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

### **Management's Discussion and Analysis of Financial Condition and Results of Operations Year ended December 31, 2015 (Stated in U.S. dollars, except as otherwise noted)**

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

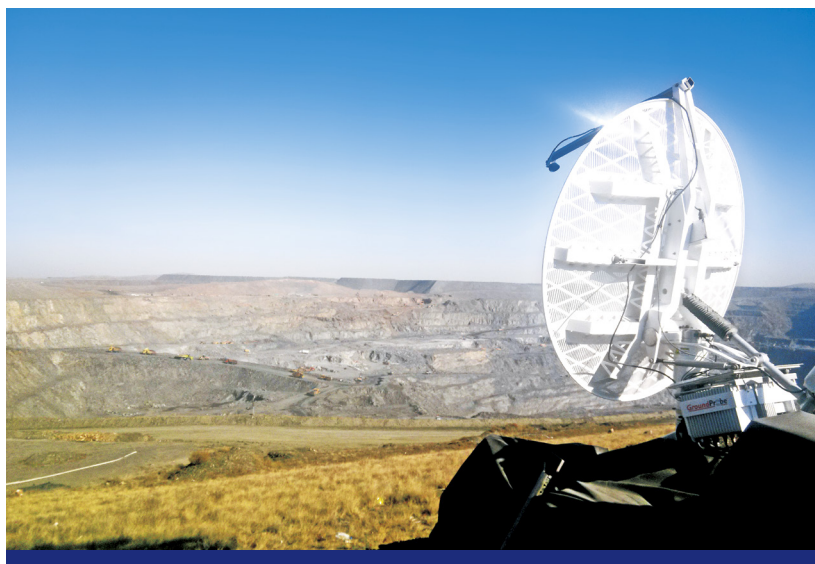
The following Management Discussion and Analysis of financial condition and results of operations ("MD&A") is prepared as of March 30, 2016. It should be read in conjunction with the consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (referred to herein as "China Gold International", the "Company", "we" or "our" as the context may require) for the year ended December 31, 2015 and the year ended December 31, 2014, 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 30, 2016 on SEDAR at [www.sedar.com](http://www.sedar.com). For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of the Company, please refer to the sections titled "Forward-Looking Statements" and "Risk Factors" and to discussions elsewhere within this MD&A. China Gold International's business, financial condition or results of operations could be materially and adversely affected by any of these risks.

## FORWARD-LOOKING STATEMENTS

Certain statements made herein, other than statements of historical fact relating to the Company, represent forward-looking information. In some cases, this forward-looking information can be identified by words or phrases such as "may", "will", "expect", "anticipate", "contemplates", "aim", "estimate", "intend", "plan", "believe", "potential", "continue", "is/are likely to", "should" or the negative of these terms, or other similar expressions intended to identify forward-looking information. This forward-looking information includes, among other things; China Gold International's production estimates, business strategies and capital expenditure plans; the development and expansion plans and schedules for the CSH 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 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 operation, acquisition, development and exploration of gold and base metal properties.

The Company's principal mining operations are the Chang Shan Hao Gold Mine ("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 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 owns a 100% interest in the Jiama Mine, which hosts a large scale copper-gold polymetallic deposit containing copper, gold, molybdenum, silver, lead and zinc metals. 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 ("HKSE") under the symbol CGG and the stock code 2099, respectively. Additional information about the Company, including the Company's Annual Information Form, is available on SEDAR at [sedar.com](http://sedar.com) as well as Hong Kong Exchange News at [hkexnews.hk](http://hkexnews.hk).

## MANAGEMENT'S DISCUSSION AND ANALYSIS



### Performance Highlights

#### Three months ended December 31, 2015

- Revenue decreased by 24% to US\$79.0 million from US\$103.3 million for the same period in 2014.
  - Mine operating earnings decreased by 87% to US\$4.2 million from US\$32.6 million for the same period in 2014
  - Net profit/loss after income taxes decreased to net loss of US\$18.5 million from net profit of US\$15.7 million for the same period in 2014 mainly due to foreign exchange loss of US\$5.6 million and US\$4.7 million value impairment of Available-For-Sale securities incurred during the current period and decreased copper and gold price.
- Gold production from the CSH Mine decreased by 13% to 55,673 ounces from 63,631 ounces for the same period in 2014.
  - Copper production from the Jiama Mine decreased by 7% to 4,339 tonnes (approximately 9.6 million pounds) from 4,650 tonnes (approximately 10.3 million pounds) for the same period in 2014.

#### Year ended December 31, 2015

- Revenue increased by 22% to US\$339.9 million from US\$277.8 million for the same period in 2014.
- Mine operating earnings decreased by 37% to US\$62.8 million from US\$99.0 million for the same period in 2014
- Net loss/profit after income taxes decreased to net loss of US\$6.8 million from net profit of US\$41.9 million for the same period in 2014 mainly due to foreign exchange loss of US\$13.5 million and US\$4.7 million value impairment of available-for-sale securities incurred during the current period and decreased copper and gold price.
- Gold production from the CSH Mine increased by 25% to 204,471 ounces from 163,443 ounces for the same period in 2014.
- Copper production from the Jiama Mine increased by 24% to 17,284 tonnes (approximately 38.1 million pounds) from 13,992 tonnes (approximately 30.8 million pounds) for the same period in 2014.



**Selected Annual Information**

| US\$ Millions except for per share                | 2015          | Year ended December 31 |       |       |       |
|---|---------------|------------------------|-------|-------|-------|
|   |               | 2014                   | 2013  | 2012  | 2011  |
| Total revenue                                     | <b>340</b>    | 278                    | 303   | 332   | 311   |
| Profit from continuing operations                 | <b>39</b>     | 73                     | 76    | 99    | 110   |
| Net (loss) profit                                 | <b>(6.8)</b>  | 42                     | 57    | 74    | 82    |
| Basic (loss) earnings per share (cents)           | <b>(2.07)</b> | 10.02                  | 13.88 | 17.90 | 20.04 |
| Diluted (loss) earnings per share (cents)         | <b>(2.07)</b> | 10.02                  | 13.88 | 17.90 | 20.04 |
| Total assets                                      | <b>2,781</b>  | 3,013                  | 2,219 | 1,806 | 1,745 |
| Total non-current liabilities                     | <b>971</b>    | 850                    | 431   | 279   | 321   |
| Distribution or cash dividends declared per share | —             | —                      | —     | —     | —     |

\* Prepared under IFRS

**OUTLOOK**

- Projected gold production of 235,000 ounces in 2016.
- Projected copper production of approximately 38.6 million pounds (18,000 tonnes) in 2016.
- The Jiama Mine's Phase II expansion is being executed in two stages. Stage I has been completed and is now in commissioning, at a throughput capacity of 28,000 tpd, up from the previous capacity of 6,000 tpd. Stage II of the project is under way and is expected to be commissioned in the second half of 2016, increasing capacity to 50,000 tpd.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

- The Company will continue to leverage the technical and operating experience of the Company's controlling shareholder, China National Gold Group Corporation ("CNG"), to improve operations at its mines. In addition, the Company continues to focus its efforts on increasing production while minimizing costs at both mines.
- To fulfill its growth strategy, the Company is continually working with CNG and other interested parties to identify potential international mining acquisition opportunities, namely projects outside of China, which can be readily and quickly brought into production with the possibility of further expansion through continued exploration.

### RESULTS OF OPERATIONS

#### Selected Quarterly Financial Data

| (US\$ in thousands except per share)      | 31-Dec          | Quarter ended 2015 |        |        | Quarter ended 2014 |        |        |        |
|---|-----------------|--------------------|--------|--------|--------------------|--------|--------|--------|
|   |                 | 30-Sep             | 30-Jun | 31-Mar | 31-Dec             | 30-Sep | 30-Jun | 31-Mar |
| Revenues                                  | <b>78,967</b>   | 99,948             | 83,647 | 77,387 | 103,326            | 89,257 | 48,541 | 36,659 |
| Cost of sales                             | <b>74,798</b>   | 82,752             | 63,336 | 56,217 | 70,763             | 56,687 | 29,084 | 22,285 |
| Mine operating earnings                   | <b>4,169</b>    | 17,196             | 20,311 | 21,170 | 32,563             | 32,570 | 19,457 | 14,374 |
| General and administrative expenses       | <b>6,483</b>    | 5,330              | 5,988  | 6,028  | 7,631              | 5,523  | 5,892  | 6,015  |
| Exploration and evaluation expenses       | <b>157</b>      | 45                 | 62     | 38     | 319                | 129    | 53     | 45     |
| Income (loss) from operations             | <b>(2,471)</b>  | 11,821             | 14,261 | 15,104 | 24,613             | 26,918 | 13,512 | 8,314  |
| Foreign exchange gain (loss)              | <b>(5,624)</b>  | (8,606)            | 1,482  | (789)  | 5,631              | (300)  | 182    | 752    |
| Finance costs                             | <b>(868)</b>    | 7,181              | 6,570  | 8,524  | 8,913              | 7,826  | 3,781  | 3,398  |
| Profit (loss) before income tax           | <b>(13,640)</b> | 692                | 13,742 | 10,813 | 24,485             | 21,221 | 11,147 | 5,863  |
| Income tax expense                        | <b>4,836</b>    | 5,850              | 3,173  | 4,575  | 8,802              | 4,790  | 2,759  | 4,498  |
| Net income                                | <b>(18,476)</b> | (5,158)            | 10,569 | 6,238  | 15,683             | 16,431 | 8,388  | 1,365  |
| Basic earnings (loss) per share (cents)   | <b>(4.69)</b>   | (1.41)             | 2.54   | 1.49   | 3.78               | 4.02   | 1.93   | 0.29   |
| Diluted earnings (loss) per share (cents) | <b>(4.69)</b>   | (1.41)             | 2.54   | 1.49   | 3.78               | 4.02   | 1.93   | 0.29   |

#### Selected Quarterly and Annual Production Data and Analysis

| CSH Mine   | Three months ended |        | Year ended        |         |
|--|--------------------|--------|-------------------|---------|
|  | December 31, 2015  | 2014   | December 31, 2015 | 2014    |
| Gold sales (US\$ million)                                    | <b>60.92</b>       | 72.34  | <b>233.80</b>     | 185.91  |
| Realized average price <sup>1</sup> (US\$) of gold per ounce | <b>1,070</b>       | 1,155  | <b>1,117</b>      | 1,209   |
| Gold produced (ounces)                                       | <b>55,673</b>      | 63,631 | <b>204,471</b>    | 163,443 |
| Gold sold (ounces)   | <b>56,924</b>      | 62,641 | <b>209,285</b>    | 153,736 |
| Total production cost <sup>2</sup> (US\$) of gold per ounce  | <b>961</b>         | 799    | <b>884</b>        | 768     |
| Cash production cost <sup>2</sup> (US\$) of gold per ounce   | <b>798</b>         | 665    | <b>702</b>        | 590     |

<sup>1</sup> Net of resource compensation fees that is based on revenue and paid to the PRC government

<sup>2</sup> Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Gold production at the CSH Mine decreased by 13% from 63,631 ounces for the three months ended December 31, 2014 to 55,673 ounces for the three months ended December 31, 2015. The decrease in gold production is mainly due to the lower volume and grades of ores mined during the current period.

The cash production cost, and total production cost of gold for the three months ended December 31, 2015 both increased compared with the same period in 2014. The major reason is higher waste rock removal costs due to higher stripping ratio during the current quarter.

|  | <b>Jiama Mine</b>         |            |                     |            |
|--|---------------------------|------------|---------------------|------------|
|  | <b>Three months ended</b> |            | <b>Year ended</b>   |            |
|  | <b>December 31,</b>       | 2014       | <b>December 31,</b> | 2014       |
|  | <b>2015</b>               |            | <b>2015</b>         |            |
| Copper sales <sup>1</sup> (US\$ in millions)   | <b>12.50</b>              | 22.90      | <b>74.93</b>        | 68.64      |
| Realized average price <sup>2</sup> (US\$) of copper per pound after smelting fee discount           | <b>1.65</b>               | 2.40       | <b>1.99</b>         | 2.51       |
| Copper produced (tonnes)   | <b>4,339</b>              | 4,650      | <b>17,284</b>       | 13,992     |
| Copper produced (pounds)   | <b>9,564,819</b>          | 10,251,814 | <b>38,104,950</b>   | 30,847,753 |
| Copper sold (tonnes)   | <b>3,533</b>              | 4,089      | <b>17,859</b>       | 12,362     |
| Copper sold (pounds)   | <b>7,789,068</b>          | 9,014,784  | <b>39,372,115</b>   | 27,254,214 |
| Gold produced (ounces)   | <b>5,531</b>              | 6,015      | <b>24,037</b>       | 17,231     |
| Gold sold (ounces)   | <b>4,654</b>              | 4,622      | <b>24,531</b>       | 14,557     |
| Silver produced (ounces)   | <b>279,093</b>            | 387,783    | <b>1,227,600</b>    | 1,072,218  |
| Silver sold (ounces)   | <b>212,988</b>            | 328,871    | <b>1,289,415</b>    | 901,335    |
| Total production cost <sup>3</sup> (US\$) of copper per pound  | <b>3.21</b>               | 2.99       | <b>2.84</b>         | 2.97       |
| Total production cost <sup>3</sup> (US\$) of copper per pound after by-products credits <sup>5</sup> | <b>2.45</b>               | 2.02       | <b>1.99</b>         | 2.01       |
| Cash production cost <sup>4</sup> (US\$) per pound of copper   | <b>2.63</b>               | 2.39       | <b>2.39</b>         | 2.33       |
| Cash production cost <sup>4</sup> (US\$) of copper per pound after by-products credits <sup>5</sup>  | <b>1.87</b>               | 1.42       | <b>1.54</b>         | 1.37       |

<sup>1</sup> Net of resource compensation fees that is based on revenue and paid to PRC government agency

<sup>2</sup> a discount factor of 18.9% – 23.5% is applied to the copper bench mark price to compensate the refinery costs incurred by the buyers

<sup>3</sup> 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.

<sup>4</sup> Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

<sup>5</sup> By-products credit refers to the sales of gold and silver during the corresponding period.

During the three months ended December 31, 2015, the Jiama Mine produced 4,339 tonnes (approximately 9.6 million pounds) of copper in concentrate, a decrease by 7% compared with the three months ended December 31, 2014 (4,650 tonnes, or 10.3 million pounds). The decrease in production was mainly due to the lower volume of ore mined and the lower copper grade of ore during the period.

Both cash production cost and total production cost of copper per pound were increased, mainly because of the lower ore grade mined and processed during the period.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Significant investments, acquisitions and disposals of subsidiaries, associates, and joint ventures and future plans for material investments of capital assets

Save as this annual report, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

#### Charge on assets

Save as disclosed in this annual report, none of the Group's assets was pledged as at 31 December 2015.

#### Review of Quarterly and Annual Data

*Three months ended December 31, 2015 compared to three months ended December 31, 2014*

**Revenue** of US\$79.0 million for the fourth quarter of 2015 decreased by US\$24.3 million or 24%, from US\$103.3 million for the same period in 2014.

Revenue from the CSH Mine was US\$60.9 million (2014: US\$72.3 million), a decrease of US\$11.4 million compared to the same period in 2014, due to a 9% decrease in gold sales volume. Gold produced by the CSH Mine was 55,673 ounces (gold sold: 56,924), compared to 63,631 ounces (gold sold: 62,641 ounces) for the same period in 2014. CSH's decreased production volumes are attributed to lower grades of ore mined and lower recovery rates.

Revenue from the Jiama Mine was US\$18.1 million compared to US\$31.0 million for the same period in 2014. Total copper sold was 3,533 tonnes (7.8 million pounds) for the three months ended December 31, 2015, a decrease of 14% from 4,089 tonnes (9 million pounds) for the same period in 2014, primarily due to lower grades of ore mined.

**Cost of sales** of US\$74.8 million for the quarter ended December 31, 2015, an increase of US\$4 million or 6% from US\$70.8 million for the same period in 2014. CSH contributed to a significant portion of the overall increase due to lower grades of ore mined and lower volumes of recoverable gold. Cost of sales as a percentage of revenue for the Company increased from 68% to 95% for the three months ended December 31, 2014 and 2015, respectively.

**Mine operating earnings** of US\$4.2 million for the three months ended December 31, 2015 a decrease of 87%, or US\$28.4 million, from US\$32.6 million for the same period in 2014. Mine operating earnings as a percentage of revenue decreased from 32% to 5% for the three months ended December 31, 2014 and 2015, respectively. The decrease in mine operating earnings as a percentage of revenue can be attributed to a 31% decrease in the realized average price of copper per pound and a 8% decrease in the realized average price of gold per ounce for the three months ended December 31, 2014 and 2015, respectively.

**General and administrative expenses** decreased by US\$1.1 million, from US\$7.6 million for the quarter ended December 31, 2014 to US\$6.5 million for the quarter ended December 31, 2015. The 14% decrease is consistent with the Company's implementation of cost reductions programs during the year.

**Income from operations** for the fourth quarter of 2014 of US\$24.6 million decreased to a loss of US\$2.5 million for the three month period in 2015.

**Finance costs** for the three months ended December 31, 2015 decreased by US\$9.8 million from US\$8.9 million for the three months ended December 31, 2014. The decrease in the 2015 period is attributed to an increase in capitalized amounts in relation to borrowing costs related to the Jiama Mine expansion. During the three months ended December 31, 2014, interest payments of US\$5.2 million (2014: US\$4.8 million) were capitalized for borrowing costs related to the Jiama Mine expansion.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Loss on Available for sale investment** of US\$4.7 million was recognized in relation to the equity securities investment listed in Hong Kong during the three months ended December 31, 2015, the fair market value adjustments were recognized as equity reserve in the comparative period in 2014. The loss was recorded due to an overall 24% decline in the share price of the security since the purchase date.

**Foreign exchange loss** increased to US\$5.6 million for the three months ended December 31, 2015 from a gain of US\$5.6 million for the same period in 2014. The 2015 loss 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. During August 2015, the RMB depreciated by approximately 3% against the US dollar, and the RMB continued to depreciate through to the end of 2015.

**Interest and other expense** of US\$1.7 million for the three months ended December 31, 2015 decreased from US\$3.1 of income for the three months ended December 31, 2014, due to a decrease in interest earning term deposits.

**Income tax expense** of US\$4.8 million for the fourth quarter of 2015, a decrease of US\$4.0 million from US\$8.8 million for the comparative 2014 period, primarily due to decreased profits from both mine sites. During the current quarter, the Company had US\$1.7 million of deferred tax expense compared to US\$2.5 million in 2014.

**Net loss/profit** of the Company decreased by US\$34.2 million from a profit of US\$15.7 million for the three months ended December 31, 2014 to a net loss of US\$18.5 million for the three months ended December 31, 2015.

