832	(2,308)	45,524

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

15. SEGMENT INFORMATION (Cont'd)

(a) Segment revenues and results (Cont'd)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) 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 CODM for the purposes of resource allocation and performance assessment.

There were no inter-segment sales for the six months ended June 30, 2014 and 2013.

(b) Segment assets and liabilities

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

	Mine – produced gold US\$'000	Mine – Produced copper US\$'000	Segment Total US\$'000	Unallocated US\$'000	Consolidated US\$'000
As of June 30, 2014					
Total assets	511,974	1,794,581	2,306,555	58,135	2,364,690
Total liabilities	178,736	752,855	931,591	930	932,521
As of December 31, 2013					
Total assets	430,543	1,724,209	2,154,752	63,749	2,218,501
Total liabilities	111,499	673,841	785,340	1,636	786,976

16. FINANCIAL INSTRUMENTS

As at June 30, 2014 and December 31, 2013, 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 of Hong Kong Limited ("Stock Exchange") is measured based on the quoted price (unadjusted) available on the Stock Exchange (Level 1 fair value measurement). As at June 30, 2014, US\$18,204,000 (December 31, 2013: US\$20,198,000) 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, 2014, the fair value decrease of US\$1,993,000 was recorded in other comprehensive income.

As at June 30, 2014, US\$1,612,000 (December 31, 2013: US\$1,652,000) 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, 2013. There was no transfer between Levels 1, 2 and 3 in the current and prior periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For The Six Months Ended June 30, 2014

17. 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 supplier 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.

18. EVENTS AFTER THE REPORTING PERIOD

On July 17, 2014, the Company, through its wholly-owned subsidiary, Skyland Mining (BVI) Limited, successfully completed the issuance of bonds in an aggregate principal amount of US\$500 million, listed on The Stock Exchange of Hong Kong Limited. The Bonds were issued at a price of 99.634%, bearing coupon rate of 3.5% with a maturity date of July 17, 2017. The Bonds will be unconditionally and irrevocably guaranteed by the Company. The net proceeds of the bonds offer will be used for working capital, capital expenditures and general corporate purposes of the Group.



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