ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

5 March 2007

The Directors
Sino Gold Mining Limited
Morgan Stanley Dean Witter Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding Sino Gold Mining Limited (the "Company") and its subsidiaries for the three years ended 31 December 2006 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 5 March 2007 (the "Prospectus").

The Company was incorporated in New South Wales, Australia, in June 2000 and listed on the Australian Stock Exchange Limited on 3 December 2002. The Company and its subsidiaries (collectively the "Group") are principally engaged in the mining and processing of gold ore, the sale of recovered gold, and the exploration and development of mining properties.

As at 31 December 2006, the Company had direct or indirect interests in the following subsidiaries.

Name	Place and date of incorporation/ registration and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Sino Mining Copper Ltd . . .	Cayman Islands/ July 1997	US$1	100	—	Investment holding
Sino Mining Guizhou Pty Ltd	Australia/ October 2000	A$1	100	—	Investment holding
Sino Mining Sichuan Pty Ltd	Australia/ July 2000	A$1	100	—	Investment holding
Sino Gold Jinlou Limited . . .	Cayman Islands/ June 2003	US$1,000	100	—	Investment holding
Sino Gold Jindu Limited . . .	Cayman Islands/ July 2003	US$1,000	100	—	Investment holding
Sino Gold BMZ Limited . . .	Cayman Islands/ May 2003	US$1,000	100	—	Investment holding
Sino Gold HLJ Limited	Cayman Islands/ August 2005	US$1,000	100	—	Investment holding
Sino Gold Guoxin Limited . .	Cayman Islands/ July 2006	US$1,000	100	—	Investment holding
Sino Gold Jiaodong Limited .	Cayman Islands/ August 2006	US$1,000	100	—	Investment holding
Sino Gold Golden Triangle Limited	Cayman Islands/ July 2006	US$1,000	100	—	Investment holding
Sino Gold Greatland Limited	Cayman Islands/ October 2006	US$1,000	100	—	Investment holding
Sino Gold SPD Limited	British Virgin Islands/ August 2003	US$2,012	100	—	Investment holding
Sino Gold SEL Limited	British Virgin Islands/ May 2004	US$10	100	—	Investment holding

Name	Place and date of incorporation/ registration and operations	Paid-up registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Sino Guizhou Jinfeng Mining Limited* *(Note 1)*	People's Republic of China ("PRC")/ Mainland China/ July 2002	US$35,000,000	—	82	Gold mine development
Sino Gold Guizhou Jinlou Mining Limited* *(Note 2)*	PRC/Mainland China/ January 2005	US$2,000,010	—	65	Gold mine exploration
Sino Gold Jilin BMZ Mining Limited* *(Note 3)*	PRC/Mainland China/ November 2003	US$6,000,000	—	95	Gold mine exploration
Shandong Sino Gold Fields Ludi Limited* *(Note 4)*	PRC/Mainland China/ July 2004	US$1,000,000	—	70	Gold mine exploration
Shandong Sino Gold Fields Zhengyuan Limited* *(Note 5)*	PRC/Mainland China/ June 2005	US$546,254	—	80	Gold mine exploration
Sino Guangxi Golden Triangle Limited*	PRC/Mainland China/ 14 December 2006	US$2,100,000	—	70	Gold mine exploration

Notes:

1. The audited financial statements for the three years ended 31 December 2006 are audited by Gui Zhou Zhong Fang Certified Public Accountants, Ltd., which are certified public accountants registered in the PRC.

2. The audited financial statements for the two years ended 31 December 2006 are audited by 貴陽興宏聯合會計師事務所, which are certified public accountants registered in the PRC.

3. The audited financial statements for the three years ended 31 December 2006 are audited by 白山市成華會計師事務所有限責任公司, which are certified public accountants registered in the PRC.

4. The audited financial statements for the three years ended 31 December 2006 are audited by Shangdong Tianhe Certified Public Accountants Co., Ltd., which are certified public accountants registered in the PRC.

5. The audited financial statements for the two years ended 31 December 2006 are audited by Shangdong Tianhe Certified Public Accountants Co., Ltd., which are certified public accountants registered in the PRC.

Each of the cooperative joint ventures incorporated in the People's Republic of China as stated above (indicated with *) is treated as a subsidiary because the Company has unilateral control over each of the cooperative joint ventures.

The management accounts of these companies were prepared in accordance with the relevant accounting principles and financial regulations applicable to these companies and were not audited by us. For the purpose of this report, the directors of the Company have prepared the Company's and the Group's financial statements for each of the Relevant Periods, or from their respective dates of establishment or dates of acquisition, whichever is a shorter period, in accordance with Australian Accounting Standards (the "AUST GAAP accounts"). The AUST GAAP accounts were audited by Ernst & Young Sydney, Chartered Accountants registered in Australia.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group and the statements of changes in equity of the Company for the Relevant Periods, and the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 December 2004, 2005 and 2006 together with the notes thereto (the "Financial Information") set out in this report has been prepared based on audited AUST GAAP accounts, on the basis set out in note 1(a) below, after making such adjustments as appropriate to comply with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB"). For the purpose of this report, we have performed an examination of the audited financial statements and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the companies now comprising the Group are responsible for preparing respective financial statements and, where appropriate, management accounts which give a true and fair view. The directors of the Company are responsible for preparing the AUST GAAP accounts and the Financial Information which give a true and fair view. In preparing the Financial Information, AUST GAAP accounts and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion on the Financial Information in respect of the Relevant Periods and to report our opinion solely to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of state of affairs of the Company and of the Group as at 31 December 2004, 2005 and 2006 and of the Group's consolidated income statements and cash flows for each of the Relevant Periods.

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The Financial Information has been prepared in accordance with IFRS. The Financial Information has been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value. The accounting policies set out below have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Australian dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Impact of new and revised IFRS

The following standards have been early adopted as at the beginning of the Relevant Periods:

IAS 1 (amended 2004)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 7 (amended 2003)	Cash Flow Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (amended 2004)	Events after the Balance Sheet Date
IAS 11 (revised 2004)	Construction Contracts
IAS 12 (amended 2004)	Income Taxes
IAS 14 (amended 2004)	Segment Reporting
IAS 16 (amended 2004)	Property, Plant and Equipment
IAS 17 (amended 2004)	Leases
IAS 18 (amended 2004)	Revenue
IAS 19 (amended 2004)	Employee Benefits
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 20 (amended 2003)	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21 (amended 2003)	The Effects of Changes in Foreign Exchange Rates

IAS 23 (amended 2003)	Borrowing Costs
IAS 24 (revised 2003)	Related Party Disclosures
IAS 26 (amended 2004)	Accounting and Reporting by Retirement Benefit Plans
IAS 27 (amended 2004)	Consolidated and Separate Financial Statements
IAS 28 (amended 2004)	Investments in Associates
IAS 31 (amended 2004)	lnterests in Joint Ventures
IAS 32 (amended 2004)	Financial Instruments: Disclosure and Presentation
IAS 33 (amended 2004)	Earnings per Share
IAS 36 (amended 2004)	Impairment of Assets
IAS 37 (amended 2004)	Provision, Contingent Liabilities and Contingent Assets
IAS 38 (amended 2004)	Intangible Assets
IAS 39 (amended 2004)	Financial Instruments: Recognition and Measurement
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 & IFRS 4 Amendments	Financial Guarantee Contracts
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held For Sale and Discontinued Operations
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Numbers' shares in Co-operative Entities and Similar Instruments
IFRIC — Int 4	Determining whether an Arrangement contains a Lease
IFRIC — Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC — Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

Impact of issued but not yet effective IFRS

The Group has not applied the following new and revised IFRS that have been issued but are not yet effective in the Financial Information.

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC — Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC — Int 8	Scope of IFRS 2
IFRIC — Int 9	Reassessment of Embedded Derivatives
IFRIC — Int 10	Interim Financial Reporting and Impairment
IFRIC — Int 11	IFRS 2 — Group and Treasury Share Transaction

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 requires disclosure that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risk arising from those financial instruments and also incorporates many of the disclosure requirements of IAS 32. This IFRS shall be applied for annual periods beginning on or after 1 January 2007.

The Group has commenced its assessment of the impact of these IAS/IFRS/IFRIC pronouncements but it is not yet in a position to state whether these standards and interpretations would have a material impact on its results of operations and financial position.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Sino Gold Mining Limited and its subsidiaries.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. The parent entity measures its investments in subsidiaries at cost.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Sino Gold Mining Limited has control.

The minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

(c) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

(d) Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

(e) Foreign currency translation

Following the issue of the US$ denominated convertible notes in March 2005, the functional currency of the Company was deemed to be US$. Prior to this event, the functional currency of the Company was considered to be Australian dollars. The functional currency of overseas subsidiaries is Renminbi ("RMB"). The Financial Information has been presented in Australian dollars (A$) as the Company is primarily listed on the Australian Stock Exchange ("ASX").