### *Year ended December 31, 2015 compared to Year ended December 31, 2014*

**Revenue** of US\$339.9 million for the year ended December 31, 2015 increased by US\$62.1 million or 22%, from US\$277.8 million for the same period in 2014.

Revenue from the CSH Mine was US\$233.8 million (2014: US\$185.9 million), an increase of US\$47.9 million, due to a 36% increase in gold sales volume. Gold produced by the CSH Mine was 204,471 ounces (gold sold: 209,285 ounces), compared to 163,443 ounces (gold sold: 153,736 ounces) for the same period in 2014. Increased production and sales volumes during 2015 are attributed to the commencement of commercial production of the new heap leaching and processing system in October 2014, which has doubled CSH's processing capacity.

Revenue from the Jiama Mine was US\$106.1 million compared to US\$91.9 million for the same period in 2014. Total copper sold was 17,859 tonnes (39.4 million pounds) for the year ended December 31, 2015, an increase of 44% from 12,362 tonnes (27.3 million pounds) for the same period in 2014. The increase in revenue is attributed to increased levels of copper production.

**Cost of sales** of US\$277.1 million for the year ended December 31, 2015, increased by US\$98.3 million or 55% from US\$178.8 million for the same period in 2014. The increase in cost of sales is mainly attributable to higher sales volumes of both copper and gold. CSH contributed US\$66.9 million to the overall increase of cost of sales due to a 26% increase in its revenue, resulting from the commencement of commercial production in October 2014. Jiama contributed US\$31.4 million to the overall increase in cost of sales due to a 44% increase in its copper sales volume. Cost of sales as a percentage of revenue for the Company increased to 82% from 64% for the year ended December 31, 2015 compared to 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Mine operating earnings** of US\$62.8 million for the year ended December 31, 2015 decreased by 37%, or US\$36.2 million, from US\$99.0 million for the comparative 2014 period. Mine operating earnings as a percentage of revenue decreased from 36% for the year ended December 31, 2014 to 18% for the year ended December 31, 2015. The decrease in mine operating earnings as a percentage of revenue can be attributed to a 21% decrease in the realized average price of copper per pound and an 8% decrease in the realized average price of gold per ounce for the years ended December 31, 2014 and 2015, respectively. The decrease is also attributed to lower grades of ore in addition to higher stripping ratios.

**General and administrative expenses** decreased by US\$1.3 million, from US\$25.1 million for the year ended December 31, 2014 to US\$23.8 million for the comparative period in 2015. The decrease is due to the Company's implementation of cost reduction programs and continuous efforts in monitoring spending.

**Income from operations** for the year ended December 31, 2015 of US\$38.7 million, decreased by US\$34.7 million from US\$73.4 million for the same period in 2014.

**Finance costs** of US\$21.4 million for the year ended December 31, 2015 decreased by US\$2.5 million, from US\$23.9 million for the same period in 2014. The decrease is primarily due to a 20% or US\$233.4 million reduction in total borrowings from US\$1,185.8 million at December 31, 2014 compared to US\$952.4 million at December 31, 2015. The finance cost decreased during the year ended December 31, 2015, US\$23.9 million (2014: US\$16.4 million) of interest payments were capitalized for borrowing costs related to the Jiama Mine expansion.

**Foreign exchange loss** decreased to a loss of US\$13.5 million for the year ended December 31, 2015 from a gain of US\$6.3 million for the same 2014 period. The 2015 loss 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. During August 2015, the RMB depreciated by approximately 3% against the US dollar.

**Interest and other income** of US\$12.6 million for the year ended December 31, 2015 increased from US\$7.0 million for the year ended December 31, 2014, due to increased interest income earned on term deposits and related party loans.

**Loss on Available for sale investment** of US\$4.7 million was recognized in relation to the equity securities investment listed in Hong Kong during the year ended December 31, 2015, the fair market value adjustments were recognized as equity reserve in the year ended December 31, 2014. The loss was recorded due to an overall 24% decline in the share price of the investment security since the purchase date.

**Income tax expense** of US\$18.4 million for the year ended December 31, 2015 decreased by 12%, from US\$20.8 million for the comparative 2014 period. During the current period, the Company had US\$6.7 million of deferred income tax expense compared to US\$4.8 million in 2014, the change is attributed to the depreciation of the RMB.

**Net loss/profit** of the Company decreased by US\$48.7 million from income of US\$41.9 million for the year ended December 31, 2014 to a loss of US\$6.8 million. During the year ended December 31, 2015, the Company's production levels increased by 26% in gold and 24% in copper, sales volumes of gold increased by 39% and 44% for copper, however, were offset by the significant decline in commodity prices in addition to the depreciation of the RMB. A significant portion of the Company's net loss is also attributed to the US\$4.7 million loss recognized on the available for sale investment due to a considerable decrease in its market value, in addition to US\$13.5 million of foreign exchange loss primarily due to the depreciation of the RMB.

**NON-IFRS MEASURES**

The following table provides certain unit cost information on a cash cost of production per ounce (non-IFRS) basis for the CSH Mine for the three months and the year ended December 31, 2015 and 2014:

|   | <b>CSH Mine</b>           |      |                     |      |
|---|---------------------------|------|---------------------|------|
|   | <b>Three months ended</b> |      | <b>Year ended</b>   |      |
|   | <b>December 31,</b>       |      | <b>December 31,</b> |      |
|   | <b>2015</b>               | 2014 | <b>2015</b>         | 2014 |
|   | <b>US\$</b>               | US\$ | <b>US\$</b>         | US\$ |
| Cost of mining per tonne of ore               | <b>1.33</b>               | 1.38 | <b>1.41</b>         | 1.44 |
| Cost of mining waste per tonne of ore         | <b>2.43</b>               | 4.48 | <b>2.81</b>         | 2.38 |
| Other mining costs per tonne of ore           | <b>0.36</b>               | 0.43 | <b>0.31</b>         | 0.36 |
| <b>Total mining costs per tonne of ore</b>    | <b>4.12</b>               | 6.29 | <b>4.53</b>         | 4.18 |
| Cost of reagents per tonne of ore             | <b>1.39</b>               | 1.21 | <b>1.00</b>         | 0.89 |
| Other processing costs per tonne of ore       | <b>1.31</b>               | 0.87 | <b>1.06</b>         | 1.06 |
| <b>Total processing cost per tonne of ore</b> | <b>2.70</b>               | 2.08 | <b>2.06</b>         | 1.95 |

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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

|                             | CSH Mine (Gold)                 |                   |             |                   |                         |                   |              |                   |
|-----------------------------|---------------------------------|-------------------|-------------|-------------------|-------------------------|-------------------|--------------|-------------------|
|                             | Three months ended December 31, |                   |             |                   | Year ended December 31, |                   |              |                   |
|                             | 2015                            |                   | 2014        |                   | 2015                    |                   | 2014         |                   |
|                             | US\$                            | US\$<br>Per ounce | US\$        | US\$<br>Per ounce | US\$                    | US\$<br>Per ounce | US\$         | US\$<br>Per ounce |
| Total production costs      | 54,715,003                      | 961               | 50,064,541  | 799               | 185,052,316             | 884               | 118,131,730  | 768               |
| Adjustments                 | (9,307,349)                     | (164)             | (8,426,071) | (135)             | (38,053,909)            | (182)             | (27,391,303) | (178)             |
| Total cash production costs | 45,407,655                      | 798               | 41,638,470  | 665               | 146,998,406             | 702               | 90,740,427   | 590               |

|  | Jiama Mine (Copper with by-products credits) |                   |             |                   |                         |                   |              |                   |
|--|--|-------------------|-------------|-------------------|-------------------------|-------------------|--------------|-------------------|
|  | Three months ended December 31,              |                   |             |                   | Year ended December 31, |                   |              |                   |
|  | 2015   |                   | 2014        |                   | 2015                    |                   | 2014         |                   |
|  | US\$   | US\$<br>Per Pound | US\$        | US\$<br>Per pound | US\$                    | US\$<br>Per pound | US\$         | US\$<br>Per pound |
| Total production costs                                   | 25,024,225                                   | 3.21              | 26,979,486  | 2.99              | 111,798,518             | 2.84              | 80,998,195   | 2.97              |
| Adjustments  | (4,552,512)                                  | (0.58)            | (5,421,694) | (0.60)            | (17,632,209)            | (0.45)            | (17,392,981) | (0.64)            |
| Total cash production costs                              | 20,471,712                                   | 2.63              | 21,557,792  | 2.39              | 94,166,309              | 2.39              | 63,605,214   | 2.33              |
| By-products credits                                      | (5,912,193)                                  | (0.76)            | (8,788,445) | (0.97)            | (33,563,675)            | (0.85)            | (26,175,464) | (0.96)            |
| Total cash production costs<br>after by-products credits | 14,559,520                                   | 1.87              | 12,769,347  | 1.42              | 60,602,634              | 1.54              | 37,429,750   | 1.37              |

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 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 has two open-pit mining operations and was operating at a 30,000 tpd capacity during Phase I. The Company completed Phase II expansion construction and entered into commercial production in the fourth quarter of 2014. Since the commencement of Phase II commercial production, CSH has increased its processing capacity to 60,000 tpd.

The capital expenditure incurred in the CSH Mine for the year ended December 31, 2015 was US\$71.6 million.

There were no major new contracts entered into during the year ended December 31, 2015.

#### *Production Update*

|                                      | CSH Mine             |            |                      |            |
|--------------------------------------|----------------------|------------|----------------------|------------|
|                                      | Three months ended   |            | Year ended           |            |
|                                      | December 31,<br>2015 | 2014       | December 31,<br>2015 | 2014       |
| Ore mined and placed on pad (tonnes) | <b>4,719,942</b>     | 5,440,309  | <b>21,144,471</b>    | 22,941,216 |
| Average ore grade (g/t)              | <b>0.51</b>          | 0.57       | <b>0.55</b>          | 0.56       |
| Recoverable gold (ounces)            | <b>46,883</b>        | 77,112     | <b>219,128</b>       | 259,607    |
| Ending ore inventory (ounces)        | <b>176,037</b>       | 167,258    | <b>176,037</b>       | 167,258    |
| Waste rock mined (tonnes)            | <b>16,124,486</b>    | 30,285,304 | <b>96,310,335</b>    | 91,387,853 |

For the three months ended December 31, 2015, the total amount of ore placed on the leach pad was 4.7 million tonnes, with total contained gold of 46,883 ounces (1,458 kilograms). The accumulative project-to-date gold recovery rate has slightly increased from approximately 51.05% at the end of September 2015 to 51.71% at the end of December 2015.

#### *Exploration*

The Company continues to conduct surface reconnaissance and exploration for expansion opportunities around the CSH Mine, with specific focus for 2015 on the mineralization below the current final open pit shell, especially the west end of the Northeast Pit, where a 2012 deep drill hole intersected over 306 meters (from 391.42m to 697.66m) of continuous gold mineralization averaging 0.54 g/t Au, which may further increase the open-pitable resource for the Northeast Pit and lead to possible joining up the Northeast Pit and Southwest Pit. Over 9200 meters of deep drilling has been planned for 2015 and 2016 in this area. To date, 3911 meters were drilled in 2015. Due to very broken ground conditions, the drilling is progressing slowly. Of the five drill holes planned for 2015, only two were completed with assay results pending. In 2016, the drilling will continue with five more drill holes planned to complete the deep drilling program.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *Mineral Resource Update*

CSH Mine Resources by category, Northeast and Southwest pits combined at December 31, 2015 under NI 43-101:

| Type      | Quantity Mt | Au g/t | Metal  |        |
|-----------|-------------|--------|--------|--------|
|           |             |        | Au t   | Au Moz |
| Measured  | 38.12       | 0.65   | 24.69  | 0.79   |
| Indicated | 145.34      | 0.60   | 87.30  | 2.81   |
| M+I       | 183.46      | 0.61   | 111.99 | 3.60   |

### *Mineral Reserves Update*

CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2015 under NI 43-101:

| Type    | Quantity Mt | Au g/t | Metal |        |
|---------|-------------|--------|-------|--------|
|         |             |        | Au t  | Au Moz |
| Proven  | 37.28       | 0.65   | 24.33 | 0.78   |
| Proable | 102.06      | 0.62   | 63.30 | 2.04   |
| Total   | 139.34      | 0.63   | 87.63 | 2.82   |

### **The Jiama Mine**

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

The Jiama Mine has both underground mining and open-pit mining operations. Phase I of the Jiama Mine commenced mining operations in the latter half of 2010 and reached its design capacity of 6,000 tpd in early 2011.

### *Phase II Expansion*

#### *The Jiama Expansion Program*

The Company retained Mining One Pty Ltd, an engineering firm, in conjunction with independent consulting engineers and management to conduct a feasibility study on the Jiama Mine expansion program. On December 20, 2013, Mining One Pty Ltd. produced an NI 43-101 Technical report – Phase II Expansion Project (“Jiama Technical Report”) based on the “Feasibility Study for the Phase II Expansion Project” as prepared by the Changchun Gold Design Institute. The Jiama Technical Report was filed on [sedar.com](http://sedar.com) and [hkexnews.hk](http://hkexnews.hk) on February 4, 2014. The Jiama Technical Report proposes to expand the Jiama Mine from its initial mining and processing capacity of 6,000 tpd to 50,000 tpd of ore. The expansion program includes the development of four open pit mines and one underground mine, and construction of a new flotation plant 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 approximately 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The expansion program is implemented in two stages, adding 22,000 tpd mineral processing capacity in each stage. Two source pits are ready to provide ore feed. Stage one of the processing plant also started the commissioning in October 2015. Stage two of the expansion has been started and construction is expected to be completed in the second half of 2016, along with the completion of the underground development system.

The capital expenditure incurred for the Jiama Mine expansion for the year ended December 31, 2015 was US\$206.0 million.

Major new contracts entered into during the year ended December 31, 2015 are as follows:

| Item No. | Contact Name   | Counterpart  | Subject amount<br>(US \$ millions) | Contract period                     | Contract Date     |
|----------|--|--|------------------------------------|-------------------------------------|-------------------|
| 1        | Forest Land Compensation Agreement                                 | Forest Bureau of Maizhokunggar County                | 3.97                               | Valid for the life of mine of Jiama | January 14, 2015  |
| 2        | Amendment Agreement to the Product and Service Framework Agreement | China National Gold Group Corporation                | 589.83                             | December 31, 2017                   | May 29, 2015      |
| 3        | Loan Facility Agreement  | A syndicate of banks led by Bank of China            | 627.00                             | Valid for 14 years                  | November 3, 2015  |
| 4        | South Pit Open Pit Stripping Project Agreement                     | In Color Twelve Metallurgical Construction Co., Ltd. | 154.90                             | October 31, 2018                    | December 31, 2015 |

### Production Update

|                                | Jiama Mine                      |         |                         |           |
|--------------------------------|---------------------------------|---------|-------------------------|-----------|
|                                | Three months ended December 31, |         | Year ended December 31, |           |
|                                | 2015                            | 2014    | 2015                    | 2014      |
| Ore mined (tonnes)             | <b>525,174</b>                  | 615,763 | <b>2,317,522</b>        | 1,674,612 |
| Waste mined (tonnes)           | –                               | –       | –                       | –         |
| Average copper ore grade (%)   | <b>0.81</b>                     | 0.88    | <b>0.79</b>             | 0.82      |
| Copper recovery rate (%)       | <b>91</b>                       | 91      | <b>92</b>               | 91        |
| Average gold ore grade (g/t)   | <b>0.46</b>                     | 0.40    | <b>0.46</b>             | 0.40      |
| Gold recovery rate (%)         | <b>69</b>                       | 69      | <b>68</b>               | 67        |
| Average silver ore grade (g/t) | <b>19.91</b>                    | 25.62   | <b>21.62</b>            | 25.37     |
| Silver recovery rate (%)       | <b>68</b>                       | 70      | <b>68</b>               | 67        |

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Exploration

The Company has not carried out any peripheral mineral exploration at the Jiama Mine as of December 31, 2015 as it has been focusing on the phase II expansion program. The company plans peripheral prospecting and mineral exploration work in 2016.

### Mineral Resources Estimate

An NI 43-101 compliant mineral resource estimate was independently completed by Mining One Pty Ltd. in November 2013, based on information collected up to November 12, 2012. The drilling program subsequent to November 2012, including an extensive drill program conducted in 2013, will be included in future updates of the Mineral Resources and Reserves.

Mining One Pty Ltd. noted that gold and silver mineralization within the ore body had a significantly higher spatial variability than the other elements, and as a result, classified the Au and Ag resource presented in Table 2 separately. This classification takes into account the proposed large scale mining techniques where Au and Ag will only be credits to the overall products from the operations. Mining One Pty Ltd has assumed that Au and Ag will not be assigned a single cut-off grade for a selected mining block and will be mined in conjunction with the other elements.

**Jiama Project – Cu, Mo, Pb, Zn, Au, and Ag Mineral Resources under NI 43-101  
Reported at a 0.3% Cu Equivalent Cut off grade\*, as of December 31, 2015**

| Class     | Quantity<br>Mt | Cu % | Mo % | Pb % | Zn % | Au g/t | Ag g/t | Cu            | Mo            | Pb            | Zn            | Au<br>Moz | Ag<br>Moz |
|-----------|----------------|------|------|------|------|--------|--------|---------------|---------------|---------------|---------------|-----------|-----------|
|           |                |      |      |      |      |        |        | Metal<br>(kt) | Metal<br>(kt) | Metal<br>(kt) | Metal<br>(kt) |           |           |
| Measured  | 96.80          | 0.40 | 0.04 | 0.04 | 0.02 | 0.10   | 6.53   | 385.50        | 34.80         | 43.10         | 23.20         | 0.27      | 17.86     |
| Indicated | 1,385.00       | 0.41 | 0.03 | 0.05 | 0.03 | 0.11   | 6.11   | 5,715.50      | 468.00        | 751.00        | 471.00        | 4.99      | 272.35    |
| M+I       | 1,481.80       | 0.41 | 0.03 | 0.05 | 0.03 | 0.11   | 6.14   | 6,101.00      | 502.80        | 794.10        | 494.20        | 5.26      | 290.21    |
| Inferred  | 406.10         | 0.31 | 0.03 | 0.08 | 0.04 | 0.10   | 5.13   | 1,247.00      | 123.00        | 311.00        | 175.00        | 1.32      | 66.93     |

Note: Figures reported are rounded which may result in small tabulation errors.

The Copper Equivalent basis for the reporting of resources has been compiled on the following basis:

$$\text{CuEq Resources} = (\text{Ag Grade} * \text{Ag Price} + \text{Au Grade} * \text{Au Price} + \text{Cu Grade} * \text{Cu Price} + \text{Pb Grade} * \text{Pb Price} + \text{Zn Grade} * \text{Zn Price} + \text{Mo Grade} * \text{Mo Price}) / \text{Copper Price}$$

### Mineral Reserves Estimate

A Mineral Reserve estimate, dated November 20, 2013, has been independently verified by Mining One Pty Ltd. in accordance with the CIM Definitions Standards under NI 43-101.

