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

(Incorporated in British Columbia, Canada with limited liability)
HK Stock Exchange Stock Code: 2099
Toronto Stock Exchange Stock Code: CGG

2012 ANNUAL REPORT

COMPANY HIGHLIGHTS

THE COMPANY

Overview

China Gold International is a gold and base metal mining company based in Vancouver, Canada. The Company's main business involves the acquisition, development and exploration of gold and base metal mineral properties. The Company's principal mining operation are the Chang Shan Hao Gold Mine ("CSH Gold Mine" or "CSH Mine" or "CSH"), located in Inner Mongolia, China and the Jiama Copper-Gold Polymetallic Mine ("Jiama Mine" or "Jiama"), located in Tibet, China. China Gold International holds a 96.5% interest in the CSH Gold Mine, while its Chinese joint venture ("CJV") partner holds the remaining 3.5% interest. China Gold International began its trial gold production at the CSH Gold Mine in July 2007 and commercial production commenced on July 1, 2008. The Company acquired 100% interest in the Jiama Mine on December 1, 2010. Jiama hosts a large scale copper-gold polymetallic deposit consisting of copper, gold, molybdenum, silver, lead and zinc. The Jiama Mine commenced commercial production in September 2010.

The Company has adopted a growth strategy focused on strategic acquisitions sourced from the international project pipeline of its principal shareholder and the largest gold producer in China, China National Gold Group Corporation ("China National Gold") and developing potential partnerships with other senior and junior mining companies. The Company also contemplates expanding resources and reserves at its existing properties through exploration programs.

JIAMA MINE
Phase II
Expansion Project

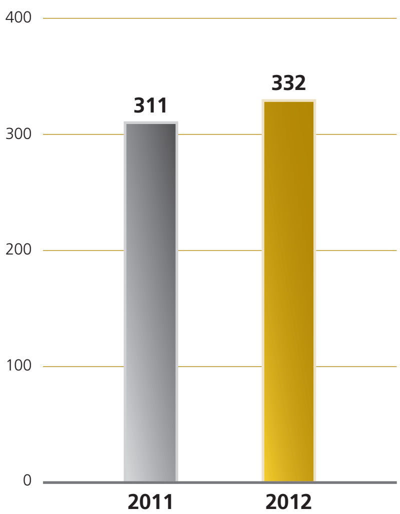
COMPANY HIGHLIGHTS

PERFORMANCE HIGHLIGHTS

- Revenue increased by 7% to US$332 million in 2012 from US$311 million in 2011.
- Gold production from the CSH Mine increased slightly to 139,443 ounces (4,337 kilograms) in 2012 from 133,541 ounces (4,154 kilograms) in 2011, a 4% increase.
- Copper production from the Jiama Mine increased significantly to 11,712 tonnes (26 million pounds) in 2012 from 9,781 tonnes (22 million pounds) in 2011, a 20% increase.
- CSH Mine increased its gold reserve from 2.53 million ounces in 2011 to 3.99 million ounces as of December 31, 2012, a 58% increase.
- The copper reserve at Jiama Mine increased by three times from 0.87 million tonnes in 2011 to 2.79 million tonnes as of December 31, 2012.

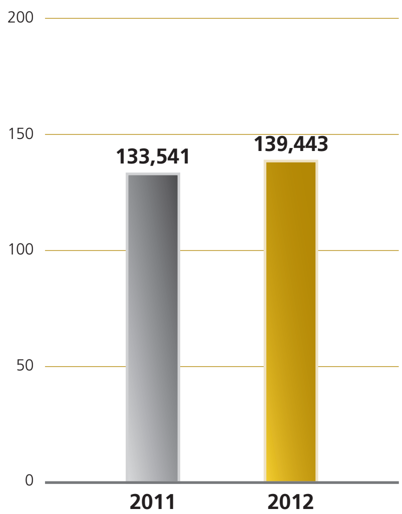
REVENUE

(US $ million)



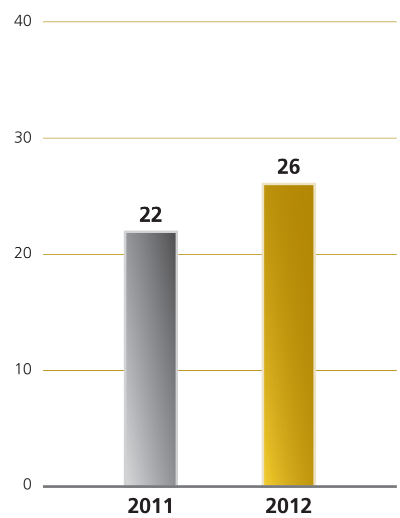
CSH GOLD PRODUCTION

(ounces)



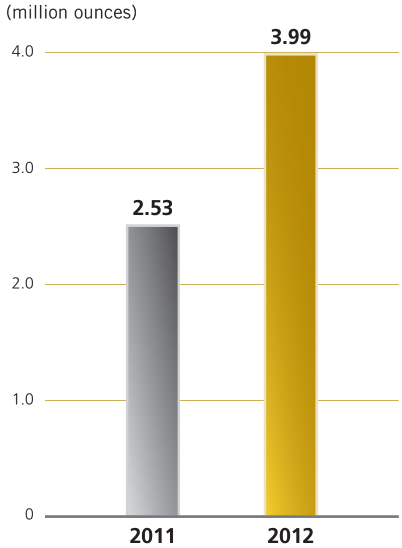
Jiama Copper production

(million pounds)



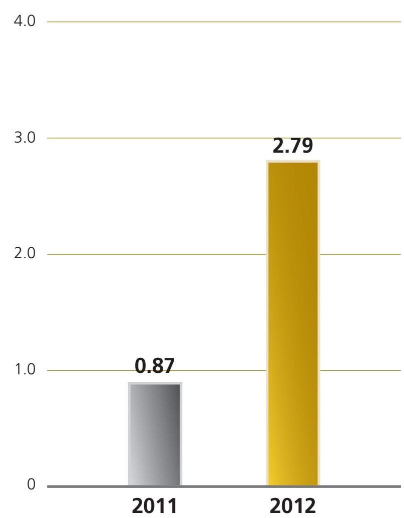
CSH GOLD RESERVE

(as of December 31)
(million ounces)



JIAMA COPPER RESERVE

(as of December 31)
(million tonnes)



MESSAGE FROM THE CHAIRMAN

Dear Shareholders, Employees and Supporters of the Company,

First and foremost, I would like to thank all of our employees and management worldwide, especially our directors – we would not be where we are today without your dedication and hard work. Our deepest appreciation goes to our shareholders as well for your continuous support as we grow to become one of the top-tier producers.

As I reflect back on another successful year of growing our gold and copper resources and production, I realize that our greatest asset is not the metal in the ground but our team of dedicated, bright, competent and inspired people.

Our company has received numerous recognitions and rewards for being an industry leader in harmonious mine development. Since its inception, China Gold International adhered to the philosophy of "Never carrying out production if it compromises ecologic and social environments". We managed to combine this philosophy with superb operational and financial performance and create a win-win situation for the company and the communities where we operate.

We keep increasing our focus on sustaining the highest standards for health, safety, environmental, social heritage and culture protection. We believe that our environment is priceless even compared to gold and thus the company spends significant time and financial resources for reclamation, greening and landscaping. Proactively funding local economy, we spent significant capital in the last 3 years for road and bridge construction, environmental improvements and creating educational programs. We focus on employing local people and on minority recruitment. We financially contribute to preserving local social heritage and culture. We are involved in community activities and support charitable organizations.

MESSAGE FROM THE CHAIRMAN

Organic growth and international expansion are our main goals. For 2013 we plan to increase both gold and copper production from the existing capacity as well as build new capacity on both of our mines. CSH will double its capacity to 60,000 tpd by the end of 2013. Jiama mine will complete both stages of expansion to 40,000 tpd by 2015. To fulfill our growth strategy we are identifying potential mining opportunities that can be quickly brought into production with the possibility of further expansion through continued exploration. We are committed to bringing our strong corporate ethics and values to any area in which we choose to operate.

China Gold International is the only overseas listing vehicle of China National Gold, the largest gold producer in China and a state owned enterprise. One of our mandates from them is to acquire and further develop accretive, superb-quality assets. We are fortunate to be able to leverage financial capabilities and technical expertise from China National Gold to facilitate financing of those acquisitions and to develop them to production at a rapid speed.

As a profitable and growing company, we realize that continuous strong financial performance is necessary in order for us to achieve our growth strategy, continue contributing to our communities and deliver strong results to our shareholders. Our goal is to achieve new production records and highest possible operating efficiencies on our existing mines and advance their expansion in the shortest possible time frame. I would like to assure you that our Board of Directors, management and employees will continue to build upon our successes during 2012 and ensure 2013 is another year of achievements.

Sincerely,

Zhaoxue Sun
Chairman of the Board, Executive Director

MESSAGE FROM THE CEO

Xin Song
Chief Executive Officer, Executive Director

Dear Valued Shareholders and Friends,

I am pleased to share an update on another successful year of our growing and profitable operations. During 2012, the company continued with its goal of expanding its operations and increasing production at both the CSH Gold Mine located in Inner Mongolia, and the Jiama Copper Polymetallic Mine located in the Tibet Autonomous Region in China.

Our technical and operational teams with the help of expert consultants have successfully completed expansion studies at both mines within the expected time frame. The company is pleased by the results of the studies and we have promptly commenced work that is recommended in the reports to advance our operations.

The results of a National Instrument 43-101 compliant Technical Report Expansion Feasibility Study for the Chang Shan Hao (CSH) Gold Project Mine to double its processing capacity to 60,000 tpd are encouraging. Gold production is expected to nearly double as well from its 2012 level of 139,443 ounces to about 260,000 ounces in 2015.

An updated NI 43-101 compliant, Independent Pre-Feasibility Study for the Phase II Expansion of its Jiama Copper Polymetallic Mine indicated that Jiama's processing capacity will grow nearly 7 times from 6,000 tpd in 2012 to 40,000 tpd in 2016. By 2016, copper production expected to reach 176,400,000 pounds up from its 2012 level of 25,821,000.

We are very pleased with the operational progress on both mines.

Record production was achieved for the fifth consecutive year at the CSH gold mine at 139,443 ounces of gold. CSH gold mine continued to enhance technical innovation to improve recoveries which grew from 43% in 2010, to 49% in 2011, and to 53% by the end of 2012. In this environment of industry wide growing costs of operations, one of our main goals is to maintain strong cost control. 2013 is forecasted to be another record production year with 145,000 ounces of gold.

MESSAGE FROM THE CEO

The Jiama Copper Polymetallic Mine achieved its second full year of increasing production of 25,820,417 pounds of copper and 13,487 ounces of gold. We are very proud of our strong team that has successfully overcome high-altitude, oxygen deficient, low– temperature environment to deliver such fast pace of Jiama's development, ever since it was acquired in late 2010.

This higher production and improvements on both mines translated into combined revenue growth of 7% from US$311 million in 2011 to US$332 million in 2012. The company maintains strong cost control and reported a net income of US$74 million.

Based on 40,496 meters of drilling, Jiama mine upgraded a significant amount of its inferred resource to the measured and indicated ("M&I") resources. As a result, the total M&I resources increased to 1,053.1 million tonnes, containing 4.64 million tonnes of copper.

Sufficient permanent power supply to satisfy full expansion capacity of the Jiama Mine has been secured by connecting the mine to the recently completed DC Qinghai-Tibet Power Grid Interconnection Project ("QTPGI"). The CSH mine has solved its water and power supply challenges as well.

There is more growth and progress to come in 2013 and in the future. With our strong balance sheets, two growing and profitable mines, a diverse portfolio of high-quality potential acquisitions, powerful partnership with China National Gold, and with the skills and expertise of our management and employees China Gold International is in a superb position to keep delivering on our goals.

We believe that our employees are the key to our global growth and success. I would like to thank all members of our team at China Gold International. Your remarkable efforts and commitment has ensured another good year for the company. We greatly appreciate our board and shareholders as well, who continue to believe in and support us in our efforts.

Sincerely,

Xin Song
Chief Executive Officer, Executive Director

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Zhaoxue Sun

Chairman Of The Board, Executive Director

Mr. Sun, 50, joined the Company on May 12, 2008 as Chairman of the Board and an executive director and is responsible for overseeing the Company's strategic planning and business development. Mr. Sun serves as President of China National Gold, the Company's principal shareholder and the largest gold producer in China, since October 2006 and serves as a director and Chairman of China National Gold Hong Kong Limited, since February 2008. Mr. Sun has over 29 years of experience in the mining industry and served as the Company's Chief Executive Officer from September 8, 2008 to October 9, 2009. Mr. Sun serves as a director and Chairman of Zhongjin Gold Corporation, a public company listed on the Shanghai Stock Exchange, since March 2007. Prior to joining China National Gold, Mr. Sun spent 23 years with the Aluminum Corporation of China, also known as Chinalco, as Vice President.

Mr. Sun is a professor level senior engineer and holds a Ph.D. doctorate degree in resources economics from the China University of Geosciences. He serves as Chairman of the Chinese Gold Association.

Xin Song

Chief Executive Officer, Executive Director

Mr. Song, 50, joined the Company on October 9, 2009 as Chief Executive Officer and an executive director and is responsible for the Company's strategic planning and business operations. Mr. Song serves as Vice President of China National Gold, the Company's principal shareholder and the largest gold producer in China, since 2003, where he is responsible for resources development, geological exploration and international operations. Mr. Song serves as Chairman of the Board of Skyland Mining Limited, since December 2007 and serves as Chairman of the Board of Tibet Jia Ertong Mining Development Co., Ltd., since April 2008, which subsidiaries hold the Company's Jiama Mine. Mr. Song serves as a director of Zhongjin Gold Corporation, a public company listed on the Shanghai Stock Exchange, since March 2007, for which he served as Chairman of the Board from September 2003 to March 2007. Mr. Song serves as a director of China National Gold Group Hong Kong Limited, since March 2008 and serves as a director of China Gold Hong Kong Holding Corp. Limited, since August 2011. He serves as a director of Mundoro Mining Inc., a private British Columbia based junior natural resource company, since October 2011.

Mr. Song holds a Ph.D. doctorate degree in resources economics and management from the University of Science and Technology Beijing, China, a master's degree in business administration from the China Europe International Business School, a master's degree in mining engineering from the University of Science and Technology in Beijing and a bachelor's degree in mineral processing engineering from the Central-South Institute of Mining and Metallurgy.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Bing Liu

Non-executive Director

Mr. Liu, 50, joined the Company on May 12, 2008 as a non-executive director and is responsible for the supervision of finance related matters and the Company's overall strategic planning. Mr. Liu serves as Vice President and Chief Accountant of China National Gold, the Company's principal shareholder and the largest gold producer in China, since November 1999 and serves as a director of China National Gold Group Hong Kong Limited, since March 2008 and serves as a director of China Gold Hong Kong Holding Corp. Limited, since August 2011. Mr. Liu has extensive experience in mine financing, construction and development and serves as a director of Zhongjin Gold Corporation, a public company listed on the Shanghai Stock Exchange, since March 2007. Mr. Liu serves as a director of Mundoro Mining Inc., a private British Columbia based junior natural resource company, since October 2011. Prior to joining China National Gold, Mr. Liu served as Senior Secretary of the China National Economy and Trade Commission from April 1992 to October 1997 and March 1998 to November 1999 and as Senior Secretary of the China Textile General Association from October 1997 to March 1998. He also served as a Senior Accountant of China Automobile Industry Corporation from July 1987 to April 1992.

Mr. Liu holds a master's degree in currency and banking from the Department of Business Administration, Asia International Open University in Macau and holds a bachelor's degree in finance from the Department of Finance and Trade Economics, Chinese Academy of Social Science.

Zhanming Wu

Vice President Of Business Development, Executive Director

Mr. Wu, 38, joined the Company on May 12, 2008 as an executive director, and was appointed Vice President of Business Development on March 11, 2010. Mr. Wu is responsible for overseeing the Company's corporate finance and investment matters. Mr. Wu serves as head of the Overseas Operation Department of China National Gold, the Company's principal shareholder and the largest gold producer in China, since September 2007. Mr. Wu serves as President of China National Gold Group Hong Kong Limited, since March 2008 and as a director of China Gold Hong Kong Holding Corp. Limited, since August 2011. Mr. Wu serves as a director of Skyland Mining Limited, since April 2008 and as a director of Tibet Jia Ertong Mining Development Co., Ltd., since April 2008, which subsidiaries hold the Company's Jiama Mine. Mr. Wu serves as a director of Mundoro Mining Inc., a private British Columbia based junior natural resource company, since October 2011. Prior to joining China National Gold, Mr. Wu was an investment banker at Deutsche Bank Hong Kong, from May 2001 to January 2004.

Mr. Wu holds a master's degree in management science and engineering from Tsinghua University and a bachelor's degree in management information systems from Tsinghua University.

Xiangdong Jiang

Vice President Of Production, Executive Director

Mr. Jiang, 54, was elected as an executive director of the Company on June 17, 2010 and serves as the Company's Vice President of Production, since March 24, 2009. Mr. Jiang joined the Company in July 2002 as a manager in charge of projects in China and was responsible for the supervision of all exploration projects including the establishment of the gold exploration and drilling program at the CSH Gold Mine. Mr. Jiang served as Vice President of Business Development of the Company from May 20, 2004 to September 8, 2008 and was, during this time, primarily responsible for undertaking property review and evaluation and exploring business opportunities for the Company. Mr. Jiang served as Vice President of Production and Technology from September 8, 2008 to March 23, 2009 and was promoted to Vice President of Production on March 24, 2009. Mr. Jiang serves as a director of Inner Mongolia Pacific Mining Co. Ltd., since September 2008, which operates the Company's CSH Gold Mine and as General Manager of the CSH Gold Mine since August 2007. Mr. Jiang has over 30 years of experience in the mining industry. Prior to joining the Company, Mr. Jiang worked on projects ranging from grass roots to bankable feasibility studies for global mining companies including Cyprus Amax Minerals, Placer Dome, Barrick Resources and First Quantum Minerals.

Mr. Jiang holds a bachelor's degree in Geology and Mineral Exploration from Changchun College of Geology.

Ian He

Independent Non-executive Director

Mr. He, 51, joined the Company on May 31, 2000 as a non-executive director and serves as an independent director. Mr. He has approximately 29 years of experience in the mining industry. Mr. He serves as President and a director of Tri-River Ventures Inc., a public company listed on the TSX Venture Exchange since October 2006, as a director of Jiulian Resources Inc., a public company listed on the TSX Venture Exchange, since October 2006, as a director of Zhongrun Resources Investment Corporation (formerly, Shandong Zhongrun Investment Holding Group Co. Ltd.), a public company listed on the Shenzhen Stock Exchange, since December 2010 and as Deputy Chairman of Huaxing Machinery Corp., a public company listed on the TSX Venture Exchange, since January 2011. From August 1995 to June 2006, Mr. He served as President and a director of Spur Ventures Inc., a public company listed on the Toronto Stock Exchange with phosphate mining and fertilizer operations in China.

Mr. He holds a Ph.D. doctorate degree from the Department of Mining Engineering of the University of British Columbia, a master's degree in applied science from the University of British Columbia and a bachelor's degree in coal preparation from the Heilongjiang Mining Institute in Jixi, China.

Yunfei Chen

Independent Non-executive Director

Mr. Chen, 41, joined the Company on May 12, 2008 as a non-executive director and serves as an independent director. Mr. Chen is based in Hong Kong where he provides independent advisory services. Previously, Mr. Chen worked for Deutsche Bank Hong Kong from July 2001 to August 2007, where he served as a director and managing director in charge of general industries and mining for Asia at various times. Prior to joining Deutsche Bank, Mr. Chen was an attorney with Sullivan & Cromwell based in New York and Hong Kong, from March 1997 to July 2001.

Mr. Chen graduated from Southern Illinois University, Carbondale, with a juris doctor degree and is qualified to practice law in New York. Mr. Chen obtained his bachelor of law degree in China.

Gregory Hall

Independent Non-executive Director

Mr. Hall, 63, joined the Company in October 9, 2009 as a non-executive director and serves as an independent director. Mr. Hall is a seasoned geologist with 40 years of experience in the mining industry and extensive experience working with global mining companies. In his career, Mr. Hall has been involved in the discoveries of Barrick's Granny Smith and Keringal gold mines and Rio Tinto's Yandi iron ore mine in Western Australia. Mr. Hall serves as a director of Colossus Minerals Inc., a public company listed on the Toronto Stock Exchange, since March 2008, as a director of Laurentian Goldfields Ltd., a public company listed on the TSX Venture Exchange since May 2008, as a director of Montero Mining and Exploration Limited, a public company listed on the TSX Venture Exchange, since January 2010 and as a director of Zeus Resources Ltd., a public company listed on the Australian Stock Exchange since August 2010. Mr. Hall serves as a director of three private companies including Oryx Mining and Exploration Limited, Golden Phoenix Resources Ltd., and Golden Phoenix International Pty. Ltd. From 2000 to 2006 Mr. Hall served as Chief Geologist of the Placer Dome Group.

Mr. Hall holds a Bachelor of Science degree in applied geology from the University of New South Wales, Australia.

John King Burns

Independent Non-executive Director

Mr. Burns, 62, joined the Company on October 27, 2009 as a non-executive director and serves as an independent director. Mr. Burns has extensive experience in the global resource sector and is currently the managing director of NuCoal Energy Corp. a private Saskatoon based energy company. Mr. Burns serves as Chairman of Simba Energy Inc., a public company listed on the TSX Venture Exchange, since September 2009, as a director of Corazon Gold Corp., a public company listed on the TSX Venture Exchange, since January 2011, Chairman of Titan Goldworx Resources Inc., a public company listed on the CNSX Exchange since November 2011, and as Chairman of Dolly Varden Silver Corporation, a public company listed on the TSX Venture Exchange, since March 2011. Mr. Burns serves as senior advisor for Potomac Energy and Strategic Resources Fund, since September 2010 and as Chairman of the Advisory Board of Lockwood Financial Group, since September 2010. Mr. Burns serves as a director of Hunter Energy LLC, a private oil and gas exploration company in Centennial, Colorado, since February 2001. In his career, Mr. Burns has served as Vice President and Chief Financial Officer of the Drexel Burnham Lambert Commodity Group in New York, London and Chicago, managing director and global head of the Derivative Trading and Finance Group of Barclays Metals Group, Barclays Bank PLC in London and managing director of Frontier Risk Management LLC in Chicago and has served as lead director and an audit committee member for many public companies.

Mr. Burns holds a Bachelor of Arts degree in economics from the University of Pennsylvania.

SENIOR MANAGEMENT

Jerry Xie

Executive Vice President And Corporate Secretary

Mr. Xie, 52, joined the Company on March 24, 2009 and serves as Executive Vice President and Corporate Secretary. Mr. Xie is responsible for overseeing corporate secretarial matters and daily operations at the Company's Vancouver office under the supervision of the Chief Executive Officer. Mr. Xie served as Vice President and Secretary to the Board of the Company from March 24, 2009 to October 9, 2009 at which time he was promoted to Executive Vice President and Corporate Secretary. Mr. Xie has 25 years of experience in the petro-chemical and oil-sand industry. Prior to joining the Company, Mr. Xie worked as a senior piping stress analyst for WorleyParsons MEG (a division of WorleyParsons Canada Ltd.), a resource and energy engineering company in Canada, from February 2006 to March 2009.

Mr. Xie holds a master's degree in engineering from the University of Calgary, a master's degree in engineering from the Beijing University of Science & Technology and a diploma from the Mechanical Department of Shanghai Institute of Chemical Industry. Mr. Xie is a Professional Engineer with APEGGA.