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated to the Company's functional currency using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated to the Company's functional currency using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the functional currency of Sino Gold Mining Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

As at the reporting date, the Group's results and financial position are translated from functional currency into presentation currency using the following procedures:

- assets and liabilities are translated at the closing rate at the date of balance sheet;
- income and expenses for each income statement are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences shall be recognised as a separate component of equity.

(f) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(g) Property, plant and equipment

Cost

Items of property, plant and equipment are carried at cost less accumulated depreciation and any impairment in value.

Depreciation

Depreciation is provided on a straight-line basis over the estimated useful life of the asset, other than mine properties and equipment, which are depreciated on a unit of production basis to an estimated residual value.

Major depreciation periods are 5 to 15 years for non-mining plant and equipment or the lease term for leasehold improvements.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater 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.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

(h) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are utilised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(j) Convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of issue costs.

On the issue of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time, is recognised as a finance cost.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of issue costs. The value of the conversion option is not changed in subsequent years.

The corresponding equity dividends on those shares are charged as a distribution of profit and loss.

Issue costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provisions for the Group's obligations for land reclamation are based on estimates of required expenditure at the mines in accordance with PRC rules regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset in the period in which the liability is incurred. The asset is depreciated using the Units of Production method over its expected life and the liability is accreted to the projected expenditure date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

(l) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). The Executive and Employee Option Plan (EOP) is in place to provide these benefits. Options granted under this vest over a three-year period and have no attaching market or performance conditions.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black Scholes option pricing model.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at the balance sheet date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Options granted to investors where there is no share based payment relationship and are denominated in a foreign currency are accounted for as derivative liabilities. These options are recorded on the balance sheet at fair value with any movements in fair value recorded directly in the income statement. Up until March 2005, the functional currency of the Company was A$, therefore, the US$ denominated option was accounted for as a derivative liability. Thereafter, the functional currency of the Company was US$, therefore, all A$ denominated options are accounted for as derivative liabilities from this time.

As the Company is now considered US$ functional, the US$ denominated options are no longer considered as derivative liabilities and the derivative liabilities previously created have been released to equity reserve of the Company.

(m) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer, being when the gold leaves the mine site.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Management fees

Revenue from management fees is recognised in the period when services are rendered.

(n) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Consumable stores and spares — purchase cost on the first-in-first-out basis;

- Finished goods and work-in-progress — cost of direct material and labour and a proportion of manufacturing overhead based on normal operating capacity;

- Gold in circuit and in transit — cost of direct material and labour and a proportion of manufacturing overhead based on normal operating capacity;

- Ore stockpiles — cost of direct material and labour and a proportion of manufacturing overhead based on normal operating capacity.

(o) Derivative financial instruments

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

The consolidated entity enters into forward gold hedges where it agrees to sell specified ounces of gold at a predetermined gold price. The objective of these hedges is to match the forward agreements with anticipated cash flows from future gold sales and as such are considered cash flow hedges under IAS 39.

Purchased put options represent option contracts giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time.

Fixed forwards represent cash market transactions in which delivery of the commodity is deferred until after the contract has been made. Although the delivery is made in the future, a fixed price is determined on the initial trade date.

Spot deferred represents forward contracts with flexible delivery dates that enable management to choose to deliver into the contract on a specified date or defer the delivery until a future date. If the delivery is postponed, a new contract price is established based on the old contract price plus a premium.

(p) Income tax

Tax-effect accounting is applied using the balance sheet method where deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where:

- The deferred income tax asset or liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

(q) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and short term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(r) Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(s) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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 was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(t) Derecognition of financial assets and liabilities

Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(u) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or

(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

(v) Exploration and evaluation costs

Costs arising from exploration and evaluation activities are carried forward provided such costs are expected to be recouped through successful development, or by sale, or where exploration and evaluation activities have not, at the balance sheet date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. When the existence of economically recoverable reserves is not probable, provision for impairment is made in respect of the costs carried forward.

Grants and subsidies are offset against costs as incurred.

Costs carried forward in respect of an area of interest that is abandoned are written off in the period in which the decision to abandon is made.

(w) Mining operation development costs

Costs incurred in the development and construction of a mining operation are capitalised to the extent that the carrying amount does not exceed recoverable amount. Once production commences the carrying value is transferred to property, plant and equipment and depreciated accordingly.

(x) Mining rights

Mining rights are stated at the lower of cost and recoverable amount. The costs are capitalised as construction costs. Once production commences the carrying value is transferred to property, plant and equipment and depreciate over the life of mine.

(y) Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

(z) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of mining and exploration assets

The carrying value of mining and exploration assets, including property, plant and equipment and deferred exploration, evaluation and development costs, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of these assets, or, where appropriate, the cash generating unit to which they belong, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use required the Group to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for obsolete inventories

Management reviews the condition of inventories of the Group and provides provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. For gold in circuit and ore stockpiles, management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. For consumable stores and spares, management reviews the condition for impairment when the carrying value may not be recoverable. The recoverable amount of consumable stores and spares, or, where appropriate, the cash generating units to which they belong, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The Group carries out an inventory review at each balance sheet date and makes provision for obsolete items.

Cash flow hedge

The management considers the hedged sales transactions to be highly probable and the gold derivatives are accounted for as cash flow hedge. This requires an estimation of production volume of Jinfeng mine. The carrying amount of gold derivatives liabilities at 31 December 2006 was A$76,498,000 (2005: A$25,924,000; 2004: A$6,308,000).

2. CONSOLIDATED INCOME STATEMENTS

The following is a summary of the consolidated income statements of the Group for the Relevant Periods:

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	**A$000**	**A$000**	**A$000**
Revenue	(a)	20,044	11,024	8,695
Cost of sales		(24,455)	(16,642)	(7,803)
Gross profit/(loss)		(4,411)	(5,618)	892
Other income	(b)	2,389	1,333	3,962
Administrative expenses		(5,598)	(6,953)	(8,243)
Other operating expenses		(11,345)	(12,548)	(10,489)
Finance costs	(e)	(373)	(2,503)	(6,176)
Loss before tax	(c)	(19,338)	(26,289)	(20,054)
Tax	(f)	—	—	—
Loss for the year		(19,338)	(26,289)	(20,054)
Attributable to:				
Equity holders of the parent		(19,338)	(26,289)	(20,054)
Dividends	(g)	—	—	—
Loss per share	(h)			
— basic (cents per share)		(15.0)	(20.3)	(13.7)
— diluted (cents per share)		N/A	N/A	N/A

Notes:

(a) Revenue

Revenue represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts. An analysis of the Group's revenue for the Relevant Periods is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Revenue from the sale of gold	20,044	11,024	8,695

(b) Other income

	Year ended 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Interest received	2,076	1,019	1,516
Management fees	55	24	—
Gain on sale of the Jianchaling Gold Mine *(Note)*	—	—	2,129
Others	258	290	317
	2,389	1,333	3,962

Note: Pursuant to a sale and purchase agreement effective on 30 September 2006, the Company disposed of its equity interests in Jianchaling Gold Mine, a gold mine located in Shaanxi, the PRC, for a consideration of RMB12 million (A$2.0 million), resulting in a gain on disposal of A$2.1 million. During 2006, RMB7 million of the consideration was received in the form of specialised mining assets which were purchased for the Jinfeng joint venture. The remaining RMB5 million is due 180 days following the effective date of the agreement. This balance is non-interest bearing.

(c) Loss before tax

Loss before tax is arrived at after charging/(crediting):

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	**A$000**	**A$000**	**A$000**
Cost of inventories recognised as an expense		24,455	16,642	7,803
Depreciation and amortisation	3(a)	7,224	6,320	79
Operating lease rentals		227	263	250
Provision/(reversal of provision) for restoration and rehabilitation	3(k)	622	—	—
Provision for employee entitlements	3(n)	38	60	78
Auditors' remuneration		109	90	571
Employee benefits expenses (including directors' remuneration — *Note 2(d)*), analysed into:				
— wages and salaries		5,423	3,567	4,261
— equity-settled share option expense	6	445	568	1,296
— pension scheme contributions		675	592	541
		6,543	4,727	6,098
Gains on gold hedging **(Note i)*		(28)	—	—
Mine property and equipment written off*	3(a)	10,865	4,735	—
Exploration and evaluation costs written off*	3(c)	2,251	—	—
Fair value losses/(gains) on option derivatives **(Note ii)*		(1,618)	7,863	11,421
Foreign exchange gains, net*		(291)	(182)	(962)

Notes: * Items included in "other operating expenses" in the consolidated income statement.

(i) The Group qualified for hedge accounting from 1 January 2005. Prior to this the Group did not have the necessary documentation requirements in place to qualify for hedge accounting. As such, according to the accounting policy described in note 1(o), all fair value movements in the gold forward derivatives up to 1 January 2005 are recorded directly in the income statement. Thereafter, all fair value movements have been recorded in equity.

(ii) In accordance with the accounting policy described in note 1(l), the fair value of options granted to seed investors that are denominated in a foreign currency are treated as derivative liabilities. As such, these options are recorded at fair value with any movements in fair value being recorded in the income statement. From March 2005, being the date when the Company issued a US$ convertible note, the functional currency of the Company was deemed to be US$. Therefore, from this date, all Australian dollar denominated options issued to seed investors were considered as derivative liabilities.