**Jiama Project Statement of NI 43-101  
Mineral Reserve Estimate as of December 31, 2015**

| Class    | Quantity<br>Mt | Cu % | Mo % | Pb % | Zn % | Au g/t | Ag g/t | Cu            | Mo            | Pb            | Zn            | Au<br>Moz | Ag<br>Moz |
|----------|----------------|------|------|------|------|--------|--------|---------------|---------------|---------------|---------------|-----------|-----------|
|          |                |      |      |      |      |        |        | Metal<br>(kt) | Metal<br>(kt) | Metal<br>(kt) | Metal<br>(kt) |           |           |
| Proven   | 21.52          | 0.62 | 0.04 | 0.05 | 0.03 | 0.24   | 9.41   | 132           | 10            | 11            | 8             | 0.15      | 6.53      |
| Probable | 415.07         | 0.61 | 0.03 | 0.13 | 0.08 | 0.19   | 11.50  | 2,541         | 133           | 551           | 319           | 2.49      | 153.50    |
| P+P      | 436.59         | 0.61 | 0.03 | 0.13 | 0.07 | 0.19   | 11.46  | 2,673         | 143           | 562           | 326           | 2.64      | 160.03    |



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Notes:

1. All Mineral Reserves have been estimated in accordance with the JORC code and have been reconciled to CIM standards as prescribed by the NI 43-101.
2. Mineral Reserves were estimated using the following mining and economic factors:  
Open Pits:
  - a) 5% dilution factor and 95% recovery were applied to the mining method;
  - b) overall slope angles of 43 degrees;
  - c) a copper price of US\$2.9/lbs;
  - d) an overall processing recovery of 88 – 90% for copperUnderground:
  - a) 10% dilution added to all Sub-Level Open Stopping;
  - b) Stope recovery is 87% for Sub-Level Open Stopping;
  - c) An overall processing recovery of 88 – 90% for copper.
3. The cut-off grade for Mineral Reserves has been estimated at copper equivalent grades of 0.3% Cu (NSR) for the open pits and 0.45% Cu (NSR) for the underground mine.

### LIQUIDITY AND CAPITAL RESOURCES

The Company operates in a capital intensive industry. The Company's liquidity requirements arise principally from the need for financing 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 December 31, 2015, the Company had an accumulated surplus of US\$186.3 million, working capital deficit US\$5.8 million and borrowings of US\$952.4 million. The Company's cash balance at December 31, 2015 was US\$112.4 million.

Management believes that its forecast operating cash flows are sufficient to cover the next twelve months of the Company's operations including its planned capital expenditures and current debt repayments. The Company's borrowings are comprised of US\$505.1 million of 3.5% unsecured bonds maturing on July 17, 2017 and US\$171.7 million of short term debt facilities with interest rates ranging from 2.75% to 6.00% per annum arranged through various banks in China. In addition, on November 3, 2015, the Company entered into a Loan Facility agreement with a syndicate of banks, led by Bank of China. The lenders agreed to lend to the aggregate principle amount of RMB3.98 billion, approximately USD613 million with the interest rate of 2.83% per annum currently. The People's Bank of China Lhasa Center Branch's interest rate serves as a benchmark for the interest on the drawdowns. The bank's interest rate is then discounted by 7 basis points (or 0.07%) to calculate the interest on the drawdowns. The proceeds from the Loan Facility are to be used for the development of the Jiama Mine. As of December 31, 2015, the Company has drawdown RMB1.4 billion, approximately US\$215.6 million. The Company believes that the availability of debt financing in China at favourable rates will continue for the foreseeable future.

Given the challenging market conditions in the global mining industry, the Company continues to rigorously test its assets for impairment as part of its financial reporting processes. To date, the testing procedures carried out by the Company support the carrying values of the Company's assets, and no impairment has been required. However, management of the Company, together with its auditors, will continue to evaluate and test key assumptions on estimates and management judgments in order to determine the fair value less cost of disposal of the CSH Mine and the Jiama Mine.

## 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 December 31, 2015 and December 31, 2014.

|  | Year ended December 31, |           |
|--|-------------------------|-----------|
|  | 2015                    | 2014      |
|  | US\$'000                | US\$'000  |
| Net cash from operating activities                                   | 66,867                  | 2,972     |
| Net cash used in investing activities                                | (298,672)               | (266,203) |
| Net cash from financing activities                                   | (219,036)               | 724,212   |
| Net increase (decrease) in cash and cash equivalents                 | (450,841)               | 460,981   |
| Effect of foreign exchange rate changes on cash and cash equivalents | (2,338)                 | (1,290)   |
| Cash and cash equivalents, beginning of period                       | 565,578                 | 105,887   |
| Cash and cash equivalents, end of period                             | 112,399                 | 565,578   |

#### Operating cash flow

For the year ended December 31, 2015, the net cash inflow from operating activities was US\$66.9 million which is primarily attributable to (i) depreciation and depletion of US\$70.5 million (ii) increase in accounts payable and accrued liabilities of US\$31.2 million, and (iii) finance cost of US\$21.4 million, partially offset by (i) interest paid of US\$42.7 million; (ii) increase in inventory of US\$32.0 million and (iii) income taxes paid of US\$12.6 million.

#### Investing cash flow

For the year ended December 31, 2015, the net cash outflow from investing activities was US\$298.7 million, which is primarily attributable to payment for the acquisition of property, plant and equipment of US\$276.1 million and loan to a related party of US\$14.0 million, partially offset by receipt of government grants of US\$0.9 million.

#### Financing cash flow

For the year ended December 31, 2015, the net cash outflow from financing activities was US\$219.0 million, which is primarily attributable to repayment of borrowings of US\$553.7 million, partially offset by proceeds from borrowings of US\$335.0 million.

#### Expenditures Incurred

For the year ended December 31, 2015, the Company incurred mining costs of US\$115.3 million, processing costs of US\$53.9 million, transportation costs of US\$7.3 million and resource compensation fee, which was paid to the PRC government, of US\$9.4 million.

#### Gearing ratio

Gearing ratio is defined as the ratio of consolidated total liabilities to consolidated total equity. As at December 31, 2015, the Company's total liabilities was US\$1,333.3 million and the total equity was US\$1,447.2 million. The Company's gearing ratio was therefore 0.92 as at December 31, 2015 and 1.06 as at December 31, 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Restrictive covenants

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

Under a Long Facility agreement entered on November 3, 2015 between the Company and a syndicated of banks, led by Bank of China pursuant to which the banks agreed to lend to Tibet Huatailong, the Company's subsidiary, the aggregate principle amount of RMB3.98 billion (approximately USD613 million), the debt to assets ratio of Huatailong should be less than 75% during the term of the agreement.

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

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

|                                   | <b>Total</b>     | <b>Within<br/>One year</b> | <b>Within Two<br/>to five years</b> | <b>Over<br/>5 years</b> |
|-----------------------------------|------------------|----------------------------|-------------------------------------|-------------------------|
|                                   | US\$'000         | US\$'000                   | US\$'000                            | US\$'000                |
| Principal repayment of bank loans | 447,364          | 171,708                    | 126,278                             | 149,378                 |
| Repayment of bonds                | 505,067          | 17,301                     | 487,766                             | –                       |
| Operating lease commitments (a)   | 703              | 106                        | 350                                 | 247                     |
| Capital commitments (b)           | 211,196          | 211,196                    | –                                   | –                       |
| <b>Total</b>                      | <b>1,164,330</b> | <b>400,311</b>             | <b>614,394</b>                      | <b>149,625</b>          |

(a) Operating leases are primarily for premises and production

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

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### RELATED PARTY TRANSACTIONS

CNG owned 39.3 percent of the outstanding common shares of the Company as at December 31, 2015 and December 31, 2014.

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 gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of 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, the 2008 Contract was renewed for another three years ending December 31, 2014 and subsequently on June 30, 2014 for the period of January 1, 2015 to December 31, 2017.

Revenue from sales of gold doré bars to CNG increased from US\$185.9 million for the year ended December 31, 2014 to US\$233.8 million for the year ended December 31, 2015.

On May 29, 2015, the Company entered into a revised continuing connected transaction and major transaction amending the Product and Service Framework Agreement with CNG. According to the amendments, CNG purchases the copper concentrates produced at the Jiama Mine. The quantity of copper concentrates, pricing terms and payment terms be established from time to time by the parties with reference to the pricing principles for connected transactions set out under the Product and Service Framework Agreement. For the year ended December 31, 2015, revenue from sales of copper concentrate and other products to CNG was US\$21.0 million, compared to US\$5.8 million for the same period in 2014.

For the year ended December 31, 2015, construction, stripping and mining services of US\$140.8 million were provided to the Company by subsidiaries of CNG (US\$119.3 million for the year ended December 31, 2014).

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, including a Financial Services Agreement entered on May 29, 2015 among Inner Mongolia Pacific, Huatailong and China Gold Finance.

### 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 year ended December 31, 2015.

### 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, 2015.

### **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, 2015.

### **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 financial derivatives or outstanding hedging contracts as at December 31, 2015.

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

As at December 31, 2015, 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 TSX and HKSE, 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 December 31, 2015 the Company had 396,413,753 common shares issued and outstanding.

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

Management is responsible for the design of disclosure controls and procedures ("DC&P") and the design of internal control over financial reporting ("ICFR") to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's Chief Executive Officer and Chief Financial Officer have each evaluated the Company's DC&P and ICFR as of December 31, 2015 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 December 31, 2015, and provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework to evaluate the Company's ICFR as of December 31, 2015 and have concluded that these controls and procedures were effective as of December 31, 2015 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 year ended December 31, 2015, 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.

### COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

To the best of the Directors' knowledge, information and belief on the date of this annual report, the Company has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Company.

### ENVIRONMENT AND SUSTAINABILITY

The Company is dedicated to creating an environmentally friendly and sustainable operation. Our biggest environmental impact is created within our properties and manufacturing facilities, and through the use of raw materials, electricity, gas and waste generation. We therefore invest in the latest technology to reduce our carbon emission through energy efficient equipment. Internally, we are proactive in addressing our waste and recycling issues.

### RISK FACTORS

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

### QUALIFIED PERSON

Disclosure of a scientific or technical nature in this section of the MD&A in respect of updates at the CSH Gold Project 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.

March 30, 2016

**CHINA GOLD INTERNATIONAL RESOURCES  
CORP. LTD.**

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(incorporated in British Columbia, Canada with  
limited liability)

Consolidated Annual Financial Statements

As at and for the years ended December 31, 2015 and 2014

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS  
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of China Gold International Resources Corp. Ltd.

We have audited the accompanying consolidated financial statements of China Gold International Resources Corp. Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of profit or loss and other comprehensive (expenses) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2015 and December 31, 2014, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of China Gold International Resources Corp. Ltd. -  
continued

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015 and 2014, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
March 30, 2016  
Hong Kong

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE (EXPENSES) INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

|   | <u>NOTES</u> | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|---|--------------|-------------------------|-------------------------|
| Revenues  | 28           | 339,949                 | 277,783                 |
| Cost of sales   |              | <u>(277,103)</u>        | <u>(178,819)</u>        |
| Mine operating earnings   |              | <u>62,846</u>           | <u>98,964</u>           |
| Expenses  |              |                         |                         |
| General and administrative expenses   | 5            | (23,829)                | (25,061)                |
| Exploration and evaluation expenditure  | 6            | <u>(302)</u>            | <u>(546)</u>            |
|   |              | <u>(24,131)</u>         | <u>(25,607)</u>         |
| Income from operations  |              | <u>38,715</u>           | <u>73,357</u>           |
| Other (expenses) income   |              |                         |                         |
| Foreign exchange (loss) gain, net   |              | (13,537)                | 6,265                   |
| Interest and other income   |              | 12,556                  | 7,012                   |
| Finance costs   | 7            | (21,407)                | (23,918)                |
| Impairment loss on available-for-sale investment                              |              | <u>(4,720)</u>          | <u>-</u>                |
|   |              | <u>(27,108)</u>         | <u>(10,641)</u>         |
| Profit before income tax  |              | 11,607                  | 62,716                  |
| Income tax expense  | 8            | <u>(18,434)</u>         | <u>(20,849)</u>         |
| (Loss) profit for the year  | 9            | <u>(6,827)</u>          | 41,867                  |
| Other comprehensive (expenses) income for the year                            |              |                         |                         |
| <i>Items that may be reclassified subsequently to profit or loss:</i>         |              |                         |                         |
| Exchange difference arising on translation                                    |              | (11,497)                | (7,127)                 |
| Fair value loss on available-for-sale investment                              | 18           | (3,998)                 | (909)                   |
| Reclassification adjustment upon impairment of available-for-sales investment | 18           | <u>4,720</u>            | <u>-</u>                |
| Total comprehensive (expenses) income for the year                            |              | <u>(17,602)</u>         | <u>33,831</u>           |
| (Loss) profit for the year attributable to:                                   |              |                         |                         |
| Non-controlling interests   |              | 1,361                   | 2,138                   |
| Owners of the Company   |              | <u>(8,188)</u>          | <u>39,729</u>           |
|   |              | <u>(6,827)</u>          | <u>41,867</u>           |
| Total comprehensive (expenses) income for the year attributable to:           |              |                         |                         |
| Non-controlling interests   |              | 1,164                   | 2,279                   |
| Owners of the Company   |              | <u>(18,766)</u>         | <u>31,552</u>           |
|   |              | <u>(17,602)</u>         | <u>33,831</u>           |
| Basic and diluted (loss) earnings per share                                   | 12           | <u>(2.07) cents</u>     | <u>10.02 cents</u>      |
| Basic and diluted weighted average number of common shares outstanding        | 12           | <u>396,413,753</u>      | <u>396,413,753</u>      |

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AT DECEMBER 31, 2015 AND 2014

|  | <u>NOTES</u> | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|--|--------------|-------------------------|-------------------------|
| <b>Current assets</b>                            |              |                         |                         |
| Cash and cash equivalents                        | 13           | 112,399                 | 565,578                 |
| Restricted bank balance                          | 13           | 9,242                   | -                       |
| Trade and other receivables                      | 14           | 35,801                  | 13,058                  |
| Prepaid expenses and deposits                    | 15           | 8,446                   | 17,719                  |
| Prepaid lease payments                           | 16           | 225                     | 232                     |
| Inventories                                      | 17           | 190,876                 | 159,580                 |
|  |              | <u>356,989</u>          | <u>756,167</u>          |
| <b>Non-current assets</b>                        |              |                         |                         |
| Prepaid expenses and deposits                    | 15           | 11,974                  | 6,466                   |
| Prepaid lease payments                           | 16           | 7,620                   | 8,140                   |
| Deferred tax assets                              | 8            | 1,728                   | 9,037                   |
| Available-for-sale investments                   | 18           | 17,447                  | 21,544                  |
| Property, plant and equipment                    | 19           | 1,454,319               | 1,274,334               |
| Mining rights                                    | 20           | 930,516                 | 937,806                 |
|  |              | <u>2,423,604</u>        | <u>2,257,327</u>        |
| <b>Total assets</b>                              |              | <u><u>2,780,593</u></u> | <u><u>3,013,494</u></u> |
| <b>Current liabilities</b>                       |              |                         |                         |
| Accounts and other payables and accrued expenses | 21           | 166,004                 | 162,669                 |
| Borrowings                                       | 22           | 189,009                 | 526,839                 |
| Tax liabilities                                  |              | 7,802                   | 8,912                   |
|  |              | <u>362,815</u>          | <u>698,420</u>          |
| Net current (liabilities) assets                 |              | <u>(5,826)</u>          | <u>57,747</u>           |
| Total assets less current liabilities            |              | <u>2,417,778</u>        | <u>2,315,074</u>        |
| <b>Non-current liabilities</b>                   |              |                         |                         |
| Entrusted loan payable                           | 23           | 30,800                  | 32,221                  |
| Deferred tax liabilities                         | 8            | 125,414                 | 126,036                 |
| Deferred income                                  | 24           | 1,798                   | 1,791                   |
| Borrowings                                       | 22           | 763,422                 | 658,936                 |
| Environmental rehabilitation                     | 25           | 49,090                  | 30,932                  |
|  |              | <u>970,524</u>          | <u>849,916</u>          |
| <b>Total liabilities</b>                         |              | <u>1,333,339</u>        | <u>1,548,336</u>        |

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

|   | <u>NOTES</u> | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|---|--------------|-------------------------|-------------------------|
| <b>Owners' equity</b>                       |              |                         |                         |
| Share capital                               | 26           | 1,229,061               | 1,229,061               |
| Reserves                                    |              | 18,849                  | 29,427                  |
| Retained profits                            |              | <u>186,317</u>          | <u>194,505</u>          |
|   |              | 1,434,227               | 1,452,993               |
| Non-controlling interests                   |              | <u>13,027</u>           | <u>12,165</u>           |
| <b>Total owners' equity</b>                 |              | <u>1,447,254</u>        | <u>1,465,158</u>        |
| <b>Total liabilities and owners' equity</b> |              | <u><u>2,780,593</u></u> | <u><u>3,013,494</u></u> |

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The consolidated financial statements on pages 3 to 66 were approved and authorised for issue by the Board of Directors on March 30, 2016 and are signed on its behalf by:

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Xin Song  
Director

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Bing Liu  
Director

**CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

|   | Number<br>of shares | Share<br>capital<br>US\$'000 | Equity<br>reserve<br>US\$'000<br>Note (a) | Investment<br>revaluation<br>reserve<br>US\$'000 | Exchange<br>reserve<br>US\$'000 | Statutory<br>reserve<br>US\$'000<br>Note (b) | Retained<br>profits<br>US\$'000 | Subtotal<br>US\$'000 | Non-<br>controlling<br>interests<br>US\$'000 | Total<br>owners'<br>equity<br>US\$'000 |
|---|---------------------|------------------------------|---|--|---------------------------------|--|---------------------------------|----------------------|--|--|
| At January 1, 2014  | 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 year   | -                   | -                            | -   | -  | -                               | -  | 39,729                          | 39,729               | 2,138  | 41,867                                 |
| Fair value loss on available-<br>for-sale investment                                  | -                   | -                            | -   | (909)  | -                               | -  | -                               | (909)                | -  | (909)                                  |
| Exchange difference arising on<br>translation   | -                   | -                            | -   | -  | (7,268)                         | -  | -                               | (7,268)              | 141  | (7,127)                                |
| Total comprehensive (expenses) income<br>for the year                                 | -                   | -                            | -   | (909)  | (7,268)                         | -  | 39,729                          | 31,552               | 2,279  | 33,831                                 |
| Share-based compensation (Note a)   | -                   | -                            | 10  | -  | -                               | -  | -                               | 10                   | -  | 10                                     |
| Transfer to statutory reserve   | -                   | -                            | -   | -  | -                               | 1,290  | (1,290)                         | -                    | -  | -                                      |
| Dividend paid to a non-controlling<br>shareholder                                     | -                   | -                            | -   | -  | -                               | -  | -                               | -                    | (208)  | (208)                                  |
| At December 31, 2014  | 396,413,753         | 1,229,061                    | 11,179                                    | (722)  | 7,615                           | 11,355                                       | 194,505                         | 1,452,993            | 12,165                                       | 1,465,158                              |
| (Loss) profit for the year  | -                   | -                            | -   | -  | -                               | -  | (8,188)                         | (8,188)              | 1,361  | (6,827)                                |
| Fair value loss on available-for-sale<br>investment                                   | -                   | -                            | -   | (3,998)  | -                               | -  | -                               | (3,998)              | -  | (3,998)                                |
| Reclassified adjustment upon impairment<br>of available-for-sale investment (note 18) | -                   | -                            | -   | 4,720  | -                               | -  | -                               | 4,720                | -  | 4,720                                  |
| Exchange difference arising on<br>translation   | -                   | -                            | -   | -  | (11,300)                        | -  | -                               | (11,300)             | (197)  | (11,497)                               |
| Total comprehensive income (expenses)<br>for the year                                 | -                   | -                            | -   | 722  | (11,300)                        | -  | (8,188)                         | (18,766)             | 1,164  | (17,602)                               |
| Share-based compensation (Note a)   | -                   | -                            | -   | -  | -                               | -  | -                               | -                    | -  | -                                      |
| Dividend paid to a non-controlling<br>shareholder                                     | -                   | -                            | -   | -  | -                               | -  | -                               | -                    | (302)  | (302)                                  |
| At December 31, 2015  | 396,413,753         | 1,229,061                    | 11,179                                    | -  | (3,685)                         | 11,355                                       | 186,317                         | 1,434,227            | 13,027                                       | 1,447,254                              |

**Notes:**

- (a) Amounts represent equity reserve arising from share-based compensation provided to directors and employees under the stock option plan of the Company and deemed contribution from shareholders in previous years.
- (b) 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.