Derrick Zhang

Chief Financial Officer

Mr. Zhang, 44, joined the Company on January 4, 2010 and serves as Chief Financial Officer responsible for the planning and management of the Company's accounting and financial reporting, since August 10, 2011. Mr. Zhang served as interim Chief Financial Officer of the Company from February 28, 2011 to August 10, 2011 and served as Controller of the Company from January 4, 2010 to February 28, 2011. Mr. Zhang has over 20 years of experience in financial reporting and engineering for public and private companies including experience leading financial reporting for mergers and acquisitions. Mr. Zhang was a financial and accounting supervisor and cost accountant for E-One Moli Energy (Canada) Ltd., an operating subsidiary of China Synthetic Rubber Corporation, a public company listed on the Taiwan Stock Exchange, from May 2008 to December 2009 and September 2006 to November 2007, respectively. Mr. Zhang was a Financial Analyst for Teleflex (Canada) Ltd., an operating subsidiary of Teleflex Incorporated, a public company listed on the New York Stock Exchange, from November 2007 to April 2008. Mr. Zhang was an accountant with Docuport Inc., a private technology company, from May 2005 to May 2006. From 1991 to 2001, Mr. Zhang worked as a mining and construction cost engineer in China and Singapore.

Mr. Zhang is a Certified General Accountant in Canada and a member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Zhang holds a Bachelor of Commerce degree with a major in Accountancy from Concordia University in Montreal, Quebec, Canada and a Bachelor of Engineering degree in Geology from Southwest University of Science and Technology in China.

Songlin Zhang

Vice President and Chief Engineer

Mr. Zhang, 52, joined the Company on February 15, 2012 and serves as Chief Engineer. Mr. Zhang has over 21 years of experience in the mining industry in both North America and China and is experienced in mine project evaluation, reserve and resource estimation and mine economic analysis. Prior to joining the Company, Mr. Zhang served as a technical director for White Tiger Gold where he managed all aspects of reserve and resource evaluation activities for various projects. Mr. Zhang was formerly a consulting engineer for Newmont Gold Corp., where he was involved in valuating production drilling and developing mine planning and ore grade control protocols in Newmont Northern Nevada and Peru Yanacocha operations. He was formerly a senior mine engineer for Echo Bay Mines Ltd. (which merged with Kinross Gold Corporation) at the McCoy/Cove mine where he developed methodology for reserve and resource estimation, served as a member of the reserve committee for the company and conducted a full due diligence study of the Nevada Phoenix project. Mr. Zhang conducted various research projects for open-pit and underground mines in China while working as an assistant professor at the University of Science and Technology Beijing, China.

Mr. Zhang holds a Master's Degree in Mining Engineering from Mackay School of Mines, University of Nevada-Reno in Nevada, USA, a Master's Degree in Mining Engineering from the University of Science and Technology Beijing, China and a Bachelor's Degree in Mining Engineering from the University of Science and Technology Beijing, China. Mr. Zhang is a registered member of The Society for Mining, Metallurgy and Exploration and is a Qualified Person as defined in National Instrument 43-101 of the Canadian Securities Administrators.

The Board of Directors (the "Board") of the Company is pleased to present their report together with the audited consolidated financial statements (the "Financial Statements") of the Company together with its subsidiaries for the financial year ended December 31, 2012 (the "Financial Year").

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company include the acquisition, exploration, development and production of gold and other non-ferrous metals properties. The Company's principal subsidiaries are set out in Note 37 of the Financial Statements and the activities of the Company's principal subsidiaries at December 31, 2012 are set out below:

Name of subsidiary	Country of incorporation	Issued and fully paid share capital	Principal activities
Pacific PGM Inc.	British Virgin Islands	US$100	Holding company
Pacific PGM (Barbados) Inc.	Barbados	US$130,000	Holding company
Inner Mongolia Pacific Mining Co., Ltd.	People's Republic of China	US$37,500,000	Exploration, development and mining of properties in China
Gansu Mining Company (Barbados) Ltd.	Barbados	US$119,000	Holding company
Gansu Pacific Mining Company Ltd.	People's Republic of China	RMB30,365,345	Exploration and development of mining properties in China
Skyland Mining Limited	Cayman Islands	US$233,380,700 plus RMB1,510,519,032	Holding company
Tibet Jia Ertong Mining Development Co., Ltd.	People's Republic of China	US$273,920,000	Exploration, development and mining of properties in China and investment holding
Tibet Huatailong Mining Development Co. Ltd.	People's Republic of China	RMB1,760,000,000	Exploration, development and mining of properties in China
Jiama Industry and Trade Co., Ltd.	People's Republic of China	RMB5,000,000	Mining transport and logistics
Skyland Mining (BVI) Limited	British Virgin Islands	US$1.00	Holding company

DIRECTORS' REPORT

RESULTS

The results of the Company for the Financial Year are set out in the Consolidated Statement of Comprehensive Income on page 3 of the Financial Statements.

DIVIDENDS

The Board has not recommended, declared or paid any dividends for the Financial Year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement of the property, plant and equipment of the Company during the Financial Year are set out in Note 22 of the Financial Statements.

SHARE CAPITAL

Details of the movement in the share capital of the Company during the Financial Year are set out in Note 28 of the Financial Statements.

RESERVES

Details of the reserves available for distribution to the shareholders as at December 31, 2012 are set out in the Consolidated Statement of Changes in Equity on page 6 of the Financial Statements.

DIRECTORS

The directors during the Financial Year and up to the date of this report are as follows:

Executive Directors

Zhaoxue Sun *(Chairman)*
Xin Song
Zhanming Wu
Xiangdong Jiang

Non-Executive Director

Bing Liu

Independent Non-Executive Directors

Ian He
Yunfei Chen
Gregory Hall
John King Burns

In accordance with article 14.1 of the Company's articles, each of the directors are subject to retirement and re-election annually and the term of office for each of the directors will end immediately before the election of directors at the Company's upcoming annual general meeting.

Each of the directors offers himself for re-election at the Company's upcoming annual general meeting scheduled for June 18, 2013.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules (the "Hong Kong Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), and considers that all of the independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the Company's upcoming annual general meeting has a service contract with the Company for his services as a director, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Mr. Zhaoxue Sun, Mr. Xin Song, Mr. Bing Liu and Mr. Zhanming Wu are considered to have a conflict of interest in the transactions as set out in the section headed "Connected transactions and continuing connected transactions" below due to their senior management positions in China National Gold. The 2012 Contract for Purchase and Sale of Doré (details as set out in the section headed "Connected transactions and continuing connected transactions" below) was entered into between the Company's subsidiary and China National Gold, the ultimate controlling shareholder of the Company. Save as aforesaid, no contracts of significance to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at December 31, 2012 or at any time during the Financial Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

To the best knowledge of the directors, during the Financial Year and up to the date of this report, save for the directorships and management roles of our directors in other gold mining companies, none of our directors had any interests in businesses that compete or are likely to compete, either directly or indirectly with the Company. Please refer to the biographies of our directors set out under the section of this report headed "Board of Directors and Senior Management" for details of such circumstances.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND STOCK OPTIONS

As of December 31, 2012, the interests of the directors and chief executive of the Company in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (Appendix 10 to the Hong Kong Listing Rules, the "Model Code"), were as follows:

SHARES

Name	Position	Company	Number of shares held	Nature of interest	Approximate percentage of interest in the Company
Ian He	Director	China Gold International Resources Corp. Ltd.	120,000	Personal	0.0030%
Xiangdong Jiang	Director and Vice President of Production	China Gold International Resources Corp. Ltd.	13,500	Personal	0.0034%

STOCK OPTIONS

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

Other than the holdings disclosed in the table above, none of the directors, chief executive or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as at December 31, 2012.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

On November 7, 2011, Inner Mongolia Pacific Mining Co. Ltd. ("Inner Mongolia Pacific"), a cooperative joint venture company and subsidiary of the Company which operates the Company's CSH Gold Mine, entered into a technology development agreement (the "Technology Development Agreement") with Changchun Gold Design Institute ("Changchun Institute") whereby Changchun Institute would provide research and development services on gold ore cyanidation, flotation and heap leaching processes at the Company's CSH Gold Mine for a period from November 7, 2011 to December 31, 2012 for a service fee of RMB960,000. Details of the Technology Development Agreement are as stated in the Company's announcement dated November 7, 2011.

On November 16, 2011, Inner Mongolia Pacific entered into a geological reserves verification contract (the "Geological Reserves Verification Contract") with Beijing Jinyou Geological Surveillance Company Limited ("Beijing Jinyou"), a wholly-owned subsidiary of China National Gold, in relation to geological reserves verification services and preparation of a reserves verification report by Beijing Jinyou for Inner Mongolia Pacific in Haoyaoerhudong area of the CSH Gold Mine for a period from November 16, 2011 to January 25, 2012 for a fee of RMB350,000. Details of the Geological Reserves Verification Contract are as stated in the Company's announcement dated November 16, 2011.

On December 30, 2011, Inner Mongolia Pacific entered into a lease contract (the "2012 Lease Contract") with China Gold Beijing Property Management Centre ("China Gold Beijing Property Management Centre"), a wholly-owned subsidiary of China National Gold. The 2012 Lease Contract was in relation to the lease of the office premises for use by the Beijing operating centre of the Group, for a term from January 1, 2012 to December 31, 2012 for an annual rental payment of RMB6,719,395. Details of the 2012 Lease Contract are as stated in the Company's announcement dated December 30, 2011. The annual cap for rent payable under the 2012 Lease Contract for the period from January 1, 2012 to December 31, 2012 was RMB6,719,395. Payment made by Inner Mongolia Pacific pursuant to the 2012 Lease Contract was RMB6,719,395 for the year ended December 31, 2012, representing 100% of the annual cap.

As Inner Mongolia Pacific is controlled by the Company, and both the Company and China Gold Beijing Property Management Center are ultimately controlled by China National Gold, China Gold Beijing Property Management Center is a connected person of the Company by virtue of Rule 14A.11 of the Hong Kong Listing Rules. Based on the applicable percentage ratios, the transaction contemplated under the 2012 Lease Contract constitutes continuing connected transactions of the Company subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rule.

On January 5, 2012, Inner Mongolia Pacific entered into a geological exploration technical service contract (the "Geological Exploration Technical Service Contract") with Beijing Jinyou whereby Beijing Jinyou would provide geological exploration technical services in the Haoyaoerhudong area of the CSH Gold Mine for a period from January 5, 2012 to January 31, 2012 for a fee of RMB6,469,800 (approximately US$1,021,047). Details of the Geological Exploration Technical Service Contract are as stated in the Company's announcement dated January 5, 2012.

On January 27, 2012, China National Gold and Inner Mongolia Pacific entered into a non-exclusive contract for the purchase and sale of doré (the "2012 Contract for Purchase and Sale of Doré") pursuant to which Inner Mongolia Pacific shall sell gold doré bars to China National Gold from time to time through to December 31, 2014, with pricing referenced to the daily average price of Au9995 gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of No. 2 silver as quoted on the Shanghai Huatong Platinum & Silver Exchange prevailing at the time of each relevant purchase order during the contract period, pursuant to the terms and conditions of the 2012 Contract for Purchase and Sale of Doré. Details of the 2012 Contract for Purchase and Sale of Doré are as stated in the Company's announcement dated January 5, 2012.

China National Gold is the substantial shareholder of the Company and is therefore a connected person of the Company under the Hong Kong Listing Rules. As a result, the transactions under the 2012 Contract for Purchase and Sale of Doré constitute non-exempt continuing connected transactions which, based on the applicable percentage ratios, are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Annual monetary caps for the transactions stipulated under the 2012 Contract for Purchase and Sale of Doré pursuant to Chapter 14A of the Hong Kong Listing Rules are as follows: December 31, 2012: RMB1,782 million (approximately US$281,275,953), December 31, 2013: RMB1,980 million (approximately US$312,528,837) and December 31, 2014: RMB3,168 million (approximately US$500,046,140).

Payments made by China National Gold pursuant to the 2012 Contract for Purchase and Sale of Doré were approximately RMB1.389 billion for year ended December 31, 2012 which accounted for 66% of the total sales of the Group for the year then ended.

On September 3, 2012, Inner Mongolia Pacific and China Gold Group Inner Mongolia Jinsheng Mining Co. Ltd. ("Jinsheng Mining") (a subsidiary of China National Gold) entered into an geological exploration design agreement (the "Geological Exploration Agreement") whereby Jinsheng Mining would prepare the next stage geological exploration design with respect to the Haoyaoerhudong region of the CSH Gold Mine by October 31, 2012 for a service fee of RMB60,000 (approximately US$9,448). The Geological Exploration Agreement was completed on October 31, 2012. Details of the Geological Exploration Agreement are as stated in the Company's announcement dated September 3, 2012.for a service fee of RMB60,000 (approximately US$9,448). Details of the connected transaction are as stated in the Company's announcement dated September 3, 2012.

On September 3, 2012, Inner Mongolia Pacific entered into an ore processing technology development agreement (the "Ore Processing Technology Development Agreement") with the Technology Centre of China National Gold Group Corporation (the "Technology Centre") whereby the Technology Centre would provide research and development services to advance the ore processing technology at the CSH Gold Mine within 30 days upon entering into the agreement for a service fee of RMB3,500,000 (approximately US$562,466). The Ore Processing Technology Development Agreement was completed on December 31, 2012. Details of the Ore Processing Technology Development Agreement are as stated in the Company's announcement dated September 3, 2012.

On September 3, 2012, Tibet Huatailong Mining Development Co. Ltd. ("Huatailong"), a subsidiary of the Company which operates the Company's Jiama Copper-Gold Polymetallic Mine located in Tibet, China (the "Jiama Mine"), entered into an ore flotation technology development agreement (the "Ore Flotation Technology Development Agreement") with the Technology Centre whereby the Technology Centre would provide research and development services to advance the ore flotation technology at the Jiama Mine for a service fee of RMB1,500,000 (approximately US$241,057). The Technical Centre was required to deliver its research and development report within 100 days following receipt of the ore samples and service fee payment. The Ore Flotation Technology Development Agreement was completed on December 31, 2012. Details of the Ore Flotation Technology Development Agreement are as stated in the Company's announcement dated September 3, 2012.

On September 3, 2012, Tibet Huatailong entered into a purchase agreement (the "Ball Mill Liners Purchase Agreement") with Henan Jinyuan Gold Mining Co., Ltd. ("Henan Jinyuan") whereby Henan Jinyuan would provide ball mill liners and spare parts for the ball mill liners for a period from September 3, 2012 to September 2, 2013 at a total consideration of RMB975,669.38 for use at the Jiama Mine. Details of the Ball Mill Liners Purchase Agreement are as stated in the Company's announcement dated September 3, 2012.

The Company, Changchun Institute, Beijing Jinyou, Jinsheng Mining, the Technology Centre and Henan Jinyuan are ultimately controlled by China National Gold and therefore, Changchun Institute, Beijing Jinyou, Jinsheng Mining, the Technology Centre and Henan Jinyuan are connected persons of the Company under the Hong Kong Listing Rules.

The transactions contemplated under the Geological Exploration Agreement, the Ore Processing Technology Development Agreement, the Ore Flotation Technology Development Agreement, the Ball Mill Liners Purchase Agreement, the Geological Exploration Technical Service Contract, the Technology Development Agreement and the Geological Reserves Verification Contract (together, the "Previous Connected Transactions) are aggregated pursuant to Rule 14A.25 of the Listing Rules on the basis that (a) Jinsheng Mining, the Technology Centre, Henan Jinyuan, Beijing Jinyou and Changchun Institute are all ultimately controlled by China National Gold; (b) the transactions under the Previous Connected Transactions are all in relation to exploration and mining activities; and (c) such transactions were or, in the case of the Ball Mill Liners Purchase Agreement, are expected to be, completed within a 12-month period. As a result, the transactions under the Previous Connected Transactions constitute connected transactions of the Company which, based on the applicable aggregated percentage ratios, are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under the Hong Kong Listing Rules.

On October 18, 2012, Inner Mongolia Pacific entered into an entrustment loan agreement (the "Entrustment Loan Agreement") with China National Gold and the head office of Agricultural Bank of China ("Agricultural Bank") pursuant to which Inner Mongolia Pacific agreed to provide a loan ("Loan") in the sum of RMB100 million through the Agricultural Bank, the entrustee bank, to China National Gold for a six-month period ending May 13, 2013. Interest shall be payable at the benchmark lending interest rate announced by the People's Bank of China for equivalent duration on the date of each particular draw down. The principal amount of the Loan shall be repaid at maturity and interest accrued shall be payable on a quarterly basis. China National Gold is permitted to repay the Loan prior to maturity. Details of the Entrustment Loan Agreement are as stated in the Company's announcement dated October 18, 2012.

The Company is ultimately controlled by China National Gold, therefore China National Gold is a connected person of the Company under the Listing Rules. The Loan contemplated under the Entrustment Loan Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As more than one of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules) for the Loan exceed 0.1% but are less than 5%, the Entrustment Loan Agreement is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

On November 6, 2012, Inner Mongolia Pacific entered into an engineering, procurement and construction agreement (the "EPC Agreement") with China Gold Construction Co. Ltd. ("China Gold Construction") whereby China Gold Construction would provide general engineering, procurement and construction services at the CSH Gold Mine in order to expand the ore processing capacity at the CSH Gold Mine during the period from December 21, 2012 to August 31, 2013 for a service fee of RMB774,838,000 (approximately US$123,287,264). Details of the EPC Agreement are as stated in the Company's announcement dated November 6, 2012.

On November 6, 2012, Inner Mongolia Pacific, entered into a construction supervision agreement (the "Construction Supervision Agreement") with Changchun Institute whereby Changchun Institute would provide mining supervision services and technical support at the CSH Gold Mine during the period from December 21, 2012 to August 31, 2013 for a service fee of RMB3,600,000 (approximately US$572,809). Details of the Construction Supervision Agreement are as stated in the Company's announcement dated November 6, 2012.

On November 6, 2012, the Company entered into a development framework agreement (the "Jiama Framework Agreement") with China National Gold pursuant to which China National Gold would provide mining development services to the Company at the Jiama Mine in order to implement the Phase II development plan for the Jiama Mine as set out in the prefeasibility study report produced by Minarco-MineConsult (the "Prefeasibility Study") during the period from December 21, 2012 to August 31, 2014. Please refer to the announcement of the Company dated 25 October 2012 for more details of the Prefeasibility Study. Details of the Jiama Framework Agreement are as stated in the Company's announcement dated November 6, 2012.

Annual monetary caps for the transactions stipulated under the Jiama Framework Agreement pursuant to Chapter 14A of the Hong Kong Listing Rules are as follows: December 31, 2012: RMB630 million, December 31, 2013: RMB960 million and December 31, 2014: RMB290 million.

No payments were made by the Company pursuant to the Jiama Framework Agreement for the year ended December 31, 2012.

On November 6, 2012, Huatailong, entered into the Phase II Expansion of the Section IV Roadway Contract (the "Phase II Expansion of the Section IV Roadway Contract") with China Tenth Metallurgy Group Limited Corporation ("CTMG") (a controlled subsidiary of China National Gold), to complete an underground roadway project of the 4450m north central section during the period from December 21, 2012 to May 20, 2014 for a fee of RMB27,618,320 (approximately US$4,394,450). Details of the Phase II Expansion of the Section IV Roadway Contract are as stated in the Company's announcement dated November 6, 2012.

On November 6, 2012, Huatailong, entered into an Exploitation Contract for the North Area of the Jiama Mine with CTMG for excavation, tunneling, support and maintenance for the North Area Section of the Auxiliary Ramp ("North Section Exploitation Contract") of the Jiama Mine during the period from December 21, 2012 to June 24, 2015 for a service fee of RMB70,054,000 (approximately US$11,146,544). Details of the North Section Exploitation Contract are as stated in the Company's announcement dated November 6, 2012.

On November 6, 2012, Huatailong, entered into a contract with CTMG to provide open pit ore mining and stripping service at Niumatang area of the Jiama Mine (the "Niumatang Open Pit Ore Mining & Stripping Service Contract") during the period from December 21, 2012 to December 31, 2013 for a service fee of RMB56,000,000 (approximately US$8,910,361). Details of the Niumatang Open Pit Ore Mining & Stripping Service Contract are as stated in the Company's announcement dated November 6, 2012.

On November 6, 2012, Huatailong, entered into a contract with CTMG to provide underground mining services at 4490 Auxiliary Ramp of the Niumatang area of the Jiama Mine (the "Niumatang Auxiliary Ramp Contract") during the period from December 21, 2012 to December 31, 2013 for a service fee of RMB43,000,000 (approximately US$6,841,884). Details of the Niumatang Auxiliary Ramp Contract are as stated in the Company's announcement dated November 6, 2012.

On November 6, 2012, Huatailong, entered into a contract with Henan Zhongyuan Gold Machinery Factory ("Henan Zhongyuan") to purchase Flotation Equipment (the "Flotation Equipment Contract") for the Jiama Mine during the period from December 21, 2012 to December 31, 2013 for a fee of RMB11,200,000 (approximately US$1,782,072). Details of the Flotation Equipment Contract are as stated in the Company's announcement dated November 6, 2012.

China National Gold is a substantial shareholder of the Company, and the Company, China Gold Construction, CTMG, Changchun Institute and Henan Zhongyuan are all ultimately controlled by China National Gold, therefore China National Gold, China Gold Construction, CTMG, Changchun Institute and Henan Zhongyuan are connected persons of the Company under Chapter 14A of the Listing Rules.

The transactions contemplated under the EPC Agreement and the Construction Supervision Agreement (together the "CSH Agreements") and the Phase II Expansion of the Section IV Roadway Contract, North Section Exploitation Contract, Niumatang Open Pit Ore Mining & Stripping Service Contract, Niumatang Auxiliary Ramp Contract and the Flotation Equipment Contract (together with the Jiama Framework Agreement, the "Jiama Agreements") are aggregated pursuant to Rule 14A.25 of the Listing Rules on the basis that (a) China Gold Construction, CTMG, Changchun Institute and Henan Zhongyuan are all ultimately controlled by China National Gold; and (b) the CSH Agreements and the Jiama Agreements are all entered into in order to implement the Company's development plan and expand ore production at the CSH Mine and the Jiama Mine.

As one or more of the relevant percentage ratios (as defined under Rule 14.07 of the Listing Rules), when calculated on aggregated basis, for the CSH Agreements and the Jiama Agreements exceed 5%, the transactions contemplated under the CSH Agreements and the Jiama Agreements constitute connected transactions (and in the case of the Jiama Framework Agreement, a non-exempt continuing connected transaction) that are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

On December 10, 2012, Inner Mongolia Pacific entered into a geological exploration report compilation agreement (the "Geological Exploration Report Compilation Agreement") with Beijing Jinyou whereby Beijing Jinyou would provide geological exploration, analysis and survey services at the CSH Gold Mine and produce a survey report for a period from December 10, 2012 to January 31, 2013 for a fee of RMB450,000. Details of the Geological Exploration Report Compilation Agreement are as stated in the Company's announcement dated December 10, 2012.

On December 10, 2012, Inner Mongolia Pacific entered into a supplemental geological exploration technical service agreement (the "Supplemental Geological Exploration Technical Service Agreement") with Beijing Jinyou whereby Beijing Jinyou would provide hydrogeological exploration and technical supervision services at the CSH Gold Mine for the period from December 10, 2012 to January 1, 2014 for a fee of RMB89,500. Details of the Supplemental Geological Exploration Technical Service Agreement are as stated in the Company's announcement dated December 10, 2012.

On December 10, 2012, Inner Mongolia Pacific entered into an office lease agreement (the "2013 Office Lease Agreement") with China Gold Beijing Property Management Centre. The 2013 Office Lease Agreement is in relation to the lease of the office premises for use by the Beijing operating centre of the Group, for a term from January 1, 2013 to December 31, 2013 for an annual rental payment of RMB6,800,000. Details of the Office Lease Agreement are as stated in the Company's announcement dated December 10, 2012.

The annual cap for rent payable under the 2013 Office Lease Agreement for the period from January 1, 2013 to December 31, 2013 is RMB6,800,000.

The Company, Beijing Jinyou and China Gold Beijing Property Management Center are all ultimately controlled by China National Gold, therefore Beijing Jinyou and China Gold Beijing Property Management Centre are connected persons of the Company by virtue of Rule 14A of the Hong Kong Listing Rules.