(d) Directors' and senior executives' emoluments

Details of the remuneration of directors during the Relevant Periods are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Fees	268	324	389
Other emoluments:			
Salaries, allowances and benefits in kind	1,272	1,256	983
Performance related bonuses	80	135	275
Retirement benefits	—	360	—
Employee share option benefits	314	285	535
Pension scheme contributions	130	101	152
	2,064	2,461	2,334

During the Relevant Periods, certain directors were granted share options in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 3(i) to the Accountants' Report. The fair value of such options, which has been amortised to the income statement, was determined as at the date of grant and included in the above directors' remuneration disclosure.

The name of the directors of the Company and their remuneration for the Relevant Periods are as follows:

	Fees	**Salaries, allowances and benefits in kind**	**Performance related bonuses**	**Retirement benefits**	**Employee share option benefits**	**Pension scheme contributions**	**Total remuneration**
	A$000	**A$000**	**A$000**	**A$000**	**A$000**	**A$000**	**A$000**
Year ended 31 December							
2004							
Executive directors:							
N Curtis	—	331	—	—	85	29	445
J Klein	—	585	40	—	85	45	755
H Xu	—	356	40	—	60	23	479
	—	1,272	80	—	230	97	1,679
Non-executive directors:							
P Cassidy	69	—	—	—	25	6	100
B Davidson	55	—	—	—	25	20	100
J Askew	75	—	—	—	25	—	100
J Zhong	52	—	—	—	—	5	57
D Zhang (retired on 19 March 2004)	17	—	—	—	9	2	28
	268	—	—	—	84	33	385
Total	268	1,272	80	—	314	130	2,064

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Retirement benefits	Employee share option benefits	Pension scheme contributions	Total remuneration
	A$000	A$000	A$000	A$000	A$000	A$000	A$000
2005							
Executive directors:							
N Curtis (retired on 10 November 2005)	—	310	—	360	76	20	766
J Klein	—	590	75	—	76	45	786
H Xu	—	356	60	—	54	23	493
	—	1,256	135	360	206	88	2,045
Non-executive directors:							
P Cassidy	108	—	—	—	22	4	134
B Davidson	72	—	—	—	22	3	97
J Askew	75	—	—	—	22	—	97
J Zhong	69	—	—	—	13	6	88
	324	—	—	—	79	13	416
Total	324	1,256	135	360	285	101	2,461
2006							
Executive directors:							
J Klein	—	608	150	—	309	47	1,114
H Xu	—	375	125	—	189	24	713
	—	983	275	—	498	71	1,827
Non-executive directors:							
P Cassidy	131	—	—	—	8	31	170
B Davidson	85	—	—	—	8	—	93
J Askew	95	—	—	—	8	—	103
J Zhong	78	—	—	—	13	7	98
P. Housden (appointed on 22 June 2006)	—	—	—	—	—	43	43
	389	—	—	—	37	81	507
Total	389	983	275	—	535	152	2,334

The number of directors whose remuneration fell within the following band is as follows:

	Year ended 31 December		
	2004	2005	2006
	Number of individuals	Number of individuals	Number of individuals
Nil to HK$1,000,000	5	4	4
HK$1,000,001 to HK$1,500,000	—	—	1
HK$1,500,001 to HK$2,000,000	—	—	—
HK$2,000,001 to HK$2,500,000	—	—	—
HK$2,500,001 to HK$3,000,000	2	1	—
HK$3,000,001 to HK$3,500,000	—	—	—
HK$3,500,001 to HK$4,000,000	1	—	—
HK$4,000,001 to HK$4,500,000	—	2	1
HK$6,500,001 to HK$7,000,000	—	—	1

The five highest paid employees of the Group during the Relevant Periods include three (2006: two) directors.

The remuneration paid to the remaining two (2006: three) non-directors, highest paid employees is as follows:

	Year ended 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Salaries, allowances and benefits in kind	531	395	682
Performance related bonuses	15	90	235
Employee share option benefits	34	76	110
Pension scheme contributions	54	65	243
	634	626	1,270

The number of the remaining non-director, highest paid employees, whose remuneration fell within the following bands are as follows:

	Year ended 31 December		
	2004	2005	2006
	Number of individuals	Number of individuals	Number of individuals
HK$1,500,001 to HK$2,000,000	1	1	—
HK$2,000,001 to HK$2,500,000	1	1	—
HK$2,500,001 to HK$3,000,000	—	—	2
HK$3,500,001 to HK$4,000,000	—	—	1

During the Relevant Periods, no emoluments were paid by the Group to any of the persons who are 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. None of the persons who are directors of the Company waived or agreed to waive any emoluments during the Relevant Periods.

The following table details the number of options granted to and held by directors during the Relevant Periods.

	Balance at 1 Jan	Number of options granted as remuneration	Options exercised	Forfeited/ transferred to "Options to employees" upon retirement	Balance at 31 Dec
2004					
N Curtis	300,000	100,000	—	—	400,000
P Cassidy	120,000	20,000	—	—	140,000
J Klein	300,000	100,000	—	—	400,000
H Xu	200,000	75,000	—	—	275,000
B Davidson	120,000	20,000	—	—	140,000
J Askew	120,000	20,000	—	—	140,000
D Zhang (retired)	120,000	—	—	(120,000)	—
	1,280,000	335,000	—	(120,000)	1,495,000
2005					
N Curtis (retired)	400,000	—	—	(400,000)	—
P Cassidy	140,000	—	—	—	140,000
J Klein	400,000	150,000	—	—	550,000
H Xu	275,000	100,000	—	—	375,000
B Davidson	140,000	—	—	—	140,000
J Askew	140,000	—	—	—	140,000
J Zhong	—	120,000	—	—	120,000
	1,495,000	370,000	—	(400,000)	1,465,000
2006					
P Cassidy	140,000	—	—	—	140,000
J Klein	550,000	500,000	—	—	1,050,000
H Xu	375,000	300,000	(200,000)	—	475,000
B Davidson	140,000	—	(120,000)	—	20,000
J Askew	140,000	—	—	—	140,000
J Zhong	120,000	—	—	—	120,000
	1,465,000	800,000	(320,000)	—	1,945,000

(e) Finance costs

	Year ended 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Interest on related party's loans *(Note 10(i))*	193	78	—
Interest on bank loans	—	—	2,817
Unwinding of discount on joint venture liability *(Note)*	180	37	—
Interest on convertible notes	—	2,388	3,359
	373	2,503	6,176

Note: Being unwinding of discount on the amount owing to the minority shareholder of Shaanxi Australia Sino Mining Limited which operates the Jianchaling Gold Mine. Please refer to note 3(m) for details.

(f) Tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it did not have assessable income currently arising in Hong Kong during the Relevant Periods.

A reconciliation of the income tax expense applicable to loss before tax at the statutory income tax rate to income tax expense at the Group's effective tax rate, and a reconciliation of the statutory income tax rate to the effective tax rate, for each of the Relevant Periods, are as follows:

	Year ended 31 December					
	2004		2005		2006	
	A$000	%	A$000	%	A$000	%
Loss before tax	(19,338)		(26,289)		(20,054)	
At the Australian statutory tax rate	(5,801)	(30.0)	(7,887)	(30.0)	(6,016)	(30.0)
Overseas tax rate differential	531	2.7	625	2.4	—	—
Capital expenses	120	0.6	—	—	—	—
Deferred tax assets not recognised	5,150	26.7	7,262	27.6	6,016	30.0
	—		—		—	

At 31 December 2006, the Group and the Company has tax losses arising in Australia of A$34,970,000 (2005: A$31,790,000; 2004: A$4,230,000). Deferred tax assets have not been recognised in respect of these tax losses as they may not be used to offset taxable profits elsewhere in the Group and they have arisen in companies that have been loss-making for some time.

(g) Dividends

The Company has not paid or declared any dividends during the Relevant Periods.

(h) Loss per share

The calculations of the basic loss per share are as follows:

	Year ended 31 December		
	2004	2005	2006
Loss			
Net loss attributable to equity holders of the parent (A$000)	(19,338)	(26,289)	(20,054)
Shares			
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	129,176,859	129,474,315	146,168,242

No diluted loss per share amounts have been presented for the years ended 31 December 2004, 2005 and 2006 because the share options and convertible notes outstanding had an anti-dilutive effect on the basic loss per share for these years.