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

|   | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|---|-------------------------|-------------------------|
| <b>Operating activities</b>                                   |                         |                         |
| Profit before income tax                                      | 11,607                  | 62,716                  |
| Items not requiring use of cash and cash equivalents:         |                         |                         |
| Amortization of mining rights                                 | 5,264                   | 4,535                   |
| Depreciation  | 70,456                  | 53,562                  |
| Finance costs   | 21,407                  | 23,918                  |
| Loss on disposal of property, plant and equipment             | -                       | 269                     |
| Impairment loss on available-for-sale investment              | 4,720                   | -                       |
| Release of prepaid lease payment                              | 185                     | 194                     |
| Release of deferred lease inducement                          | -                       | (23)                    |
| Release of deferred income                                    | (716)                   | (322)                   |
| Share-based compensation                                      | -                       | 10                      |
| Unrealized foreign exchange loss                              | 17,197                  | -                       |
| Change in operating working capital items:                    |                         |                         |
| Trade and other receivables                                   | (9,288)                 | (3,576)                 |
| Prepaid expenses and deposits                                 | 2,081                   | (10,846)                |
| Inventories   | (31,977)                | (96,514)                |
| Accounts and other payables and accrued expenses              | 31,216                  | 22,950                  |
| Cash generated from operations                                | 122,152                 | 56,873                  |
| Environmental rehabilitation expense paid                     | -                       | (1,746)                 |
| Interest paid   | (42,693)                | (37,673)                |
| Income taxes paid   | (12,592)                | (14,482)                |
| <b>Net cash from operating activities</b>                     | <u>66,867</u>           | <u>2,972</u>            |
| <b>Investing activities</b>                                   |                         |                         |
| Payment for acquisition of property, plant and equipment      | (276,068)               | (263,845)               |
| Loan to a related company                                     | (14,021)                | -                       |
| Placement of restricted bank deposits                         | (9,242)                 | -                       |
| Receipt of asset-related government grants                    | 940                     | 42                      |
| Deposit paid for acquisition of property, plant and equipment | (616)                   | (1,651)                 |
| Proceeds from disposal of property, plant and equipment       | 335                     | -                       |
| Acquisition of available-for-sale investment                  | -                       | (644)                   |
| Payment for acquisition of land use rights                    | -                       | (105)                   |
| <b>Net cash used in investing activities</b>                  | <u>(298,672)</u>        | <u>(266,203)</u>        |

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

|  | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|--|-------------------------|-------------------------|
| <b>Financing activities</b>  |                         |                         |
| Repayments of borrowings   | (553,741)               | (230,281)               |
| Proceeds from borrowings   | 335,007                 | 922,480                 |
| Proceeds from entrusted loan advanced by a substantial shareholder         | -                       | 32,221                  |
| Dividend paid to a non-controlling shareholder                             | (302)                   | (208)                   |
| <b>Net cash (used in) financing activities</b>                             | <u>(219,036)</u>        | <u>724,212</u>          |
| Net (decrease) increase in cash and cash equivalents                       | (450,841)               | 460,981                 |
| Cash and cash equivalents, beginning of year                               | 565,578                 | 105,887                 |
| Effect of foreign exchange rate changes on cash and cash equivalents       | (2,338)                 | (1,290)                 |
| <b>Cash and cash equivalents, end of year</b>                              | <u>112,399</u>          | <u>565,578</u>          |
| Cash and cash equivalents are comprised of cash and bank deposits in banks | <u>112,399</u>          | <u>565,578</u>          |



## CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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#### 1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

China Gold International Resources Corp. Ltd., formerly known as Jinshan Gold Mines Inc., (the "Company") is a publicly listed company incorporated in British Columbia on May 31, 2000 with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange ("TSX") and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company together with its subsidiaries (collectively referred to as the "Group") is principally engaged in the acquisition, exploration, development and mining of mineral reserves in the PRC. Particulars of the subsidiaries of the Company are set out in note 33. The Group considers that China National Gold Group Corporation ("CNG"), a state owned company registered in Beijing, PRC which is controlled by State-owned Assets Supervision and Administration Commission of the State Council of the PRC, is able to exercise significant influence over the Company.

The head office, principal address and registered and records office of the Company are located at Suite 660, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada, V7X 1M4.

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

At December 31, 2015, the Group's current liabilities exceeded its current assets by approximately US\$5.8 million. In view of these circumstances, the management of the Group (the "Management") 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. During the year, the Group has successfully obtained a long term loan facility with a syndicate of banks, for the aggregate principal amount of RMB3.98 billion, approximately US\$613 million. Taking into account the Group's unutilised bank facilities amount of RMB2.58 billion, approximately US\$397 million and the future capital expenditure in respect of its non-cancellable capital commitments, Management considers that it has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the financial statements have been prepared on a going concern basis.

#### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following amendments to IFRSs for the first time in the current year:

|                      |  |
|----------------------|--|
| Amendments to IAS 19 | Defined Benefit Plan: Employee Contributions |
| Amendments to IFRSs  | Annual Improvements to IFRSs 2010-2012 Cycle |
| Amendments to IFRSs  | Annual Improvements to IFRSs 2011-2013 Cycle |

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

The Group has not early applied the following new and revised IFRSs that has been issued but are not yet effective:

|   |  |
|---|--|
| IFRS 9                                    | Financial Instruments <sup>4</sup>   |
| IFRS 14                                   | Regulatory Deferral Accounts <sup>2</sup>  |
| IFRS 15                                   | Revenue from Contracts with Customers <sup>4</sup>   |
| IFRS 16                                   | Leases <sup>5</sup>  |
| Amendments to IFRS 11                     | Accounting for Acquisitions of Interests in Joint Operations <sup>1</sup>                          |
| Amendments to IAS 1                       | Disclosure Initiative <sup>1</sup>   |
| Amendments to IAS 7                       | Disclosure Initiative <sup>3</sup>   |
| Amendments to IAS 12                      | Recognition of Deferred Tax Assets for Unrealized Losses <sup>3</sup>                              |
| Amendments to IAS 16 and IAS 38           | Clarification of Acceptable Methods of Depreciation and Amortization <sup>1</sup>                  |
| Amendments to IAS 16 and IAS 41           | Agriculture: Bearer Plants <sup>1</sup>  |
| Amendments to IAS 27                      | Equity Method in Separate Financial Statements <sup>1</sup>  |
| Amendments to IFRS 10 and IAS 28          | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>6</sup> |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception <sup>1</sup>                             |
| Amendments to IFRSs                       | Annual Improvements to IFRSs 2012-2014 Cycle <sup>1</sup>  |

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2016

<sup>2</sup> Effective for first annual IFRS financial statements beginning on or after January 1, 2016

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2017

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2018

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2019

<sup>6</sup> Effective for annual periods beginning on or after a date to be determined

Other than IFRS 15, the Management do not anticipate that the application of other new and revised IFRSs will have a material impact on the Group's consolidated financial statements.

### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") - continued

**IFRS 15 Revenue from Contracts with Customers** - continued

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Management is in the process of making an assessment on the impact of this standard to the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended December 31, 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with IFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended December 31, 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended December 31, 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Business combination - continued

At the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above) and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

Investments in subsidiaries

Investments in subsidiaries recorded at the Company's statement of financial position disclosed in note 34 are stated at cost (including deemed capital contribution) less subsequent accumulated impairment losses, if any.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US\$) using exchange rates prevailing at the end of each reporting period and their income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (exchange reserve).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based compensation

The Company grants stock options to directors and employees to acquire common shares of the Company. The Company grants such options for exercisable periods of up to six years, with vesting periods determined at its sole discretion and at prices equal to the weighted average price of the common shares for the five days immediately preceding the date the options were granted.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period that the employees earn the options. The fair value is recognized as an expense over its vesting periods with a corresponding increase in equity. The amount recognized as expense in each period is adjusted to reflect the number of share options expected to vest. When the share options are forfeited after the vesting or are still not exercised at the expiry date, the amount previously recognized in equity reserve will continue to held in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognized if the temporary differences arise from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax liabilities are recognized for taxable temporary differences associated with investment in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary difference and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.



3. SIGNIFICANT ACCOUNTING POLICIES - continued

Government grants - continued

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Retirement benefit costs

Payments to state-managed retirement benefit scheme are recognized as an expenses when employees have rendered service entitling them to the contributions.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

Prepaid lease payments

Prepaid lease payments representing land use rights in the PRC are stated at cost and amortized on a straight-line basis over the lease terms. Prepaid lease payments which are to be amortized in the next twelve months or less are classified as current assets.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on weighted average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

*Gold in process inventory*

Gold in process inventory consists of gold contained in the ore on leach pads and in-circuit material within processing operations. Gold doré bar is gold awaiting refinement and gold refined and ready for sales.

Production costs are capitalized and included in gold in process inventory based on the current mining and processing cost incurred up to the point prior to the refining process including the cost of raw materials and direct labour; mine-site overhead expenses; stripping costs; and allocated indirect costs, including depreciation and depletion of mining interests.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories - continued

*Gold doré bars inventory*

The recovery of gold from ore is achieved through a heap leaching process. Under this method, ore is placed on leach pads where it is treated with a chemical solution which dissolves the gold contained in the ore. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. Costs are subsequently recycled from ore on leach pads as ounces of gold are recovered based on the average cost per recoverable ounce on the leach pad. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured in tonnes added to the leach pads), the grade of the ore placed on the leach pads (based on assay data), and a recovery percentage (based on ore type).

Copper inventory is copper concentrate after metallurgical processing and ready for sales.

Consumables used in operations, such as fuel, chemicals, and reagents and spare parts inventory are valued at the lower of cost or net realizable value.

Property, plant and equipment

*General*

Property, plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized and the carrying amount of the component being replaced is derecognized. Directly attributable costs incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

Management reviews the estimated useful lives, residual values and depreciation methods of the Group's property, plant and equipment at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

All direct costs related to the acquisition of mineral assets are capitalized, at their cost at the date of acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

*Exploration and evaluation expenditure*

Drilling and related costs incurred on sites without an existing mine and on areas outside the boundary of a known mineral deposit which contains proven and probable reserves are exploration and evaluation expenditure and are expensed as incurred up to the date on which costs incurred are economically recoverable. Further exploration and evaluation expenditures, subsequent to the establishment of economic recoverability, are capitalized and included in the carrying amount of the mineral assets.

Management evaluates the following criteria in its assessment of economic recoverability and probability of future economic benefit:

- Geology - whether or not there is sufficient geologic and economic certainty of being able to convert a residual mineral deposit into a proven and probable reserve at a development stage or production stage mine, based on the known geology and metallurgy. A history of conversion of resources to reserves at operating mines to support the likelihood of conversion.
- Scoping - there is a scoping study or preliminary feasibility study that demonstrates the additional resources will generate a positive commercial outcome. Known metallurgy provides a basis for concluding there is a significant likelihood of being able to recoup the incremental costs of extraction and production.
- Accessible facilities - mining property can be processed economically at accessible mining and processing facilities where applicable.
- Life of mine plans - an overall life of mine plan and economic model to support the mine and the economic extraction of resources/reserves exists. A long-term life of mine plan, and supporting geological model identifies the drilling and related development work required to expand or further define the existing orebody.
- Authorisations - operating permits and feasible environmental programs exist or are obtainable.

Therefore prior to capitalising exploration drilling and related costs, Management determines that the following conditions have been met that will contribute to future cash flows:

- There is a probable future benefit that will contribute to future cash inflows;
- The Group can obtain the benefit and controls access to it;
- The transaction or event giving rise to the future benefit has already occurred; and
- Costs incurred can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

*Development expenditure*

Drilling and related costs incurred to define and delineate a mineral deposit are capitalized as part of mineral assets in the period incurred, when Management determines that there is sufficient evidence that the expenditure will result in a probable future economic benefit to the Group.

*Production expenditure*

Capitalization of costs incurred ceases when the related mining property has reached the condition necessary for it to be capable of operating in the manner intended by Management, therefore, such costs incurred are capitalized as part of the mineral assets and the proceeds from sales prior to commissioning are offset against costs capitalized.

Mine development costs incurred to maintain current production are included in profit or loss. For those areas being developed which will be mined in future periods, the costs incurred are capitalized and depleted when the related mining area is mined.

*Depreciation*

Mineral assets are depreciated using the unit-of-production method based on the actual production volume over the estimated total recoverable ounces contained in proven and probable reserves at the related mine when the production level achieved designed production volume intended by Management.

Management reviews the estimated total recoverable ounces contained in proven and probable reserves at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated total recoverable ounces contained in proven and probable reserves are accounted for prospectively.

Assets under construction are not depreciated until they are substantially complete and available for their intended use.

Leasehold improvements are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

Mining rights

Mining rights are depreciated using the unit-of-production method based on the actual production volume over the estimated total recoverable ounces contained in proven and probable reserves at the related mine.

*Mining rights acquired in a business combination*

Mining rights acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, mining rights with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization is provided using the unit of production method based on the actual production volume over the estimated total proven and probable reserves of the ore mines.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Mining rights - continued

*Impairment of tangible assets and mining rights*

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and mining rights to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial instruments

Financial assets and liabilities are recognized in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition.

**Financial assets**

Financial assets are classified as available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Effective interest method*

The effective interest method is a method calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the life of debt instrument or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months or those that are expected to be settled after twelve months from the end of the reporting period, which are classified as non-current assets. Assets in this category include "cash and cash equivalents", "restricted bank balance" and "trade and other receivables".

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

*AFS financial assets*

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial assets, such as trade receivables (included in trade and other receivable), assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets** - continued

*Impairment of financial assets* - continued

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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

In respect of AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve.

*Derecognition of financial assets*

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

**Financial liabilities and equity instruments**

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

*Equity instrument*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. Equity instruments issued in a business combination are recorded at their fair value at the acquisition date.

*Financial liabilities*

Financial liabilities, including borrowings, entrusted loan payable, bills payable and accounts and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.



3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial liabilities and equity instruments** - continued

*Effective interest method*

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognized on an effective interest basis.

*Derecognition of financial liabilities*

For financial liabilities, they are derecognized only when the Group's obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Environmental rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized as part of the related property, plant and equipment at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognized in profit or loss over the life of the operation, through depreciation of the asset. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are recognized in profit or loss.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work that result from changes in the estimated timing or amount of the cash flow, including the effects of inflation and movements in foreign exchange rates, revisions to estimated reserves, resources and lives of operations, or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the period it occurred. The periodic unwinding of discount is recognized in profit or loss as a finance cost as it occurs. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the Group's accounting policy.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortized over the lease term on a straight-line basis.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) *Inventories*

The Group records the cost of gold mining ore placed on its leach pads and in process at its mine as gold in process inventory, and values gold in process inventory at the lower of cost and estimated net realizable value. The assumptions used in the valuation of gold in process inventories include estimates of gold contained in the ore placed on leach pads, assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads, and the amount of gold in the processing plant and an assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove inaccurate, the Group could be required to write down the recorded value of its gold in process inventories. During the year, there is no change in the relevant estimation.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

(a) *Inventories* - continued

Although the quantities of recoverable gold placed on the leach pad and the processing plant are reconciled by comparing the grades of ore placed on the leach pad to the quantities actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. The actual recovery of gold from the leach pad is not known until the leaching process has concluded at the end of the mine life.

Management periodically reassesses the assumptions used in the valuation of gold in process and the costing of production of gold doré bars, particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads (the "Estimated Recovery Rate"). As a result of such reassessments, an increase/decrease in the Estimated Recovery Rate led to a decrease/increase in the average production cost of gold doré bars. During the year, there is no change in the relevant estimation.

The carrying amount of gold in process and gold doré bars as at December 31, 2015 is disclosed in note 17.

(b) *Mineral assets*

The Group's mineral assets included in property, plant and equipment is depreciated and amortized on a unit-of-production basis. Under the unit-of-production method, the calculation of depreciation of mineral assets is based on the actual production volume over the amount of reserves expected to be recovered from the mine, as included in the technical report prepared by an independent valuer and the assumption that the Group is able to renew its mining permits at each expiry date, approximately 8 to 10 years, for both mines without significant cost until the end of the mine's life. If these estimates of reserves prove to be inaccurate, or if the Group revises its mining plan, due to reductions in the metal price forecasts or otherwise, to reduce the amount of reserves expected to be recovered, the Group could be required to write down the recorded value of its property, plant and equipment, or to increase the amount of future depreciation and depletion expense.

The Group believes that it is able to renew the mining rights in Chang Shan Hao gold mine ("CSH Gold Mine") and Jiama polymetallic mineral property ("Jiama Mine") without significant cost until the end of the life of the mine. If the renewal of mining rights is unsuccessful, the Group could be required to write down the recorded value of its property, plant and equipment.