The Previous Connected Transactions are aggregated with the transactions contemplated under the Geological Exploration Report Compilation Agreement and the Supplemental Geological Exploration Technical Service Agreement (together, the "Exploration Agreements") pursuant to Rule 14A.25 of the Hong Kong Listing Rules on the basis that (a) Beijing Jinyou, Changchun Institute, Jinsheng Mining, the Technology Centre and Henan Jinyuan are all ultimately controlled by China National Gold; (b) such transactions were or, in the case of the Ball Mill Liners Purchase Agreement and the Exploration Agreements, are expected to be, completed within a 12-month period; and (c) the Exploration Agreements and the Previous Connected Transactions were all entered into for the purpose of obtaining mining related preparatory services.

As one or more of the relevant percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules), when calculated on aggregated basis, for the Exploration Agreements exceed 0.1%, but all of the percentage ratios are less than 5%, the transactions contemplated under the Exploration Agreements constitute connected transactions and are subject to the reporting and announcement requirements but are exempt from the independent Shareholder's approval requirements under Chapter 14A of the Listing Rules.

As one or more of the relevant percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules), when calculated on aggregated basis, for the Office Lease Agreement exceeds 0.1%, but all of the percentage ratios are less than 5%, the transaction contemplated under the 2013 Office Lease Agreement constitutes a continuing connected transaction and is subject to the reporting and announcement requirements but is exempt from the independent Shareholder's approval requirements under Chapter 14A of the Listing Rules.

The Company's independent non-executive directors have confirmed that the continuing connected transactions carried out under (i) the 2012 Lease Contract, (ii) 2012 Contract for Purchase and Sale of Doré, (iii) the Jiama Framework Agreement, and (iv) the 2013 Office Lease Agreement for the year ended December 31, 2012 have been entered into:

(a) in the ordinary and usual course of the Company's business;

(b) on terms no less favorable to the Company than terms available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor, Deloitte Touche Tohmatsu, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor's letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Hong Kong Listing Rules has been provided to the directors of the Company, and was qualified in respect of the above matter. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the Company were entered into or existed during the Financial Year.

STOCK OPTION PLAN

2007 Stock Option Plan

The Company adopted an incentive stock option plan with approval from its shareholders and pursuant to the policies of the Toronto Stock Exchange dated May 9, 2007 (the "2007 Stock Option Plan"). The 2007 Stock Option Plan was adopted to provide the Company's directors, officers, employees and consultants with an opportunity to acquire a proprietary interest in the Company thereby incentivizing the Company's directors, officers, employees and consultants in order to optimize their performance and efficiency to facilitate the long-term growth and profitability of the Company. As of the end of the Financial Year, an aggregate of 540,000 common shares were issuable upon the exercise of outstanding stock options granted under the 2007 Stock Option Plan, representing approximately 0.14% of the Company's outstanding common shares.

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

(a) the exercise price per share under the 2007 Stock Option Plan cannot be less than 100% of the trading price of the shares on the Toronto Stock Exchange for the five trading days immediately preceding the date of grant;

(b) the total number of shares which may be issued upon the exercise of the stock options granted under the 2007 Stock Option Plan is 10% of the issued shares of the Company;

(c) the stock options granted to former directors, senior management and employees expire (i) 12 months after the date of termination of such individual's employment with the Company or (ii) another date approved by the Board;

(d) the stock options granted are valid for five years commencing from the date of grant of such options or such greater or lesser duration as the Board may determine; and

(e) the stock options may be exercised as determined from time to time by the Board or (i) at any time during the first year from the grant date for up to 20% of the total number of shares reserved for issuance pursuant to the stock options, and (ii) at any time during each additional year an additional 20% of the total number of shares reserved for issuance pursuant to the stock options plus any shares not purchased in accordance with (i) until, the fifth year from the grant date, at which time 100% of the stock options will be exercisable.

The following table discloses movements in the Company's stock options for the Financial Year:

Name	Position	Options outstanding at beginning of the year	Options granted during the year	Options exercised during the year	Options forfeited during the year	Options expired during the year	Options outstanding at end of the year
Ian He	Director	250,000	Nil	(110,000)	Nil	Nil	140,000[(1)]
Yunfei Chen	Director	100,000	Nil	Nil	Nil	Nil	100,000[(2)]
Gregory Hall	Director	100,000	Nil	Nil	Nil	Nil	100,000[(2)]
John King Burns	Director	100,000	Nil	Nil	Nil	Nil	100,000[(2)]
Xiangdong Jiang	Director and Vice President of Production	80,000	Nil	Nil	Nil	Nil	80,000[(3)]
Total for directors and senior executives		630,000	Nil	Nil	Nil	Nil	520,000
Total for other option holders		65,000	Nil	(45,000)	Nil	Nil	20,000[(4)]
TOTAL		695,000	Nil	(155,000)	Nil	Nil	540,000

Notes:

1. Consists of 40,000 of 200,000 stock options granted on July 20, 2007 pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at an exercise price of CAD$2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter and 100,000 stock options granted on June 1, 2010 pursuant to the 2007 Stock Option Plan and expiring on June 1, 2015 at an exercise price of CAD$4.35 from June 1, 2010 until June 1, 2011; CAD$4.78 from June 2, 2011 until June 1, 2012; CAD$5.21 from June 2, 2012 until June 1, 2013; CAD$5.64 from June 2, 2013 until June 1, 2014 and CAD$6.09 from June 2, 2014 until June 1, 2015 with 20% vesting immediately and an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 respectively. In addition to the options exercised in fiscal 2012, on January 9, 2013, Mr. He exercised the remaining 40,000 options originally granted on July 20, 2007.

2. Consists of 100,000 stock options granted on June 1, 2010 pursuant to the 2007 Stock Option Plan and expiring on June 1, 2015 at an exercise price of CAD$4.35 from June 1, 2010 until June 1, 2011; CAD$4.78 from June 2, 2011 until June 1, 2012; CAD$5.21 from June 2, 2012 until June 1, 2013; CAD$5.64 from June 2, 2013 until June 1, 2014 and CAD$6.09 from June 2, 2014 until June 1, 2015 with 20% vesting immediately and an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 respectively.

3. Consists of 80,000 of 200,000 stock options granted on July 20, 2007 pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at exercise price of CAD$2.20 with vesting as to 20% on first anniversary of the date of grant and 20% each anniversary thereafter.

4. Consists of 20,000 of 3,283,000 stock options granted on July 20, 2007 to various employees of the Company pursuant to the 2007 Stock Option Plan and expiring on July 20, 2013 at an exercise price of $2.20 with vesting as to 20% on the first anniversary of the date of grant and 20% each anniversary thereafter.

DIRECTORS' RIGHT TO PURCHASE SHARES

Save as disclosed in the paragraph headed "directors' and chief executive's interests in shares and stock options" in this report, at no time during the year ended December 31, 2012 or the period following December 31, 2012 up to the date of this report, was the Company or any of its subsidiaries or its holding companies or any of the subsidiaries of the Company's holding companies a party to any arrangement to enable the directors or the chief executive of the Company or their respective associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during such period.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as of December 31, 2012, the Company's directors were not aware of any other person (other than a director or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register kept pursuant to Section 336 of the SFO:

Name	Nature of interest	Number of Shares held	Approximate percentage of outstanding shares
China National Gold Group Corporation [1]	Indirect	155,794,830[1]	39.31%
China National Gold Group Hong Kong Limited	Registered Owner	155,794,830	39.31%

Note:

1. China National Gold Group Corporation directly and wholly owns China National Gold Group Hong Kong Limited therefore the interest attributable to China National Gold Group Corporation represents its indirect interest in the Company's shares through its equity interest in China National Gold Group Hong Kong Limited.

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

During the year ended December 31, 2012, neither the Company, nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities.

EMOLUMENT POLICY

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

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

The emolument policy for the Company's employees is determined on a department by department basis with the Chief Executive Officer determining the emoluments for employees and managers based on merit, qualifications and the Company's hiring and retention needs. At December 31, 2012, the Company had 1,276 employees working at various locations.

The Company has also adopted stock option plans to incentivize its directors, officers and eligible employees. The details of the Company's stock option plan are set out in Note 28(b) of the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles or under the laws of Canada which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Hong Kong Listing Rules require that at least 25% of the Company's outstanding shares be at all times held by the public to ensure the sufficiency of the Company's public float. As at December 31, 2012, the Company had 396,318,753 shares outstanding of which 240,390,423 shares were included in the public float, representing 60.66% of the Company's outstanding common shares.

MAJOR CUSTOMERS AND SUPPLIERS

Details of the Company's transactions with its major suppliers and customers during the Financial Year are set out below:

CUSTOMERS

The largest customer accounted for 66% of the Company's sales.

The five largest customers accounted for 100% of the Company's sales.

The Company's principal shareholder, China National Gold, purchases gold doré bars from the CSH Gold Mine at prevailing market prices pursuant to a contract for the purchase and sale of doré dated January 27, 2012. Please refer to the section of this report headed "Connected transactions and continuing connected transactions" above for further details. Mr. Sun, Mr. Song, Mr. Liu and Mr. Wu are executive officers of China National Gold.

Save as disclosed above, at no time during the Financial Year did a director, an associate of a director or any other shareholder (which to the knowledge of the Company's directors owns more than 5% of the Company's issued share capital) hold an interest in the Company's five largest customers.

SUPPLIERS

The largest supplier accounted for 59% of the Company's purchases.

The five largest suppliers accounted for 81% of the Company's purchases.

At no time during the Financial Year did a director, an associate of a director or any other shareholder (which to the knowledge of the Company's directors owns more than 5% of the Company's issued share capital) hold an interest in the Company's five largest suppliers.

CHARITABLE DONATIONS

The Company made charitable donations during the Financial Year amounting to US$563,400.

EVENTS AFTER REPORTING PERIOD

There are no significant events occurring after December 31, 2012 as set out in the Financial Statements.

INDEPENDENT AUDITORS

A resolution will be submitted at the Company's upcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu of Hong Kong as the Company's auditors.

On behalf of the Board,
Zhaoxue Sun
Chairman of the Board
March 25, 2013

The Board considers good corporate governance practices to be an important factor in the continued and long term success of the Company by helping to maximize shareholder value over time.

To further this philosophy and to ensure that the Company follows good governance practices the Board has taken the following steps:

- approved and adopted a mandate for the Board;
- appointed an Audit Committee, a Nominating and Corporate Governance Committee and a Compensation and Benefits Committee consisting solely of independent directors;
- established a Health, Safety and Environmental Committee consisting solely of independent directors;
- approved charters for all of the Board committees to formalize the mandates of those committees;
- established a Disclosure Committee with a mandate to oversee the Company's disclosure practices including the establishment of a sub-committee charged with overseeing the Company's technical disclosure;
- adopted a formal Corporate Disclosure, Confidentiality and Securities Trading Policy and formalized the Company's disclosure controls and procedures;
- adopted a formal Code of Business Conduct and Ethics that governs the behavior of directors, officers and employees and which is also distributed to consultants;
- adopted formal written position descriptions for the Chief Executive Officer and Chief Financial Officer, clearly defining their roles and responsibilities;
- adopted a whistleblower policy administered by an independent third party;
- formalized a process for assessing the effectiveness of the Board as a whole, the Board committees and the contribution of individual directors on a regular basis;
- reviewing and approving the Company's incentive compensation plans; and
- providing continuing education opportunities for all directors.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Company has, throughout the Financial Year, applied the principles and complied with the requirements of its corporate governance practices as defined by the Board and all applicable statutory, regulatory and stock exchange listings standards, in particular, the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company's current practices are reviewed and updated regularly to ensure that the latest developments in corporate governance are followed and observed.

BOARD COMPOSITION

Corporate governance guidelines adopted by the Canadian Securities Administrators ("CSA") recommend that a majority of the directors of a corporation be independent directors. Under the CSA corporate governance guidelines, an "independent director" is a director who has no direct or indirect material relationship with the Company, including as a partner, shareholder or officer of an organization that has a relationship with the Company. A "material relationship" is one that would, or in the view of the Board could be reasonably expected to, interfere with the exercise of a director's independent judgment. As at December 31, 2012 and as at the date of this report, the Board has determined that it consists of four "independent directors" and five non-independent directors under the CSA corporate governance guidelines. The Board believes that its current size and composition and the composition of the Board committees consisting solely of independent directors, results in balanced representation.

As at the date of this report, the Board has determined that it consists of four independent directors and five non-independent directors as follows:

Independent Directors	Non-independent Directors
Ian He	Zhaoxue Sun *(Chairman)* (1)
Yunfei Chen	Xin Song *(Chief Executive Officer)* (2)
Gregory Hall	Bing Liu (3)
John King Burns	Zhanming Wu *(Vice President of Business Development)* (4)
	Xiangdong Jiang *(Vice President of Production)* (5)

Notes:

1. Mr. Sun is a non-independent director in his capacity as an executive officer of China National Gold which has a material relationship with the Company.

2. Mr. Song is a non-independent director in his capacity as a senior officer of the Company and in his capacity as an executive officer of China National Gold which has a material relationship with the Company.

3. Mr. Liu is a non-independent director in his capacity as an executive officer of China National Gold which has a material relationship with the Company.

4. Mr. Wu is a non-independent director in his capacity as a senior officer of the Company and in his capacity as an executive officer of China National Gold which has a material relationship with the Company.

5. Mr. Jiang is a non-independent director in his capacity as a senior officer of the Company.

As at the date of this report, China National Gold holds approximately 39.31% of the Company's outstanding common shares.

The Board has determined that five of its nine directors being Mr. He, Mr. Chen, Mr. Hall, Mr. Burns and Mr. Jiang are independent of China National Gold, which the Board believes fairly reflects the investment in the Company by shareholders other than the Company's principal shareholder. The Board has further determined that four of its nine directors do not have an interest in the Company or relationship with the Company's principal shareholder and satisfy all independence requirements under the applicable corporate governance rules and guidelines.

The directors are satisfied that the size and composition of the Board results in a balanced representation on the Board among management and non-management directors and the Company's principal shareholder. While the Board believes that it functions effectively given the Company's stage of development and the size and complexity of its business, the Company, through its Nominating and Corporate Governance Committee, may in the future seek to add qualified candidates to augment its experience and expertise and to enhance the Company's ability to develop its business interests.

Mr. Sun serves as the Chairman of the Board and served as the Company's Chief Executive Officer from September 8, 2008 to October 9, 2009. Mr. Song has served as the Company's Chief Executive Officer since October 9, 2009. At present, Mr. He, the Chairman of the Board committees, acts as the de facto lead independent director and liaises with management and the directors regarding relevant matters. The Board is of the view that appropriate structures and procedures are in place to allow the Board to function independently of management while continuing to provide the Company with the benefit of having a Chairman with extensive experience in the mining industry.

The Company has received from each of its independent directors, their confirmation of independence pursuant to listing rules in all applicable jurisdictions.

To the best knowledge of the Company none of the directors of the Company are related. Relationships include financial, business or family relationships. The Company's directors are free to exercise their independent judgment.

Directors, including the current non-executive director and the independent non-executive directors of the Company, are elected at each annual general meeting and hold office until the next annual general meeting, unless a director's office is earlier vacated in accordance with the provisions of the Business Corporations Act and the Company's Articles.

DIRECTORS' PROFESSIONAL DEVELOPMENT

The Board, through the Chairman of the Nominating and Corporate Governance Committee, should ensure that all new directors receive a comprehensive orientation so that each new director fully understands the role of the Board and its committees, as well as the contribution individual directors are expected to make and to understand the nature and operation of the Company's business.

The Board should provide continuing education opportunities for all directors, so that each individual director may maintain or enhance his skills and abilities as a director, as well as to ensure his knowledge and understanding of the Company's business remains current.

The Company updates its directors on the latest developments regarding applicable regulatory requirements from time to time, to ensure compliance and to enhance their awareness of good corporate governance practices. To that effect, in fiscal 2012, the Nominating and Corporate Governance Committee members were provided with the following:

- Presentation for the Corporate Governance Committee on Canadian Securities Compliance
- Continuing Obligations and Responsibilities of a Hong Kong Listed Company and its Directors

The individual professional development record of each Director for fiscal 2012 is set out below:

	Briefings and updates on the business, operations and corporate governance matters	Attend or participate in seminars/workshops relevant to the business or directors' duties
Executive Directors		
Zhaoxue Sun (Chairman)	✓	✓
Xin Song	✓	✓
Zhanming Wu	✓	✓
Xiangdong Jiang	✓	✓
Non-Executive Director		
Bing Liu	✓	✓
Independent Non-Executive Directors		
Ian He	✓	✓
Yunfei Chen	✓	✓
Gregory Hall	✓	✓
John King Burns	✓	✓

MANDATE OF THE BOARD

Under the British Columbia Business Corporations Act (the "Business Corporations Act"), the directors of the Company are required to manage the Company's business and affairs, and in doing so, to act honestly and in good faith with a view to furthering the best interests of the Company. In addition, each director must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Board is responsible for supervising the conduct of the Company's affairs and the management of its business. The Board's mandate includes setting long term goals and objectives for the Company, formulating the plans and strategies necessary to achieve those objectives and supervising senior management in their implementation. Although the Board delegates the responsibility for managing the day-to-day affairs of the Company to senior management, the Board retains a supervisory role in respect of, and ultimate responsibility for, all matters relating to the Company and its business.

The Board's mandate requires that the Board be satisfied that the Company's senior management will manage the affairs of the Company in the best interest of the shareholders, in accordance with the Company's principles, and that the arrangements made for the management of the Company's business and affairs are consistent with their duties described above. The Board is responsible for protecting shareholder interests and ensuring that the incentives of the shareholders and of management are aligned. The obligation of the Board must be performed continuously, and not merely from time to time, and in times of crisis or emergency the Board may have to assume a more direct role in managing the affairs of the Company.

In discharging this responsibility, the Board's mandate provides that the Board oversees and monitors significant corporate plans and strategic initiatives. The Board's strategic planning process includes annual budget reviews and approvals and discussions with management relating to strategic and budgetary issues.

As part of its ongoing review of business operations, the Board periodically reviews the principal risks inherent in the Company's business, including financial risks, and assesses the systems established to manage those risks. Directly and through the Audit Committee, the Board also assesses the integrity of internal control over financial reporting and management information systems.

In addition to those matters that must, by law, be approved by the Board, the Board is required under its mandate to approve annual operating and capital budgets, any material dispositions, acquisitions and investments outside of the ordinary course of business or not provided for in the approved budgets, long-term strategy, organizational development plans and the appointment of senior executive officers. Management is authorized to act, without Board approval on all ordinary course matters relating to the Company's business.

The Board's mandate provides that the Board expects management to provide the directors, on a timely basis, with information concerning the business and affairs of the Company, including financial and operating information and information concerning industry developments as they occur, all with a view to enabling the Board to discharge its stewardship obligations effectively. The Board expects management to efficiently implement its strategic plans for the Company, to keep the Board fully apprised of its progress in doing so and to be fully accountable to the Board in respect to all matters for which it has been assigned responsibility.

The Board has instructed management to maintain procedures to monitor and promptly address shareholder concerns and has directed and will continue to direct management to apprise the Board of any major concerns expressed by shareholders.

Each Board committee is empowered to engage external advisors as it sees fit. Any individual director is entitled to engage an outside advisor at the expense of the Company provided such director has obtained the approval of the Nominating and Corporate Governance Committee to do so. In conjunction with its review of operations, the Board considers risk issues when appropriate and approves corporate policies addressing the management of the risk of the Company's business.

The Board takes ultimate responsibility for the appointment and monitoring of the Company's senior management. The Board approves the appointment of senior management and reviews their performance on an ongoing basis.

The Company has a corporate disclosure policy addressing, among other things, how the Company interacts with analysts and the public, and contains measures for the Company to avoid selective disclosure. The Company has a Disclosure Committee responsible for overseeing the Company's disclosure practices. The Disclosure Committee consists of the Company's Executive Vice President and Corporate Secretary, Chief Executive Officer, Chief Financial Officer and the Company's senior communications and investor relations officers, or those individuals who act in equivalent positions for the Company, and receives advice from the Company's external legal counsels. The Disclosure Committee assesses materiality and determines when developments justify public disclosure. The Disclosure Committee reviews the corporate disclosure policy annually and as otherwise needed to ensure compliance with regulatory requirements and reviews all documents which are reviewed by the Board and Audit Committee. The Board reviews and approves the Company's material disclosure documents, including its annual report, annual information form and management proxy circular. The Company's annual and quarterly financial statements, management's discussion and analysis and other financial disclosure is reviewed by the Audit Committee and recommended to the Board for approval, prior to its release.

COMMITTEES OF THE BOARD

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that the Company has an effective internal control framework. This includes internal controls to manage both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Company's Audit Committee consists of Mr. He, Mr. Chen, Mr. Burns and Mr. Hall. Mr. He serves as Chairman of the Audit Committee.

The primary objective of the Audit Committee of the Company is to act as a liaison between the Board and the Company's independent auditors and to assist the Board in fulfilling its oversight responsibilities with respect to (a) the financial statements and other financial information provided by the Company to its shareholders, the public and others, (b) the Company's compliance with legal and regulatory requirements, (c) the qualification, independence and performance of the auditors and (d) the Company's risk management and internal financial and accounting controls, and management information systems.

Although the Audit Committee has the powers and responsibilities set forth in its charter, the role of the Audit Committee is oversight. The members of the Audit Committee are not full-time employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with International Financial Reporting Standards ("IFRS"). These are the responsibilities of management and the auditors.

All services to be performed by the auditors of the Company must be approved in advance by the Audit Committee.

The Audit Committee held four meetings during the Financial Year. In performing its duties in accordance with its charter, the Audit Committee has:

- overseen the Company's relationship with the auditors;
- reviewed the Company's interim and annual financial statements;
- reviewed and assessed the effectiveness of systems of risk management and internal controls; and
- reported to the Board on the proceedings and deliberations of the Audit Committee.

Nominating and Corporate Governance Committee

The Board has established a Nominating and Corporate Governance Committee, which operates under a charter approved by the Board. The primary objective of the Nominating and Corporate Governance Committee is to assist the Board in fulfilling its oversight responsibilities by (a) identifying individuals qualified to become Board and Board committee members and recommending that the Board select director nominees for appointment or election to the Board; and (b) developing and recommending to the Board corporate governance guidelines for the Company and making recommendations to the Board with respect to corporate governance practices. The Nominating and Corporate Governance Committee monitors the disclosure of conflicts of interest to the Board and ensures that no director will vote in respect of a matter in which such director has a material interest. The members of the Nominating and Corporate Governance Committee are Mr. He, Mr. Chen, Mr. Hall and Mr. Burns. Mr. He serves as Chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee met during the Financial Year to review its charter, to review the articles of the Company, to assess the competencies and characteristics represented on the Board, to review the results of a Board effectiveness survey and self assessments and to confirm compliance with regulatory, corporate governance and disclosure requirements. The Nominating and Corporate Governance Committee is also responsible for reviewing and monitoring the training and continuous professional development of directors and senior management as required under Code Provision D.3.1(b) of Appendix 14 to the Hong Kong Listing Rules.

Compensation and Benefits Committee

The Board has established a Compensation and Benefits Committee, which operates under a charter approved by the Board. The primary objective of the Compensation and Benefits Committee is to discharge the Board's responsibilities relating to the compensation and benefits for senior executives and directors of the Company. This role includes reviewing the adequacy and form of compensation for senior executives and the directors, determining the recipients of and the nature and size of share compensation awards granted from time to time and determining any bonuses to be awarded. The members of the Compensation and Benefits Committee are Mr. He, Mr. Chen, Mr. Hall and Mr. Burns. Mr. He is the Chairman of the Compensation and Benefits Committee. The Compensation and Benefits Committee met during the Financial Year to review its charter, to assess the performance and compensation of the Chief Executive Officer, to review the compensation and benefits for senior executives and directors of the Company and to complete self assessments. The Compensation and Benefits Committee made recommendations to the Board for adjustments to compensation for the Company's senior executives on various occasions throughout the Financial Year.