3. BALANCE SHEETS

Set out below is a summary of the consolidated balance sheets of the Group and the balance sheets of the Company as at the end of each of the Relevant Periods:

Group

		As at 31 December		
		2004	2005	2006
	Notes	A$000	A$000	A$000
ASSETS				
Non-current assets				
Property, plant and equipment	(a)	10,045	339	226
Other receivables	(b)	4,442	4,916	3,067
Deferred exploration, evaluation and development costs	(c)	37,339	102,868	240,074
		51,826	108,123	243,367
Current assets				
Inventories	(e)	2,270	2,211	1,412
Other receivables	(f)	2,515	1,384	2,550
Other current assets	(g)	1,502	438	6,967
Cash and cash equivalents	(h)	35,692	28,769	21,505
		41,979	32,802	32,434
TOTAL ASSETS		93,805	140,925	275,801
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	(i)	96,282	101,949	168,259
Convertible note — equity component	6	—	3,228	3,228
Accumulated losses	6	(10,192)	(36,481)	(56,535)
Other reserves	6	(17,028)	(40,013)	(95,113)
		69,062	28,683	19,839
Minority interests	6	3,708	11,491	34,074
Total equity		72,770	40,174	53,913
Non-current liabilities				
Interest-bearing bank and other loans	(j)	—	45,883	89,899
Provision for restoration and rehabilitation	(k)	2,104	1,984	—
Derivatives	(l)	8,797	38,309	71,138
		10,901	86,176	161,037
Current liabilities				
Trade and other payables	(m)	7,063	14,008	25,258
Provisions	(n)	507	567	645
Interest-bearing bank and other loans	(j)	2,564	—	9,743
Derivatives	(l)	—	—	25,205
		10,134	14,575	60,851
Total liabilities		21,035	100,751	221,888
TOTAL EQUITY AND LIABILITIES		93,805	140,925	275,801

Company

	Notes	As at 31 December 2004 A$000	2005 A$000	2006 A$000
ASSETS				
Non-current assets				
Property, plant and equipment	(a)	376	339	226
Other receivables	(b)	57,827	37,931	83,304
Investments in subsidiaries	(d)	12,286	50,585	55,116
		70,489	88,855	138,646
Current assets				
Other receivables	(f)	2,090	676	1,735
Other current assets	(g)	67	226	6,967
Cash and cash equivalents	(h)	11,243	14,565	19,119
		13,400	15,467	27,821
TOTAL ASSETS		83,889	104,322	166,467
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share Capital	(i)	96,282	101,949	168,259
Convertible note — equity component	6	—	3,228	3,228
Accumulated losses	6	(25,476)	(61,211)	(64,385)
Other reserves	6	631	(25,626)	(87,938)
Total equity		71,437	18,340	19,164
Non-current liabilities				
Interest-bearing bank and other loans	(j)	—	45,883	41,826
Derivatives	(l)	8,797	38,309	71,138
		8,797	84,192	112,964
Current liabilities				
Trade and other payables	(m)	584	1,223	7,803
Provisions	(n)	507	567	645
Interest-bearing bank and other loans	(j)	2,564	—	686
Derivatives	(l)	—	—	25,205
		3,655	1,790	34,339
Total liabilities		12,452	85,982	147,303
TOTAL EQUITY AND LIABILITIES		83,889	104,322	166,467

Notes:

(a) Property, plant and equipment

Group

	Leasehold improvements A$000	Plant & equipment A$000	Mine properties and equipment A$000	Mining rights A$000	Total A$000
Cost:					
At 1 January 2004	36	476	39,997	4,802	45,311
Additions	40	67	4,574	—	4,681
Write-off*	—	—	(10,865)*	—	(10,865)
Impact of foreign exchange movements	1	19	(708)	(184)	(872)
Transfers *(Note 3(c))*	—	—	3,040	—	3,040
At 31 December 2004	77	562	36,038	4,618	41,295
Impact of foreign exchange movements	—	(1)	1,315	—	1,314
Write-off*	—	—	(37,353)'*	(4,618)	(41,971)
At 31 December 2005	77	561	—	—	638
Additions	—	108	—	—	108
Disposals	—	(142)	—	—	(142)
Impact of foreign exchange movements	—	—	—	—	—
At 31 December 2006	77	527	—	—	604
Accumulated depreciation:					
At 1 January 2004	(28)	(188)	(21,156)	(2,748)	(24,120)
Provided during the year	(9)	(65)	(5,751)	(1,399)	(7,224)
Impact of foreign exchange movements	—	27	(120)	187	94
At 31 December 2004	(37)	(226)	(27,027)	(3,960)	(31,250)
Provided during the year	(11)	(60)	(5,591)	(658)	(6,320)
Write-off*	—	—	32,618	4,618	37,236
Impact of foreign exchange movements	6	29	—	—	35
At 31 December 2005	(42)	(257)	—	—	(299)
Provided during the year	(11)	(68)	—	—	(79)
At 31 December 2006	(53)	(325)	—	—	(378)
Net book value:					
At 31 December 2004	40	336	9,011	658	10,045
At 31 December 2005	35	304	—	—	339
At 31 December 2006	24	202	—	—	226

* The book value of mine properties and equipment located at Jianchaling mine was written off during 2005 following a revised estimate of the residual value of the mine.

Company

	Leasehold improvements A$000	Plant & equipment A$000	Total A$000
Cost:			
At 1 January 2004	37	495	532
Additions	40	67	107
At 31 December 2004	77	562	639
Additions	—	—	—
At 31 December 2005	77	562	639
Additions	—	107	107
Disposals	—	(142)	(142)
At 31 December 2006	77	527	604
Accumulated depreciation:			
At 1 January 2004	(27)	(162)	(189)
Provided during the year	(9)	(65)	(74)
At 31 December 2004	(36)	(227)	(263)
Provided during the year	(11)	(60)	(71)
Impact of foreign exchange movements	6	28	34
At 31 December 2005	(41)	(259)	(300)
Provided during the year	(12)	(66)	(78)
At 31 December 2006	(53)	(325)	(378)
Net book value:			
At 31 December 2004	41	335	376
At 31 December 2005	36	303	339
At 31 December 2006	24	202	226

(b) Non-current other receivables

Group

	As at 31 December		
	2004 A$000	2005 A$000	2006 A$000
Employee loans *(Note (i))*	2,881	2,817	2,423
Amounts due from sale of non-current assets *(Note (ii))*	1,561	1,195	644
Debt establishment costs *(Note (iii))*	—	904	—
	4,442	4,916	3,067

Company

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Employee loans *(Note (i))*	2,881	2,817	2,423
Amounts due from the sale of non-current assets *(Note (ii))*	1,561	1,195	644
Debt establishment costs *(Note (iii))*	—	904	—
Due from subsidiaries *(Note (iv))*	53,385	40,315	80,237
	57,827	45,231	83,304
Less: Impairment	—	(7,300)	—
	57,827	37,931	83,304

Notes:

(i) The Company had established the Employee Share Incentive Scheme (the "ESIS"). The ESIS provided loans to employees for the purpose of purchasing shares in the Company. No interest is paid on the loans. Each loan is for 10 years and the outstanding balance of the loan to each director or non-director is payable within three months of a transfer of the shares issued under the ESIS or the date the director or non-director ceases to be an employee of the Company. The loan is secured over the shares. If an employee does not repay the loan, the shares will revert back to the Company. The ESIS shares rank equally with ordinary shares in respect of dividend entitlements with half of all cash dividends declared by the Company being credited towards repaying the loans. On 28 August 2002 the Directors resolved that no further shares would be issued under the ESIS.

Movement of the employee loans under the ESIS is disclosed in note 3(i)(b).

(ii) Being the amount arising from the sale of the Tanjiashan project. In 2003, the Group disposed of its equity interests in the Tanjiashan project, a gold mine located in Qinghai, the PRC to Afcan Mining Corporation ("Afcan"), a Canadian listed company. Under the sale and purchase agreement, the consideration for the sale was US$2.7 million to be received by instalment between 2004 and 2009 and in Afcan shares. The gain on the sale amounted to US$2.6 million (A$3.5 million). Subsequently, during 2005, the Company sold its Afcan shares realising a further gain of US$1.1 million (A$1.5 million).

(iii) Being the debt establishment costs paid to Standard Bank Plc which acted as an arranger for the preparation, execution and completion of the syndicated loan facilities granted to the Group relating to the Jinfeng project facility. These costs were reclassified to offset the amount of debt drawn down in 2006. The costs are being amortised over the life of the loan using the effective interest method. The amortisation expense is included in finance costs on the face of the consolidated income statement.

(iv) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these balances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of these amounts due from subsidiaries approximated to their fair values.

(c) Deferred exploration, evaluation and mining operation development costs

Group

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Deferred exploration and evaluation costs	31,698	52,144	104,899
Capitalised development costs*	5,641	50,724	135,175
	37,339	102,868	240,074

	Deferred exploration and evaluation costs	Mining operation development costs
	A$000	**A$000**
At 1 January 2004	26,858	—
Additions	11,031	5,801
Transfer to property, plant and equipment *(Note 3(a))*	(3,040)	—
Write-off**	(2,251)	—
Impact of foreign exchange movements	(900)	(160)
At 31 December 2004 and 1 January 2005	31,698	5,641
Additions	19,405	44,071
Impact of foreign exchange movements	1,041	1,012
At 31 December 2005 and 1 January 2006	52,144	50,724
Additions	55,942	88,558
Impact of foreign exchange movements	(3,187)	(4,107)
At 31 December 2006	104,899	135,175

* Relate to the construction and development of the Jinfeng project which is the Company's gold mine project in Guizhou, the PRC.