The carrying amount of mineral assets as at December 31, 2015 is disclosed in note 19.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

(c) *Mining rights*

The Group's mining rights in the Jiama Mine, are amortized on a unit-of-production basis. Under the unit-of-production method, the calculation of amortization of mining rights is based on the actual production volume over the amount of reserves expected to be recovered from the Jiama Mine as included in the technical report prepared by an independent valuer and the assumption is that the mining rights are renewable by the Group without significant cost until the end of the mine's life. If these estimates of reserves prove to be inaccurate, or if the Group revises its mining plan, due to reductions in the future prices of copper, lead and silver, or otherwise, to reduce the amount of reserves expected to be recovered or any material delay in construction periods or commencement of commercial production in accordance with the existing mining plan in the Jiama Mine, the Group could be required to write down the recorded value of its mining rights, or to increase the amount of future amortization expense.

The Group believes that it is able to renew the mining rights without significant cost until the end of the life of the mine. If the renewal of mining rights is unsuccessful, the Group could be required to write down the recorded value of its mining rights.

The carrying amount of mining rights as at December 31, 2015 is disclosed in note 20.

(d) *Impairment of mining rights and property, plant and equipment*

While assessing whether any indications of impairment exist for mining rights and property, plant and equipment, consideration is given to both external and internal sources of information. Information the Group considers includes changes in the market, economic and legal environment in which the Group operates that are not within its control and affect the recoverable amounts of the mining rights and property, plant and equipment. Internal sources of information includes the manner in which the mining rights and property, plant and equipment are being used or are expected to be used and indications of economic performance of the assets and operating results. The carrying amounts of mining rights and property, plant and equipment are reviewed for impairment in accordance with IAS 36 *Impairment of Assets* whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group's two cash-generating units ("CGUs") for impairment assessment of mining rights and related property, plant and equipment are two significant mine sites which are principal producing gold and copper mines.

When an impairment review is undertaken, recoverable amount is assessed by reference to the higher of 1) value in use and 2) fair value less costs to disposal ("FVLCD"). The best evidence of FVLCD is the value obtained from an active market or binding sale agreement. Where neither exists, FVLCD is based on the best information available to reflect the amount the Group could receive for the CGU in an arm's length transaction. This is often estimated using discounted cash flow techniques. In determining the recoverable amounts of the Group's mining rights and property, plant and equipment, the Group makes estimates of the discounted future pre-tax cash flows expected to be derived from the Group's CGUs, costs to sell the mining properties and the appropriate discount rate. The key assumptions used in estimating the projected cash flows are metal selling price, recoverable reserves, resources, and exploration potential, production cost estimates, future operating costs, discount rates and exchange rates.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

(d) *Impairment of mining rights and property, plant and equipment - continued*

Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future operating costs, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or change in economic conditions can result in a write-down of the carrying amounts of the Group's mining rights and property, plant and equipment.

During the years ended December 31, 2015 and 2014, no impairment loss was recognized for the property, plant and equipment in the Group's gold producing mine and the mining rights and property, plant and equipment in the Group's copper producing mine as the recoverable amounts were higher than their respective carrying amounts.

The carrying amounts of mining rights and property, plant and equipment as at December 31, 2015 are disclosed in notes 19 and 20.

(e) *Environmental rehabilitation*

Environmental rehabilitation costs have been estimated based on the Group's interpretation of current regulatory requirements and have been measured at the net present value of expected future cash expenditure upon reclamation and closure. Environmental rehabilitation costs are capitalized as mineral assets costs and depreciated under unit-of-production method as disclosed above. Because the fair value measurement requires the input of subjective assumptions, including the environmental rehabilitation costs, changes in subjective input assumptions can materially affect the estimate of the obligation.

The carrying amount of environmental rehabilitation as at December 31, 2015 is disclosed in note 25.

(f) *Fair value measurement and valuation process*

In estimating the fair value of the Group's assets, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group uses its internal experts to perform the valuation with the assistance from third party qualified valuers. The management works closely with internal experts and qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value less cost to disposal for the mining rights and property, plant and equipment.

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

5. GENERAL AND ADMINISTRATIVE EXPENSES

|   | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|---|-------------------------|-------------------------|
| Administration and office                     | 8,934                   | 6,925                   |
| Professional fees                             | 1,802                   | 2,464                   |
| Salaries and benefits                         | 9,474                   | 10,812                  |
| Depreciation of property, plant and equipment | 2,640                   | 3,182                   |
| Others  | 979                     | 1,678                   |
|   | <u>23,829</u>           | <u>25,061</u>           |

6. EXPLORATION AND EVALUATION EXPENDITURE

|                            | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|----------------------------|-------------------------|-------------------------|
| CSH Gold Mine (note 19(a)) | 302                     | 471                     |
| Generative exploration     | -                       | 75                      |
|                            | <u>302</u>              | <u>546</u>              |

7. FINANCE COSTS

|  | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|--|-------------------------|-------------------------|
| Effective interests on borrowings:                         |                         |                         |
| - wholly repayable within 5 years                          | 42,225                  | 37,673                  |
| - wholly repayable over 5 years                            | 468                     | -                       |
| Accretion on environmental rehabilitation (note 25)        | 2,606                   | 2,657                   |
|  | <u>45,299</u>           | <u>40,330</u>           |
| Less: Amounts capitalized to property, plant and equipment | <u>(23,892)</u>         | <u>(16,412)</u>         |
|  | <u>21,407</u>           | <u>23,918</u>           |

Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction, or, where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings.

|                     | <u>2015</u><br>% | <u>2014</u><br>% |
|---------------------|------------------|------------------|
| Capitalization rate | <u>4.01</u>      | <u>4.35</u>      |

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

8. INCOME TAX EXPENSE

The Company was incorporated in Canada and is subject to Canadian federal and provincial tax requirements which are calculated at 26% (2014: 26%) of the estimated assessable profit for the year ended December 31, 2015. Since its incorporation, the Company had no assessable profit subject to Canadian federal and provincial tax requirements.

PRC Enterprise Income Tax ("EIT") is calculated at the prevailing tax rate of 25% on the estimated taxable profit of the group entities located in the PRC for the years ended December 31, 2015 (2014: 25%) except as described below.

Tibet Huatailong Mining Development Co. Ltd. ("Huatailong") and Metrorkongka County Jiama Industry and Trade Co. ("Jiama Industry and Trade"), subsidiaries acquired in December 2010, were established in the westward development area of the PRC and subject to preferential tax rate of 15% of taxable profit.

Under relevant PRC Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC subsidiaries amounting to approximately US\$334,480,000 and US\$323,681,000 at December 31, 2015 and 2014, respectively, as the Company is able to control the timing of the reversal of temporary differences and it is probable the temporary differences will not reverse in the foreseeable future.

Taxation for other relevant jurisdictions is calculated at the rates prevailing in each of those jurisdictions respectively.

Tax expense comprises:

|                               | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|-------------------------------|-------------------------|-------------------------|
| Current tax expense - PRC EIT | 11,747                  | 16,036                  |
| Deferred tax expense          | <u>6,687</u>            | <u>4,813</u>            |
|                               | <u>18,434</u>           | <u>20,849</u>           |

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

8. INCOME TAX EXPENSE - continued

Per the consolidated statements of profit or loss and other comprehensive income, the tax expense for the Group can be reconciled to the profit before income tax for the years as follows:

|  | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|--|-------------------------|-------------------------|
| Profit before income tax   | <u>11,607</u>           | <u>62,716</u>           |
| PRC EIT tax rates  | <u>25%</u>              | <u>25%</u>              |
| Tax at the PRC EIT tax rates   | 2,902                   | 15,679                  |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions | (39)                    | 153                     |
| Tax effect of concessionary tax rate   | 2,130                   | (634)                   |
| Tax effect of tax losses not recognized  | 1,093                   | 446                     |
| Tax effect of non-deductible expenses  | 4,886                   | 3,227                   |
| Tax effect of non-taxable income   | (928)                   | (48)                    |
| Impacts on foreign exchange  | 6,571                   | 2,026                   |
| Withholding tax in respect of interest income earned from PRC subsidiaries         | <u>1,819</u>            | <u>-</u>                |
|  | <u>18,434</u>           | <u>20,849</u>           |

The following are the major deferred tax (assets) liabilities recognized and movements thereon during the current and prior years:

|                                   | <u>Property,<br/>Plant and<br/>equipment</u><br>US\$'000 | <u>Environmental<br/>rehabilitation</u><br>US\$'000 | <u>Mining<br/>Rights</u> <sup>(1)</sup><br>US\$'000 | <u>Inventories</u><br>US\$'000 | <u>Others</u><br>US\$'000 | <u>Total</u><br>US\$'000 |
|-----------------------------------|--|---|---|--------------------------------|---------------------------|--------------------------|
| At January 1, 2014                | (11,996)   | (5,397)   | 134,548   | (4,306)                        | (663)                     | 112,186                  |
| (Credit) charge to profit or loss | <u>(1,486)</u>   | <u>(471)</u>  | <u>(643)</u>  | <u>8,504</u>                   | <u>(1,091)</u>            | <u>4,813</u>             |
| At December 31, 2014              | (13,482)   | (5,868)   | 133,905   | 4,198                          | (1,754)                   | 116,999                  |
| Charge (credit) to profit or loss | <u>2,671</u>   | <u>(4,094)</u>                                      | <u>(734)</u>  | <u>8,192</u>                   | <u>652</u>                | <u>6,687</u>             |
| At December 31, 2015              | <u>(10,811)</u>  | <u>(9,962)</u>                                      | <u>133,171</u>                                      | <u>12,390</u>                  | <u>(1,102)</u>            | <u>123,686</u>           |

<sup>(1)</sup> Amount represents deferred tax liability arising from the fair value adjustment on mining rights during the business acquisition of Skyland Mining Limited and its subsidiaries ("Skyland") in December 2010.



CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

8. INCOME TAX EXPENSE - continued

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

|                          | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|--------------------------|-------------------------|-------------------------|
| Deferred tax assets      | 1,728                   | 9,037                   |
| Deferred tax liabilities | <u>(125,414)</u>        | <u>(126,036)</u>        |
|                          | <u>(123,686)</u>        | <u>(116,999)</u>        |

The Group's unrecognized deferred income tax assets are as follows:

|   | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|---|-------------------------|-------------------------|
| Deferred income tax assets                    |                         |                         |
| Tax loss carry forwards                       | 14,143                  | 14,797                  |
| Other deductible temporary differences        | <u>1,143</u>            | <u>614</u>              |
| Total unrecognized deferred income tax assets | <u>15,286</u>           | <u>15,411</u>           |

Deferred tax asset of US\$14,143,000 (December 31, 2014: US\$14,797,000) has not been recognized in respect of unused tax loss due to the unpredictability of future profit streams. Under Canadian tax laws, unused tax loss arising in a tax year ended between March 22, 2004 and December 31, 2005 can be carried forward for 10 years while the unused tax loss can be carried forward for 20 years if the loss is arising in tax years ended after December 31, 2005.

Other deductible temporary differences primarily comprise of share issue costs and cumulative eligible capital expenditures that were incurred by the Company which are tax deductible according to the relevant tax law in Canada. No deferred tax asset has been recognized because the amount of future taxable profit that will be available to realize such assets is unpredictable and not probable.

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

9. (LOSS) PROFIT FOR THE YEAR

|  | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|--|-------------------------|-------------------------|
| Auditor's remuneration   | <u>613</u>              | <u>683</u>              |
| Depreciation included in cost of sales and inventories                   | 67,816                  | 50,380                  |
| Depreciation included in administrative expenses (note 5)                | <u>2,640</u>            | <u>3,182</u>            |
| Total depreciation   | <u>70,456</u>           | <u>53,562</u>           |
| Release of prepaid lease payment (included in cost of sales)             | <u>185</u>              | <u>194</u>              |
| Amortization of mining rights (included in cost of sales)                | <u>5,264</u>            | <u>4,535</u>            |
| Loss on disposal of property, plant and equipment                        | <u>-</u>                | <u>13</u>               |
| Staff costs  |                         |                         |
| Directors' and chief executive's emoluments (note 10)                    | 417                     | 475                     |
| Staff salaries and benefits  | 8,382                   | 9,617                   |
| Retirement benefit contributions   | <u>675</u>              | <u>720</u>              |
| Total salaries and benefits included in administrative expenses (note 5) | 9,474                   | 10,812                  |
| Total salaries and benefits capitalized in construction in progress      | 5,918                   | 4,064                   |
| Staff costs included in cost of sales and inventories                    | <u>10,297</u>           | <u>12,943</u>           |
| Total staff costs  | <u>25,689</u>           | <u>27,819</u>           |
| Operating lease payment  | <u>1,527</u>            | <u>1,224</u>            |
| Bank interest income   | <u>(1,498)</u>          | <u>(3,775)</u>          |
| Government subsidies <sup>(1)</sup>                                      | <u>(4,087)</u>          | <u>(322)</u>            |

<sup>(1)</sup> Government subsidies of US\$3,934,000 had been received from the local Finance Bureau of Tibet in 2015 as a reward for the Group's contribution to community development and environmental preservation in the local Tibet region. There was no condition attached to the subsidies and the entire amount was recognized as other income in 2015.

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and Chief Executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

For the year ended December 31, 2015

|  | <u>Fees</u><br>US\$'000 | <u>Salaries<br/>and other<br/>benefits</u><br>US\$'000 | <u>Retirement<br/>benefit<br/>contributions</u><br>US\$'000 | <u>Share-based<br/>compensation</u><br>US\$'000 | <u>Total</u><br>US\$'000 |
|--|-------------------------|--|---|---|--------------------------|
| <b><u>Executive Directors and<br/>Chief Executive</u></b> (Note a) |                         |  |   |   |                          |
| Bing Liu (Note e)  | -                       | -  | -   | -   | -                        |
| <b><u>Executive Directors</u></b> (Note b)                         |                         |  |   |   |                          |
| Xiu Song (Note e)  | -                       | -  | -   | -   | -                        |
| Xiangdong Jiang  | -                       | 200  | 2   | -   | 202                      |
| Liangyou Jiang   | -                       | 60   | -   | -   | 60                       |
| <b><u>Non-executive Directors</u></b> (Note c)                     |                         |  |   |   |                          |
| Lianzhong Sun (Note e)   | -                       | -  | -   | -   | -                        |
| <b><u>Independent Non-<br/>executive Directors</u></b> (Note d)    |                         |  |   |   |                          |
| Ian He   | 42                      | -  | 2   | -   | 44                       |
| Yunfei Chen  | 37                      | -  | -   | -   | 37                       |
| Gregory Hall   | 37                      | -  | -   | -   | 37                       |
| John King Burns  | 37                      | -  | -   | -   | 37                       |
|  | <u>153</u>              | <u>260</u>   | <u>4</u>  | <u>-</u>  | <u>417</u>               |

For the year ended December 31, 2014

|  | <u>Fees</u><br>US\$'000 | <u>Salaries<br/>and other<br/>benefits</u><br>US\$'000 | <u>Retirement<br/>benefit<br/>contributions</u><br>US\$'000 | <u>Stock-based<br/>compensation</u><br>US\$'000 | <u>Total</u><br>US\$'000 |
|--|-------------------------|--|---|---|--------------------------|
| <b><u>Executive Directors and<br/>Chief Executive</u></b> (Note a) |                         |  |   |   |                          |
| Bing Liu (Note e)  | -                       | -  | -   | -   | -                        |
| <b><u>Executive Directors</u></b> (Note b)                         |                         |  |   |   |                          |
| Xin Song (Note e)  | -                       | -  | -   | -   | -                        |
| Xiangdong Jiang  | -                       | 181  | 2   | -   | 183                      |
| Zhanming Wu (Note f)   | -                       | 77   | 4   | -   | 81                       |
| Liangyou Jiang (Note f)  | -                       | 18   | 2   | -   | 20                       |
| <b><u>Non-executive Directors</u></b> (Note c)                     |                         |  |   |   |                          |
| Lianzhong Sun (Note e)   | -                       | -  | -   | -   | -                        |
| <b><u>Independent Non-<br/>executive Directors</u></b> (Note d)    |                         |  |   |   |                          |
| Ian He   | 49                      | -  | 2   | 2   | 53                       |
| Yunfei Chen  | 44                      | -  | -   | 2   | 46                       |
| Gregory Hall   | 44                      | -  | -   | 2   | 46                       |
| John King Burns  | 44                      | -  | -   | 2   | 46                       |
|  | <u>181</u>              | <u>276</u>   | <u>10</u>   | <u>8</u>  | <u>475</u>               |

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS - continued

(a) Directors' and Chief Executive's emoluments- continued

Notes:

- (a) Mr. Bing Liu is a director and the Chief Executive of the Company. The emoluments disclosed above are inclusive of services rendered by him as the Chief Executive.
- (b) The executive directors' emoluments shown above were mainly for their services in connection with the Management of the affairs of the Company and the Group.
- (c) The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.
- (d) The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.
- (e) Mr. Xin Song, Mr. Bing Liu and Mr. Lianzhong Sun have also been employed by CNG and the payment of their contributions to retirement benefits scheme was centralized and made by CNG for both years, in which the amounts are considered as insignificant.
- (f) Mr. Liangyou Jiang was appointed immediately following the resignation of Zhanming Wu during the year ended December 31, 2014.

For the years ended December 31, 2015 and 2014, none of the directors of the Company waived or agreed to waive any emoluments.

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10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS - continued

(b) Employees' emoluments

The five highest paid individuals included one (2014: one) director for the year ended December 31, 2015. The emoluments of the remaining four (2014: four) individuals for the year ended December 31, 2015, are as follows:

|                                  | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|----------------------------------|-------------------------|-------------------------|
| Employees                        |                         |                         |
| Salaries and other benefits      | 778                     | 654                     |
| Retirement benefit contributions | <u>4</u>                | <u>4</u>                |
|                                  | <u>782</u>              | <u>658</u>              |

Their emoluments were within the following bands:

|   | <u>No. of individuals</u> |             |
|---|---------------------------|-------------|
|   | <u>2015</u>               | <u>2014</u> |
| HK\$nil to HK\$1,000,000 (equivalent to approximately US\$nil to US\$129,000)           | -                         | 1           |
| HK\$1,000,001 to HK\$1,500,000 (equivalent to approximately US\$129,001 to US\$193,000) | 3                         | 2           |
| HK\$1,500,001 to HK\$2,000,000 (equivalent to approximately US\$193,001 to US\$258,000) | -                         | 1           |
| HK\$2,000,001 to HK\$2,500,000 (equivalent to approximately US\$258,001 to US\$323,000) | <u>1</u>                  | <u>-</u>    |

During the years ended December 31, 2015 and 2014, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. DIVIDEND

No dividends were paid or proposed during the years ended December 31, 2015 and 2014, nor has any dividend been proposed since the end of reporting period.

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12. (LOSS) EARNINGS PER SHARE

(Loss) earnings used in determining earnings per share are presented below:

|   | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|---|-------------------------|-------------------------|
| (Loss) profits attributable to owners of the Company<br>for the purposes of basic and diluted (loss) earnings per share | <u>(8,188)</u>          | <u>39,729</u>           |
| Weighted average number of shares, basic and diluted  | <u>396,413,753</u>      | <u>396,413,753</u>      |
| Basic and diluted (loss) earnings per share   | <u>(2.07) cents</u>     | <u>10.02 cents</u>      |

The computation of diluted loss per share does not assume the exercise of the Company's stock option, as it would result in a decrease in loss per share for the year ended December 31, 2015.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding stock options as the exercise price of those options is higher than the average market price for shares for the year ended December 31, 2014.

13. CASH AND CASH EQUIVALENTS/RESTRICTED BANK BALANCES

Cash and cash equivalents of the Group are comprised of bank balances and bank deposits with an original maturity of three months or less. The Group's bank balances, cash equivalents and restricted bank balances are denominated in the foreign currencies other than the respective group entities' functional currencies are presented below:

|                            | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|----------------------------|---|---|
| Denominated in:            |   |   |
| Canadian dollars ("CAD")   | 494                                     | 910                                     |
| Renminbi ("RMB")           | 35,673                                  | 30,367                                  |
| US\$                       | 971                                     | 14                                      |
| Hong Kong dollars ("HK\$") | <u>600</u>                              | <u>272</u>                              |
|                            | <u>37,738</u>                           | <u>31,563</u>                           |

The bank balances and bank deposits carry interest rates ranging from 0.2% to 1.92% (2014: 0.35% to 1.92%) per annum for the year ended December 31, 2015.

Restricted bank balances carry interest at market rates 0.35% per annum for the year ended December 31, 2015. Pledged bank deposits represent deposits pledged to banks to secure bills payable issued to suppliers for mining costs.

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14. TRADE AND OTHER RECEIVABLES

The Group's accounts receivable arise from the following sources: trade receivables and amounts due from related companies. The components are as follows:

|  | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|--|---|---|
| Trade receivables  | 11,189                                  | 8,303                                   |
| Less: allowance for doubtful debts                             | <u>(398)</u>                            | <u>(167)</u>                            |
|  | 10,791                                  | 8,136                                   |
| Amounts due from related companies (note 27(a)) <sup>(1)</sup> | 2,407                                   | 4,591                                   |
| Loan to a related company (note 27(a))                         | 14,021                                  | -                                       |
| Loans to a non-controlling shareholder (note 27(b))            | 1,263                                   | -                                       |
| Other receivables <sup>(2)</sup>                               | <u>7,319</u>                            | <u>331</u>                              |
|  | <u>35,801</u>                           | <u>13,058</u>                           |

(1) The outstanding balances represent service fee receivables arising from provision of transportation services to the subsidiaries of CNG during the years ended December 31, 2015 and 2014. The amounts are unsecured, interest free and repayable on demand.

(2) Included in the balance as at December 31, 2015 is an amount of approximately US\$6.3 million value-added tax recoverable which is expected to be recovered within twelve months after the end of the reporting period.

The Group allows an average credit period of 90 days and 180 days to its external trade customers including CNG for gold doře bar sales and copper sales, respectively.

Below is an aged analysis of trade receivables (net of allowance) presented based on invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period:

|                   | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|-------------------|---|---|
| Less than 30 days | 5,834                                   | 7,852                                   |
| 31 to 90 days     | 4,532                                   | 202                                     |
| 91 to 180 days    | 75                                      | 21                                      |
| Over 180 days     | <u>350</u>                              | <u>61</u>                               |
|                   | <u>10,791</u>                           | <u>8,136</u>                            |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The customers with balances that are neither past due nor impaired have good repayment history and thus no impairment is considered necessary.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of US\$350,000 and US\$61,000 at December 31, 2015 and 2014, respectively, which are past due over six months for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience.

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14. TRADE AND OTHER RECEIVABLES - continued

Movement in the allowance for doubtful debts:

|                      | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|----------------------|---|---|
| At January 1         | 167                                     | 145                                     |
| Addition             | 248                                     | 26                                      |
| Exchange realignment | <u>(17)</u>                             | <u>(4)</u>                              |
| At December 31       | <u><u>398</u></u>                       | <u><u>167</u></u>                       |

The Group holds no collateral for any receivable amounts outstanding as at December 31, 2015 and 2014.

15. PREPAID EXPENSES AND DEPOSITS

|   | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|---|---|---|
| Deposits for mine supplies and services (Note a)  | 2,702                                   | 9,969                                   |
| Deposits for spare parts (Note a)   | 4,420                                   | 4,681                                   |
| Deposits for environmental protection (Note b)  | 10,665                                  | 4,043                                   |
| Deposit for acquisition of property, plant and equipment<br>(Note c)                              | 616                                     | 1,651                                   |
| Prepaid property and machinery insurance  | 250                                     | 279                                     |
| Amount due from a non-controlling shareholder (note 27(b))  | 384                                     | 449                                     |
| Other prepayment and deposits   | <u>1,383</u>                            | <u>3,113</u>                            |
|   | 20,420                                  | 24,185                                  |
| Less: Amounts that will be settled or utilised within one year<br>shown under current assets      | <u>(8,446)</u>                          | <u>(17,719)</u>                         |
| Amounts that will be settled or utilised for more than one year<br>shown under non-current assets | <u><u>11,974</u></u>                    | <u><u>6,466</u></u>                     |

Notes:

- a. The amount represents deposits paid to third party vendors and related companies (note 27) for purchasing of raw materials, consumable, spare parts and mine services.
- b. The amount represents deposits paid to the PRC local land administration bureau for undertaking the restoration of land when the lease term is expired. Such amount is receivable upon the end of the mine life and is expected to be repaid after one year and therefore it is shown as a non-current asset at both 2015 and 2014 year end.
- c. The amount represents deposits paid to third party contractors for the acquisition of property, plant and equipment to expand its mining capacity in Tibet, the PRC. The amount is shown as non-current asset.



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16. PREPAID LEASE PAYMENTS

|  | US\$'000     |              |
|--|--------------|--------------|
| At January 1, 2014                       |              | 8,660        |
| Additions                                |              | 105          |
| Release to profit or loss                |              | (194)        |
| Exchange realignment                     |              | (199)        |
|  |              | <u>8,372</u> |
| At December 31, 2014 and January 1, 2015 |              | 8,372        |
| Additions                                |              | (185)        |
| Release to profit or loss                |              | (342)        |
| Exchange realignment                     |              | (342)        |
|  |              | <u>7,845</u> |
| At December 31, 2015                     |              | <u>7,845</u> |
|  | December 31, | December 31, |
|  | <u>2015</u>  | <u>2014</u>  |
|  | US\$'000     | US\$'000     |
| Analysed for reporting purpose:          |              |              |
| Current portion                          | 225          | 232          |
| Non-current portion                      | 7,620        | 8,140        |
|  | <u>7,845</u> | <u>8,372</u> |

Prepaid lease payments represent payments for medium-term leasehold land located in the PRC. The prepaid lease payments are released to profit or loss over the remaining lease terms.

17. INVENTORIES

|                 | December 31,   | December 31,   |
|-----------------|----------------|----------------|
|                 | <u>2015</u>    | <u>2014</u>    |
|                 | US\$'000       | US\$'000       |
| Gold in process | 160,843        | 124,850        |
| Gold doré bars  | 9,565          | 11,861         |
| Consumables     | 5,966          | 5,674          |
| Copper          | 4,597          | 7,327          |
| Spare parts     | 9,905          | 9,868          |
|                 | <u>190,876</u> | <u>159,580</u> |

Inventories totalling US\$272,209,000 (2014: US\$174,530,000) for the year ended December 31, 2015 was recognized in cost of sales.

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18. AVAILABLE-FOR-SALE INVESTMENTS

|  | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|--|---|---|
| Listed investment:                                     |   |   |
| - Equity securities listed in Hong Kong <sup>(1)</sup> | 15,291                                  | 19,289                                  |
| Unlisted investment:                                   |   |   |
| - Equity securities <sup>(2)(3)</sup>                  | <u>2,156</u>                            | <u>2,255</u>                            |
|  | <u>17,447</u>                           | <u>21,544</u>                           |

- <sup>(1)</sup> On June 29, 2012, the Group acquired 70,545,000 shares of China Nonferrous Mining Corporation Limited ("CNMC"), a listed company in Hong Kong at HK\$2.20 per share for a total consideration of US\$20,011,000 which represents 2.03% equity interest in CNMC.

During the year, impairment loss of US\$4,720,000 was recognized to profit or loss as there was significant decline of the fair value of the security below its cost and the Group considered that such a drop is an impairment.

- <sup>(2)</sup> As of December 31, 2015, the Group has invested RMB10,000,000, approximately US\$1,540,000 (2014: US\$1,611,000), representing 10% share interest in Inner Mongolia Chengxin Yong'an Chemicals Co., Ltd. ("Yong'an Chemicals"). Yong'an Chemicals is established in the PRC and principally engaged in the development and manufacturing of chemicals.

- <sup>(3)</sup> As of December 31, 2015, the Group has invested RMB4,000,000, approximately US\$616,000 (2014: US\$644,000), representing 10% share interest in Mozu Gongka Jiulian Industrial Explosives Material Co. Ltd. ("Mozu Explosives"). Mozu Explosives established in the PRC and principally engaged in the development and manufacturing of explosives.

Both Yong'an Chemicals and Mozu Explosives are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the fair values cannot be measured reliably.

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**19. PROPERTY, PLANT AND EQUIPMENT**

|  | Buildings<br>US\$'000 | Crushers<br>US\$'000 | Furniture<br>and office<br>equipment<br>US\$'000 | Machinery<br>and<br>equipment<br>US\$'000 | Motor<br>vehicles<br>US\$'000 | Leasehold<br>improvements<br>US\$'000 | Mineral<br>assets<br>US\$'000 | Construction<br>in progress<br>("CIP")<br>US\$'000 | Total<br>US\$'000 |
|--|-----------------------|----------------------|--|---|-------------------------------|---------------------------------------|-------------------------------|--|-------------------|
| <b>COST</b>  |                       |                      |  |   |                               |                                       |                               |  |                   |
| At January 1, 2014                                   | 200,958               | 72,283               | 2,634  | 94,151                                    | 7,972                         | 100                                   | 221,752                       | 529,658  | 1,129,508         |
| Additions  | 9,378                 | 4,498                | 731  | 4,494                                     | 664                           | 185                                   | 84,144                        | 214,975  | 319,069           |
| Disposals  | -                     | -                    | -  | (373)                                     | -                             | -                                     | -                             | -  | (373)             |
| Transfer from CIP                                    | 8,132                 | 139,098              | 5  | 595                                       | -                             | -                                     | -                             | (147,830)  | -                 |
| Environmental rehabilitation<br>adjustment (note 25) | -                     | -                    | -  | -   | -                             | -                                     | 947                           | -  | 947               |
| Exchange realignment                                 | (4,518)               | -                    | (29)   | (1,400)                                   | (152)                         | -                                     | (2,735)                       | (11,543)   | (20,377)          |
| At December 31, 2014                                 | 213,950               | 215,879              | 3,341  | 97,467                                    | 8,484                         | 285                                   | 304,108                       | 585,260  | 1,428,774         |
| Additions  | 808                   | -                    | 507  | 4,825                                     | 413                           | -                                     | 70,536                        | 201,519  | 278,608           |
| Reversal   | -                     | -                    | -  | -   | -                             | (87)                                  | -                             | -  | (87)              |
| Disposals  | (286)                 | -                    | -  | (129)                                     | -                             | -                                     | -                             | -  | (415)             |
| Transfer from CIP                                    | 2,274                 | -                    | -  | 92  | -                             | -                                     | -                             | (2,366)  | -                 |
| Environmental rehabilitation<br>adjustment (note 25) | -                     | -                    | -  | -   | -                             | -                                     | 17,568                        | -  | 17,568            |
| Exchange realignment                                 | (8,238)               | -                    | (87)   | (2,550)                                   | (289)                         | -                                     | (4,722)                       | (32,237)   | (48,123)          |
| At December 31, 2015                                 | 208,508               | 215,879              | 3,761  | 99,705                                    | 8,608                         | 198                                   | 387,490                       | 752,176  | 1,676,325         |
| <b>ACCUMULATED DEPRECIATION</b>                      |                       |                      |  |   |                               |                                       |                               |  |                   |
| As at January 1, 2014                                | (20,253)              | (21,432)             | (1,392)  | (28,866)                                  | (2,941)                       | (76)                                  | (27,155)                      | -  | (102,115)         |
| Provided for the year                                | (9,205)               | (8,092)              | (482)  | (8,198)                                   | (1,053)                       | (28)                                  | (26,504)                      | -  | (53,562)          |
| Eliminated on disposals                              | -                     | -                    | -  | 104                                       | -                             | -                                     | -                             | -  | 104               |
| Exchange realignment                                 | 474                   | -                    | 14   | 396                                       | 58                            | -                                     | 191                           | -  | 1,133             |
| At December 31, 2014                                 | (28,984)              | (29,524)             | (1,860)  | (36,564)                                  | (3,936)                       | (104)                                 | (53,468)                      | -  | (154,440)         |
| Provided for the year                                | (9,435)               | (16,855)             | (372)  | (8,970)                                   | (1,217)                       | (21)                                  | (33,586)                      | -  | (70,456)          |
| Eliminated on disposals                              | 33                    | -                    | -  | 47  | -                             | -                                     | -                             | -  | 80                |
| Exchange realignment                                 | 1,285                 | -                    | 40   | 981                                       | 149                           | -                                     | 355                           | -  | 2,810             |
| At December 31, 2015                                 | (37,101)              | (46,379)             | (2,192)  | 44,506                                    | (5,004)                       | (125)                                 | (86,699)                      | -  | (222,006)         |
| <b>CARRYING VALUE</b>                                |                       |                      |  |   |                               |                                       |                               |  |                   |
| At December 31, 2015                                 | 171,407               | 169,500              | 1,569  | 55,199                                    | 3,604                         | 73                                    | 300,791                       | 752,176  | 1,454,319         |
| At December 31, 2014                                 | 184,966               | 186,355              | 1,481  | 60,903                                    | 4,548                         | 181                                   | 250,640                       | 585,260  | 1,274,334         |

The above items of property, plant and equipment, except for mineral assets, are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

|                                |   |
|--------------------------------|---|
| Buildings                      | Over the shorter of the term of lease, or 24 years  |
| Crushers                       | 14 years  |
| Furniture and office equipment | 2 to 5 years  |
| Machinery and equipment        | 2 to 10 years                                       |
| Motor vehicles                 | 5 to 10 years                                       |
| Leasehold improvements         | Over the shorter of the term of lease, or 5.5 years |

Mineral assets mainly represent drilling, stripping and related costs incurred on sites with an existing mine and on areas within the boundary of a known mineral deposit which contains proven and probable reserves and are capitalized when they are incurred to improve access to the future ores. Mineral assets are depreciated using the unit-of-production method based on the actual production volume over the estimated total proven and probable reserves of the mines.

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19. PROPERTY, PLANT AND EQUIPMENT - continued

*Mineral Assets*

(a) CSH Gold Mine

CSH Gold Mine, in which the Group holds a 96.5% equity interest, consists of a licensed area of 36 square kilometers ("km<sup>2</sup>") in the western part of Inner Mongolia, northern China. The site is centrally positioned within the east-west-trending Tian Shan Gold Belt and is approximately 650 kilometers ("km") northwest of Beijing. The carrying value of the CSH Gold Mine in relation to mineral assets is US\$233,066,000 as at December 31, 2015 (December 31, 2014: US\$181,120,000).

(b) Jiama Mine

The Jiama Mine, a large copper-gold polymetallic deposit consisting of skarn-type and hornfels-type mineralization located in Metrorkongka County in Tibet, in which the Group holds 100% equity interest through its wholly-owned subsidiary, Skyland. The Group acquired Skyland on December 1, 2010. The Jiama Mine holds two mining permits covering an area of approximately 76.9 km<sup>2</sup> and 66.4 km<sup>2</sup>, respectively and were combined as one mining permit. The carrying value of the Jiama Mine in relation to mineral assets is US\$67,725,000 as at December 31, 2015 (December 31, 2014: US\$69,520,000).

20. MINING RIGHTS

|  | US\$'000        |
|--|-----------------|
| <b>COST</b>                              |                 |
| At January 1, 2014                       | 980,877         |
| Exchange realignment                     | <u>(1,270)</u>  |
| At December 31, 2014 and January 1, 2015 | 979,607         |
| Exchange realignment                     | <u>(2,208)</u>  |
| At December 31, 2015                     | <u>977,399</u>  |
| <b>ACCUMULATED AMORTIZATION</b>          |                 |
| At January 1, 2014                       | (37,320)        |
| Additions                                | (4,535)         |
| Exchange realignment                     | <u>54</u>       |
| At December 31, 2014 and January 1, 2015 | (41,801)        |
| Additions                                | (5,264)         |
| Exchange realignment                     | <u>182</u>      |
| At December 31, 2015                     | <u>(46,883)</u> |
| <b>CARRYING VALUE</b>                    |                 |
| At December 31, 2015                     | <u>930,516</u>  |
| At December 31, 2014                     | <u>937,806</u>  |

20. MINING RIGHTS - continued

The amounts represent mining rights in the Jiama Mine, in relation to the copper concentrate and other by-products production, acquired through the acquisition of Skyland. The two mining permits were renewed in 2014 and 2015, respectively and were combined as one mining permit. The mining permit will expire in 2023. The Group considers that it will be able to renew the mining rights with the relevant government authority continuously at insignificant cost until the end of mine life.

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

21. ACCOUNTS AND OTHER PAYABLE AND ACCRUED EXPENSES

Accounts and other payables of the Group are principally comprised of amounts outstanding for trade purchases relating to minerals production activities and construction activities. The average credit period taken for trade purchases is between 120 to 150 days.

Accounts and other payable and accrued expenses comprise the following:

|                                   | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|-----------------------------------|---|---|
| Accounts payable                  | 51,815                                  | 54,374                                  |
| Bills payable                     | 36,960                                  | -                                       |
| Construction costs payable (Note) | 61,005                                  | 84,095                                  |
| Advances from customers           | 49                                      | 14                                      |
| Mining cost accrual               | 6,466                                   | 6,895                                   |
| Other accruals                    | 1,844                                   | 5,976                                   |
| Payroll and benefit payable       | 4,271                                   | 4,249                                   |
| Other tax payables                | 1,061                                   | 4,847                                   |
| Other payables                    | <u>2,533</u>                            | <u>2,219</u>                            |
|                                   | <u>166,004</u>                          | <u>162,669</u>                          |

Note: During the year ended December 31, 2012, the Group 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 Group 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 arbitration has come to final stage as substantial amounts under arbitration have come into agreement among the construction supplier, the Group and the third party report. Management considered that the accrual of US\$5,759,000 (2014: US\$6,036,000) that is sufficient has been accrued in the construction costs payable.

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21. ACCOUNTS AND OTHER PAYABLE AND ACCRUED EXPENSES – continued

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

|                   | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|-------------------|---|---|
| Less than 30 days | 41,975                                  | 44,446                                  |
| 31 to 90 days     | 1,783                                   | 2,521                                   |
| 91 to 180 days    | 1,195                                   | 1,584                                   |
| Over 180 days     | 6,862                                   | 5,823                                   |
|                   | <u>51,815</u>                           | <u>54,374</u>                           |

The credit period for bills payable is 180 days from the issue date.

The following is an ageing analysis of bills payables, presented based on issue date at the end of the reporting period:

|                | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|----------------|---|---|
| 31 to 60 days  | 12,320                                  | -                                       |
| 91 to 180 days | 24,640                                  | -                                       |
|                | <u>36,960</u>                           | <u>-</u>                                |

22. BORROWINGS

The borrowings are repayable as follows:

|   | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|---|---|---|
| Carrying amount repayable within one year                           | 189,009                                 | 526,839                                 |
| Carrying amount repayable within one to two years (Note 1)          | 487,766                                 | 183,661                                 |
| Carrying amount repayable within two to five years (Note 2)         | 126,278                                 | 475,275                                 |
| Carrying amount repayable over five years (Note 2)                  | 149,378                                 | -                                       |
|   | <u>952,431</u>                          | <u>1,185,775</u>                        |
| Less: Amounts due within one year (shown under current liabilities) | <u>(189,009)</u>                        | <u>(526,839)</u>                        |
| Amounts shown under non-current liabilities                         | <u>763,422</u>                          | <u>658,936</u>                          |

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22. BORROWINGS – continued

Notes:

1. On July 17, 2014, the Company, through its wholly-owned subsidiary, Skyland Mining (BVI) Limited, completed the issuance of bonds to independent third parties 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 interest rate of 3.5% with a maturity date of July 17, 2017. Interest is payable in equal semi-annual instalments on January 17 and July 17 in each year.
2. Skyland entered into a syndicated long term loan facility agreement with a syndicate of banks ("The Lenders"), on November 3, 2015 which is available for Skyland to draw down up to October 30, 2018. As at December 31, 2015, Skyland has drawn down the loan amount of RMB1,400,000,000 (equivalent to approximately US\$215,597,000). The unutilised facility was RMB2,580,000,000 (equivalent to approximately US\$397,314,000) as at December 31, 2015. The loan carries a floating rate, currently set at 2.83% per annum, set by the People's Bank of China Lhasa Center Branch's interest rate bench mark, discounted by 7 base points (or 0.07%) as at December 31, 2015. Repayment of the loan is scheduled to begin in May 2019 and will reach full maturity and repayment in November 2023. The loan is subject to a financial covenant with which the Company was in compliance as at December 31, 2015.

Analysed as:

|           | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|-----------|---|---|
| Secured   | 215,597                                 | 80,553                                  |
| Unsecured | <u>736,834</u>                          | <u>1,105,222</u>                        |
|           | <u>952,431</u>                          | <u>1,185,775</u>                        |

Fixed rate loans amounting to approximately US\$736,835,000 (December 31, 2014: US\$690,213,000), carry weighted average effective interest rate of 4.54% (2014: 4.28%) per annum.

The carrying values of the pledged assets to secure borrowings by the Group are as follows:

|                               | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|-------------------------------|---|---|
| Property, plant and equipment | -                                       | 197,605                                 |
| Mining rights                 | <u>930,516</u>                          | <u>937,806</u>                          |
|                               | <u>930,516</u>                          | <u>1,135,411</u>                        |

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23. ENTRUSTED LOAN PAYABLE

On January 17, 2014, the Group entered into a three-year entrusted loan agreement with CNG (note 27) and China Construction Bank ("CCB") in which CNG provided a loan of RMB200 million (equivalent to approximately US\$32,221,000 based on the spot rate at the withdrawal date) 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.

24. DEFERRED INCOME

|                                     | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|-------------------------------------|---|---|
| Deferred income - government grants | 1,779                                   | 1,772                                   |
| Deferred lease inducement           | <u>19</u>                               | <u>19</u>                               |
|                                     | <u>1,798</u>                            | <u>1,791</u>                            |

Movement in the deferred income - government grants:

|                         | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|-------------------------|-------------------------|-------------------------|
| At January 1            | 1,772                   | 2,476                   |
| Addition                | 940                     | 42                      |
| Charged to other income | (716)                   | (322)                   |
| Exchange realignment    | <u>(217)</u>            | <u>(424)</u>            |
| At December 31          | <u>1,779</u>            | <u>1,772</u>            |

25. ENVIRONMENTAL REHABILITATION

The environmental rehabilitation relates to reclamation and closure costs relating to the Group's mine operations at the CSH Gold Mine and Jiama Mine. The environmental rehabilitation is calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total US\$94,710,000 (2014: US\$84,249,000), discounted at 6.9% (2014: 8.3%) per annum at December 31, 2015.

The following is an analysis of the environmental rehabilitation:

|   | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|---|-------------------------|-------------------------|
| At January 1  | 30,932                  | 29,826                  |
| Additions to site reclamation                                   | 15,537                  | -                       |
| Additions resulted from change in discount rate during the year | 2,031                   | 947                     |
| Accretion incurred in the current year                          | 2,606                   | 2,657                   |
| Payment during the year   | -                       | (1,746)                 |
| Exchange realignment  | <u>(2,016)</u>          | <u>(752)</u>            |
| At December 31  | <u>49,090</u>           | <u>30,932</u>           |



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26. SHARE CAPITAL AND OPTIONS

(a) Common shares

(i) Authorised - Unlimited common shares without par value

(ii) Issued and outstanding

|   | <u>Number<br/>of shares</u> | <u>Amount<br/>US\$'000</u> |
|---|-----------------------------|----------------------------|
| Issued & fully paid:                              |                             |                            |
| At January 1, 2014, December 31, 2014<br>and 2015 | 396,413,753                 | 1,229,061                  |

(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 to acquire common shares of the Company at the price 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 vests over a period of up to five years from the grant date.

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

The following is a summary of option transactions under the Group's stock option plan during the year:

|                        | <u>2015</u>                  |  | <u>2014</u>                  |  |
|------------------------|------------------------------|--|------------------------------|--|
|                        | <u>Number of<br/>options</u> | <u>Weighted<br/>average<br/>exercise<br/>price<br/>CAD</u> | <u>Number of<br/>options</u> | <u>Weighted<br/>average<br/>exercise<br/>price<br/>CAD</u> |
| Balance at January 1   | 400,000                      | 5.56   | 400,000                      | 5.56   |
| Options expired        | 400,000                      | 6.09   | -                            | -  |
| Balance at December 31 | -                            | -  | 400,000                      | 5.56   |

400,000 stock options were granted during the year ended December 31, 2010. The options were granted on June 1, 2010 and expire on June 1, 2015. The exercise price was CAD4.35 per share from June 1, 2010 until June 1, 2011, CAD4.78 per share from June 2, 2011 until June 1, 2012, CAD5.21 per share from June 2, 2012 until June 1, 2013, CAD5.64 per share from June 2, 2013 until June 1, 2014, and CAD6.09 per share from June 2, 2014 until June 1, 2015 or such later termination date as may apply. 20% of the shares vested immediately, on June 2, 2011 and June 2, 2012, an additional 20% of the options vested on June 2, 2013 and on June 2, 2014, respectively. The fair value of these options at date of grant was approximately US\$860,000, of which approximately nil and US\$10,000 were charged to the profit or loss for the year ended December 31, 2015 and 2014 respectively. No stock options were granted during the years ended December 31, 2015 and 2014.

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26. SHARE CAPITAL AND OPTIONS - continued

(b) Stock options - continued

The following table summarizes information about stock options outstanding and exercisable at December 31, 2014:

| <u>Expiring in</u> | <u>Options outstanding</u>     |   |  | <u>Options exercisable</u>     |  |
|--------------------|--------------------------------|---|--|--------------------------------|--|
|                    | <u>Number of stock options</u> | <u>Remaining contractual life (years)</u> | <u>Weighted average exercise price CAD</u> | <u>Number of stock options</u> | <u>Weighted average exercise price CAD</u> |
| June 2015          | <u>400,000</u>                 | 0.42                                      | <u>6.09</u>                                | <u>400,000</u>                 | <u>6.09</u>                                |

The fair value of options granted was determined using the Black-Scholes option pricing model at the grant date.

27. 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 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 years are as follows:

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

|     | December 31, | December 31, |
|-----|--------------|--------------|
|     | <u>2015</u>  | <u>2014</u>  |
|     | %            | %            |
| CNG | <u>39.3</u>  | <u>39.3</u>  |

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27. RELATED PARTY TRANSACTIONS - continued

(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:

|  | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|--|---|---|
| Gold doré bars sales by the Group (Note a)                                       | <u>233,799</u>                          | <u>185,914</u>                          |
| Copper and other product sales by the Group<br>(Note b)                          | <u>20,987</u>                           | <u>5,771</u>                            |
| Provision of transportation services by the Group<br>(Note b)                    | <u>428</u>                              | <u>4,214</u>                            |
| Office lease to the Group (Note b)   | <u>1,162</u>                            | <u>1,104</u>                            |
| Construction, stripping and mining services<br>provided to the Group (Note b, c) | <u>140,829</u>                          | <u>119,348</u>                          |
| Entrusted loan provided by the Group (note 23)                                   | <u>-</u>                                | <u>32,221</u>                           |
| Loan advanced by the Group (Note d)  | <u>14,021</u>                           | <u>-</u>                                |
| Loan provided to the Group (Note e)  | <u>21,560</u>                           | <u>-</u>                                |
| Cash and cash equivalent held by the Group (Note e)                              | <u>14,956</u>                           | <u>-</u>                                |

Notes:

- a. On May 7, 2014, the Company's subsidiary, Inner Mongolia Pacific Mining Co. Ltd. ("IMP") entered into a non-exclusive contract for the sale of doré with CNG pursuant to which IMP occasionally sold gold doré bars to CNG through to December 31, 2017.

The extent of the continuing connected transactions for the years ended December 31, 2015 and 2014 did not exceed the limit as set out in the announcement of the Group on May 7, 2014.

27. RELATED PARTY TRANSACTIONS - continued

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

(i) Transactions/balances with CNG and its subsidiaries - continued

Notes: - continued

- b. On April 26, 2013, the Company entered into a product and service framework agreement with CNG for the provision of providing mining related services and products to the Company for three years until June 18, 2016. The agreement was amended and included copper concentrates sales contract with CNG since May 29, 2015.

The extent of the continuing connected transactions for the years ended December 31, 2015 and 2014 did not exceed the limit as set out in the announcement of the Group on May 29, 2015.

- c. On May 7, 2014, Tibet Huatailong entered into a stripping and mining agreement with China Tenth Metallurgy Group Limited Corporation ("CTMG"), a subsidiary of CNG, whereby CTMG shall provide stripping and mining services for phase II production-period hornfels at the Jiama Mine.

The extent of the continuing connected transactions for the years ended December 31, 2015 and 2014 did not exceed the limit as set out in the announcement of the Group on May 7, 2014.

- d. On April 14, 2015, Skyland Mining (BVI) Limited, the wholly-owned subsidiary of the Company, entered into a loan agreement with China National Gold Group Hong Kong Limited ("CNGHK"), a subsidiary of CNG, pursuant to which Skyland Mining (BVI) Limited as lender, agreed to provide the loan in the principal amount up to US\$14 million for a term of one year, to CNGHK as borrower.

The transaction constituted a connected transaction for the Company under Chapter 14A of the Listing Rules, details of which are set out in the announcement of the Company dated April 14, 2015.

- e. On May 29, 2015, the Company's subsidiaries, IMP, Huatailong and China Gold Finance, a subsidiary of CNG, entered into a financial services agreement pursuant to which China Gold Finance will provide deposit services, loan, settlement, credit facility, financial advisory and other financial services subject to terms and conditions provided therein for a term of three years.

The extent of the continuing connected transactions for the year ended December 31, 2015 did not exceed the limit as set out in the announcement of the Group on May 29, 2015.

27. RELATED PARTY TRANSACTIONS - continued

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

(i) Transactions/balances with CNG and its subsidiaries - continued

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

|  | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|--|---|---|
| <u>Assets</u>                                      |   |   |
| Amounts due from related companies (note 14)       | 2,407                                   | 4,591                                   |
| Deposits   | 912                                     | 926                                     |
| Loan receivable from a CNG subsidiary (note 14)    | 14,021                                  | -                                       |
| Cash and cash equivalents held in a CNG subsidiary | 14,956                                  | -                                       |
|  | <u>32,296</u>                           | <u>5,517</u>                            |

Loan receivable from a CNG subsidiary carries a fixed interest rate of 5% per annum and is unsecured and repayable in April 2016. The remaining amounts due from CNG and its subsidiaries which are included in other receivables is non-interest bearing, unsecured and repayable on demand.

|  | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|--|---|---|
| <u>Liabilities</u>                               |   |   |
| Entrusted loan payable (note 23)                 | 30,800                                  | 32,221                                  |
| Other payable to CNG's subsidiaries              | -                                       | 1,687                                   |
| Customer advance paid by CNG's subsidiary        | 35                                      | 37                                      |
| Construction costs payable to CNG's subsidiaries | 15,564                                  | 9,597                                   |
| Loans payable to a CNG subsidiary                | 21,560                                  | -                                       |
|  | <u>67,959</u>                           | <u>43,542</u>                           |

The loans payable to a CNG subsidiary carry fixed interest rate at the range from 4.13% to 4.37% per annum and are unsecured and repayable in September and December 2016. With the exception of the entrusted loan payable to CNG and loans payable to a CNG subsidiary, the amounts due to CNG and its subsidiaries which are included in other payables and contraction costs payable, are non-interest bearing, unsecured and have no fixed terms of repayments.

(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. Over 95%, 47% and 95% (2014: over 95%, 58% and 90%) of the Group's bank deposits, borrowings and other general banking facilities are with government-related entities respectively.

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27. RELATED PARTY TRANSACTIONS - continued

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

The Group had the following transaction with related party at the end of each reporting period:

|                             | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|-----------------------------|-------------------------|-------------------------|
| Loans advanced by the Group | <u>1,263</u>            | <u>-</u>                |

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

|  | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|--|---|---|
| <u>Asset</u>   |   |   |
| Amount due from a non-controlling shareholder of a subsidiary (included in prepaid expenses) | 384                                     | 449                                     |
| Loans receivable from a non-controlling shareholder (included in other receivable)           | <u>1,263</u>                            | <u>-</u>                                |
|  | <u>1,647</u>                            | <u>449</u>                              |

Loans receivables from a non-controlling shareholder carry a floating rate, currently set at 4.35% per annum based on the benchmark interest rate of the People's Bank of China, and are unsecured and repayable on demand. The amount due from the other related party is non-interest bearing, unsecured and repayable on demand.

Other than the directors' emoluments disclosed in note 10(a), the Group has the following compensation to other key management personnel during the years:

|                             | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|-----------------------------|-------------------------|-------------------------|
| Salaries and other benefits | 1,033                   | 904                     |
| Post-employment benefits    | <u>11</u>               | <u>28</u>               |
|                             | <u>1,044</u>            | <u>932</u>              |

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28. 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 and reportable 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.

Information regarding the above segments is reported below.

(a) Segment revenues and results

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

**For the year ended December 31, 2015**

|   | Mine -<br>produced<br>gold<br>US\$'000 | Mine -<br>produced<br>copper<br>US\$'000 | Segment<br>total<br>US\$'000 | Unallocated<br>US\$'000 | Consolidated<br>US\$'000 |
|---|--|--|------------------------------|-------------------------|--------------------------|
| Revenue - external and<br>segment revenue           | 233,799                                | 106,150                                  | 339,949                      | -                       | 339,949                  |
| Cost of sales                                       | (185,052)                              | (92,051)                                 | (277,103)                    | -                       | (277,103)                |
| Mining operating earnings                           | <u>48,747</u>                          | <u>14,099</u>                            | <u>62,846</u>                | -                       | <u>62,846</u>            |
| Income (expenses) from<br>operations                | 48,444                                 | (2,827)                                  | 45,617                       | (6,902)                 | 38,715                   |
| Foreign exchange gain (loss), net                   | 4,808                                  | (17,197)                                 | (12,389)                     | (1,148)                 | (13,537)                 |
| Interest and other Income                           | (2,013)                                | 5,169                                    | 3,156                        | 9,400                   | 12,556                   |
| Finance costs                                       | (4,778)                                | (6,448)                                  | (11,226)                     | (10,181)                | (21,407)                 |
| Impairment loss on<br>available-for-sale investment | -                                      | -  | -                            | (4,720)                 | (4,720)                  |
| Profit (loss) before income tax                     | <u>46,461</u>                          | <u>(21,303)</u>                          | <u>25,158</u>                | <u>(13,551)</u>         | <u>11,607</u>            |

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28. SEGMENT INFORMATION - continued

(a) Segment revenues and results - continued

**For the year ended December 31, 2014**

|   | Mine -<br>produced<br>gold<br>US\$'000 | Mine -<br>produced<br>copper<br>US\$'000 | Segment<br>total<br>US\$'000 | Unallocated<br>US\$'000 | Consolidated<br>US\$'000 |
|---|--|--|------------------------------|-------------------------|--------------------------|
| Revenue - external and<br>segment revenue | 185,914                                | 91,869                                   | 277,783                      | -                       | 277,783                  |
| Cost of sales                             | (118,131)                              | (60,688)                                 | (178,819)                    | -                       | (178,819)                |
| Mining operating earnings                 | 67,783                                 | 31,181                                   | 98,964                       | -                       | 98,964                   |
| Income (expenses) from<br>operations      | 67,238                                 | 14,147                                   | 81,385                       | (8,028)                 | 73,357                   |
| Foreign exchange gain (loss), net         | 6,492                                  | (59)                                     | 6,433                        | (168)                   | 6,265                    |
| Interest and other Income                 | 921                                    | 292                                      | 1,213                        | 5,799                   | 7,012                    |
| Finance costs                             | (7,080)                                | (8,037)                                  | (15,117)                     | (8,801)                 | (23,918)                 |
| Profit (loss) before income tax           | 67,571                                 | 6,343                                    | 73,914                       | (11,198)                | 62,716                   |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment result represents profit (loss) before income tax attributable to the respective segment. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

There are no inter-segment sales for the years ended December 31, 2015 and 2014.

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by segment representing assets/liabilities directly attributable to respective segment:

|                                | Mine -<br>produced<br>gold<br>US\$'000 | Mine -<br>produced<br>copper<br>US\$'000 | Segment<br>total<br>US\$'000 | Unallocated<br>US\$'000 | Consolidated<br>US\$'000 |
|--------------------------------|--|--|------------------------------|-------------------------|--------------------------|
| <b>As of December 31, 2015</b> |  |  |                              |                         |                          |
| Total assets                   | 655,103                                | 2,023,092                                | 2,678,195                    | 102,398                 | 2,780,593                |
| Total liabilities              | 186,426                                | 648,070                                  | 834,496                      | 498,843                 | 1,333,339                |
| <b>As of December 31, 2014</b> |  |  |                              |                         |                          |
| Total assets                   | 590,157                                | 1,898,623                                | 2,488,780                    | 524,714                 | 3,013,494                |
| Total liabilities              | 199,809                                | 848,552                                  | 1,048,361                    | 499,975                 | 1,548,336                |



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28. SEGMENT INFORMATION - continued

- (c) Other segment information (included in the measure of segment profit or loss or regularly provided to the chief operating decision maker)

|  | Mine -<br>produced<br><u>gold</u><br>US\$'000 | Mine -<br>produced<br><u>copper</u><br>US\$'000 | Segment<br><u>total</u><br>US\$'000 | <u>Unallocated</u><br>US\$'000 | <u>Consolidated</u><br>US\$'000 |
|--|---|---|-------------------------------------|--------------------------------|---------------------------------|
| <b>For the year ended December 31, 2015</b>      |   |   |                                     |                                |                                 |
| Additions of property,<br>plant and equipment    | 71,731  | 206,877   | 278,608                             | -                              | 278,608                         |
| Depreciation of property,<br>plant and equipment | (57,370)                                      | (13,086)  | (70,456)                            | -                              | (70,456)                        |
| Amortization of mining rights                    | -   | (5,264)   | (5,264)                             | -                              | (5,264)                         |
| <b>For the year ended December 31, 2014</b>      |   |   |                                     |                                |                                 |
| Additions of property,<br>plant and equipment    | 122,149                                       | 196,920   | 319,069                             | -                              | 319,069                         |
| Depreciation of property,<br>plant and equipment | (40,745)                                      | (12,817)  | (53,562)                            | -                              | (53,562)                        |
| Amortization of mining rights                    | -   | (4,535)   | (4,535)                             | -                              | (4,535)                         |

- (d) Geographical information

The Group operated in two geographical areas, Canada and the PRC. The Group's corporate division located in Canada only earns revenue that is considered incidental to the activities of the Group and therefore does not meet the definition of an operating segment as defined in IFRS 8 *Operating Segments*. During the years ended December 31, 2015 and 2014, the Group's revenue was generated from gold sales and copper multi-products to customers in the PRC. Over 90% (2014: 90%) of non-current assets of the Group are located in the PRC.

- (e) Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's total revenue are sales of gold doré bars and copper and other products to CNG and its subsidiaries as disclosed in note 27 (a) (i).

29. CAPITAL RISK MANAGEMENT

The Group manages its common shares and stock options as capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to operate its mines, pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Group's overall strategy remains unchanged from prior years.

The Group manages the capital structure and makes adjustments to it in light of operating results, changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may attempt to issue new shares or options, issue of new debt, redemption of existing debt or acquire or dispose of assets.

In order to facilitate the Management of its capital requirements, the Group prepares annual expenditure budgets that are updated as necessary depending on various factors, including operating results, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the board of directors of the Company.

In order to maximize ongoing development efforts, the Group does not pay out dividends. The Group's investment policy is to invest its short-term excess cash in fixed bank deposits with maturities of 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from its operations.

30. FINANCIAL INSTRUMENTS

|  | <u>Financial instrument classification</u> | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|--|--|---|---|
| <i>Financial assets</i>  |  |   |   |
| Cash and cash equivalents  | Loans and receivables                      | 112,399                                 | 565,578                                 |
| Restricted bank balance  | Loans and receivables                      | 9,242                                   | -                                       |
| Trade and other receivables  | Loans and receivables                      | 35,801                                  | 13,058                                  |
| Amount due from a non-controlling shareholder (included in prepaid expenses) | Loans and receivables                      | 384                                     | 449                                     |
| Available-for-sale investments   | Available-for-sale                         | <u>17,447</u>                           | <u>21,544</u>                           |
| <i>Financial liabilities</i>   |  |   |   |
| Accounts and other payables*   | Other financial liabilities                | 152,312                                 | 140,688                                 |
| Borrowings   |  |   |   |
| - Loans, other than syndicated loan  | Other financial liabilities                | 736,834                                 | 1,105,222                               |
| - Syndicated loan  | Other financial liabilities                | 215,597                                 | 80,553                                  |
| Entrusted loan payable   | Other financial liabilities                | <u>30,800</u>                           | <u>32,221</u>                           |

\* Excluded advances from customers and other tax payables.

The Group's financial instruments are exposed to certain financial risks including market risk (e.g. currency risk and interest rate risk), credit risk and liquidity risk.

30. FINANCIAL INSTRUMENTS - continued

(a) Currency risk

The Group is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they related. The Group has not hedged its exposure to currency fluctuations. However, the Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The Group is mainly exposed to exchange rate fluctuation of RMB and US\$.

*RMB monetary assets and liabilities*

|                                | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|--------------------------------|---|---|
| Cash and cash equivalents      | 26,430                                  | 30,367                                  |
| Restricted bank balances       | 9,242                                   | -                                       |
| Trade and other receivables    | 1,524                                   | 332                                     |
| Available-for-sale investments | 1,540                                   | 1,611                                   |
| Accounts and other payables    | (91,311)                                | (62,056)                                |
| Borrowings                     | <u>(50,819)</u>                         | <u>(109,552)</u>                        |
|                                | <u>(103,394)</u>                        | <u>(139,298)</u>                        |

Based on the above net exposures, and assuming that all other variables remain constant, a 5% (2014: 5%) depreciation/appreciation of the RMB against the US\$ would result in an increase/decrease in the Group's profit for the year of approximately US\$3,877,000 for the year ended December 31, 2015 and an increase/decrease in the Group's profit for the year of approximately US\$5,224,000 for the year ended December 31, 2014.

*US\$ monetary liabilities*

|                           | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|---------------------------|---|---|
| Cash and cash equivalents | 971                                     | -                                       |
| Borrowings                | (346,000)                               | -                                       |
| Other payables            | <u>(10,431)</u>                         | <u>-</u>                                |
|                           | <u>(355,460)</u>                        | <u>-</u>                                |

Based on the above net exposures, and assuming that all other variables remain constant, a 5% (2014: 5%) depreciation/appreciation of the US\$ against the RMB would result in an increase/decrease in the Group's profit for the year of approximately US\$15,107,000 for the year ended December 31, 2015.

In Management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

30. FINANCIAL INSTRUMENTS - continued

(b) Interest rate risk

Interest rate risk is the risk that the fair value in relation to bank balance, borrowings, entrusted loan payable and loan to a CNG subsidiary of US\$802,389,000 (2014: US\$722,434,000) bearing fixed interest rate or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate bank balances and variable-rate bank borrowings (see note 22 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimize the fair value interest rate risk.

**Sensitivity analysis**

The following analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant. A 25 basis point (2014: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents Management's assessment of the reasonably possible change in interest rates.

The analysis below reflects the sensitivity that the interest rate may drop by 25 basis points (2014: 25 basis points) or limit to 0 %.

|  | <u>2015</u><br>US\$'000 | <u>2014</u><br>US\$'000 |
|--|-------------------------|-------------------------|
| 25 basis points (2014: 25 basis points) higher |                         |                         |
| - increase (decrease) in profit for the year   | 11                      | 659                     |
| - addition in finance costs capitalized        | 302                     | 1,171                   |
|  | <u>          </u>       | <u>          </u>       |
| 25 basis points (2014: 25 basis points) lower  |                         |                         |
| - (decrease) increase in profit for the year   | (11)                    | (659)                   |
| - reduction in finance costs capitalized       | (302)                   | (1,171)                 |
|  | <u>          </u>       | <u>          </u>       |

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(c) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. The Group sold approximately 100% (2014: 100%) of its gold to one creditworthy customer, CNG, approximately 20% (2014: 6%) and 80% (2014: 94%) of its copper concentrate and other by-product to a CNG's subsidiary and third party respectively for the year ended December 31, 2015 and exposes the Group to concentration of credit risk. The failure of these customers to make required payments could have a negative impact on the Group's results. The Group manages this risk by demanding upfront payment from CNG and has set up monitoring procedures to ensure that follow-up action is taken for timely settlement of receivables from the CNG's subsidiary and the third party. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure the adequate impairment losses are made for irrecoverable amounts. In this regard, Management consider the Group's credit risk is significant reduced.

30. FINANCIAL INSTRUMENTS - continued

(c) Credit risk - continued

The Group's cash and short-term bank deposits are held in large PRC, Hong Kong and Canadian financial institutions. These investments mature at various dates within three months from inception date. The exchange rate of RMB is determined by the Government of the PRC and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The Group had concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in the PRC or Canada for the years ended December 31, 2015 and 2014.

Other than the concentration of the credit risk on bank balances and accounts receivable, the Group does not have any other significant concentration of credit risk.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through the Management of its capital structure and financial leverage as outlined in note 29.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities (see note 32 for other commitments). The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to satisfy the liabilities.

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period:

|                             | On demand<br>or within<br><u>1 year</u><br>US\$'000 | 1 - 2<br><u>years</u><br>US\$'000 | 2 - 5<br><u>years</u><br>US\$'000 | Over 5<br><u>years</u><br>US\$'000 | Total<br>undiscounted<br><u>cashflow</u><br>US\$'000 | Carrying<br><u>Amount</u><br>US\$'000 |
|-----------------------------|---|-----------------------------------|-----------------------------------|------------------------------------|--|---------------------------------------|
| <u>At December 31, 2015</u> |   |                                   |                                   |                                    |  |                                       |
| Accounts and other payables | 152,312   | -                                 | -                                 | -                                  | 152,312  | 152,312                               |
| Borrowings                  | 197,688   | 495,082                           | 143,909                           | 155,652                            | 992,331  | 952,431                               |
| Entrusted loan payable      | 955   | 955                               | 30,842                            | -                                  | 32,752   | 30,800                                |
|                             | <u>350,955</u>                                      | <u>496,037</u>                    | <u>174,751</u>                    | <u>155,652</u>                     | <u>1,177,395</u>                                     | <u>1,135,543</u>                      |

|                             | On demand<br>or within<br><u>1 year</u><br>US\$'000 | 1 - 2<br><u>years</u><br>US\$'000 | 2 - 5<br><u>years</u><br>US\$'000 | Over 5<br><u>years</u><br>US\$'000 | Total<br>undiscounted<br><u>cashflow</u><br>US\$'000 | Carrying<br><u>Amount</u><br>US\$'000 |
|-----------------------------|---|-----------------------------------|-----------------------------------|------------------------------------|--|---------------------------------------|
| <u>At December 31, 2014</u> |   |                                   |                                   |                                    |  |                                       |
| Accounts and other payables | 140,688   | -                                 | -                                 | -                                  | 140,688  | 140,688                               |
| Borrowings                  | 542,131   | 214,717                           | 456,109                           | -                                  | 1,212,957  | 1,185,775                             |
| Entrusted loan payable      | 974   | 974                               | 32,264                            | -                                  | 34,212   | 32,221                                |
|                             | <u>683,793</u>                                      | <u>215,691</u>                    | <u>488,373</u>                    | <u>-</u>                           | <u>1,387,857</u>                                     | <u>1,358,684</u>                      |

30. FINANCIAL INSTRUMENTS - continued

(e) Fair value

Except for the available-for-sale investment - listed equity securities, the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values. There was no transfer between 1, 2 and 3 in the current and prior years.

31. COMMITMENTS AND CONTINGENCIES

*Operating leases commitments*

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

|                                       | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|---------------------------------------|---|---|
| Within one year                       | 106                                     | 1,329                                   |
| In the second to fifth year inclusive | 350                                     | 661                                     |
| Over five years                       | <u>247</u>                              | <u>292</u>                              |
|                                       | <u>703</u>                              | <u>2,282</u>                            |

Operating lease payments represent rentals payable by the Group for its premises. Leases are negotiated for a term of 1 to 14 years.

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31. COMMITMENTS AND CONTINGENCIES - continued

|   | December 31,<br><u>2015</u><br>US\$'000 | December 31,<br><u>2014</u><br>US\$'000 |
|---|---|---|
| <i>Capital commitments</i>  |   |   |
| Capital expenditure in respect of acquisition of property, plant and equipment in the consolidated financial statements - contracted but not provided for | <u>211,196</u>                          | <u>211,217</u>                          |
| Capital expenditure in respect of capital injection to an investee  | <u>3,850</u>                            | <u>4,028</u>                            |
| <i>Other commitments and contingencies existed at the end of each reporting period</i>  |   |   |

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

32. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to the consolidated statements of profit or loss and other comprehensive income, as a cost of inventories, of approximately US\$1,363,000 and US\$1,466,000 for the years ended December 31, 2015 and 2014, respectively, represent contributions payable to the scheme by the Group.

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33. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at December 31, 2015 and 2014 are as follows:

| <u>Name of subsidiaries</u>  | <u>Place and date of incorporation/ establishment</u> | <u>Issued and fully paid share capital/ registered capital</u> | <u>Equity interest attributable to the Group as at December 31,</u> |             | <u>Principal activities</u>  |
|--|---|--|---|-------------|--|
|  |   |  | <u>2015</u>   | <u>2014</u> |  |
| Pacific PGM Inc.   | British Virgin Islands ("BVI")<br>May 17, 2001        | US\$100  | 100%  | 100%        | Investment holding   |
| Pacific PGM (Barbados) Inc.  | Barbados<br>September 6, 2007                         | US\$130,000  | 100%  | 100%        | Investment holding   |
| IMP  | PRC<br>April 29, 2002                                 | US\$45,000,000   | 96.5%   | 96.5%       | Engaged in exploration and development of mining properties in China             |
| Inner Mongolia Xinhan Exploration Technology Co. Ltd <sup>(1)(2)</sup> | PRC<br>January 14, 2014                               | RMB8,500,000   | nil   | 88.24%      | Inactive   |
| Skyland  | Barbados<br>October 6, 2004                           | US\$233,380,700<br>plus RMB1,510,549,032                       | 100%  | 100%        | Investment holding   |
| Tibet Jia Ertong Minerals Exploration Ltd. <sup>(1)</sup>              | PRC<br>October 31, 2003                               | US\$273,920,000  | 100%  | 100%        | Exploration, development and mining of mineral properties and investment holding |
| Huatailong <sup>(1)</sup>  | PRC<br>January 11, 2007                               | RMB1,760,000,000   | 100%  | 100%        | Exploration, development and mining of mineral properties                        |
| Jiama Industry and Trade <sup>(1)</sup>                                | PRC<br>December 1, 2011                               | RMB5,000,000   | 51%   | 51%         | Mining logistics and transport business  |
| Skyland Mining (BVI) Limited   | BVI<br>October 26, 2012                               | US\$1  | 100%  | 100%        | Issue of bonds   |

(1) Domestic limited liability company

(2) Inner Mongolia Xinhan Exploration Technology Co. Ltd was dissolved on April 7, 2015



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34. FINANCIAL SUMMARY OF THE COMPANY

|  | 2015<br>US\$'000 | 2014<br>US\$'000 |
|--|------------------|------------------|
| <b>Current assets</b>                        |                  |                  |
| Cash and cash equivalents                    | 71,601           | 497,823          |
| Others receivable                            | 25               | 59               |
| Prepaid expenses and deposits                | 457              | 1,272            |
| Loan receivables from subsidiaries           | 110,613          | -                |
|  | <u>182,696</u>   | <u>499,154</u>   |
| <b>Non-current assets</b>                    |                  |                  |
| Property, plant and equipment                | 153              | 311              |
| Loan receivables from subsidiaries           | 387,507          | 81,546           |
| Available-for-sale investment                | 15,291           | 19,289           |
| Investments in subsidiaries                  | 987,016          | 987,016          |
| Amounts due from subsidiaries                | 47,493           | 29,779           |
|  | <u>1,437,460</u> | <u>1,117,941</u> |
| <b>Total assets</b>                          | <u>1,620,156</u> | <u>1,617,095</u> |
| <b>Current liabilities</b>                   |                  |                  |
| Other payable and accrued expenses           | 1,248            | 1,195            |
| Advance from a subsidiary                    | 490,000          | 490,000          |
|  | <u>491,248</u>   | <u>491,195</u>   |
| <b>Non-current liability</b>                 |                  |                  |
| Deferred income                              | 19               | 19               |
| <b>Total liabilities</b>                     | <u>491,267</u>   | <u>491,214</u>   |
| <b>Net current (liabilities) assets</b>      | <u>(308,552)</u> | <u>7,959</u>     |
| <b>Total assets less current liabilities</b> | <u>1,128,908</u> | <u>1,125,900</u> |
| <b>Owners' equity</b>                        |                  |                  |
| Share capital (note 26)                      | 1,229,061        | 1,229,061        |
| Reserves (note 35)                           | 2,795            | 2,073            |
| Deficits (note 35)                           | (102,967)        | (105,253)        |
| <b>Total owners' equity</b>                  | <u>1,128,889</u> | <u>1,125,881</u> |
| <b>Total liabilities and owners' equity</b>  | <u>1,620,156</u> | <u>1,617,095</u> |

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35. RESERVES AND DEFICITS OF THE COMPANY

|  | <u>Reserve</u><br>US\$'000 | <u>Accumulated</u><br><u>losses</u><br>US\$'000 | <u>Total</u><br>US\$'000 |
|--|----------------------------|---|--------------------------|
| At January 1, 2014   | 2,972                      | (102,872)                                       | (99,900)                 |
| Loss for the year  | -                          | (2,381)   | (2,381)                  |
| Fair value loss on available- for-sale investment                            | <u>(909)</u>               | <u>-</u>  | <u>(909)</u>             |
| Total comprehensive expenses for the year                                    | <u>(909)</u>               | <u>(2,381)</u>                                  | <u>(3,290)</u>           |
| Share-based compensation   | <u>10</u>                  | <u>-</u>  | <u>10</u>                |
| At December 31, 2014 and January 1, 2015                                     | <u>2,073</u>               | <u>(105,253)</u>                                | <u>(103,180)</u>         |
| Profit for the year  | -                          | 2,286   | 2,286                    |
| Fair value loss on available- for-sale investment                            | (3,998)                    | -   | (3,998)                  |
| Reclassification adjustment upon impairment of available-for-sale investment | <u>4,720</u>               | <u>-</u>  | <u>4,720</u>             |
| Total comprehensive income for the year                                      | <u>722</u>                 | <u>2,286</u>                                    | <u>3,008</u>             |
| At December 31, 2015   | <u><u>2,795</u></u>        | <u><u>(102,967)</u></u>                         | <u><u>(100,172)</u></u>  |