Health, Safety and Environmental Committee

The Board has established a Health, Safety and Environmental Committee, which operates under a charter approved by the Board. The primary objective of the Health, Safety and Environmental Committee is to discharge the Board's responsibilities relating to compliance with applicable health, safety and environmental rules and regulations. This role includes assisting the Board in its oversight of the development, implementation and evaluation by management of the Company's health, safety and environmental objectives and for monitoring the Company's compliance with applicable health, safety and environmental laws and regulations. The members of the Health, Safety and Environmental Committee are Mr. He, Mr. Chen, Mr. Hall and Mr. Burns. Mr. He is the Chairman of the Health, Safety and Environmental Committee. The Health, Safety and Environmental Committee met during the Financial Year to receive reports from the Chief Safety Officers from the CSH and Jiama mines, to review the findings of an independent safety audit, and to complete self assessments. The Health, Safety and Environmental Committee made recommendations to the mine sites for continuous improvements.

Ad Hoc and Special Committees

In appropriate circumstances, the Board will establish a special committee to review a matter in which several directors or management may have a conflict of interest.

MEETINGS OF THE BOARD AND BOARD COMMITTEES

The Board holds regular quarterly meetings by means of telephone conferencing facilities and meets as required between quarterly meetings to update the directors on corporate developments. During regular quarterly meetings, the non-executive and independent non-executive directors have an opportunity to meet separate from management. Management also communicates informally with the Board on a regular basis, and solicits the advice of the Board members on matters falling within their special knowledge or experience. In addition, the independent directors meet regularly on a formal and informal basis to facilitate the exercise of their independent judgment.

During the Financial Year, four Board meetings, four Audit Committee meetings, one Nominating and Corporate Governance Committee meeting, one Compensation and Benefits Committee meeting, two Health, Safety and Environmental Committee meetings and three meetings of the Independent Directors was held. Attendance by the directors at the Board and Board committee meetings for the Financial Year was as follows:

Attendance record for the Board and Board Committee meetings during the Financial Year	Board meetings	Audit Committee meetings	Nominating and Corporate Governance Committee meetings	Compensation and Benefits Committee meetings	Health, Safety and Environmental Committee meetings	Meetings of the Independent Directors
	Number of Attendances/Number of Meetings					
Executive Directors						
Zhaoxue Sun *(Chairman)*	3/4	N/A	N/A	N/A	N/A	N/A
Xin Song	4/4	N/A	N/A	N/A	N/A	N/A
Zhanming Wu	4/4	N/A	N/A	N/A	N/A	N/A
Xiangdong Jiang	4/4	N/A	N/A	N/A	N/A	N/A
Non-Executive Directors						
Bing Liu	4/4	N/A	N/A	N/A	N/A	N/A
Independent Non-Executive Directors						
Ian He	4/4	4/4	1/1	1/1	2/2	3/3
Yunfei Chen	4/4	4/4	1/1	1/1	2/2	2/3
Gregory Hall	4/4	4/4	1/1	1/1	2/2	3/3
John King Burns	4/4	3/4	1/1	1/1	2/2	3/3

CODE OF BUSINESS CONDUCT AND ETHICS

The Company has adopted a Code of Business Conduct and Ethics applicable to all employees, consultants, executive officers and directors regardless of their position in the Company, at all times and everywhere the Company does business. The Code of Business Conduct and Ethics provides that the Company's employees, consultants, executive officers and directors will uphold its commitment to a culture of honesty, integrity and accountability and the Company requires the highest standards of professional and ethical conduct from its employees, consultants, executive officers and directors.

The Company's employees, executive officers and directors are required to confirm, on an annual basis, that they have reviewed the Company's Code of Business Conduct and Ethics and if they are aware of any actual or potential conflicts of interest.

The Company's Nominating and Corporate Governance Committee monitors compliance with the Code of Business Conduct and Ethics and the disclosure of conflicts of interest by directors with a view to ensuring that no director votes on a matter in respect of which he has a material interest.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board determines, in light of the opportunities and risks facing the Company, what competencies, skills and personal qualities it should seek in new directors in order to add value to the Company. Based on this framework, the Nominating and Corporate Governance Committee developed a skills matrix outlining the Company's desired complement of competencies, skills and characteristics. The specific make-up of the matrix includes technical, geological and engineering knowledge, financial literacy, mining industry experience, public company experience and legal knowledge. The Nominating and Corporate Governance Committee assesses the competencies and characteristics represented on the Board annually and utilizes the matrix to determine the Board's strengths and to identify areas for improvement. This analysis assists the Nominating and Governance Committee in discharging its responsibility for approaching and proposing new nominees to the Board and for assessing directors on an ongoing basis.

Unless a director dies, resigns or is removed from office in accordance with the Business Corporations Act, the term of office of each of the Company's directors ends at the conclusion of the next annual general meeting following his or her most recent election or appointment.

At every annual general meeting the shareholders entitled to vote at the annual general meeting for the election of directors are entitled to elect a board consisting of the number of directors for the time being set under the Company's articles and all the directors cease to hold office immediately before such election but are eligible for re-election. If the Company fails to hold an annual general meeting on or before the date by which the annual general meeting is required to be held under the Business Corporations Act or the shareholders fail, at the annual general meeting, to elect or appoint any directors then each director then in office continues to hold office until the earlier of the date on which his or her successor is elected or appointed, or the date on which he or she otherwise ceases to hold office under the Business Corporations Act or the Company's articles.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted policies in its Corporate Disclosure, Confidentiality and Securities Trading Policy that has terms which are no less exacting than those set out in Appendix 10 of the Hong Kong Listing Rules.

Furthermore, if a director (a) enters into a transaction involving a security of the Company or, for any other reason, the direct or indirect beneficial ownership of, or control or direction over, securities of the Company changes from that shown or required to be shown in the latest insider report filed by the director, or (b) the director enters into a transaction involving a related financial instrument, the director must, within the prescribed period, file an insider report in the required form on the System for Electronic Disclosure by Insiders website at www.sedi.ca.

A "related financial instrument" is defined as: (a) an instrument, agreement, security or exchange contract the value, market price or payment obligations of which are derived from, referenced to or based on the value, market price or payment obligations of a security, or (b) any other instrument, agreement or understanding that affects, directly or indirectly, a person's economic interest in respect of a security or an exchange contract.

REMUNERATION OF DIRECTORS

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

The Company pays its independent directors a cash retainer of CAD$1,000 per month for acting as independent directors and for their roles on various Board committees. For the Financial Year, the Company paid additional cash compensation of AUD35,950 to Mr. Hall, in his capacity as an independent director, as consulting fees for geological advice on planning exploration programs and project generation activity. The Company pays the de facto lead independent director and Chairman of the Board committees a cash retainer of CAD$1,500 per month. On June 1, 2010, the Company granted 100,000 stock options to each of its independent directors pursuant to the 2007 Stock Option Plan, with such stock options having a five-year term and vesting as to 20% immediately with an additional 20% vesting on June 2, 2011, June 2, 2012, June 2, 2013 and June 2, 2014 at the following exercise prices: from June 1, 2010 until June 1, 2011, CAD$4.35 per share; from June 2, 2011 until June 1, 2012, CAD$4.78 per share; from June 2, 2012 until June 1, 2013, CAD$5.21 per share; from June 2, 2013 until June 1, 2014, CAD$5.64 per share; and from June 2, 2014 until June 1, 2015, CAD$6.09 per share.

Currently no other compensation is paid to the directors of the Company for acting as directors, although the directors have been granted and will continue to receive stock options from time to time. The directors are reimbursed for actual expenses reasonably incurred in connection with the performance of their duties as directors.

Details regarding the remuneration of directors of the Company are set out in Note 10 of the Financial Statements.

INTERNAL CONTROLS

The Board is responsible for overseeing the internal controls of the Company. Internal controls are used by the Board to facilitate the effectiveness and efficiency of operations, to safeguard the investment of shareholders and assets of the Company and to ensure compliance with relevant statutory and regulatory requirements. The Company's internal control policies are designed to provide reasonable, but not absolute, assurance against material misstatements and to help the Board identify and mitigate, but not eliminate, risk exposure.

The Audit Committee and the Board are of the view that the Company's current internal control system is effective in safeguarding the investment of shareholders and assets of the Company.

AUDITORS

The Company's auditor is Deloitte Touche Tohmatsu of Hong Kong. Deloitte Touche Tohmatsu were first appointed as auditor of China Gold International on April 1, 2010. The appointment of Deloitte Touche Tohmatsu was approved by ordinary resolution of the shareholders at the Company's annual and special meeting held on June 17, 2010. Deloitte Touche Tohmatsu will be nominated for re-appointment as auditors of the Company for the fiscal year 2013 at the Company's upcoming annual general meeting, at a remuneration to be fixed by the Board.

Deloitte Touche Tohmatsu is independent of the Company in accordance with Section 290 "Independence – Assurance Engagements" of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants. The financial reporting responsibilities and audit report of Deloitte Touche Tohmatsu are set out on page 63 of this Report.

Deloitte & Touche LLP of Canada served as auditor of China Gold International until April 1, 2010. The Company continues to use the services of Deloitte & Touche LLP from time to time for tax compliance advice relating to transactions and proposed transactions of the Company and its subsidiaries.

The fees paid/payable to Deloitte Touche Tohmatsu and Deloitte & Touche LLP in respect of audit and non-audit services provided during the Financial Year were as follows:

Nature of services rendered	Fees paid/payable (US$)
Audit fees [1]	$714,000
Non-audit fees [2]	$59,592
Total	$773,592

Notes:

1. Fees for audit services consisted of fees paid to Deloitte Touche Tohmatsu (US$714,000) in connection with the audit of the Company's annual financial statements, review of the Company's interim financial statements and other services related to securities regulatory matters.

2. Fees for non-audit services consisted of fees paid to Deloitte Touche Tohmatsu (US$59,592) in connection with tax planning and advice relating to transactions and proposed transactions of the Company and its subsidiaries, corporate tax return and income tax matters and matters arising from the British Columbia Securities Commission enquiry.

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The directors acknowledge their responsibility in overseeing the preparation of financial statements that provide a true and fair view of the financial affairs of the Company. With the assistance of the Company's management, the directors ensure that the financial statements are being prepared and published in a timely manner in accordance with the applicable accounting standards and statutory requirements.

SHAREHOLDERS' RIGHTS

Right to convene a meeting of shareholders

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. Every company having securities listed on the Toronto Stock Exchange must hold its annual meeting of shareholders within six months from the end of its fiscal year, or at such earlier time as is required by applicable legislation.

Pursuant to Section 167 British Columbia Business Corporations Act ("BCBCA"), shareholders who hold in the aggregate at least one-twentieth of the issued shares of the Company that carry a right to vote at general meetings may requisition a general meeting by delivering a signed written requisition to the Board or the Company Secretary at the Company's principal place of business at Suite 1030, 505 Burrard Street, Vancouver, British Columbia, Canada, V7X 1M5 for the purpose of transacting any business that may be transacted at a general meeting.

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company at Suite 1030, 505 Burrard Street, Vancouver, British Columbia, Canada, V7X 1M5, or by email to info@chinagoldintl.com for the attention of the Company secretary.

Right to put forward proposals at general meetings

There are no provisions allowing shareholders to propose new resolutions at general meetings under the BCBCA. However, qualified shareholders (as defined in section 187 of the BCBCA) may put forward a proposal for the next general meeting pursuant to Part 5, Division 7 of the BCBCA.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. Members of the Board meet and communicate with shareholders at the AGM of the Company. The Chairman proposes separate resolutions for each issue to be considered and puts each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website on the day of the AGM.

Our corporate website which contains corporate information, corporate governance practice, interim and annual reports, news releases, announcements and circulars issued by the Company to enable the Company's shareholders to have timely and updated information of the Company.

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Zhaoxue Sun *(Chairman)*
Xin Song
Zhanming Wu
Xiangdong Jiang

Non-Executive Directors

Bing Liu

Independent Non-Executive Directors

Ian He
Yunfei Chen
Gregory Hall
John King Burns

AUDIT COMMITTEE

Ian He *(Chairman)*
Yunfei Chen
Gregory Hall
John King Burns

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Ian He *(Chairman)*
Yunfei Chen
Gregory Hall
John King Burns

COMPENSATION AND BENEFITS COMMITTEE

Ian He *(Chairman)*
Yunfei Chen
Gregory Hall
John King Burns

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

Ian He *(Chairman)*
Yunfei Chen
Gregory Hall
John King Burns

CORPORATE SECRETARY (CANADA)

Jerry Xie

COMPANY SECRETARY (HONG KONG)

Sau Kuen Gloria Ma

REGISTERED OFFICE

One Bentall Centre
Suite 1030, 505 Burrard Street
Vancouver, British Columbia
Canada V7X 1M5

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

8/F, Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANK (CANADA)

BMO Bank of Montreal

PRINCIPAL BANKS (HONG KONG)

Bank of China
Agricultural Bank of China
Industrial and Commercial Bank of China (Asia)

PRINCIPAL SHARE REGISTER

Canadian Stock Transfer Company Inc.
Suite 1600-1066 West Hastings Street
Vancouver, British Columbia
Canada V6E 3X1

HONG KONG SHARE REGISTER

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

INDEPENDENT AUDITOR

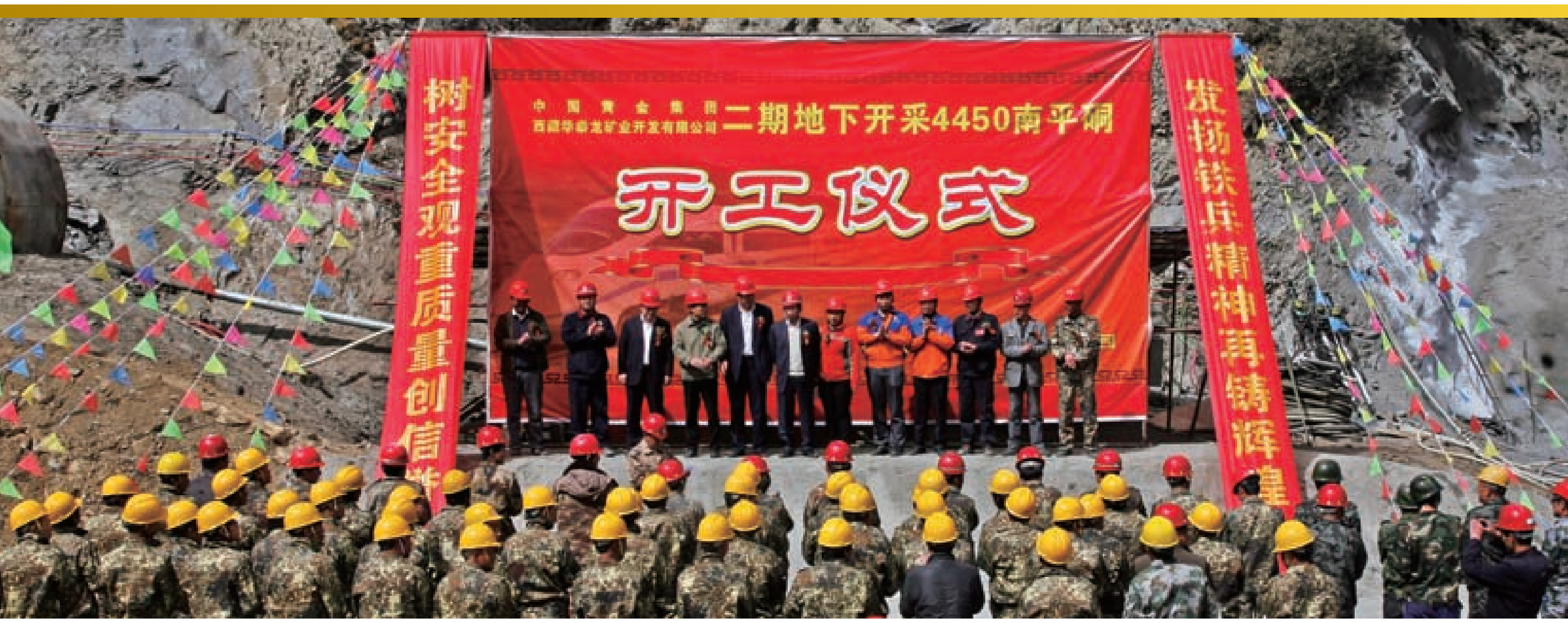
Deloitte Touche Tohmatsu
Certified Public Accountants
One Pacific Place
35th Floor, 88 Queensway
Hong Kong

WEBSITE ADDRESS

www.chinagoldintl.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2012
(Stated in U.S. dollars, except as otherwise noted)

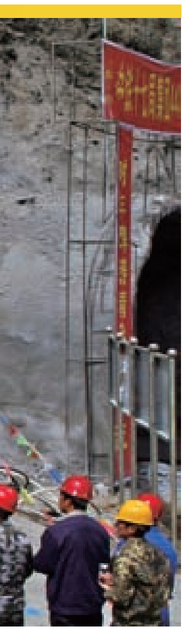


The following Management Discussion and Analysis of financial condition and results of operations ("MD&A") is prepared as of March 25, 2013. It should be read in conjunction with the consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (referred to herein as "China Gold International", the "Company", "we" or "our" as the context may require) for the year ended December 31, 2012 and the year ended December 31, 2011, respectively. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries collectively on a consolidated basis.

The following discussion contains certain forward-looking statements relating to the Company's plans, objectives, expectations and intentions, which are based on the Company's current expectations and are subject to risks, uncertainties and changes in circumstances. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties outlined further in the Company's Annual Information Form ("Annual Information Form" or "AIF") dated March 25, 2013 on SEDAR at www.sedar.com. For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of the Company, please refer to the sections titled "Forward-Looking Statements" and "Risk Factors" and to discussions elsewhere within this MD&A. China Gold International's business, financial condition or results of operations could be materially and adversely affected by any of these risks.

FORWARD-LOOKING STATEMENTS

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



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

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

THE COMPANY

Overview

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

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

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

Performance Highlights

Year ended December 31, 2012

- Revenue increased by 7% to US$332 million in 2012 from US$311 million in 2011;
- Net profit after income taxes decreased by 10% to US$74 million in 2012 from US$82 million in 2011.
- Gold production from the CSH Mine increased to 139,443 ounces (4,337 kilograms) in 2012 from 133,541 ounces (4,154 kilograms) in 2011, a 4% increase.
- Copper production from the Jiama Mine increased significantly by 20% to 11,712 tonnes (26 million pounds) in 2012 from 9,781 tonnes (22 million pounds) in 2011, a 20% increase.
- An updated National Instrument 43-101 ("NI 43-101") compliant, Independent Pre-Feasibility Study for Phase II expansion of the Jiama Mine was completed. Phase II expansion is aimed to increase the mining and processing capacity from 6,000 tonnes per day ("tpd") to 40,000 tpd, and to increase mine life of close to 31 years.
- An updated NI 43-101 compliant, independent Technical Report Expansion Feasibility Study for the Expansion of the CSH Gold Mine was completed. The project is expected to increase the mining and processing capacity from the current 30,000 tpd to 60,000 tpd by the end of 2013, with a mine life of 11 years.

Three months ended December 31, 2012

- Revenue of US$93 million earned for the period, consistent with US$94 million for the same period in 2011;
- Net profit after income taxes decreased by 23% to US$21 million in the period from US$27 million for the same period in 2011.
- Gold production from the CSH Mine decreased by 14% to 35,403 ounces (1,101 kilograms) in the period from 41,297 ounces (1,284 kilograms) for the same period in 2011.
- Copper production from the Jiama Mine increased significantly, by 11% to 3,293 tonnes (7 million pounds) in the period from 2,964 tonnes (6 million pounds) for the same period in 2011.

Selected Annual Information

	Year ended December 31		
	2012	2011	2010
US$ Millions except for per share			
Total revenue	**332**	311	133
Profit from continuing operations	**99**	110	59
Net profit	**74**	82	27
Basic earnings per share (cents)	**17.90**	20.04	13.82
Diluted earnings per share (cents)	**17.90**	20.04	13.76
Total assets	**1,806**	1,745	1,656
Total non-current liabilities	**279**	321	322
Distribution or cash dividends declared per share	**–**	–	–

OUTLOOK

- Expected production of 145,000 ounces of gold from the CSH Mine in 2013.
- Expected production of 26.5 million pounds of copper from the Jiama Mine in 2013.
- At CSH, the Company is building a new 30,000 tpd stand-alone crushing, heap leaching and ADR (Absorption, Desorption and Refining) plant system in addition to the existing 30,000 tpd facility. Expansion construction is expected to be completed in the fourth quarter of 2013, at which time the first ore is to be placed on the leach pad in the fourth quarter of 2013.
- The Company expects to complete the Jiama Mine's Phase II Independent Feasibility Study and to release an updated NI43-101 compliant report in the second quarter of 2013.
- Jiama's production capacity expansion will be done in two stages. Stage one, planned for completion during the fourth quarter of 2013, includes completion of a new 20,000 tpd mill. Stage two is expected to be completed by 2014. By 2015, Jiama is hoped to reach its planned full capacity of 40,000 tpd of ore.
- The Company plans to drill approximately 30,000 meters at the Jiama Mine during 2013.
- 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 opportunities, namely projects outside of China, which can be readily and quickly brought into production with the possibility of further expansion through continued exploration.

RESULTS OF OPERATIONS

Selected Quarterly Financial Data

QUARTER ENDED	2012				2011			
(US$ in thousands except per share)	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenues	**93,387**	84,938	76,484	77,578	93,544	89,407	92,938	35,423
Cost of sales	**54,190**	51,207	49,896	52,165	61,428	53,017	52,519	23,587
Mine operating earnings	**39,197**	33,731	26,588	25,413	32,114	36,391	40,419	11,837
General and administrative expenses	**7,880**	6,020	5,311	5,838	4,624	3,590	5,217	3,937
Exploration and evaluation expenses	**149**	59	124	58	173	160	70	64
Income from operations	**31,168**	27,652	21,153	19,517	34,250	32,640	35,132	7,836
Foreign exchange gain (loss)	**(844)**	1,976	(1,125)	164	1,596	326	397	34
Finance costs	**3,230**	3,080	3,416	2,823	4,798	3,862	2,882	2,511
Profit before income tax	**28,545**	32,903	18,188	20,041	33,805	30,520	34,713	5,444
Income tax expense	**7,506**	6,508	5,564	6,585	6,597	6,689	7,293	1,941
Net income	**21,039**	26,395	12,624	13,456	27,209	23,830	27,420	3,503
Basic earnings per share (cents)	**5.13**	6.44	3.07	3.27	6.86	5.79	6.78	0.82
Diluted earnings per share (cents)	**5.13**	6.44	3.07	3.27	6.86	5.79	6.78	0.81

Selected Quarterly and Annual Production Data and Analysis

	CSH Mine			
	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
Gold produced (ounces)	**35,403**	41,297	**139,443**	133,541
Gold sold (ounces)	**37,593**	41,954	**138,943**	136,290
Total production cost (US$) of gold per ounce	**987**	931	**928**	876
Cash production cost* (US$) of gold per ounce	**887**	836	**825**	778

* Non-IFRS measure

Gold production at the CSH Mine decreased by 14% from 41,297 ounces for the three months ended December 31, 2011 to 35,403 ounces for the three months ended December 31, 2012. The decrease in production is due to lower grade ore being placed on the leach pad during the fourth quarter of 2012 as compared to the same period in 2011.

Gold production increased by 4% from 133,541 ounces for the year ended December 31, 2011 to 139,443 ounces for the year ended December 31, 2012. The increase is mainly due to a finer size of crushed ore being placed on the leach pad, an increased average flow rate of leaching solution, improved carbon absorption and higher accumulative recovery rates. The increase reflects the results of management's efforts to optimize mining and processing procedures to achieve maximum production.

The total production cost of gold per ounce and cash production cost of gold per ounce for the three months and the year ended December 31, 2012 both increased compared with the same periods in 2011. The primary reasons are the greater amount of waste rock mined, and higher processing costs experienced in 2012.