** Relates to the write-off of the Jinkang project, a gold mine located in Sichuan, the PRC, which was relinquished during the year.

(d) Investments in subsidiaries

Company

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Unlisted shares, at cost	12,286	62,871	55,116
Less: Impairment	—	(12,286)	—
	12,286	50,585	55,116

(e) Inventories

Group

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Gold in circuit and in transit	349	248	—
Ore stockpiles	267	491	145
Consumable stores and spares	2,047	1,887	1,267
	2,663	2,626	1,412
Less: Provision	(393)	(415)	—
	2,270	2,211	1,412

(f) Other receivables

Group

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Deposits	49	10	—
Amounts due arising from the sale of non-current assets *(Notes 2(b) and 3(b)(ii))*	1,654	544	1,315
Others	812	830	1,235
	2,515	1,384	2,550

Company

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Amounts due from sale of non-current assets *(Notes 2(b) and 3(b)(ii))*	1,654	544	1,315
Others	436	132	420
	2,090	676	1,735

(g) Other current assets

Group

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Prepayments	274	438	622
Prepaid and accrued listing costs	—	—	6,345
Advance payment for ore purchases*	1,228	—	—
	1,502	438	6,967

* The amount was written off in 2005.

Company

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Prepayments	67	226	622
Prepaid and accrued listing costs	—	—	6,345
	67	226	6,967

(h) Cash and cash equivalents

Group

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Cash and bank balances *(note)*	35,692	28,769	21,505

Company

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Cash and bank balances *(note)*	11,243	14,565	19,119

Note: Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash as at 31 December 2006 includes A$12 million held in term deposits. The Group is restricted form using this cash which represents security for a loan provided by the China Construction Bank to the Jinfeng project.

As at 31 December 2006, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to A$2,132,000 (2005: A$3,965,000; 2004: A$2,272,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(i) Share capital

(a) Movement in the Company's paid-up registered capital during the Relevant Periods are as follows:

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	**A$000**	**A$000**	**A$000**
At beginning of year		95,707	96,282	101,949
Private placement	(i)	—	—	61,050
Share purchase plan	(ii)	522	—	2,481
Share issue costs		(133)	(158)	(3,685)
Exercise of options	(iii)	186	5,825	6,464
At end of year		96,282	101,949	168,259

Notes:

(i) In February 2006, the Company completed a share placement with the issue of 18,500,000 ordinary shares at A$3.30 with total of A$61,050,000.

(ii) In 2004, the Company allotted 241,922 ordinary shares at A$2.16 per share pursuant to the terms of the Share Purchase Plan ("Plan 1") which was closed on 5 March 2004. Shares were issued under Plan 1 at a price based on 90% of the weighted average share price for the five business days preceding the issue date and was offered to existing shareholders only.

In 2006, the Company allotted 752,097 ordinary shares at A$3.30 per share pursuant to the terms of another Share Purchase Plan ("Plan 2") which closed on 5 April 2006. Shares were issued under Plan 2 at a price based on 90% of the weighted average share price for the five business days preceding the issue date and was offered to existing shareholders only.

(iii) In 2004, 155,000 ordinary shares were allotted as a result of the exercise of options at A$1.20 each pursuant to the EOP. In 2005, 2,200,000 ordinary shares were issued to seed inventors as a result of the exercise of options. The market value of the shares as at the grant date was A$5,825,000. In 2006, 2,365,000 options were exercised as detailed in note 3(i)(b) below from which the Company received a total of A$2,503,000. In addition, the fair value of the seed options exercised during the year was A$3,961,000, which was transferred from derivatives, resulting in a total increase in the issued capital of A$6,464,000.

(b) ***Share options***

The Company operates the EOP for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the EOP include the Company's directors and other employees of the Group. The maximum number of unexercised share options currently permitted to be granted under the EOP is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. There is no maximum entitlement for each participant and the entitlement for each participant is at the discretion of the board of directors. The exercise period of the share options granted commences after vesting period of three years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Scheme, if earlier. The exercise price of share options is the weighted average price of the shares on the ASX over the five trading days prior to the date of offer of the options.

The following table illustrates the number of and movements in share options during the Relevant Periods:

	Year ended 31 December		
	2004	2005	2006
	Number of options	Number of options	Number of options
Outstanding at beginning of year	10,257,776	10,621,776	10,656,776
Granted during the year	579,000	2,485,000	2,655,000
Exercised during the year	(155,000)	(2,200,000)	(2,365,000)
Forfeited during the year	(60,000)	(250,000)	—
Outstanding at end of year	10,621,776	10,656,776	10,946,776
Exercisable at end of year	8,377,776	8,152,776	6,371,776
Weighted average fair value of options at grant date	1.27	0.94	1.47
Weighted average share price of the Company at the date of exercise of options	2.22	2.67	3.53

The following share options were outstanding during the Relevant Periods:

	As at 1 Jan 2004		during 2004			As at 31 Dec 04		during 2005				As at 31 Dec 05		during 2006		As at 31 Dec 06		Expiry date
	Number	exercise price	granted	exercised	forfeited	Number	exercise price	granted	exercised	forfeited	transferred	Number	exercise price	granted	exercised	Number	exercise price	
Seed investors	1,350,000*	A$1.00	—	—	—	1,350,000	A$1.00	—	—	—	—	1,350,000	A$1.00	—	—	1,350,000	A$1.00	11/10/2007
	2,700,000*	A$1.00	—	—	—	2,700,000	A$1.00	—	(1,000,000)	—	—	1,700,000	A$1.00	—	(1,700,000)	—	—	N/A
	1,777,776*	US$0.5625	—	—	—	1,777,776	US$0.5625	—	—	—	—	1,777,776	US$0.5625	—	—	1,777,776	US$0.5625	21/10/2007
	1,200,000*	A$1.50	—	—	—	1,200,000	A$1.50	—	(1,200,000)	—	—	—	—	—	—	—	—	N/A
	1,350,000*	A$1.00	—	—	—	1,350,000	A$1.00	—	—	—	—	1,350,000	A$1.00	—	—	1,350,000	A$1.00	21/10/2007
	—	—	—	—	—	—	—	500,000	—	—	—	500,000	A$2.53	—	—	500,000	A$2.53	16/9/2010
Directors	1,280,000*	A$1.00	—	—	(60,000)	1,220,000	A$1.00	—	—	—	(60,000)	1,160,000	A$1.00	—	(320,000)	840,000	A$1.00	14/10/2007
	—	—	335,000	—	—	335,000	A$2.69	—	—	—	—	335,000	A$2.69	—	—	335,000	A$2.69	31/12/2008
	—	—	—	—	—	—	—	370,000	—	—	—	370,000	A$2.00	—	—	370,000	A$2.00	31/12/2009
	—	—	—	—	—	—	—	—	—	—	—	—	—	800,000	—	800,000	A$3.29	31/12/2010
Employees	—	—	—	—	—	—	—	—	—	—	60,000	60,000	A$1.00	—	(60,000)	—	—	N/A
	440,000*	A$1.20	—	(155,000)	—	285,000	A$1.20	—	—	(30,000)	—	255,000	A$1.20	—	(180,000)	75,000	A$1.20	31/12/2007
	40,000**	A$1.85	—	—	—	40,000	A$1.85	—	—	—	—	40,000	A$1.85	—	(40,000)	—	—	N/A
	80,000**	A$1.85	—	—	—	80,000	A$1.85	—	—	(80,000)	—	—	—	—	—	—	—	N/A
	40,000**	A$1.85	—	—	—	40,000	A$1.85	—	—	(40,000)	—	—	—	—	—	—	—	N/A
	—	—	40,000	—	—	40,000	A$2.51	—	—	(40,000)	—	—	—	—	—	—	—	N/A
	—	—	204,000	—	—	204,000	A$2.69	—	—	(60,000)	—	144,000	A$2.69	—	—	144,000	A$2.69	31/12/2008
	—	—	—	—	—	—	—	150,000	—	—	—	150,000	A$2.06	—	—	150,000	A$2.06	15/10/2009
	—	—	—	—	—	—	—	50,000	—	—	—	50,000	A$2.12	—	(25,000)	25,000	A$2.12	27/10/2009
	—	—	—	—	—	—	—	80,000	—	—	—	80,000	A$2.08	—	—	80,000	A$2.08	15/12/2009
	—	—	—	—	—	—	—	355,000	—	—	—	355,000	A$2.00	—	(40,000)	315,000	A$2.00	31/12/2009
	—	—	—	—	—	—	—	980,000	—	—	—	980,000	A$3.29	—	—	980,000	A$3.29	31/12/2010
	—	—	—	—	—	—	—	—	—	—	—	—	—	150,000	—	150,000	A$3.81	6/3/2010
	—	—	—	—	—	—	—	—	—	—	—	—	—	40,000	—	40,000	A$4.88	3/6/2011
	—	—	—	—	—	—	—	—	—	—	—	—	—	1,665,000	—	1,665,000	A$6.50	31/3/2010
	10,257,776		**579,000**	**(155,000)**	**(60,000)**	**10,621,776**		**2,485,000**	**(2,200,000)**	**(250,000)**	**—**	**10,656,776**		**2,655,000**	**(2,365,000)**	**10,946,776**		

* *Granted during 2002*

** *Granted during 2003*

The fair value of equity-settled share options granted during the Relevant Periods was estimated as at the date of grant using a Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used during the Relevant Periods:

	Year ended 31 December		
	2004	**2005**	**2006**
Expected volatility (%)	40%	40%	45%
Historical volatility (%)	40%	40%	45%
Risk-free interest rate (%)	5.7%	5.7%	6.5%
Expected life of options (years)	5	5	5

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The Company has established the ESIS (Note 3(b)(i)) and the Executive and Employee Option Plan (the "EOP").