	Jiama Mine			
	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
Copper produced (tonnes)	**3,293**	2,964	**11,712**	9,781
Copper produced (pounds)	**7,259,351**	6,534,987	**25,820,417**	21,563,193
Copper sold (tonnes)	**2,941**	2,998	**11,186**	9,854
Copper sold (pounds)	**6,483,437**	6,609,967	**24,660,574**	21,725,105
Gold produced (ounces)	**3,447**	3,083	**13,487**	8,133
Gold sold (ounces)	**3,623**	2,790	**13,496**	8,631
Total production cost* (US$) of copper per tonne	**8,080**	9,274	**9,097**	9,166
Total production cost* (US$) of copper per pound	**3.67**	4.21	**4.13**	4.16
Total production cost* (US$) of copper per tonne after by-products credit***	**4,626**	6,397	**5,683**	6,151
Total production cost* (US$) of copper per pound after by-products credits***	**2.10**	2.90	**2.58**	2.79
Cash production cost** (US$) per tonne of copper	**6,792**	7,099	**6,695**	6,727
Cash production cost** (US$) per pound of copper	**3.08**	3.22	**3.04**	3.05
Cash production cost** (US$) of copper per tonne after by-products credit***	**3,337**	4,492	**3,281**	3,712
Cash production cost** (US$) of copper per pound after by-products credits***	**1.51**	2.04	**1.49**	1.68

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

** Non-IFRS measure

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

During the three months ended December 31, 2012, the Jiama Mine produced 3,293 tonnes (7.3 million pounds) of copper, which increased by 11% compared with the comparative period in 2011 (2,964 tonnes, or 6.5 million pounds). In addition, copper production (11,712 tonnes, or 25.8 million pounds) in 2012 increased by 20% from 2011 (9,781 tonnes, or 21.6 million pounds). The significant growth in production mainly resulted from the increased volume of ores processed and better recovery rates achieved during 2012.

Total production cost and cash production cost of copper per tonne and per pound both decreased due to the improvement in the ore grade during the period. The Company is closely monitoring production costs at the Jiama Mine and will continue to make efforts to reduce costs.

Review of Quarterly and Annual Data

Three months ended December 31, 2012 compared to three months ended December 31, 2011

Revenue slightly decreased US$0.1 million, from US$93.5 million for the three months ended December 31, 2011, to US$93.4 million for the three months ended December 31, 2012. Revenue from the CSH Mine accounted for 67%, or US$62.4 million (2011: US$68.0 million), of total revenue for the quarter. The decrease in production, due to lower grades of ore placed on the heap leach pad, is attributable to the 10% decrease in gold sold from 41,954 ounces (gold produced: 41,297 ounces) in 2011 to 37,593 ounces (gold produced: 35,403 ounces) for the same period in 2012. Revenue from the Jiama Mine accounted for 33% of total revenue, or US$31 million (2011: US$25.5 million), with an increase of US$5.5 million for the quarter in comparison to 2011. Although total copper sold decreased by 2% from 2,998 tonnes (6.6 million pounds) for the three months ended December 31, 2011 to 2,941 tonnes (6.5 million pounds) for the same comparative period in 2012, it was offset by increased sales volume and market prices for other minerals produced, including gold and silver.

Cost of sales decreased by 12% or US$7.2 million, from US$61.4 million for the three months ended December 31, 2011 to US$54.2 million, for the same period in 2012, which is primarily attributable to Jiama's decrease in cost of sales of US$5.3 million for the quarter ending December 31, 2012 in comparison to the same period in 2011. The reduction is due to optimization of ore processing and improved recovery rates. Cost of sales as a percentage of revenue for the Company decreased from 66% to 58% for the three months ended December 31, 2011 compared to the same period in 2012.

Mine operating earnings for the Company increased by 22%, or US$7.1 million, from US$32.1 million for the three months ended December 31, 2011 to US$39.2 million for the three months ended December 31, 2012. Mine operating earnings as a percentage of revenue increased from 34% to 42% for the three months ended December 31, 2011 compared to the three months ended December 31, 2012.

General and administrative expenses increased by 72%, or US$3.3 million, from US$4.6 million for the three months ended December 31, 2011 to US$7.9 million for the three months ended December 31, 2012. Professional services provided in relation to the expansion projects at both the CSH Mine and Jiama Mine, such as the preparation of the Independent Technical Report and Pre-Feasibility Study, contributed to the increase in general and administrative expenses. In additional, increased costs such as office and human resources are attributed to and in line with the Company's overall growth strategy.

Income from operations for the fourth quarter of 2012 decreased by 9%, or US$3.1 million, from US$34.3 million for the three months ended December 31, 2011 to US$31.2 million for the three months ended December 31, 2012. The decrease was primarily attributable to a decrease of US$4.6 million in the CSH Mine's operating earnings.

Finance costs decreased by 33%, or US$1.6 million, from US$4.8 million for the three months ended December 31, 2011 to US$3.2 million for the three months ended December 31, 2012, primarily due to lower interest expenses resulting from reduced principal balances on outstanding debts. During the three months ended December 31, 2012, the Company repaid approximately US$36.4 million on its outstanding loans. No interest was capitalized for the three months ended December 31, 2012.

Foreign exchange loss increased by 153%, or US$2.4 million, from a gain of US$1.6 million for the three months ended December 31, 2011 to a loss of US$0.8 million for the three months ended December 31, 2012. The current period's loss is related to the revaluation of monetary items held in Chinese RMB and Hong Kong Dollars based on changes in the RMB/HKD/USD exchange rates.

Interest and other income decreased from US$2.8 million for the three months ended December 31, 2011 to US$1.4 million for the three months ended December 31, 2012. Term deposits which matured during 2012 were drawn down and used as funding for the expansion costs incurred by the CSH Mine and Jiama Mine, as a result, less interest income arose from term deposits in fourth quarter of 2012 as compared to the same period in 2011.

Income tax expense increased by 14%, or US$0.9 million, from US$6.6 million for the three months ended December 31, 2011 to US$7.5 million for the same period in 2012, primarily due to the Jiama Mine's increase in revenue.

Net income of the Company decreased by US$6.2 million from US$27.2 million for the three months ended December 31, 2011 to US$21 million for the three months ended December 31, 2012.

Year ended December 31, 2012 compared to year ended December 31, 2011

Revenue increased by 7%, or US$21.1 million, from US$311.3 million for the year ended December 31, 2011, to US$332.4 million for the year ended December 31, 2012. Revenue from the CSH Mine accounted for 67%, or US$223.8 million (2011: US$214.5 million), of total revenue for the year. Changes in CSH's 2012 revenue total included a 2% increase in gold sold, from 136,290 ounces (gold produced: 133,541 ounces) in 2011 to 138,943 ounces (gold produced: 139,443 ounces), due to improvements in gold recovery through finer ore crushing, management of heap leaching, and higher commodities prices. Revenue from the Jiama Mine accounted for 33%, or US$108.6 million (2011: US$96.8 million), of total revenue for the year. Total copper sold increased by 14% from 9,854 tonnes (21.7 million pounds) for the year ended December 31, 2011 to 11,186 tonnes (24.7 million pounds) for the same period in 2012, mainly attributed to increased production levels due to higher grades and volumes of ore mined, improved recovery rates and increased sales of other minerals produced by the Jiama Mine.

Cost of sales increased by 9% or US$16.9 million, from US$190.6 million for the year ended December 31, 2011 to US$207.5 million for the same period in 2012. Jiama's cost of sales contributed US$78.6 million, or 38%, compared to US$71.2 million in 2011. Cost of sales as a percentage of revenue for the Company slightly increased from 61% to 62% for the year ended December 31, 2011 compared to 2012. The increase in cost of sales is attributable to greater amounts of waste rock mined in the process of increasing production at the CSH Mine and to the increase in underground mining at the Jiama Mine.

Mine operating earnings for the Company increased by US$4.1 million, from US$120.8 million for the year ended December 31, 2011 to US$124.9 million for the year ended December 31, 2012 due to increased revenue, offset by increased mining and production costs for both mines. Mine operating earnings as a percentage of revenue decreased slightly from 39% for the year ended December 31, 2011 to 38% for the year ended December 31, 2012.

General and administrative expenses increased by 44%, or US$7.7 million, from US$17.4 million for the year ended December 31, 2011 to US$25.1 million for the year ended December 31, 2012. The increase is attributable to professional services incurred for expansion planning and implementation at the CSH Mine and the Jiama Mine, office lease and administration expenses for the Beijing operations centre, and fees and services provided in relation to shareholder meetings. These expenses are reflective of costs associated with operational growth and are in line with the Company's overall growth strategy.

Income from operations decreased by 9%, or US$10.4 million, from US$109.9 million for the year ended December 31, 2011 to US$99.5 million for the year ended December 31, 2012.

Finance costs decreased by 11%, or US$1.5 million, from US$14 million for the year ended December 31, 2011 to US$12.5 million for the comparative period in 2012. During 2012, the Company made principal repayments of approximately US$45 million on its outstanding debts. No interest was capitalized during the year ended December 31, 2012.

Foreign exchange gain decreased by 93%, or US$2.18 million, from a gain of US$2.4 million for the year ended December 31, 2011 to a gain of US$0.17 million for the year ended December 31, 2012. The current period's gain is related to the translation of the foreign subsidiaries' books of account denominated in Chinese RMB to US dollar.

Interest and other income increased from US$6.3 million for the year ended December 31, 2011 to US$12.6 million for the year ended December 31, 2012. The increase in other income during 2012 is primarily attributable to interest earned on term deposits held by the Company, with longer maturity periods and higher interest rates, in comparison to the same period in 2011.

Income tax expense increased by 16%, or US$3.7 million, from US$22.5 million for the year ended December 31, 2011 to US$26.2 million for the same period in 2012. The increase is the result of increased taxable income earned from mine operations.

Net income of the Company decreased by US$8.5 million from US$82.0 million for the year ended December 31, 2011 to US$73.5 million for the year ended December 31, 2012.

NON-IFRS MEASURES

The following table provides certain unit cost information on a cash cost of production per ounce (non-IFRS) basis for the CSH Gold Mine for the three months and years ended December 31, 2012 and 2011:

	CSH Mine			
	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
	US$	US$	**US$**	US$
Cost of mining per tonne of ore	**1.40**	2.41	**1.32**	1.81
Cost of mining waste per tonne of ore	**4.42**	4.23	**4.38**	2.52
Other mining costs per tonne of ore	**0.46**	0.50	**0.48**	0.40
Total mining costs per tonne of ore	**6.28**	7.14	**6.18**	4.73
Cost of reagents per tonne of ore	**2.35**	1.84	**1.37**	1.15
Other processing costs per tonne of ore	**1.52**	1.19	**1.23**	0.96
Total processing cost per tonne of ore	**3.87**	3.03	**2.60**	2.11

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

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

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

	CSH Mine (Gold)							
	Three months ended December 31,				**Year ended December 31,**			
	2012		2011		**2012**		2011	
	US$	**US$ Per ounce**	US$	US$ Per ounce	**US$**	**US$ Per ounce**	US$	US$ Per ounce
Total Production Costs	**37,090,554**	**987**	39,080,104	932	**128,893,485**	**928**	119,399,429	876
Adjustments	**(3,737,495)**	**(100)**	(4,027,019)	(96)	**(14,235,594)**	**(103)**	(13,365,102)	(98)
Total cash production costs	**33,353,059**	**887**	35,053,085	836	**114,657,891**	**825**	106,034,327	778

	Jiama Mine (Copper)							
	Three months ended December 31,				Year ended December 31,			
	2012		2011		2012		2011	
	US$	US$ Per pound	US$	US$ Per pound	US$	US$ Per pound	US$	US$ Per pound
Total production costs	**23,763,154**	**3.67**	27,805,992	4.21	**101,762,676**	**4.13**	90,324,105	4.16
Adjustments	**(3,789,850)**	**(0.59)**	(6,521,490)	(0.90)	**(26,873,888)**	**(1.09)**	(24,029,544)	(1.11)
Total cash production costs	**19,973,304**	**3.08**	21,284,502	3.22	**74,888,788**	**3.04**	66,294,561	3.05

Production costs above include expenditures incurred on the mine sites for activities related to production. The adjustments above include depreciation and depletion, amortization of intangible assets, and selling expenses included in total production costs.

MINERAL PROPERTIES

The CSH Mine

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

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

CSH Mine Expansion

The CSH Mine is currently operating at a 30,000 tpd capacity, producing over 133,000 ounces of gold per annum. A NI 43-101 compliant Technical Report Expansion Feasibility Study for the CSH Gold Project ("the CSH Technical Report") has been completed by a group of Qualified Persons ("QP"). This report was prepared following the 2011 drilling campaign. The CSH Technical Report supports an expansion plan to increase the processing capacity from 30,000 tpd to 60,000 tpd with a mine life of 11 years, under which the open pit reserves at the CSH Mine stand at over 213 million tonnes of ore containing about 4.08 million ounces of gold. Gold production will be increased from the current 139,443 ounces per annum to about 260,000 ounces per annum by 2014. The estimated capital expenditure is US$212.9 million. The After-Tax Net Present Value (NPV) is US$642 million using a discount rate of 9% and an assumed gold price of $1,380/oz.

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

Mineral Resources update

The 2011 drilling campaign added significant tonnages above cutoff at a slightly lower grade, partly due to the confirmation of grades and an upgrade in resource classification down-dip and laterally. The CSH deposit in the south-west area is now well delineated, and significant potential exists for down-dip extensions to the mineralization. Mineralization at depth in the northeast area has been confirmed, with increases in both tonnages and confidence.

The mineral resource estimate for the CSH Mine reported herein was prepared by independent consultant, Mario Rossi, M.Sc., Min. Eng., of GeoSystems International Inc. using a "Resource Pit" generated by independent consultant, John Nilsson, M.Sc., P. Eng., of Nilsson Mine Services Ltd. The estimate was completed using MineSightR software using three dimensional block modeling (12.5 meter by 12.5 meter by 6.0 meter block size). Interpolation parameters have been derived based on a geostatistical analysis conducted on 2-meter composited drill hole data. Block grades have been estimated using an Indicator-modified Ordinary Kriging (OK) method and the mineral resources have been classified based on proximity to sample data and the continuity of mineralization in accordance with CIM Guidelines and best practices. The CSH resource has been estimated using a total of 108 new diamond drill holes plus all the previous drill holes, variably spaced at 50 to 150 meter intervals and reconciled with the existing mining blast hole assay data.

The below table corresponds to reported resources as at December 31st, 2012.

All CSH Resources below pit surface to December 31st, 2012
within Resource Pit, 2012 Resource Model

	Measured		Indicated		Measured+Indicated			Inferred	
Cutoff (g/t)	M Tonnes	Au Grade (g/t)	M Tonnes	Au Grade (g/t)	M Tonnes	Au Grade (g/t)	Million Ounces Au	M Tonnes	Au Grade (g/t)
0.25	85.8	0.62	187.1	0.55	272.9	0.57	5.00	154.5	0.46
0.28	81.4	0.64	167.4	0.58	248.8	0.60	4.80	131.8	0.49
0.30	78.3	0.65	155.9	0.60	234.2	0.62	4.66	118.1	0.52
0.35	70.7	0.69	131.1	0.66	201.8	0.67	4.32	91.0	0.57
0.40	63.2	0.72	111.2	0.71	174.5	0.71	3.99	70.8	0.63
0.45	56.0	0.76	95.0	0.75	151.0	0.76	3.67	55.8	0.69
0.50	49.0	0.80	81.4	0.80	130.4	0.80	3.36	44.7	0.74
0.55	43.0	0.84	69.8	0.85	112.8	0.84	3.06	36.0	0.80
0.60	37.1	0.88	60.0	0.89	97.1	0.89	2.77	29.0	0.85
0.65	31.9	0.93	51.3	0.94	83.2	0.93	2.49	23.4	0.90
0.70	27.0	0.97	43.4	0.99	70.4	0.98	2.22	19.0	0.95
0.75	22.9	1.01	36.7	1.03	59.6	1.03	1.97	15.6	1.00

* Mineral resources that are not mineral reserves do not have demonstrated economic viability. Mineral resource estimates do not fully account for mineability, selectivity, mining loss and dilution. These mineral resource estimates include inferred mineral resources that are normally considered too speculative geologically to have economic considerations applied to them that would enable them to be categorized as mineral reserves. Even though current mining is going smoothly at CSH with M&I class mineral resources, there is no certainty that inferred mineral resources will be converted to measured and indicated categories through further drilling, or into mineral reserves, once economic considerations are applied.

Mineral Reserves Update

A mine expansion plan for CSH to expand from its current 30,000 tpd to 60,000 tpd annual capacity has been prepared by the Changchun Gold Design Institute ("CGDI"). In support of this study a new mine development plan has been completed using the current resource model and a long term gold price estimate of US$1,380/ounce. Pit optimization and design was undertaken by CGDI using Micromine software. The pit limits and reserves were validated by Nilsson Mine Services Ltd. ("NMS"). Mining is carried out by the contractor China Railway 19th Bureau.

Mineable reserves reported using the 2011-year end topographic surface and a cutoff grade of 0.28 g/t have increased to 213.5 million tonnes with an average diluted grade of 0.59 g/t Au. The strip ratio is 3.31 with a total of 707.4 million tonnes of waste stripped. Total material moved from the pit will be 920.9 million tonnes.

CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2012 under NI 43-101:

Class	bcm x 1000	t x 1000	Insitu Au g/t	Diluted Au g/t
Proven	28,803	80,355	0.64	0.62
Probable	42,703	119,678	0.60	0.58
Total	71,706	200,033	0.62	0.60

Production Update

CSH Mine	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
Ore mined and placed on pad (tonnes)	**2,896,196**	2,636,332	**11,482,902**	11,461,617
Average grade of ore (g/t)	**0.47**	0.57	**0.48**	0.53
Recoverable gold (ounces)	**39,614**	41,670	**138,742**	114,487
Ending ore inventory (ounces)	**36,939**	37,140	**36,939**	37,140
Waste rock mined (tonnes)	**15,403,048**	9,698,462	**48,603,889**	31,487,783

For the three months ended December 31, 2012, the total amount of ore put on the leach pad was 2.9 million tonnes, with total contained gold of 39,614 ounces (1,232 kilograms). The accumulative project-to-date gold recovery rate has increased from approximately 49% to 53% to the end of 2012.

Exploration

During 2012, the Company continued to drill at the CSH Mine to explore for higher grade mineralization down depth and mineralization in between the two open pits, where previous drilling was limited due to very broken ground. By December 31, 2012, the Company had successfully completed 9,927 meters of drilling in 12 diamond drill holes. The drill program is complete and mineralization continues further down depth with slightly improved gold grade.

The following table shows the exploration expenditures expensed and capitalized during the years ended December 31, 2012 and December 31, 2011.

	CSH Mine Year ended December 31,	
	2012	2011
	US$	US$
Exploration expensed	**369,768**	467,251
Exploration capitalized	**14,906,598**	6,381,602
	15,276,366	6,848,853

The Jiama Mine

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

The Jiama Mine presently has underground mining and open-pit mining operations which comprises the smaller Tongqianshan Pit and the larger Niumatang Pit. An underground ore transportation system has been completed which includes two shafts having an initial depth of 355 meters, which are planned to extend to a final depth of 600 meters. This underground ore transportation system is used to transfer ore from the near pit crushing facilities to the existing Phase I 6,000 tpd processing plant. This underground ore transportation system is independent of the Phase II underground mine plans.

Phase I of the Jiama Mine commenced mining operations in the latter half of 2010 and reached its design capacity of 6,000 tpd in early 2011.

Phase II Expansion

The Company has retained engineering firm Minarco-Mine Consult (MMC), part of the Runge Limited Group of Companies, in conjunction with independent consulting engineers and management to complete a prefeasibility study for potential expansion. The Company plans to expand the Jiama Mine from its current mining and processing capacity of 6,000 tpd to 40,000 tpd of ore through the expansion of current open-pit operations and the development of new open-pit and underground mining operations. Phase II Expansion will include four open pits, one underground mine, and a new floatation plant with a processing capacity of 34,000 tpd. Processing capacity will be increased from the current production rate of 1.8 million tonnes of ore per year to 12.3 million tonnes of ore per year, producing approximately 176 million pounds of Cu, 2.3 Kt of Mo, 35 Koz of Au, 2.7 Moz of Ag, per annum over a period of 31 years. LOM (Life Of Mine) average head grade will be 0.77%, 0.03%, 0.22 g/t and 12 g/t for Cu, Mo, Au and Ag respectively. The estimated capital expenditure is US$705 million. The project has after-tax Net Present Value (NPV) of US$1.2 billion with a discount rate of 9% at metal price assumptions of: $2.90/lb Cu, $18/lb Mo, $1,380/oz Au, $16.5/oz Ag. The project has after-tax Internal Rate of Return (IRR) of 53.7% and payback period of 4.5 years

On October 25, 2012, MMC completed a project review and, as part of its engagement, produced a NI 43-101 compliant Independent Pre-Feasibility Study Technical Report ("Jiama Technical Report") on the Jiama Mine. The Jiama Technical Report was filed at sedar.com and hkexnews.hk on November 12, 2012.

Mineral Resources Update

A Mineral Resource estimate, dated April 28, 2012, has been independently completed by MMC in accordance with the CIM Definitions Standards under NI 43-101. The updated Mineral Resource is based on 22 infill drill holes totaling 10,720m completed in late 2011. These holes were drilled within the proposed pit locations which enabled detailed mine planning to be undertaken. Further drilling has recently been completed over the South Pit area to upgrade the classification of the existing Inferred Mineral Resources within the pit areas with sampling and assaying ongoing.

During the review of the data MMC noted that whilst the mineralization occurs all within a single mineralized body, Au and Ag mineralization within the orebody had a significantly higher spatial variability than the other elements. As a result MMC has classified the Au and Ag resource presented in Table 1.2 separately; this classification takes into account the proposed large scale mining techniques where Au and Ag will only be credits to the principal products from the operations. MMC has assumed that Au and Ag will not be used as a single cut-off grade for a selected mining block and will be mined in conjunction with the other elements.

The Mineral Resources are summarized in Table 1.1 and 1.2. The Mineral Resources presented in Table 1.2 for Au and Ag are inclusive and not in addition to the Mineral Resources in Table 1.1 and occur within the same mineralized body.

Table 1.1
Jiama Project – Cu, Mo, Pb and Zn Mineral Resources
Reported at a 0.3% Cu Equivalent Cut Off Grade*, as of April 28, 2012

Rock Type	Class	Quantity Mt	Cu %	Mo %	Pb %	Zn %	Cu Metal (kt)	Mo Metal (kt)	Pb Metal (kt)	Zn Metal (kt)
Skarn	Measured	35.6	0.71	0.048	0.11	0.07	252	17	38	25
	Indicated	293.2	0.73	0.043	0.07	0.06	2,135	127	201	163
	M+I	328.8	0.73	0.044	0.07	0.06	2,388	144	239	187
	Inferred	174	0.6	0.045	0.16	0.08	1,036	79	286	146
Hornfels	Measured	38.4	0.28	0.035	0.04	0.01	107	14	14	5
	Indicated	626.1	0.31	0.031	0.01	0.01	1,952	196	66	64
	M+I	664.5	0.31	0.032	0.01	0.01	2,059	210	80	69
	Inferred	219	0.29	0.034	0.03	0.01	633	74	72	32
Porphyry	Measured	2.1	0.22	0.056	0.01	0.01	5	1	0	0
	Indicated	57.7	0.33	0.043	0.01	0.01	188	25	4	6
	M+I	59.8	0.32	0.043	0.01	0.01	193	26	4	6
	Inferred	2.9	0.23	0.099	0.02	0.04	7	3	0	1
Total	Measured	76	0.48	0.042	0.07	0.04	364	32	52	30
	Indicated	977.1	0.44	0.036	0.03	0.02	4,275	348	271	232
	M+I	1,053.1	0.44	0.036	0.03	0.02	4,640	380	323	262
	Inferred	395.9	0.42	0.039	0.09	0.05	1,676	156	359	179

Table 1.2
Jiama Project – Au and Ag Mineral Resources
Reported at a 0.3% Cu Equivalent Cut Off Grade* (>0.02 Au g/t), as of April 28, 2012

Rock Type	Class	Quantity (Mt)	Au g/t	Ag g/t	Au Moz	Ag Moz
Skarn	Indicated	256.5	0.31	17.01	2.537	140.290
	Inferred	117.0	0.39	16.50	1.472	62.077
Hornfels	Indicated	178.6	0.06	2.52	0.337	14.486
	Inferred	68.9	0.08	5.06	0.186	11.195
Porphyry	Indicated	15.7	0.24	8.22	0.121	4.145
	Inferred	0.4	0.11	10.79	0.001	0.128
Total	Indicated	450.8	0.21	10.97	2.995	158.921
	Inferred	186.2	0.28	12.26	1.659	73.400

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

* Cu Equivalent is based on associated component grades, process recoveries and bank consensus forecast metal pricing as at May 2012 (before tax). The key inputs are outlined in the technical report on sedar.com

Mineral Reserves Update

A Mineral Reserve estimate, dated April 28, 2012, has been independently completed by MMC in accordance with the CIM Definitions Standards under NI 43-101.

Table 1.3 presents the Mineral Reserves estimate for the Project reported at a 0.35% Cu-equivalent cut-off grade for the ore extracted via open cut methods and 0.5% to 0.65% Cu-equivalent cut-off grade for the ore extracted via underground methods. The Mineral Reserves is inclusive of, and not additional to the Mineral Resources in Tables 1.1 and 1.2.

Table 1.3
Jiama Project Statement of NI 43-101 Mineral Reserve Estimate as of December 31, 2012

		Grade						Contained Metal					
Category	Ore (kt)	Cu (%)	Mo (%)	Aug/t	Aug/t	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (t)	Ag (t)	Pb (kt)	Zn (kt)
Proved	23063	0.98%	0.056%	0.34	13.59	0.11%	4.12%	227.06	12.85	7.95	313.46	25.15	950.13
Probable	338556	0.76%	0.029%	0.21	11.70	0.02%	0.02%	2,567.30	97.57	71.88	3,959.80	66.40	65.90
Total	361619	0.83%	0.033%	0.24	12.62	0.03%	0.30%	2,794.35	110.42	79.83	4,273.26	91.55	1,016.03

Cu Equivalent cut off grades are based on associated component grades, process recoveries and bank consensus forecast metal pricing as at May 2012 (before tax). The key inputs are outlined in the technical report on sedar.com

Exploration

As of October 7, 2012, the Company successfully completed 40,496 meters of drilling during 2012. The resource model has indicated that a significant amount of inferred resource in skarn-type has been identified between exploration lines 42 and 92. The proposed infill drillings program for 2013 will use a 50x50 meter grid to provide additional technical and structural control and to further delineate the mineralization between exploration lines 42 and 64, and use a 100x100 meter grid to control the ore body between lines 64 and 92. The purpose of the drilling program is to upgrade a significant portion of the Inferred resource to the Measured and Indicated resource categories, which in turn, can be used to evaluate additional ore reserves for both open pit and underground mining.

In 2013, the Company plans to drill about 30,000 meters. The main goals of the 2013 drilling program are:

- to further delineate the South Pit ore body to define a potentially larger final pushback
- infill drilling to further define the main high grade ore body in current underground mining area
- to further delineate the gold deposit discovered in 2012 on the east side of the South Pit
- to either confirm the area for a waste dump (condemnation drilling) or identify if there is a potential for another hornfels open pit
- to test a porphyry anomaly on the Bayi Ranch exploration license area from 2012 geochemistry analysis

The following table shows the exploration expenditures expensed and capitalized during the years ended December 31, 2012 and December 31, 2011.

	Jiama Mine	
	Year ended December 31,	
	2012	2011
	US$	US$
Exploration expensed	**–**	–
Exploration capitalized	**8,840,155**	15,396,450
	8,840,155	15,396,450

LIQUIDITY AND CAPITAL RESOURCES

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

At December 31, 2012, the Company had an accumulated surplus of US$107.2 million, working capital of US$90.6 million and bank borrowings of US$213 million. The Company's cash balance at December 31, 2012 was US$181.7 million.

Management believes that its forecast operating cash flows are sufficient to cover the next twelve months of the CSH and Jiama Mines' operations including its planned capital expenditures and current debt repayments. Revenue and related expenses should increase as production increases after completion of the planned expansions. Some of the Company's available cash will be used to fund capital expenditures planned for Phase II expansion at the Jiama Mine as well as other business expenses. The Company also is in advanced discussions to arrange project debt financing to support expansion of the Jiama Mine. The CSH Mine's expansion will be funded by cash generated from its existing operations.

Cash flows

The following table sets out selected cash flow data from the Company's consolidated cash flow statements for the periods ended December 31, 2012 and December 31, 2011.

	Year ended December 31,	
	2012	2011
	US$'000	US$'000
Net cash from operating activities	**90,785**	115,604
Net cash used in investing activities	**(235,140)**	(71,032)
Net cash from (used in) financing activities	**(29,961)**	5,727
Net increase (decrease) in cash and cash equivalents	**(174,316)**	50,299
Effect of foreign exchange rate changes on cash and cash equivalents	**1,743**	2,405
Cash and cash equivalents, beginning of period	**354,313**	301,609
Cash and cash equivalents, end of period	**181,740**	354,313

Operating cash flow

For the year ended December 31, 2012, net cash inflow from operating activities was US$90.8 million which was primarily attributable to (i) profit before income tax of US$99.7 million, (ii) depreciation and depletion of US$24.9 million, (iii) amortization of intangible assets of US$14.3 million and (iv) finance cost of US$12.5 million, partially offset by (i) interest paid of US$11.9 million, (ii) income tax paid of US$40.4 million, (iii) an increase of US$7.0 million in inventory and (iv) an increase in prepaid expenses and deposits of US$3.5 million.

Investing cash flow

For the year ended December 31, 2012, net cash outflow from investing activities was US$235.1 million, which was primarily attributable to available-for-sale investments of US$20.0 million, the acquisition of property, plant and equipment of US$174.9 million and the deposit paid for acquisition of property, plant and equipment of US$40.2 million.

Financing cash flow

For the year ended December 31, 2012, net cash outflow from financing activities was US$30.0 million, which is primarily attributable to the entrusted loan to CNG of US$16.1 million and repayment of borrowings of US$44.3 million, partially offset by proceeds from the bank loan of US$27.5 million.

Gearing ratio

Gearing ratio is defined the ratio of consolidated total debt to consolidated total equity. As at December 31, 2012, the Company's total debt was US$213 million and the total equity was US$1,368 million. The Company's gearing ratio was 0.16 as at December 31, 2012 (the gearing ratio was 0.18 as at December 31, 2011).

Restrictive covenants

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

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

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

Acquisition of Shares in China Nonferrous Mining Corporation Limited

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

Investment in Inner Mongolia Chengxin Yong'an Chemical Co., Ltd

The Company entered into an agreement with Hebei Chengxin Ltd, the largest sodium cyanide manufacture in Asia to establish a joint venture. The joint venture, Inner Mongolia Chengxin Yong'an Chemical Co., Ltd ("Yong'an Chemical"), is incorporated in the PRC. By using the cash generated from its existing operations, the Company will invest RMB35 million (approximately US$5.6 million) representing a 10% interest in the joint venture. On November 28, 2012, the Company invested RMB5 million (approximately US$803,000) in accordance with the agreement.

Upon its completion in 2013, the joint venture will produce the sodium cyanide, a key reagent for heap leaching processing, and will satisfy the increasing demand of sodium cyanide in the gold production at the CSH mine with lower procurement costs.

Change of Use of Proceeds

As stated in the section headed "Future Plans and Use of Proceeds" of the Prospectus, the Company intended to use approximately 30% of the net proceeds from its Global Offering for potential acquisition of gold and non-ferrous mineral resources outside of China by focusing on mines at operating stages and advanced mining or exploration projects with high growth prospect. As at December 31, 2012, the aforesaid 30% net proceeds (approximately HK$631.6 million or US$81.4 million) have not been used, except for HK$155 million (equivalent to US$20 million) which has been used for the acquisition of a total of 70,545,000 shares of CNMC.

The production expansion of the Jiama Mine is integral to the strategic development and growth of the Company. In line with this organic development strategy, to enable the further production expansion at the Jiama Mine to 40,000 tpd as described in the Jiama Expansion Pre-Feasibility, the Company has applied US$50 million (equivalent to HK$388 million) of the 30% net proceeds to increase the capitalization of the Company's subsidiary that owns the Jiama Mine in anticipation of the expansion of production facilities at the Jiama mine.

Entrustment Loan Agreement

On October 18, 2012, Inner Mongolia Pacific entered into an entrustment loan agreement with CNG and the head office of ABC, pursuant to which Inner Mongolia Pacific will provide an entrustment loan in the sum of RMB100 million (approximately US$16 million) to CNG through ABC as the entrusted bank. The term of the Entrustment Loan is six months and it carries an interest rate announced by the People's Bank of China for the equivalent duration. The principal of the loan shall be repaid at maturity.

COMMITMENTS AND CONTINGENCIES

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

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

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

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

	Total	Payment Due by Period Within one year	Within two to five years	Over five years
	US$'000	US$'000	US$'000	US$'000
Principal repayment of bank loans	212,929	72,234	60,435	80,260
Operating lease commitments (a)	3,514	1,908	864	742
Capital commitments (b)	175,840	175,840	–	–
Total	392,283	249,982	61,299	81,002

(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.

RELATED PARTY TRANSACTIONS

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

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 sold gold doré bars to CNG from time to time through to December 31, 2011, with pricing referenced to the daily average price of Au9995 gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of No. 2 silver as quoted on the Shanghai Huatong Platinum & Silver Exchange prevailing at the time of each relevant purchase order during the contract period. On January 27, 2012, Inner Mongolia Pacific entered into a contract for purchase and sale of doré with CNG for the purpose of regulating the sale and purchase of gold doré to be carried out between them for the three years ending December 31, 2012, 2013 and 2014 on the same pricing terms as the 2008 Contract. Revenue from sales of gold doré bars to CNG increased from US$205 million for the year ended December 31, 2011 to US$220 million for the year December 31, 2012. For the year ended December 31, 2012, construction services of US$77 million were provided to the Group by subsidiaries of CNG.

On November 6, 2012, the Company announced that the Board of Directors approved the proposed connected transaction contracts with subsidiaries of CNG for expansions at Jiama and CSH with total aggregate fees of approximately RMB986 million (equivalent to approximately US$156 million) and a continuing connected transactions contract with CNG with annual caps for the three years ending December 31, 2012, 2013 and 2014 of RMB630 million (equivalent to approximately US$100 million), RMB960 million (equivalent to approximately US$152 million) and RMB290 million (equivalent to approximately US$46 million), respectively. The Company held an extraordinary shareholder meeting on December 20, 2012 in Vancouver and its independent shareholders approved the connected transaction and continuing connected transactions contracts pursuant to Chapter 14A of the HKEx listing rules.

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. Further detailed information regarding such services is disclosed in the Company's annual directors' report.

PROPOSED TRANSACTIONS

The Company is in the process of closing Gansu Pacific Mining Ltd., a subsidiary in China, subsequent to the disposal of the exploration permit of Gansu Pacific Mining Ltd. in October 2011.

The Board of Directors has given the Company approval to conduct reviews of a number of projects that may qualify as acquisition targets through joint venture, merger and/or outright acquisitions.

CRITICAL ACCOUNTING ESTIMATES

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 4 of the audited annual consolidated financial statements for the year ended December 31, 2012.

CHANGE IN ACCOUNTING POLICIES

A summary of new and revised IFRS standards and interpretations are outlined in Note 3 of the audited annual consolidated financial statements as at December 31, 2012.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

The company did not have any derivatives as at December 31, 2012.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2012, the Company had not entered into any material off-balance sheet arrangements.

DIVIDEND AND DIVIDEND POLICY

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

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

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

OUTSTANDING SHARES

As of December 31, 2012, the Company had 396,318,753 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, 2012 and, in accordance with the requirements established under Canadian National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of December 31, 2012, and provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company's Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the Company's ICFR as of December 31, 2012 and have concluded that these controls and procedures were effective as of December 31, 2012 and provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected. During the year ended December 31, 2012, there were no changes in the Company's DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISK FACTORS

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

QUALIFIED PERSON

Disclosure of a scientific or technical nature in this section of the MD&A in respect of updates at the CSH Gold Project was prepared by or under the supervision of Mr. John Nilsson, P.Eng., of Nilsson Mine Services Ltd. and Mr. Songlin Zhang, each a qualified person for the purposes of NI 43-101.

Disclosure of a scientific or technical nature in this MD&A in respect of the Jiama Mine for the Mineral Resources, Mineral Reserves and Phase II Expansion was prepared by or under the supervision of Mr. Songlin Zhang, a qualified person for the purposes of NI 43-101.

March 25, 2013

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF
CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.
(incorporated in British Columbia, Canada with limited liability)

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") set out on pages 64 to 127, which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine 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 audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. 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 of the consolidated financial statements that give a true and fair view 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 the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2012, and of the Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 25, 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

	Notes	2012 US$'000	2011 US$'000
Revenues	29	332,387	311,312
Cost of sales		(207,458)	(190,551)
Mine operating earnings		124,929	120,761
(Expenses) income			
General and administrative expenses	5	(25,049)	(17,369)
Exploration and evaluation expenditure	6	(390)	(467)
Gain on disposal of a mining project	21(c)	—	6,932
		(25,439)	(10,904)
Income from operations		99,490	109,857
Other income (expenses)			
Foreign exchange gain, net		171	2,355
Interest and other income		12,565	6,324
Finance costs	7	(12,549)	(14,053)
		187	(5,374)
Profit before income tax		99,677	104,483
Income tax expense	8	(26,163)	(22,520)
Profit for the year	9	73,514	81,963
Other comprehensive income for the year			
Exchange difference arising on translation		2,931	4,860
Fair value gain on available-for-sale investment	19	559	—
Total comprehensive income for the year		77,004	86,823
Profit for the year attributable to			
Non-controlling interests		2,576	2,555
Owners of the Company		70,938	79,408
		73,514	81,963
Total comprehensive income for the year attributable to			
Non-controlling interests		2,586	2,555
Owners of the Company		74,418	84,268
		77,004	86,823
Basic earnings per share	12	17.90 cents	20.04 cents
Diluted earnings per share	12	17.90 cents	20.04 cents
Basic weighted average number of common shares outstanding	12	396,257,575	396,153,549
Diluted weighted average number of common shares outstanding	12	396,337,619	396,307,689

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2012

	Notes	2012 US$'000	2011 US$'000
Current assets			
Cash and cash equivalents	13	**181,740**	354,313
Accounts receivable	14	**3,380**	5,845
Prepaid expenses, deposits and other receivables	15	**10,270**	6,372
Entrusted loan receivable	16	**16,052**	—
Prepaid lease payments	17	**194**	192
Inventory	18	**38,450**	27,105
		250,086	393,827
Non-current assets			
Prepaid expense, deposits and other receivables	15	**45,727**	5,859
Prepaid lease payments	17	**6,626**	6,732
Inventory	18	**10,005**	14,292
Deferred tax assets	8	**7,100**	769
Available-for-sale investment	19	**20,570**	—
Investment in an associate	20	**803**	—
Property, plant and equipment	21	**517,115**	361,061
Mining rights	22	**948,232**	962,004
		1,556,178	1,350,717
Total assets		**1,806,264**	1,744,544
Current liabilities			
Accounts payable and accrued expenses	23	**75,073**	70,536
Borrowings	24	**72,234**	44,492
Tax liabilities		**12,193**	17,838
		159,500	132,866
Net current assets		**90,586**	260,961
Total assets less current liabilities		**1,646,764**	1,611,678

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2012

	Notes	2012 US$'000	2011 US$'000
Non-current liabilities			
Deferred tax liabilities	8	**130,659**	132,866
Deferred income	25	**803**	975
Borrowings	24	**140,695**	183,052
Environmental rehabilitation	26	**6,813**	4,253
		278,970	321,146
Total liabilities		**438,470**	454,012
Owners' equity			
Share capital	27	**1,228,731**	1,228,184
Reserves		**23,761**	16,452
Retained profits		**107,166**	40,161
		1,359,658	1,284,797
Non-controlling interests		**8,136**	5,735
Total owners' equity		**1,367,794**	1,290,532
Total liabilities and owners' equity		**1,806,264**	1,744,544

The consolidated financial statements were approved and authorized for issue by the Board of Directors on March 25, 2013 and are signed on its behalf by:

Xin Song
Director

Zhanming Wu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012

	Notes	Number of shares	Share capital US$'000	Equity reserve US$'000 note (b)	Investment revaluation reserve US$'000	Exchange reserve US$'000	Statutory reserve US$'000 note (c)	Retained (deficits) profits US$'000	Subtotal US$'000	Non-controlling interests US$'000	Total owners' equity US$'000
At January 1, 2011		396,126,753	1,228,099	11,160	—	237	—	(39,247)	1,200,249	3,180	1,203,429
Profit for the year		—	—	—	—	—	—	79,408	79,408	2,555	81,963
Exchange difference arising on translation		—	—	—	—	4,860	—	—	4,860	—	4,860
Total comprehensive income for the year		—	—	—	—	4,860	—	79,408	84,268	2,555	86,823
Exercise of stock options (note a)	27(b)	37,000	85	(33)	—	—	—	—	52	—	52
Share-based compensation (note a)		—	—	228	—	—	—	—	228	—	228
Transfer to statutory surplus reserve		—	—	—	—	—	—	—	—	—	—
At December 31, 2011		396,163,753	1,228,184	11,355	—	5,097	—	40,161	1,284,797	5,735	1,290,532
Profit for the year		—	—	—	—	—	—	70,938	70,938	2,576	73,514
Fair value gain on available-for-sale investment		—	—	—	559	—	—	—	559	—	559
Exchange difference arising on translation		—	—	—	—	2,921	—	—	2,921	10	2,931
Total comprehensive income for the year		—	—	—	559	2,921	—	70,938	74,418	2,586	77,004
Exercise of stock options (note a)	27(b)	155,000	547	(206)	—	—	—	—	341	—	341
Share-based compensation (note a)		—	—	102	—	—	—	—	102	—	102
Transfer to statutory reserve		—	—	—	—	—	3,933	(3,933)	—	—	—
Dividend paid to a non-controlling shareholder		—	—	—	—	—	—	—	—	(185)	(185)
At December 31, 2012		**396,318,753**	**1,228,731**	**11,251**	**559**	**8,018**	**3,933**	**107,166**	**1,359,658**	**8,136**	**1,367,794**

Notes:

(a) Amounts represent equity reserve arising from share-based compensation provided to directors and employees during the years ended December 31, 2012 and 2011.

(b) Amounts represent reserves arising from share-based compensation provided to directors and employees, and deemed contribution from shareholders in previous years.

(c) 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 the PRC subsidiaries. In accordance with the PRC Company Law and the Articles of Association of the PRC subsidiaries, these 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	2012 US$'000	2011 US$'000
Operating activities		
Profit before income tax for the year	99,677	104,483
Items not requiring use of cash and cash equivalents:		
Depreciation	24,920	21,853
Amortization of mining rights	14,252	15,710
Release of prepaid lease payment	168	163
Release of deferred lease inducement	(34)	(34)
Release of deferred income	(145)	(28)
Finance costs	12,549	14,053
(Gain) loss on disposal of property, plant and equipment	(6)	283
Share-based compensation	102	228
Foreign exchange gain	(826)	(1,653)
Gain on disposal of a mining project	—	(6,932)
Change in non-cash operating working capital items:		
Accounts receivable	(1,655)	3,261
Prepaid expenses, deposits and other receivables	(3,470)	(5,494)
Inventory	(6,994)	10,950
Deferred income	—	144
Accounts payable and accrued expenses	5,643	(8,717)
Cash generated from operations	144,181	148,270
Interest paid	(11,921)	(14,125)
Income taxes paid	(40,351)	(18,541)
Environmental rehabilitation expenses paid	(1,124)	—
Net cash from operating activities	90,785	115,604
Investing activities		
Payment for acquisition of property, plant and equipment	(174,865)	(71,000)
Deposit paid for acquisition of property, plant and equipment	(40,230)	(221)
Acquisition of available-for-sale investment	(20,011)	—
Investment in an associate	(803)	—
Settlement of deferred consideration from disposal of a mining project to a related company	(671)	—
Proceeds from disposal of property, plant and equipment	42	189
Receipt of deferred consideration from disposal of a mining project to a related company	1,398	—
Net cash used in investing activities	(235,140)	(71,032)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	2012 US$'000	2011 US$'000
Financing activities		
Entrusted loan to a substantial shareholder	**(16,052)**	—
Proceeds from borrowings	**27,534**	73,952
Repayments of borrowings	**(44,335)**	(68,277)
Dividend paid to a non-controlling shareholder	**(185)**	—
Issuance of common shares upon exercise of share options	**341**	52
Deemed capital contribution from a shareholder through settlement of listing fee	**2,736**	—
Net cash from financing activities	**(29,961)**	5,727
Effect of foreign exchange rate changes on cash and cash equivalents	**1,743**	2,405
Net (decrease) increase in cash and cash equivalents	**(172,573)**	52,704
Cash and cash equivalents, beginning of year	**354,313**	301,609
Cash and cash equivalents, end of year	**181,740**	354,313
Cash and cash equivalents are comprised of		
Cash and bank deposits in bank	**181,740**	354,313

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

1. GENERAL

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 36. 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 1030, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada, V7X 1M5.

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

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

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standard Board and IFRS Interpretations Committee which are effective for the financial year beginning January 1, 2012:

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

The application of the new or revised 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") (Cont'd)

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

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[3]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (Revised 2011)	Employee Benefits[1]
IAS 27 (Revised 2011)	Separate Financial Statements[1]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[3]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after January 1, 2013
2 Effective for annual periods beginning on or after January 1, 2015
3 Effective for annual periods beginning on or after January 1, 2014
4 Effective for annual periods beginning on or after July 1, 2012

Except as described below, the application of the new and revised IFRSs has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. In addition, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for the Group for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS") (Cont'd)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). Under the Interpretation, the costs from this waste removal activity ("stripping") which provide improved access to ore is recognized as a non-current asset ("stripping activity asset") when certain criteria are met. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

IFRIC 20 is effective for annual periods beginning on or after January 1, 2013 with specific transitional provisions that are provided to entities that apply IFRIC 20 for the first time. The Group anticipates that the interpretation will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2013. Currently, stripping costs that are incurred to enhance the accessibility of the identified component of the ore are capitalized as part of mineral assets in the period incurred, when management determine that there is sufficient evidence that the expenditure will result in a probable future economic benefit to the Group. Mineral assets are depreciated using the unit-of-production method based on the estimated total recoverable ounces contained in proven and probable reserves at the related mines which may be different from that required by IFRIC 20, in which depreciation should be over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. Identified component refers to the specific volume of the ore body that is made more accessible by the stripping activity. The Group is currently assessing the financial impact on the application of IFRIC 20.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of consolidation (Cont'd)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

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.

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 values, except that:

- deferred tax assets or liabilities and liabilities or assets 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 to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; 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 assessment, the Group's interest in the fair value of the acquiree's identifiable net assets 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 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 which cannot exceed one year from the acquisition date, or 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interests in subsidiaries

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

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

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 foreign currencies are initially recorded in the entity's functional currency at the 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.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

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$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses 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 (the translation reserve).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Share-based payments

The Company grants stock options to directors and employees to acquire common shares of the Company. The Company grants such options for 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 with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

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 current tax charge and the movement in deferred tax.

The tax currently payable is based on taxable income for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary differences arise from goodwill or 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investment in subsidiaries and associates, 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 are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

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. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. Current and deferred tax is recognized in profit or loss, except when it relates to items 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.

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 statement of financial position and transferred to profit or loss over the useful lives of the related assets.

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.

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

Inventory

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using 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 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.

Gold in process inventory

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 assessments 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.

- Authorizations – operating permits and feasible environmental programs exist or are obtainable.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Exploration and evaluation expenditure (Cont'd)

Therefore prior to capitalizing 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Depreciation

Mineral assets are depreciated using the unit-of-production method based on the estimated total recoverable ounces contained in proven and probable reserves at the related mine.

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 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.

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. Where 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

The Group's financial assets and liabilities are recognized in the consolidated statement 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 liabilities (other than financial assets) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, 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 "accounts receivable", "entrusted loan receivable", "cash and cash equivalents", and "amount due from a non-controlling shareholder" (included 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.

Available-for-sale financial assets

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

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are 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 investment have been affected.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

Trade receivables (included in accounts receivable) assessed not to be impaired individually are subsequently 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (Cont'd)

For financial assets carried at amortized cost, the amount of the impairment 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.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivable is reduced through the use of an allowance account. 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.

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.

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

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

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

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

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 entities are recorded 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.

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 corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities

Financial liabilities, including borrowings and accounts payable and accrued expenses excluding advance from customers, other tax payables and accruals, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Derecognition of financial liabilities

For financial liabilities, they are derecognized when the 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 the depreciation of the asset. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognized in profit or loss as extraction progresses.

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 recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leases

Leases are classified as finance lease 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 lease.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

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 statement of financial position and is amortized over the lease term on a straight-line basis.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 3, the Group has identified the following key sources of estimation uncertainty that have significant effect on the amounts recognized in the consolidated financial statements.

The 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 discussed below.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

(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 process 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.

Although the quantities of recoverable gold placed on the leach pad 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.

The management of the Group (the "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.

The carrying amount of gold in process as at December 31, 2012 is US$26,192,000 (December 31, 2011: US$23,408,000). The carrying amount of gold doré bars as at December 31, 2012 is US$4,127,000 (December 31, 2011: US$8,506,000).

(b) Property, plant and equipment

The Group's property, plant and equipment is depreciated and amortized on either a unit-of-production basis or straight-line method over their estimated useful lives. Under the unit-of-production method, the calculation of depreciation of property, plant and equipment is based on 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 be renew the mining rights 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 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 property, plant and equipment as at December 31, 2012 is US$517,115,000 (December 31, 2011: US$361,061,000).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Cont'd)

(c) Mining rights

The Group's mining rights in the Jiama polymetallic mineral property ("Jiama Mine"), are amortized on a unit-of-production basis over their estimated useful lives. Under the unit-of-production method, the calculation of amortization of mining rights is based on 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, 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, 2012 is US$948,232,000 (December 31, 2011: US$962,004,000).

(d) 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 over the life of the mine. 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.

During the year ended December 31, 2012, environmental rehabilitation costs were reduced by US$698,000 due to a change in the discount rate (2011: reduction of US$127,000 were made due to change in the discount rate), details of which are disclosed in Note 26.

The carrying amount of environmental rehabilitation costs as at December 31, 2012 is US$6,813,000 (December 31, 2011: US$4,253,000).

For the year ended December 31, 2012

5. GENERAL AND ADMINISTRATIVE EXPENSES

	2012 US$'000	2011 US$'000
Administration and office	11,500	5,470
Depreciation of property, plant and equipment	1,070	333
Investor relations	1,186	641
Professional fees	3,181	2,217
Salaries and benefits[1]	6,836	7,445
Shareholder information, transfer agent and filing fees	255	265
Travel	1,021	998
Total general and administrative expenses	25,049	17,369

[1] Share-based compensation (a non-cash item) of approximately US$99,000 (2011: US$222,000) has been included in salaries and benefits for the year ended December 31, 2012.

6. EXPLORATION AND EVALUATION EXPENDITURE

	2012 US$'000	2011 US$'000
CSH Gold Mine (Note 21(a))	370	467
Generative exploration	20	—
Total exploration and evaluation expenditure	390	467

7. FINANCE COSTS

	2012 US$'000	2011 US$'000
Effective interests on borrowings wholly repayable within 5 years	11,885	13,874
Accretion on environmental rehabilitation (Note 26)	664	179
Total finance costs	12,549	14,053

8. INCOME TAX EXPENSE

The Company was incorporated in Canada and is subject to Canadian federal and provincial tax requirements which are calculated at 25% (2011: 26.5%) of the estimated assessable profit for the year ended December 31, 2012. 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, 2012 (2011: 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$241,691,000 and US$156,872,000 at December 31, 2012 and 2011, 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:

	2012 **US$'000**	2011 US$'000
Current tax expense – PRC EIT	**34,701**	28,735
Deferred tax expense	**(8,538)**	(6,215)
	26,163	22,520

8. INCOME TAX EXPENSE (Cont'd)

Per the consolidated statement of comprehensive income, the tax expense for the Group can be reconciled to the profit before income tax for the year as follows:

	2012 US$'000	2011 US$'000
Profit before income tax	**99,677**	104,483
PRC EIT tax rate	**25%**	25%
Tax at the PRC EIT tax rate	**24,919**	26,120
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**—**	(79)
Tax effect of concessionary tax rate	**(564)**	(911)
Tax effect of tax losses not recognized	**415**	485
Utilization of deductible temporary differences previously not recognized	**—**	(2,711)
Tax effect of non-deductible expenses	**1,331**	1,738
Tax effect of non-taxable income	**—**	(2,183)
Others	**62**	61
	26,163	22,520

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

	Property, Plant and equipment US$'000	Environmental rehabilitation US$'000	Mining Rights(1) US$'000	Inventory US$'000	Prepaid lease payment US$'000	Others US$'000	Total US$'000
At January 1, 2011	(8,877)	(472)	139,473	6,886	102	1,200	138,312
Charge (credit) to profit or loss	(248)	(369)	(2,070)	(1,278)	(1)	(2,249)	(6,215)
At December 31, 2011	(9,125)	(841)	137,403	5,608	101	(1,049)	132,097
(Credit) charge to profit or loss	717	(609)	(2,047)	(7,033)	(2)	436	(8,538)
At December 31, 2012	(8,408)	(1,450)	135,356	(1,425)	99	(613)	123,559

(1) Amount represents deferred tax liability arising from the fair value adjustment on mining rights during the business acquisition of Skyland in December 2010.

8. INCOME TAX EXPENSE (Cont'd)

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:

	2012 US$'000	2011 US$'000
Deferred tax assets	7,100	769
Deferred tax liabilities	(130,659)	(132,866)
	(123,559)	(132,097)

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

	2012 US$'000	2011 US$'000
Deferred income tax assets		
Tax loss carry forwards	12,422	12,547
Other deductible temporary differences	872	1,786
Total unrecognized deferred income tax assets	13,294	14,333

No deferred tax asset has been recognized in respect of unused tax loss of US$12,422,000 (December 31, 2011: US$12,547,000) 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.

9. PROFIT FOR THE YEAR

	2012 US$'000	2011 US$'000
Auditor's remuneration	**714**	699
Depreciation included in cost of sales and inventory	**23,850**	21,520
Depreciation included in administrative expenses (Note 5)	**1,070**	333
Total depreciation	**24,920**	21,853
Release of prepaid lease payment (included in cost of sales)	**168**	163
Amortization of mining rights (included in cost of sales)	**14,252**	15,710
(Gain) loss on disposal of property, plant and equipment	**(6)**	283
Staff costs		
Directors' and chief executive's emoluments (Note 10)	**496**	586
Retirement benefit contributions	**647**	397
Staff salaries and benefits	**5,693**	6,462
Total salaries and benefits included in administrative expenses (Note 5)	**6,836**	7,445
Share-based compensation	**—**	6
Staff salaries and benefits	**—**	9
Total salaries and benefits included in exploration and evaluation expenditure (Note 6)	**—**	15
Staff costs included in cost of sales and inventory	**12,644**	11,334
Total staff costs	**19,480**	18,794
Operating lease payments	**1,361**	548
Bank interest income	**(5,830)**	(2,417)
Government subsidies[1]	**(5,064)**	(2,007)

(1) Government subsidies of US$4,919,000 (2011: US$1,978,000) have been received from the local Finance Bureau of Tibet in the current year as a reward for the Group's contribution to community development and environmental preservation in the local Tibet region. There is no condition attached to the subsidies and the entire amount is recognized as other income in 2012.

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

(a) Directors' and Chief Executive's emoluments

The emoluments paid or payable to each of the nine (2011: nine) directors and the Chief Executive were as follows:

	2012				
	Fees US$'000	Salaries and other benefits US$'000	Retirement benefit contributions US$'000	Stock-based compensation US$'000	Total US$'000
Directors					
Zhaoxue Sun*	—	—	—	—	—
Xin Song*	—	—	—	—	—
Bing Liu	—	—	—	—	—
Xiangdong Jiang	—	234	2	3	239
Zhanming Wu*	—	104	—	—	104
Yunfei Chen	12	—	—	24	36
Ian He	18	—	2	25	45
Gregory Hall	12	—	—	24	36
John King Burns	12	—	—	24	36
	54	338	4	100	496

	2011				
	Fees US$'000	Salaries and other benefits US$'000	Retirement benefit contributions US$'000	Stock-based compensation US$'000	Total US$'000
Directors					
Zhaoxue Sun*	—	—	—	—	—
Xin Song*	—	—	—	—	—
Bing Liu	—	—	—	—	—
Xiangdong Jiang	—	230	2	11	243
Zhanming Wu*	—	75	2	—	77
Yunfei Chen	12	—	—	50	62
Ian He	18	—	1	61	80
Gregory Hall	12	—	—	50	62
John King Burns	12	—	—	50	62
	54	305	5	222	586

* Executive director

Mr. Xin Song is a director and Chief Executive of the Company. The emoluments disclosed above are inclusive of services rendered by him as the Chief Executive.

For the years ended December 31, 2012 and 2011, none of the directors of the Company have waived or agreed to waive any emoluments.

10. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

The five highest paid individuals included one (2011: one) director for the year ended December 31, 2012. The emoluments of the remaining four (2011: four) individuals for the year ended December 31, 2012, are as follows:

	2012 US$'000	2011 US$'000
Employees		
Salaries and other benefits	688	479
Retirement benefit contributions	5	7
	693	486

Their emoluments were within the following bands:

	No. of individuals 2012	 2011
HK$Nil to HK$1,000,000 (equivalent to approximately US$Nil to US$128,000)	—	3
HK$1,000,001 to HK$1,500,000 (equivalent to approximately US$128,000 to US$192,000)	4	1

During the years ended December 31, 2012 and 2011, 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 2012 and 2011, nor has any dividend been proposed since the end of reporting period.

12. EARNINGS PER SHARE

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

	2012	2011
	US$'000	US$'000
Income attributable to owners of the Company for the purpose of basic earnings per share	**70,938**	79,408
Weighted average number of shares, basic	**396,257,575**	396,153,549
Dilutive securities		
– Stock options	**80,044**	154,140
Weighted average number of shares, diluted	**396,337,619**	396,307,689
Basic earnings per share	**17.90 cents**	20.04 cents
Diluted earnings per share	**17.90 cents**	20.04 cents

13. CASH AND CASH EQUIVALENTS

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 and cash equivalents are denominated in the foreign currencies other than the respective group entities' functional currencies are presented below:

	2012	2011
	US$'000	US$'000
Denominated in:		
Canadian dollars ("CAD")	**342**	455
Renminbi ("RMB")	**97,121**	192,234
US$	**20**	13,076
Hong Kong dollars ("HK$")	**245**	52,963
Total cash and cash equivalents	**97,728**	258,728

The bank balances and bank deposits carry interest rates ranging from 0.5% to 3.5% (2011: 1.10% to 1.80%) per annum for the year ended December 31, 2012.

14. ACCOUNTS RECEIVABLE

The Group's accounts receivable arise from the following sources: trade receivables, amounts due from the Company's shareholder and amounts due from related companies. These are broken down as follows:

	2012 US$'000	2011 US$'000
Trade receivables	1,234	704
Less: allowance for doubtful debts	(50)	(50)
	1,184	654
Amounts due from the Company's shareholder (Note 28(a)) [(1)]	—	2,736
Amounts due from related companies (Note 28(a)) [(2)]	1,354	1,398
Other receivables	842	1,057
Total accounts receivable	3,380	5,845

(1) The amount represented listing fee receivable from Rapid Result Investment Ltd, and deemed as capital contribution, which was unsecured, interest free and repayable on demand. The amount has been fully settled during the year ended December 31, 2012.

(2) As at December 31, 2011, the amount mainly represented consideration receivable from Gansu Zhongjin Gold Mining Co. Ltd, CNG's subsidiary, regarding the disposal of a mining project in November 2011. The outstanding balances as at December 31, 2012 represents service fee receivables arising from provision of transportation services to the subsidiaries of CNG during the year ended December 31, 2012. The amount is unsecured, interest free and repayable on demand.

14. ACCOUNTS RECEIVABLE (Cont'd)

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

At December 31, 2012 and 2011, nil trade receivable is from gold doré bars sale to CNG (note 28(a)). The Group allows an average credit period of 90 days and 180 days to its external trade customers including CNG for gold doré 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:

	2012 US$'000	2011 US$'000
Less than 30 days	372	68
31 to 90 days	343	163
91 to 180 days	249	119
Over 180 days	220	304
	1,184	654

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$220,000 and US$304,000 at 31 December 2012 and 2011, 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.

Movement in the allowance for doubtful debts:

	2012 US$'000	2011 US$'000
At January 1	50	42
Addition	—	8
At December 31	50	50

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

15. PREPAID EXPENSES, DEPOSITS AND OTHER RECEIVABLES

	2012 US$'000	2011 US$'000
Deposits for mine supplies and services (note a)	5,957	3,152
Deposits for spare parts	3,139	2,236
Deposits for environmental protection (note b)	4,753	4,109
Deposit for acquisition of property, plant and equipment (note c)	40,230	221
Prepaid property and machinery insurance	397	304
Amount due from a non-controlling shareholder (note d)	423	416
Others (note e)	1,098	1,793
Total prepaid expenses, deposits and other receivables	55,997	12,231
Less: Amounts that are settled or utilized within one year shown under current assets	(10,270)	(6,372)
Amounts that are settled or utilized for more than one year shown under non-current assets	45,727	5,859

Notes:

a. The amount represents deposits paid to third party vendors and related companies for purchasing of raw materials and inventory consumable. Included in the deposits, as at December 31, 2012, US$321,000 (December 31, 2011: US$318,000) are deposits for production safety monitoring services that are expected to be refunded upon closure of the relevant mine and therefore shown as non-current asset.

b. The amount represents deposits paid to the PRC local bureau of land and resources 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 2012 and 2011 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.

d. The amount represented the amount due from Metrorkonga Jiama Cooperatives ("Jiama Cooperatives"), a non-controlling shareholder of Jiama Industry and Trade, a 51% owned subsidiary of Tibet Huatailong Mining Development Co., Ltd. ("Huatailong"). Huatailong, a wholly owned subsidiary of the Company, paid RMB2,450,000 (equivalent to approximately US$423,000) on behalf of Jiama Cooperatives as the 49% capital contribution to Jiama Industry and Trade.

   The amount is unsecured, interest-free and repayable on demand. As agreed between Huatailong and Jiama Cooperatives, Jiama Cooperatives can use future distribution of dividend by Jiama Industry and Trade to settle the amount. The Group considers that the amount due from Jiama Cooperatives will not be repayable within one year; therefore, it is classified as non-current asset.

e. Included in the Others, as at December 31, 2011, US$795,000 (equivalent to RMB5,000,000) was paid to the PRC local bureau land and resources for the acquisition of land use rights in Tibet and were included as non-current asset. The amount is written off during the year ended December 31, 2012.

16. ENTRUSTED LOAN RECEIVABLE

On October 18, 2012, the Group entered into an entrusted loan agreement with CNG and Agricultural Bank of China ("ABC") in which the Group provided a loan of RMB100 million (equivalent to approximately US$16,052,000) to CNG through ABC as the entrusted bank. The entrusted loan is unsecured and carries interest at floating rate based on the People's Bank of China base rate and will be repayable on May 13, 2013.

17. PREPAID LEASE PAYMENTS

	US$'000
At January 1, 2011	6,772
Release to profit or loss	(163)
Exchange realignment	315
At December 31, 2011 and January 1, 2012	**6,924**
Release to profit or loss	**(168)**
Exchange realignment	**64**
At December 31, 2012	**6,820**

	2012	2011
	US$'000	US$'000
Analyzed for reporting purpose:		
Current portion	**194**	192
Non-current portion	**6,626**	6,732
	6,820	6,924

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.

18. INVENTORY

	2012 US$'000	2011 US$'000
Gold in process	**26,192**	23,408
Gold doré bars	**4,127**	8,506
Consumables	**7,677**	4,356
Copper	**5,004**	2,071
Spare parts	**5,455**	3,056
Total inventory	**48,455**	41,397
Less: Amounts expected to be recovered after 12 months (note) (shown under non-current assets)	**(10,005)**	(14,292)
Amounts shown under current assets	**38,450**	27,105

Note:

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

Inventory totalling US$193,206,000 (2011: US$174,841,000) for the years ended December 31, 2012 was recognized in cost of sales.

19. AVAILABLE-FOR-SALE INVESTMENT

	2012 US$'000	2011 US$'000
Listed investment:		
– Equity securities listed in Hong Kong	**20,570**	—

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.

On December 31, 2012, the investment was stated at fair value on quoted bid prices on December 31, 2012 and a fair value gain of US$559,000 has been recognized in other comprehensive income.

20. INVESTMENT IN AN ASSOCIATE

	2012 US$'000	2011 US$'000
Cost of investment in an unlisted associate	803	—

On November 28, 2012, the Group invested RMB5,000,000 (approximately US$803,000) representing 10% share interest in Inner Mongolia Chengxin Yong'an Chemicals Co., Ltd. ("Yong'an Chemicals"). Yong'an Chemicals is incorporated in the PRC and principally engage in the development and manufacturing of chemicals. The Group is able to exercise significant influence over Yong'an Chemicals as the Group has the power to appoint one out of the three directors of Yong'an Chemicals under the provisions stated in the Articles of Association of Yong'an Chemicals.

The summarised financial information in respect of the Group's associate is set out below:

	2012 US$'000
Total assets	7,940
Total liabilities	(7,940)
Net assets	—
The Group's share of net asset of associate	—

For the year ended December 31, 2012, the Group has no share of comprehensive income of associate as Yong'an Chemicals has not yet commenced its business since incorporation.

For the year ended December 31, 2012

21. PROPERTY, PLANT AND EQUIPMENT

	Buildings US$'000	Crusher US$'000	Furniture and office equipment US$'000	Machinery and equipment US$'000	Motor vehicles US$'000	Leasehold improvements US$'000	Mineral assets US$'000	Construction in progress ("CIP") US$'000	Total US$'000
COST									
At January 1, 2011	91,471	72,479	1,297	72,849	4,633	100	28,654	46,445	317,928
Reversal of accrual	—	(196)	—	—	—	—	—	—	(196)
Additions	—	—	262	2,783	1,248	—	26,296	40,606	71,195
Disposals	—	—	(8)	—	(716)	—	—	—	(724)
Transfer from CIP	44,149	—	—	1,323	—	—	27,552	(73,024)	—
Environmental rehabilitation adjustment (Note 26)	—	—	—	—	—	—	2,097	—	2,097
Exchange realignment	5,783	—	22	2,077	208	—	2,616	2,096	12,802
At December 31, 2011	141,403	72,283	1,573	79,032	5,373	100	87,215	16,123	403,102
Additions	1,216	—	217	5,860	591	—	33,636	131,621	173,141
Disposals	—	—	—	—	(119)	—	—	—	(119)
Transfer from CIP	4,797	—	—	16,104	—	—	—	(20,901)	—
Environmental rehabilitation adjustment (Note 26)	—	—	—	—	—	—	3,003	—	3,003
Reclassification	13,589	—	(3)	(13,586)	—	—	—	—	—
Exchange realignment	1,553	—	7	730	45	—	951	2,020	5,306
At December 31, 2012	162,558	72,283	1,794	88,140	5,890	100	124,805	128,863	584,433
ACCUMULATED DEPRECIATION									
As at January 1, 2011	(1,258)	(4,344)	(647)	(7,803)	(726)	(23)	(5,225)	—	(20,026)
Provided for the year	(3,083)	(5,317)	(214)	(7,429)	(772)	(18)	(5,020)	—	(21,853)
Eliminated on disposals	—	—	3	—	250	—	—	—	253
Exchange realignment	(147)	—	(8)	(201)	(37)	—	(22)	—	(415)
At December 31, 2011	(4,488)	(9,661)	(866)	(15,433)	(1,285)	(41)	(10,267)	—	(42,041)
Provided for the year	(6,241)	(5,549)	(245)	(6,606)	(788)	(15)	(5,476)	—	(24,920)
Eliminated on disposals	—	—	—	—	83	—	—	—	83
Reclassification	(1,028)	—	—	1,028	—	—	—	—	—
Exchange realignment	(184)	—	(5)	(160)	(22)	—	(69)	—	(440)
At December 31, 2012	(11,941)	(15,210)	(1,116)	(21,171)	(2,012)	(56)	(15,812)	—	(67,318)
CARRYING VALUE									
At December 31, 2012	150,617	57,073	678	66,969	3,878	44	108,993	128,863	517,115
At December 31, 2011	136,915	62,622	707	63,599	4,088	59	76,948	16,123	361,061

Included in the cost above is US$15,984,000 (2011: US$15,984,000) as at December 31, 2012 in relation to finance costs which have been capitalized as crusher and mineral assets.

21. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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
Crusher	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	5.5 years

Mineral assets mainly represent drilling 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 prior to the commencement of production at the mine site. 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.

Mineral Assets

(a) CSH Gold Mine

CSH Gold Mine, in which our Group holds a 96.5% interest, consists of a licensed area of 36 square kilometers ("km^2") 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$60,547,000 as at December 31, 2012 (December 31, 2011: US$36,355,000).

(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% interest through its wholly-owned subsidiary, Skyland. The Group acquired Skyland on December 1, 2010. The Jiama Mine holds two exploration permits covering an area of approximately 76.9 km^2 and 66.4 km^2, respectively. The carrying value of the Jiama Mine in relation to mineral assets is US$48,446,000 as at December 31, 2012 (December 31, 2011: US$40,593,000).

(c) Dadiangou Gold Project

The Dadiangou project consists of a licensed area of 15 km^2 in Gansu Province, China. The project is located in the Qinling Fold Belt, a gold producing region that trends west to east through the provinces of Gansu and Shanxi in central China.

On April 28, 2010, the Group and Nuclear Industry Northwest Economic Technology Company ("Nuclear Industry"), the non-controlling shareholder of the Group's PRC subsidiary, Gansu Pacific Mining Company Ltd. ("Gansu Pacific"), entered into an agreement to sell the Dadiangou Gold Project owned by Gansu Pacific to Gansu Zhongjin Gold Mining Co. Ltd. (the Purchaser), a subsidiary of Zhongjin Gold Corporation Limited. The sale of Dadiangou Gold Project was considered as a related party transaction for the year ended December 31, 2011. The consideration is RMB88 million (approximately US$13.1 million), of which the Group was entitled to 53%, or RMB46.6 million (approximately US$7,215,000). The transaction was completed in November 2011 and the gain on disposal of this mining project was US$6,932,000 (net of related tax).

22. MINING RIGHTS

	Mining rights US$'000
COST	
At January 1, 2011	976,466
Exchange realignment	2,456
At December 31, 2011 and January 1, 2012	978,922
Exchange realignment	503
At December 31, 2012	979,425
ACCUMULATED AMORTIZATION	
At January 1, 2011	(1,184)
Additions	(15,710)
Exchange realignment	(24)
At December 31, 2012 and January 1, 2012	(16,918)
Additions	(14,252)
Exchange realignment	(23)
At December 31, 2012	(31,193)
CARRYING VALUE	
At December 31, 2012	948,232
At December 31, 2011	962,004

Mining rights represent two mining rights in the Jiama Mine, in relation to the copper concentrate and other by-products production, acquired through the acquisition of the Skyland Group. The mining rights will expire in 2014 and 2015, respectively, the Group considers that it will be able to renew the mining rights with the relevant government authority continuously at insignificant cost.

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

23. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses 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 payables and accrued expenses comprise the following:

	2012 **US$'000**	2011 US$'000
Accounts payable	**18,837**	18,800
Construction cost payables	**27,697**	29,588
Advances from customers	**6,221**	1,736
Mining cost accrual	**3,747**	2,118
Other accruals	**1,643**	2,321
Payroll and benefit accruals	**4,631**	5,143
Other tax payables	**6,803**	8,389
Other payables	**5,494**	2,441
	75,073	70,536

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

	2012 **US$'000**	2011 US$'000
Less than 30 days	**9,872**	8,242
31 to 90 days	**3,944**	2,280
91 to 180 days	**244**	2,703
Over 180 days	**4,777**	5,575
Total accounts payable	**18,837**	18,800

For the year ended December 31, 2012

24. BORROWINGS

	Effective interest rate 2012 %	Effective interest rate 2011 %	Maturity	2012 US$'000	2011 US$'000
Current					
Current portion of long-term loan – Agricultural Bank of China ("ABC") (a)	6.28	6.23	March 9, 2013 to December 9, 2013	16,052	12,712
Current portion of long-term loan – Bank of China ("BOC") (b)	5.00	4.62	December 28, 2013	24,078	31,780
Syndicated loan (c)	4.82	4.82	June 4, 2013	16,052	—
Current portion of long-term loan – China Construction Bank ("CCB") (d)	4.17	—	November 9, 2013	16,052	—
				72,234	44,492
Non-current					
Long-term loan – ABC (a)	6.28	6.23	March 9, 2014 to September 9, 2014	8,026	23,835
Long-term loan – BOC (b)	5.00	4.62	December 28, 2014	24,078	47,670
Syndicated loan (c)	4.82	4.82	June 4, 2014 to June 4, 2016	104,337	111,547
Long-term loan – CCB (d)	4.17	—	November 9, 2014	4,254	—
				140,695	183,052
				212,929	227,544

(a) ABC Loan

On September 14, 2009, the Group's subsidiary, Inner Mongolia Pacific Mining Co., Ltd. ("Inner Mongolia Pacific"), secured a five-year RMB290,000,000 (equivalent to US$42,300,000) long-term loan ("Term Loan") from ABC. The loan is secured and carries interest at floating rate based on the People's Bank of China base rate.

24. BORROWINGS (Cont'd)

(b) BOC Loan

The loan was borrowed from BOC in December 2009. The loan is secured and carries interest at floating rate based on the People's Bank of China base rate.

(c) Syndicated Loan

Skyland entered into a syndicated loan facility agreement with various banks on June 4, 2010 which is available for Skyland to draw down up to June 4, 2013. As at December 31, 2012, Skyland has drawn down the full loan amount of RMB750,000,000 (equivalent to approximately US$120,389,000) (December 31, 2011: RMB702,000,000 equivalent to US$111,547,000). The unutilized facility was nil (2011: RMB48,000,000 (equivalent to approximately US$7,620,000)) as at December 31, 2012. The loan is secured and carries interest at the rate based on the People's Bank of China base rate.

(d) CCB Loan

Skyland entered into a loan facility agreement with CCB on November 9, 2012 which is available to be drawn down up to November 8, 2015. As at December 31, 2012, Skyland has drawn down RMB126,500,000 (approximately US$20,306,000). The unutilized facility was RMB273,500,000 (approximately US$43,902,000) as at December 31, 2012. The loan is unsecured and carries interest at the rate based on the People's Bank of China base rate.

	2012 US$'000	2011 US$'000
Within one year	72,234	44,492
Between one to two years	60,435	55,615
Between two to five years	80,260	127,437
	212,929	227,544
Less: Amounts due for settlement within 12 months (Shown under current liabilities)	(72,234)	(44,492)
	140,695	183,052

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

	2012 US$'000	2011 US$'000
Property, plant and equipment	348,471	246,993
Mining rights	948,232	962,004
	1,296,703	1,208,997

25. DEFERRED INCOME

	2012 US$'000	2011 US$'000
Deferred income – government grants	728	865
Deferred lease inducement	75	110
Total deferred income	803	975

Pursuant to the approval notices issued by the Ministry of Finance of the PRC in July 2010 and by the Provincial Bureau of Finance in Inner Mongolia of the PRC in December 2010, IMP received government grants in relation to the construction of property, plant and equipment of the Group amounting to approximately RMB4,839,000 (equivalent to approximately US$715,000) during the year ended December 31, 2010. In addition, approximately RMB930,000 (equivalent to approximately US$147,000) was further granted to IMP by local Finance Bureau in Inner Mongolia of the PRC in May 2011, in relation to construction of property, plant and equipment of the Group. The grants are recorded as deferred income in the consolidated statement of financial position and will be credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

Movement in the deferred income – government grants:

	2012 US$'000	2011 US$'000
At January 1	865	713
Addition	—	144
Charged to other income	(145)	(28)
Exchange realignment	8	36
At December 31	728	865

26. 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$41,890,000 (2011: US$24,429,000), discounted at 11.2% (2011: 10.1%) per annum at December 31, 2012.

The following is an analysis of the environmental rehabilitation:

	2012 US$'000	2011 US$'000
At January 1	4,253	1,888
Additions to site reclamation	3,701	2,224
Utilization during the year	(1,124)	—
Reductions resulted from change in discount rate during the year	(698)	(127)
Accretion incurred in the current year	664	179
Exchange realignment	17	89
At December 31	6,813	4,253

27. SHARE CAPITAL AND OPTIONS

(a) Common shares

(i) Authorized – Unlimited common shares without par value

(ii) Issued and outstanding

	Number of shares	Amount US$'000
Issued & fully paid:		
At January 1, 2011	396,126,753	1,228,099
Exercise of stock option	37,000	85
At December 31, 2011 and January 1, 2012	396,163,753	1,228,184
Exercise of stock option	155,000	547
At December 31, 2012	396,318,753	1,228,731

(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 fair market value on the date of approval by the board of directors. A portion of the stock options vest immediately on the grant date and the balance 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 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.

27. SHARE CAPITAL AND OPTIONS (Cont'd)

(b) Stock options (Cont'd)

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

	2012		2011	
	Number of options	Weighted average exercise price CAD	Number of options	Weighted average exercise price CAD
Balance at January 1	**695,000**	**3.98**	780,000	3.71
Options exercised	**(155,000)**	**2.18**	(37,000)	1.45
Options forfeited	**—**	**—**	(48,000)	3.95
Balance at December 31	**540,000**	**4.62**	695,000	3.93

295,000 stock options were granted during the year ended December 31, 2007 at exercise price of CAD2.2. These options will expire on July 20, 2013. 199,000 stock options were vested at December 31, 2011 while the remaining 96,000 stock options were vested on July 20, 2012. Approximately US$8,000 and US$28,000 were charged to the profit or loss for the year ended December 31, 2012 and 2011.

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 will be vested on June 2, 2013 and June 2, 2014, respectively. The fair value of these options at date of grant was approximately US$860,000, of which approximately US$94,000 and US$200,000 were charged to the profit or loss for the year ended December 31, 2012 and 2011 respectively. No stock options were granted during the year ended December 31, 2012 and 2011.

27. SHARE CAPITAL AND OPTIONS (Cont'd)

(b) Stock options (Cont'd)

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

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

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

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

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

28. 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:

	2012	2011
	%	%
CNG	**39.3**	39.3

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

(i) Transactions/balance with CNG and its subsidiaries

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

	2012	2011
	US$'000	US$'000
Gold doré bars sales by the Group	**220,142**	205,015
Provision of transportation services by the Group	**1,638**	—
Construction services provided to the Group	**77,032**	—

The Group's gold doré bars were sold to CNG at market price under the relevant agreement.

28. RELATED PARTY TRANSACTIONS (Cont'd)

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

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

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

	2012 US$'000	2011 US$'000
Assets		
Entrusted loan receivable from CNG (Note 16)	**16,052**	—
Interest receivable from entrusted loan to CNG[1]	**575**	—
Listing expense receivable[1]	**—**	2,736
Other receivables[1]	**1,354**	1,398
Prepayments for engineering and other geology services	**—**	416
Total amounts due from CNG and its subsidiaries	**17,981**	4,550

(1) The amounts due from CNG and its subsidiaries which are included in accounts receivable are non-interest bearing, with the exception of the entrusted loan, unsecured and have no fixed terms of repayments.

	2012 US$'000	2011 US$'000
Liabilities		
Other payable to CNG	**—**	32
Other payable to CNG's subsidiaries	**—**	1,159
Total amounts due to CNG and its subsidiaries	**—**	1,191

The amount due to CNG and its subsidiaries which are included in other payables, 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 also conducts business with other government – related entities. The Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities which are government – related entities in its ordinary course of business. Over 86% (2011: over 79%) of the Group's bank deposits and borrowings are with government related entities.

28. RELATED PARTY TRANSACTIONS (Cont'd)

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

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

	2012 US$'000	2011 US$'000
Asset		
Amount due from a non-controlling shareholder of a subsidiary (included in other receivables)	423	416
Total amount due from a related party	423	416

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

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

	2012 US$'000	2011 US$'000
Salaries and other benefits	553	411
Post employment benefits	5	7
	558	418

29. SEGMENT INFORMATION

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

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

(i) The mine-produced gold segment – the production of gold bullion through the Group's integrated processes, i.e., mining, metallurgical processing, production and selling of gold doré bars to external clients.

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

Information regarding the above segments is reported below.

29. SEGMENT INFORMATION (Cont'd)

(a) Segment revenues and results

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

2012

	Mine – produced gold US$'000	Mine – produced copper US$'000	Segment total and consolidated US$'000
REVENUE – EXTERNAL	223,775	108,612	332,387
SEGMENT PROFIT	94,882	30,047	124,929
General and administrative expenses			(25,049)
Exploration and evaluation expenditure			(390)
Foreign exchange gain, net			171
Interest and other income			12,565
Finance costs			(12,549)
Profit before income tax			99,677

2011

	Mine – produced gold US$'000	Mine – produced copper US$'000	Segment total and consolidated US$'000
REVENUE – EXTERNAL	214,480	96,832	311,312
SEGMENT PROFIT	95,080	25,681	120,761
General and administrative expenses			(17,369)
Exploration and evaluation expenditure			(467)
Gain on disposal of a mining project			6,932
Foreign exchange gain, net			2,355
Interest and other income			6,324
Finance costs			(14,053)
Profit before income tax			104,483

29. SEGMENT INFORMATION (Cont'd)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the mine operating earnings earned by each segment representing the revenues less direct cost of sales as shown on the consolidated statement of comprehensive income. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

There are no inter-segment sales for the year ended December 31, 2012 and 2011.

(b) Segment assets and liabilities

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

Segment assets	**2012**	2011
	US$'000	US$'000
Mine-produced gold	**261,423**	179,358
Mine-produced copper	**1,334,822**	1,205,136
Total segment assets	**1,596,245**	1,384,494
Available-for-sale investment	**20,570**	—
Cash and cash equivalents	**181,740**	354,313
Accounts receivable	**127**	4,437
Prepaid expenses, deposits and other receivables	**361**	412
Property, plant and equipment	**121**	119
Deferred tax assets	**7,100**	769
Consolidated assets	**1,806,264**	1,744,544

Segment liabilities	**2012**	2011
	US$'000	US$'000
Mine-produced gold	**38,212**	43,675
Mine-produced copper	**54,928**	47,602
Total segment liabilities	**93,140**	91,277
Accounts payable and accrued expenses	**1,667**	2,215
Borrowings	**212,929**	227,544
Deferred lease inducement (included in deferred income)	**75**	110
Deferred tax liabilities	**130,659**	132,866
Consolidated liabilities	**438,470**	454,012

29. SEGMENT INFORMATION (Cont'd)

(c) Other segment information

	2012				
	Mine – produced gold US$'000	Mine – produced copper US$'000	Segment total US$'000	Unallocated US$'000	Total US$'000
Amount included in the measure of segment profit or loss or segment assets					
Additions of property, plant and equipment	71,792	101,349	173,141	—	173,141
Depreciation of property, plant and equipment	(13,365)	(11,555)	(24,920)	—	(24,920)
Amortization of mining rights	—	(14,252)	(14,252)	—	(14,252)
Release of prepaid lease payment	—	(168)	(168)	—	(168)
Gain on disposal of property, plant and equipment	6	—	6	—	6

	2011				
	Mine – produced gold US$'000	Mine – produced copper US$'000	Segment total US$'000	Unallocated US$'000	Total US$'000
Amount included in the measure of segment profit or loss or segment assets					
Additions of property, plant and equipment	23,224	47,971	71,195	—	71,195
Depreciation of property, plant and equipment	(12,545)	(9,308)	(21,853)	—	(21,853)
Amortization of mining rights	—	(15,710)	(15,710)	—	(15,710)
Release of prepaid lease payment	—	(163)	(163)	—	(163)
Gain (loss) on disposal of property, plant and equipment	25	(308)	(283)	—	(283)

(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 year ended December 31, 2012 and 2011, the Group's revenue was generated from gold sales and copper multi products to customers in the PRC.

29. SEGMENT INFORMATION (Cont'd)

(e) Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's revenue are as follows:

	2012 US$'000	2011 US$'000
Revenue from customers attributable to gold doré bars sales		
– CNG	220,142	205,105

The Group sells approximately 98.4% and 95.6% of its gold to one creditworthy customer, CNG who is also the Group's substantial shareholder for the years ended December 31, 2012 and 2011, respectively.

30. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing activities

The Group incurred the following non-cash financing activities:

	2012 US$'000	2011 US$'000
Transfer of share option reserve upon exercise of options	206	33

31. 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 mine, 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, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

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 continuing operations.

32. FINANCIAL INSTRUMENTS

	Financial instrument classification	2012 US$'000	2011 US$'000
Financial assets			
Cash and cash equivalents	Loans and receivables	**181,740**	354,313
Entrusted loan receivable	Loans and receivables	**16,052**	—
Accounts receivable	Loans and receivables	**3,380**	5,845
Amount due from a non-controlling shareholder (included in other receivables)	Loans and receivables	**423**	416
Available-for-sale investment	Available-for-sale	**20,570**	—
Financial liabilities			
Accounts payable and accrued expenses*	Other financial liabilities	**52,028**	50,829
Long-term loans	Other financial liabilities	**92,540**	115,997
Syndicated loan	Other financial liabilities	**120,389**	111,547

* Excluded advances from customers, other tax payables and accruals.

The fair values of the Group's cash and cash equivalents, entrusted loan receivable, accounts receivable, accounts payable and current portion of long-term loan and syndicated loan approximate their carrying values due to their short-term nature.

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.

32. FINANCIAL INSTRUMENTS (Cont'd)

(a) Currency risk

The Group is exposed to the financial risk related to the fluctuation of foreign exchange rates. Certain subsidiaries of the Company operate in the PRC and Canada with functional currency of US$. A significant change in the currency exchange rates between RMB relative to US$ could have a significant effect on the Group's results of operations, financial position or cash flows. The Group has not hedged its exposure to currency fluctuations.

RMB monetary assets and liabilities

	2012 US$'000	2011 US$'000
Cash and cash equivalents	97,121	192,234
Entrusted loan receivable	16,052	—
Accounts receivable	480	190
Accounts payable and accrued expenses	(19,246)	(18,146)
Borrowings	(24,078)	(36,547)
	70,329	137,731

Sensitivity analysis

Based on the above net exposures, and assuming that all other variables remain constant, a 5% (2011: 5%) appreciation/depreciation of the RMB against the US$ would result in an increase/decrease in the Group's profit for the year of approximately US$2,637,000 for the year ended December 31, 2012 and a decrease/increase in the Group's profit for the year of approximately US$5,165,000 for the year ended December 31, 2011.

(b) Interest rate risk

Interest rate risk is the risk that the fair value 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, entrusted loan receivable (note 16) and variable-rate bank borrowings (see note 24 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise 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 (2011: 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. A positive number below indicates an increase in profit of the Group for the year ended December 31, 2012 and 2011 because the interest rate increases. For a decrease in the interest rate, there would be an equal and opposite impact on the Group's profit or loss.

32. FINANCIAL INSTRUMENTS (Cont'd)

(b) Interest rate risk (Cont'd)

Sensitivity analysis (Cont'd)

For bank balances, the analysis below reflects the sensitivity that the interest rate may increase by 25 basis points/decrease by 25 basis points (2011: increase by 25 basis points/decrease by 25 basis points) or limit to 0% .

	2012	2011
	US$'000	US$'000
25 basis points (2011: 25 basis points) higher	**(28)**	138
25 basis points (2011: 25 basis points) lower	**28**	(138)

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 sells approximately 98.4% (2011: 95.6%) of its gold to one creditworthy customer, CNG, who is also the Group's substantial shareholder for the years ended December 31, 2012 and 2011 and exposes the Group to concentration of credit risk. The failure of this customer to make required payments could have a negative impact on the Group's results. The Group manages this risk by demanding upfront payment from this customer.

The Group's cash and short-term bank deposits are held in large PRC and Canadian banks. These investments mature at various dates within three months.

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, 2012 and 2011.

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.

32. FINANCIAL INSTRUMENTS (Cont'd)

(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 31.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities (see Note 34 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 interests flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average interest rate %	Within 1 year US$'000	1 – 2 years US$'000	2 – 5 years US$'000	Total undiscounted cash flow US$'000	Carrying amount US$'000
2012						
Accounts payable and accrued expenses	—	52,028	—	—	52,028	52,028
Floating-rate borrowings:						
ABC loan (Note 24(a))	6.28	17,184	8,283	—	25,467	24,078
BOC loan (Note 24(b))	5.00	26,589	25,370	—	51,959	48,156
Syndicated loan (Note 24(c))	4,82	21,553	28,603	84,629	134,785	120,389
CCB loan (Note 24(d))	4.17	16,739	4,388	—	21,127	20,306
		134,093	66,644	84,629	285,366	264,957

	Weighted average interest rate %	Within 1 year US$'000	1 – 2 years US$'000	2 – 5 years US$'000	Total undiscounted cash flow US$'000	Carrying amount US$'000
2011						
Accounts payable and accrued expenses	—	50,829	—	—	50,829	50,829
Floating-rate borrowings:						
ABC loan (Note 24(a))	6.56	14,937	17,098	8,219	40,254	36,547
BOC loan (Note 24(b))	4.62	35,544	26,100	25,000	86,644	79,450
Syndicated loan (Note 24(c))	4.82	5,466	20,962	103,524	129,952	111,547
		106,776	64,160	136,743	307,679	278,373

32. FINANCIAL INSTRUMENTS (Cont'd)

(e) Fair value

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.

Fair value measurements recognized in the consolidated statement of financial position

Subsequent to initial recognition at fair value, the available-for-sale investment is measured from quoted prices (unadjusted) in active market (Level 1 fair value measurements). There was no transfer between Level 1 and 2 in the current year and prior years.

33. CONTINGENT LIABILITIES

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

34. 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:

	2012 **US$'000**	2011 US$'000
Within one year	**1,908**	1,415
In the second to fifth year inclusive	**864**	977
Over five years	**742**	1,055
	3,514	3,447

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

34. COMMITMENTS AND CONTINGENCIES (Cont'd)

Capital commitments

	2012 US$'000	2011 US$'000
Capital expenditure in respect of acquisition of property, plant and equipment in the consolidated financial statements – contracted but not provided for	171,024	58,441
Capital expenditure in respect of capital injection to an associate	4,816	—

Other commitments and contingencies existed at the end of each reporting period

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.

35. 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 costs charged to the consolidated statement of comprehensive income and cost of inventory are approximately US$1,221,000 and US$723,000 for the years ended December 31, 2012 and 2011, respectively, represent contributions payable to the scheme by the Group.

36. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries at December 31, 2012 and 2011 are as follows:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at December 31, 2012	2011	Principal activities
Pacific PGM Inc.	British Virgin Islands ("BVI") May 17, 2001	US$100	**100%**	100%	Investment holding
Pacific PGM (Barbados) Inc.	Barbados September 6, 2007	US$130,000	**100%**	100%	Investment holding
IMP	Ningxia, PRC April 29, 2002	US$37,500,000	**96.5%**	96.5%	Engaged in exploration and development of mining properties in China
Gansu Mining Company (Barbados) Ltd.	Barbados September 7, 2007	US$119,000	**100%**	100%	Investment holding
Gansu Pacific	Gansu, PRC September 18, 2006	RMB30,365,345	**53%**	53%	Engaged in exploration and development of mining properties in China
Skyland	Cayman Islands October 6, 2004	US$233,380,700 plus RMB1,510,549,032 (2011: US$41,305,000) plus RMB182,993,000	**100%**	100%	Investment holding
Tibet Jia Ertong Minerals Exploration Ltd.	PRC April 29, 2005	US$273,920,000 (2011: US$178,920,000)	**100%**	100%	Exploration, development and mining of mineral properties and investment holding
Huatailong	PRC January 11, 2007	RMB1,760,000,000 (2011: RMB1,170,000)	**100%**	100%	Exploration, development and mining of mineral properties
Jiama Industry and Trade	PRC December 1, 2009	RMB5,000,000	**51%**	51%	Mining logistics and transport business
Skyland Mining (BVI) Limited	BVI October 26, 2010	US$1	**100%**	100%	Inactive

For the year ended December 31, 2012

37. FINANCIAL SUMMARY OF THE COMPANY

	2012 US$'000	2011 US$'000
Current assets		
Cash and cash equivalents	44,001	155,975
Accounts receivable	78	21
Prepaid expenses, deposits and other receivables	361	412
	44,440	156,408
Non-current assets		
Property, plant and equipment	129	127
Loan receivables from subsidiaries	51,083	46,492
Available-for-sale investment	20,570	—
Investment in subsidiaries	981,988	886,988
Amounts due from subsidiaries	37,771	45,197
	1,091,541	978,804
Total assets	1,135,981	1,135,212
Current liability		
Accounts payable and accrued expenses	954	1,421
Non-current liability		
Deferred income	76	110
Total liabilities	1,030	1,531
Net current assets	43,486	154,987
Total assets less current liabilities	1,135,027	1,133,791
Owners' equity		
Share capital (Note 27)	1,228,731	1,228,184
Reserves (Note 38)	3,426	2,971
Deficits (Note 38)	(97,206)	(97,474)
Total owners' equity	1,134,951	1,133,681
Total liabilities and owners' equity	1,135,981	1,135,212

38. RESERVES AND DEFICITS OF THE COMPANY

	Reserve	Accumulated losses	Total
	US$'000	US$'000	US$'000
At January 1, 2011	2,776	(83,821)	(81,045)
Loss and total comprehensive expense for the year	—	(13,653)	(13,653)
Exercise of stock option	(33)	—	(33)
Share-based compensation	228	—	228
At December 31, 2011 and January 1, 2012	2,971	(97,474)	(94,503)
Profit for the year		268	268
Fair value gain on available-for-sale investment	559	—	559
Total comprehensive income for the year	559	268	827
Exercise of stock option	(206)	—	(206)
Share-based compensation	102	—	102
At December 31, 2012	3,426	(97,206)	(93,780)

39. EVENT AFTER THE REPORTING PERIOD

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

FINANCIAL SUMMARY

	Results of the Group for the year ended 31 December				
	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	**2012** **US$'000**
Revenue	29,371	81,047	133,198	311,312	**332,387**
Profit (loss) attributable to owners of the Company	14,581	(9,347)	26,227	79,408	**70,938**
Profit (loss) per share (US cents)					
– Basic	9.00	(5.58)	13.82	20.04	**17.90**
– Diluted	1.08	(5.58)	13.76	20.04	**17.90**

	Assets and liabilities of the Group as at 31 December				
	2008 US$'000	2009 US$'000	2010 US$'000	2011 US$'000	**2012** **US$'000**
Total assets	119,311	174,577	1,655,623	1,744,544	**1,806,264**
Less: Total liabilities	(79,872)	(136,466)	(452,193)	(454,012)	**(438,470)**
Total net assets	39,439	38,111	1,203,430	1,290,532	**1,367,794**

中國黃金國際資源有限公司
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