In addition, the Company has also granted options to various seed investors in October 2002, immediately prior to the Company's initial public offering. The options vest immediately and can be exercised at any time within five years from the date of issue (except for a parcel of 1.2 million options which can only be exercised within three years from the issue date). On 16 September 2005, a further 500,000 options were granted to Standard Bank as part of the debt facility fee.

ESIS:

Details of movements of shares issued pursuant to the ESIS are as follows:

	Number of shares	**Employee loans outstanding**
		A$000s
Balance at 1 January 2004	6,629,226	3,100
Loan repayments	(545,000)	(219)
Balance at 31 December 2004 and 1 January 2005	6,084,226	2,881
Loan repayments	(34,000)	(64)
Balance at 31 December 2005 and 1 January 2006	6,050,226	2,817
Loan repayments	(676,000)	(394)
Balance at 31 December 2006	5,374,226	2,423

The following table details the loans granted to directors under the ESIS plan:

	Number of shares		Loans outstanding	
	J Klein	H Xu	J Klein	H Xu
			A$000s	A$000s
Balance at 31 December 2004, 2005 and 2006	2,500,000	900,000	1,149	414

There was no movement in the balances of loans granted to directors during the Relevant Periods.

EOP:

Pursuant to the EOP, no money is payable for the issue of the options and the exercise price is the weighted average price of the Company's shares on the Australian Stock Exchange Limited over the five trading days prior to the date of offer of the options. The options expire five years after they are issued and may only be exercised three years after they are issued or such other periods as the board of directors may determine. The total number of options over unissued shares that may be issued under the EOP, which added to the number of shares or options issued under all other employee or executive share or option plans of the Company must not exceed 10% of the total number of shares in issue at any time.

The board remuneration committee determines, at its sole discretion, the number of options to be granted under the EOP. In addition, only employees at or above the senior manager level are eligible for the EOP.

(j) Interest-bearing bank and other loans

Group

		As at 31 December		
		2004	2005	2006
	Notes	A$000	A$000	A$000
Non-current:				
Secured bank loan	(i)	—	—	47,480
Other loans:				
Convertible notes	(ii)	—	43,372	39,998
Deferred option premium	(iii)	—	2,511	1,828
Finance lease liability		—	—	593
		—	45,883	42,419
		—	45,883	89,899
Current:				
Secured bank loan	(i)	—	—	8,908
Unsecured loan	(iv)	2,564	—	—
Deferred option premium	(iii)	—	—	686
Finance lease liability		—	—	149
		2,564	—	9,743
		2,564	45,883	99,642

	As at 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Analysed into:			
Bank loan repayable:			
Within one year	—	—	8,908
In the second year	—	—	11,320
In the third to fifth years, inclusive	—	—	29,428
Beyond five years	—	—	6,732
	—	—	56,388
Other loans repayable:			
Within one year	2,564	—	835
In the second year	—	685	1,062
In the third to fifth years, inclusive	—	1,826	1,359
Beyond five years	—	43,372	39,998
	2,564	45,883	43,254
	2,564	45,883	99,642

Company

		As at 31 December		
		2004	2005	2006
	Notes	A$000	A$000	A$000
Non-current:				
Other loans:				
Convertible notes	(ii)	—	43,372	39,998
Deferred option premium	(iii)	—	2,511	1,828
		—	45,883	41,826
Current:				
Unsecured loan	(iv)	2,564	—	—
Deferred option premium	(iii)	—	—	686
		2,564	—	686
		2,564	45,883	42,512
Analysed into:				
Other loans repayable:				
Within one year		2,564	—	686
In the second year		—	685	914
In the third to fifth years, inclusive		—	1,826	914
Beyond five years		—	43,372	39,998
		2,564	45,883	42,512

Notes:

(i) This financing facility is arranged and jointly underwritten by Standard Bank London Limited and Bayerlisch Hypo-und Vereinsbank AG for US$40 million plus US$2 million capitalised interest with a 7-year term including a 2-year grace period and is subject to terms and conditions normally expected for a facility of this type. Interest rate is LIBOR plus 3.25% margin pre-financial completion and 2.75% margin after financial completion. At 31 December 2006, the amount drawn down on the facility was US$40.31 million (equivalent to A$50.95 million).

The facility is secured against the following:

— mortgage on all present and future immovable assets in the project;

— pledge over all present and future movable equipment in the project;

— pledge over the projects' land use rights, mining licence, exploration licence and operating permits; and

— pledge over all material project contracts.

In addition, the Company and Sino Mining Guizhou Pty Limited has guaranteed until completion of the project construction, a first ranking charge over all shares of the Company in Sino Mining Guizhou Pty Limited and a first ranking pledge of the interest of Sino Mining Guizhou Pty Limited in the borrower.

Also included in this balance is a separate loan from the China Construction bank for A$6.8 million to the Jinfeng project. This loan is secured over cash placed in term deposit accounts by Sino Gold Mining Limited.

The interest rate for this loan is based on a 5% discount to the Chinese People's Bank indicated working capital loan interest which is currently 5.814%. The term of the loan is 12 months.

(ii) On 15 March 2005, the Company issued 35,000 convertible notes with a nominal value of US$1,000 each raising a total of US$35 million. The notes are seven-year convertible notes maturing in March 2012. Interest is payable on the notes at the rate of 5.75% per annum. The price for conversion of the notes into ordinary shares in the Company is A$2.89 per share. The Company also has access to a further US$20 million under the Convertible Note "tap facility".

The fair value of the liability component was estimated at the issue date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in the shareholders' equity. The net proceeds received from the issue of the convertible bonds were split between the liability (US$32.54 million) and equity (US$2.46 million). The liability was measured based on an interest rate of 7% p.a. for an equivalent debt instrument with no conversion option.

At balance sheet date, the carrying value of convertible notes approximated to its fair value.

(iii) The balance relates to option premium on gold put options (refer to note 3(l)). This premium has been deferred and is payable as the options mature.

(iv) The balance represents the loan made by Sino Mining International Limited, a shareholder, to the Company for US$2 million. The loan accrues interest at a rate of 7% p.a. only if the gold price exceeds US$325/ounce, otherwise the loan is interest-free. The balance is fully settled in 2005.

(k) Provision for restoration and rehabilitation

Group

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Restoration and rehabilitation	2,104	1,984	—
Carrying amount at beginning of year	1,513	2,104	1,984
Additional provision	622	—	—
Provision utilised	—	(205)	—
Provision reversed on the sale of the Jianchaling Gold Mine	—	—	(1,984)
Exchange realignment	(31)	85	—
Carrying amount at end of year	2,104	1,984	—

The restoration and rehabilitation provision represents management estimates of the restoration and exit costs of the Jianchaling Gold Mine.

(l) Derivatives

Group and Company

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Non-current:			
Fair value of gold derivatives	6,308	25,924	71,138
Fair value of options *(Note)*	2,489	12,385	—
	8,797	38,309	71,138
Current:			
Fair value of gold derivatives	—	—	5,360
Fair value of options *(Note)*	—	—	19,845
	—	—	25,205

Note: These options relate to the share options granted to seed investors which are denominated in Australian dollars (2004: United States dollars). These are accounted for as derivative liabilities in accordance with the accounting policy described in note 1(l).

The following is a summary of the Company's hedge position at the end of each of the Relevant Periods:

	As at 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Gold derivatives			
Fixed forwards:			
— ounces	—	150,000	335,000
— average price (US$/oz)	—	540.50	525.00
— maturity	—	2007–2012	2007–2012
Spot deferreds:			
— ounces	35,000	155,000	—
— average price (US$/oz)	293.93	446.05	—
Purchased put options:			
— ounces	—	204,000	204,000
— average price (US$/oz)	—	400.00	400.00
— maturity	—	2007–2009	2007–2009

The fair values of gold derivatives are determined by reference to quoted market price. The cash flow hedges of the expected future sale were assessed to be highly effective and the amounts included in equity were detailed as follows:

	2005	2006
	A$000	A$000
Total fair value losses included in the hedging reserve	21,765	52,550
Currency translation differences included in the foreign currency translation reserve	(2,149)	(1,976)
Movement in fair values of gold derivatives	19,616	50,574

In 2004, the gold derivatives were not qualified for hedge accounting. As such, no amount was recognised in the hedging reserve and fair value gains of A$28,000 were included in the consolidated income statement in 2004. Please refer to note 2(c)(i) for details.

In addition, the Company has granted share options to seed investors which are denominated in foreign currency and do not meet the criteria for hedge accounting. Fair value losses of non-hedging option derivatives amounting to A$11,421,000 were charged to the consolidated income statement in 2006 (2005: losses of A$7,863,000; 2004: gains of A$1,618,000). Please refer to note 3(i)(b) for the methods and significant assumptions applied in determining fair values of option derivatives.

(m) Trade and other payables

Group

	As at 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Trade creditors	860	283	142
Amount owing to SJMDC *(Note)*	1,538	504	—
Other creditors and accruals	4,665	13,221	25,116
	7,063	14,008	25,258

Company

	As at 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Other creditors and accruals	584	1,223	7,803

An aged analysis of the trade creditors as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

Group

	As at 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Within 3 months	807	251	142
3 to 6 months	53	32	—
	860	283	142

Note: Being the amount owing to the minority shareholder of Shaanxi Australia Sino Mining Limited which operates the Jianchaling Gold Mine. Under the joint venture agreement, the Group is entitled to 100% of the profits from the Jianchaling mine but is required to pay RMB10 million per annum for the first five years of the joint venture and RMB5 million per annum thereafter in return for the joint venture partners contribution of the mine properties. The liability represents the net present value of the remaining consideration, discounted at a rate of 10% p.a. The amount was fully settled during 2006.

(n) Current provisions

Group and Company

	As at 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Employee entitlements	507	567	645
Carrying amount at beginning of year	469	507	567
Additional provision	38	60	78
	507	567	645

The employee entitlement liability is composed of the provision for long service payment and annual leave. The Company and subsidiaries within the Group contribute to a superannuation fund, which exists to provide benefits for employees and their dependants in retirement, disability or death.

All Australian employees are entitled to varying levels of benefits on settlement, disability or death. The superannuation plans provide defined contributions by reference to accumulated contributions plus income from funds contributed. Contributions by the Group of up to 9% of the Australian employees' wages and salaries are legally enforceable in Australia.

The joint venture companies in Mainland China contribute on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in Mainland China. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the joint venture companies have no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(o) Commitments

Operating lease commitments

Group

	As at 31 December		
	2004	**2005**	**2006**
	A$000	**A$000**	**A$000**
Within 1 year	199	298	267
After 1 year but not more than 2 years	203	72	566
After 2 years but not more than 5 years	68	—	613
	470	370	1,446

At each of the balance sheet date, the Company did not have any operating lease commitments.

Capital Commitments

The Group has entered into contracts and commitments in relation to the development and construction of Jinfeng project. As at 31 December 2006, the capital cost estimate was approximately US$95 million, of which approximately US$90 million had been incurred.

On 22 November 2006, the Company agreed to acquire 15,305,604 ordinary shares (representing its 19.9% equity interests) in Golden Tiger Mining ML at a consideration of A$1,531,000. The acquisition was completed in January 2007.

In addition, the Group has entered into several cooperative joint venture agreements in relation to the exploration of gold mines located in Mainland China. As at 31 December 2006, the Group's capital commitment in these joint venture companies is US$8.1 million.

4. FINANCIAL INSTRUMENTS

Financial assets of the Group mainly include cash and cash equivalents, other receivables and other current assets. Financial liabilities of the Group mainly include trade payables, other payables, interest-bearing bank and other loans and derivative financial instruments.

The carrying amounts of the Group's financial instruments approximated to their fair values as at the balance sheet date. Fair value estimates are made at a specific point in time and all based on the relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank and other loans and cash at banks. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as other receivables and trade and others payables, which arise directly from its operations.

The Group also enters into gold derivative transactions, including principally forward contracts and purchased put options. Gold derivatives are used to partly mitigate the Group's exposure to gold price movements.

It is, and has been, throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and commodity price risk. The directors reviews and approves policies for managing each of these risks and they are summarised below:

(i) Interest rate risk

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances and other interest-bearing loans. The Group's policy is to obtain the most favourable interest rates available. The Group has not used any derivatives to mitigate its interest rate risk exposure.

(ii) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of other interest-bearing loans. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The Group's surplus funds are also managed centrally by placing them with reputable financial institutions.

(iii) Credit risk

Credit risk arises mainly from the risk that counterparties defaulting on the terms of their agreements. The carrying amounts of cash and cash equivalents and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group minimise the concentration of credit risk to trade receivables by implementing strict receivable policies when undertaking transactions with customers operating within its industry, also by selling directly to a number of large institutions.

All gold derivatives have been taken out pursuant to the Company's approved project financing facility. The counterparty for all gold derivatives is Standard Bank Plc.

As at 31 December 2004, 2005 and 2006, there was no significant concentration of credit risk.

(iv) Commodity price risk

The Group is exposed to future movements in the price of gold. As part of its project financing for the Jinfeng mine, the Group was required to enter into gold forwards and options of 539,000 ounces of future production. These derivatives mature over the period from 2007 until 2012 and represent approximately two-thirds of annual production over this period. Further details are set out in note 3(l).

6. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The changes in the consolidated shareholders' equity of the Group for the Relevant Periods are as follows:

Group

		Attributable to members of the parent							
	Notes	Issued capital A$000	Convertible notes A$000	Retained profits/ (accumulated losses) A$000	Foreign currency translation reserve* *(Note (i))* A$000	Share-based payments reserve* *(Note (ii))* A$000	Derivative cash flow hedges reserve* *(Note (iii))* A$000	Minority interests A$000	Total A$000
As at 1 January 2004		95,707	—	9,146	(13,449)	186	—	—	91,590
Currency translation differences		—	—	—	(4,210)	—	—	—	(4,210)
Loss for the year		—	—	(19,338)	—	—	—	—	(19,338)
Allotment of new shares	3(i)	522	—	—	—	—	—	—	522
Share issue costs	3(i)	(133)	—	—	—	—	—	—	(133)
Exercise of options	3(i)	186	—	—	—	—	—	—	186
Share-based payments	2(c)	—	—	—	—	445	—	—	445
Transfer to retained earnings		—	—	—	—	—	—	—	—
Share of Jinfeng construction costs		—	—	—	—	—	—	3,708	3,708
As at 31 December 2004		96,282	—	(10,192)	(17,659)	631	—	3,708	72,770

	Notes	Issued capital	Convertible notes	Retained profits/ (accumulated losses)	Foreign currency translation reserve* (Note (i))	Share-based payments reserve* (Note (ii))	Derivative cash flow hedges reserve* (Note (iii))	Minority interests	Total
		Attributable to members of the parent							
		A$000	A$000	A$000	A$000	A$000	A$000	A$000	A$000
As at 1 January 2005		96,282	—	(10,192)	(17,659)	631	—	3,708	72,770
Currency translation differences		—	—	—	3,272	—	—	—	3,272
Movement in fair value of cash flow hedges		—	—	—	—	—	(21,765)	—	(21,765)
Loss for the year		—	—	(26,289)	—	—	—	—	(26,289)
Share issue costs	3(i)	(158)	—	—	—	—	—	—	(158)
Exercise of options	3(i)	5,825	—	—	—	—	—	—	5,825
Adjustment to seed option values		—	—	—	—	(5,060)	—	—	(5,060)
Issue of convertible notes	3(j)(ii)	—	3,228	—	—	—	—	—	3,228
Share-based payments	2(c)	—	—	—	—	568	—	—	568
Share of Jinfeng construction costs		—	—	—	—	—	—	7,783	7,783
As at 31 December 2005		101,949	3,228	(36,481)	(14,387)	(3,861)	(21,765)	11,491	40,174
As at 1 January 2006		101,949	3,228	(36,481)	(14,387)	(3,861)	(21,765)	11,491	40,174
Currency translation differences		—	—	—	(3,846)	—	—	—	(3,846)
Movement in fair value of cash flow hedges		—	—	—	—	—	(52,550)	—	(52,550)
Loss for the year		—	—	(20,054)	—	—	—	—	(20,054)
Allotment of new shares	3(i)	63,531	—	—	—	—	—	—	63,531
Share issue costs	3(i)	(3,685)	—	—	—	—	—	—	(3,685)
Exercise of options	3(i)	6,464	—	—	—	—	—	—	6,464
Share-based payments	2(c)	—	—	—	—	1,296	—	—	1,296
Share of Jinfeng construction costs		—	—	—	—	—	—	22,583	22,583
As at 31 December 2006		168,259	3,228	(56,535)	(18,233)	(2,565)	(74,315)	34,074	53,913

* *These reserve accounts comprise the consolidated reserves in the consolidated balance sheet.*

The changes in the shareholders' equity of the Company for the Relevant Periods are as follows:

Company

	Notes	Issued capital A$000	Convertible notes A$000	Accumulated losses A$000	Foreign currency translation reserve* *(Note (i))* A$000	Share-based payments reserve* *(Note (ii))* A$000	Derivative cash flow hedges reserve* *(Note (iii))* A$000	Total A$000
As at 1 January 2004		95,707	—	(24,605)	—	186	—	71,288
Loss for the year		—	—	(871)	—	—	—	(871)
Allotment of new shares	3(i)	522	—	—	—	—	—	522
Share issue costs	3(i)	(133)	—	—	—	—	—	(133)
Exercise of options	3(i)	186	—	—	—	—	—	186
Share-based payments		—	—	—	—	445	—	445
As at 31 December 2004		96,282	—	(25,476)	—	631	—	71,437
As at 1 January 2005		96,282	—	(25,476)	—	631	—	71,437
Movement in fair value of cash flow hedges		—	—	—	—	—	(21,765)	(21,765)
Loss for the year		—	—	(35,735)	—	—	—	(35,735)
Share issue costs	3(i)	(158)	—	—	—	—	—	(158)
Exercise of options	3(i)	5,825	—	—	—	—	—	5,825
Adjustment to seed option values		—	—	—	—	(5,060)	—	(5,060)
Issue of convertible notes	3(j)(ii)	—	3,228	—	—	—	—	3,228
Share-based payments		—	—	—	—	568	—	568
As at 31 December 2005		101,949	3,228	(61,211)	—	(3,861)	(21,765)	18,340
As at 1 January 2006		101,949	3,228	(61,211)	—	(3,861)	(21,765)	18,340
Currency translation differences		—	—	—	(11,058)	—	—	(11,058)
Movement in fair value of cash flow hedges		—	—	—	—	—	(52,550)	(52,550)
Loss for the year		—	—	(3,174)	—	—	—	(3,174)
Allotment of new shares	3(i)	63,531	—	—	—	—	—	63,531
Share issue costs	3(i)	(3,685)	—	—	—	—	—	(3,685)
Exercise of options	3(i)	6,464	—	—	—	—	—	6,464
Share-based payments		—	—	—	—	1,296	—	1,296
As at 31 December 2006		168,259	3,228	(64,385)	(11,058)	(2,565)	(74,315)	19,164

Under S.254T of the Corporations Act, dividends may only be paid out of profits of the Company. As there were no profits during the period, there is no amount recorded as a distributable reserve.

* These reserve accounts comprise the consolidated reserves in the balance sheet.

Notes:

(i) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of non-United States dollar functional entities into the United States dollar functional currency and the translation of functional currency into presentation currency.

(ii) Share-based payments reserve

The share based payments reserve is used to record: 1) the value of equity benefits provided to employees and directors as part of their remuneration; and 2) the movement in the value of functional currency denominated options granted to seed investors from the date such options are granted to the vesting date.

(iii) Derivative cash flow hedges reserve

This reserve is used to record the effective component of the fair value of all qualifying cash flow hedges at year end.

7. RECONCILIATION TO PREVIOUSLY AUDITED FINANCIAL STATEMENTS

Group

	As at 31 December		
	2004	2005	2006
	A$000	A$000	A$000
Equity per previously audited financial statements	78,077	52,559	53,913
Adjustments:			
— Fair value of gold derivatives*	(2,818)	—	—
— Fair value of options**	(2,489)	(12,385)	—
Adjusted equity	72,770	40,174	53,913
Loss per previously audited financial statements	(21,135)	(18,294)	(20,054)
Adjustments:			
— Fair value of gold derivatives*	345	—	—
— Fair value of options**	1,618	(7,863)	—
— Share-based payments***	(166)	(132)	—
Adjusted loss	(19,338)	(26,289)	(20,054)

* Under Australian equivalents to International Financial Reporting Standards ("AIFRS"), AASB139: "Financial Instruments: Recognition and Measurement" was only applicable from 1 January 2005 and could only be applied on a prospective basis. AASB139 contains strict documentation requirements in order for entity's to achieve hedge accounting. Under the Australian Accounting Standards applicable prior to 1 January 2005, there were no such documentation requirements. The financial information presented has been prepared on the basis that IFRS applies in full retrospectively. Accordingly, the Group does not qualify for hedge accounting prior to 1 January 2005 due to the documentation requirements of IAS39 not being met. However, the previously published financial statements have been prepared on the basis that hedge accounting could be applied.

** As outlined in note 1(l), foreign currency denominated options granted to seed investors are treated as derivative liabilities. This accounting treatment was the result of guidance issued by the International Financial Reporting Interpretations Committee (the "IFRIC"). This accounting policy was not applied in the 2004 to 2005 published financial statements.

*** The 2004 financial statements were presented under previous Australian Accounting Standards and AIFRS had not been adopted. Under these accounting policies, the value of options granted to the providers of goods and services (including employees) was not required to be expensed. Adjustments have been made in year 2004 to comply with IFRS. Furthermore, in applying IFRS2, the Company was not required to recognise an expense for options granted prior to 7 November 2002. The value of these options have been expensed in this Accountants' Report.

8. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods are as follows:

		Years ended 31 December		
		2004	2005	2006
	Notes	A$000	A$000	A$000
Cash flows from operating activities				
Operating loss before tax		(19,338)	(26,289)	(20,054)
Non cash items:				
Depreciation and amortisation	2(c)	7,224	6,320	78
Exploration and evaluation costs written off	2(c)	2,251	—	—
Impairment of mine property and equipment	2(c)	10,865	4,735	—
Provision/(reversal of provision) for restoration and rehabilitation	2(c)	622	—	(1,984)
Equity-settled share option expenses	2(c)	445	568	1,296
Profit on sale of non-current assets	2(b)	—	—	(2,129)
Gains on gold hedging	2(c)	(28)	—	—
Movement in fair value of options derivatives	2(c)	(1,618)	7,863	11,421
Unrealised foreign exchange gains		(186)	—	—
Changes in assets and liabilities:				
Receivables		873	1,656	(5,551)
Inventories		82	59	799
Deferred income		(1,813)	—	—
Trade and other payables		(4,445)	5,819	7,894
Provision for employee entitlements	2(c)	38	60	78
Net operating cash flows		(5,028)	791	(8,152)
Cash flows from investing activities				
Purchase of items of property, plant & equipment		(4,681)	—	(107)
Payment for exploration, evaluation and development cost		(13,124)	(57,746)	(117,893)
Net investing cash flows		(17,805)	(57,746)	(118,000)
Cash flows from financing activities				
Proceeds from issue of convertible notes		—	45,932	—
Proceeds from bank loans		—	—	60,640
Proceeds from employee's loan repayments		219	18	394
Repayment of shareholder loans		—	(2,564)	—
Proceeds from share issues		708	2,800	66,034
Share issue costs	3(i)	(133)	(158)	(3,685)
Payment of Hong Kong listing fees		—	—	(854)
Net financing cash flows		794	46,028	122,529
Net (decrease)/increase in cash and cash equivalents		(22,039)	(10,927)	(3,623)
Cash and cash equivalents at beginning of year		61,931	35,692	28,769
Effects of exchange rate changes on cash		(4,200)	4,004	(3,641)
Cash and cash equivalents at end of year		35,692	28,769	21,505

9. SEGMENT INFORMATION

The Group operates entirely in the mining industry and in the sole geographical area of Mainland China. The operations comprise the exploration, evaluation and development of gold mining projects, mining and processing of gold ore and the sale of extracted gold.

10. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

(i) Loan from a shareholder

The outstanding loan balance of A$2,564,000 and its terms made by a shareholder of the Company are disclosed in note 3(j) to the Accountants' Report. The interest paid thereon is also disclosed in note 2(e) to the Accountants' Report. The loan was fully repaid in 2005.

(ii) Loans to directors

The outstanding loan balance advanced to directors of the Company is disclosed in note 3(i)(b) to the Accountants' Report.

(iii) Compensation of key management

Details of directors' and key management's remuneration are included in note 2(d) to the Accountants' Report.

11. SUBSEQUENT EVENTS

The following significant events have occurred after 31 December 2006:

- A placement of 6,500,000 shares to Gold Fields Australasia (BVI) Limited ("Gold Fields") at A$5.58 per share was completed on 10 January 2007. This placement is part of the formation of a strategic alliance which combines Sino Gold's proven and recognised operational, development and business capabilities in China with the technical, financial and human resourcing expertise of Gold Fields, the world's fourth largest gold company.

- On 16 January 2007, the company completed the acquisition of 15,305,604 shares in Golden Tiger Mining NL at a price of A$0.10 per share. This investment represents a 19.9% interest in Golden Tiger Mining NL.

- On 17 January 2007, an extraordinary general meeting of shareholders was held at which the following resolutions were duly passed;

  - The change of the company's name to Sino Gold Mining Limited.

  - The ratification of the share placement made to Gold Fields on 10 January 2007 of 6,500,000 shares at A$5.58 per share.

12. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong