

BUSINESS

OVERVIEW

We are the only overseas listing vehicle of China National Gold, the largest gold producer in China in 2009 by gold output*, according to the China Gold Association (中國黃金協會). Incorporated in British Columbia, Canada, we are listed on the Toronto Stock Exchange and are seeking a dual primary listing on the Stock Exchange. Our principal business is to explore, develop, mine and process gold and other non-ferrous metals. We currently own and operate the CSH Mine, which, according to the CSH Technical Report, is one of the largest gold mines in China in terms of mineral resources under the JORC Code. In addition, upon the completion of the Global Offering, we will acquire and own the Jiama Mine, which, according to the Jiama Technical Report, will become one of the largest copper-polymetallic mining operations in China in terms of ore production rate, total metal production and mineral resources under the JORC Code. Among all the metal and mining enterprises that are ultimately controlled by the PRC government, we are among a limited number of companies that are incorporated and listed overseas.

As of June 30, 2010, according to the CSH Technical Report, the CSH Mine's gold resources (inclusive of reserves) and reserves, using a gold cutoff grade of 0.30 g/t, are as follows:

<u>JORC Mineral Resource Category⁽¹⁾⁽²⁾</u>	<u>Tonnage</u> (million tonnes)	<u>Grade</u> (g/t)	<u>Gold Content</u> (Moz)
Measured	100.8	0.68	2.196
Indicated	135.9	0.61	2.663
Total Measured and Indicated	236.7	0.64	4.858
Inferred	0.5	0.43	0.007
<u>JORC Ore Reserve Category⁽¹⁾⁽³⁾</u>	<u>Tonnage</u> (mt)	<u>Grade</u> Au (g/t)	<u>Gold Content</u> Au (koz)
Proved	79.7	0.70	1,784
Probable	52.2	0.63	1,059
Total	131.9	0.67	2,843

(1) JORC resources and reserves set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the CSH Technical Report for further details.

(2) The procedures and parameters used for resource modelling are set out in Item 17.1 of the CSH Technical Report.

(3) The procedures and parameters used for reserve modelling are set out in Item 17.2 of the CSH Technical Report.

The CSH Mine commenced commercial production in July 2008 with a design processing capacity of 20,000 tonnes of ore per day. For the year ended December 31, 2009 and the nine months ended September 30, 2010, the total gold production was approximately 83,570 ounces and 75,707 ounces, respectively. In September 2010, monthly production volume reached 14,307 ounces. We are currently implementing a series of steps to achieve additional production growth. In particular, we have installed a new ore crushing facility which ramped up to its design processing capacity of 30,000 tonnes of ore per day in March 2010. It is expected that the rate of leaching as well as gold recovery will improve as a result of the installation of the crushing facility. According to the CSH Technical Report, the total gold production is forecast to be approximately 116,000 ounces and 146,570 ounces in 2010 and 2011, respectively.

The Jiama Mine is a large copper-polymetallic deposit and will be developed into a combined open-pit and underground mining operation. The mine consists of skarn-type and hornfels-type mineralization.

* Gold output is calculated based on total output of finished gold produced from mines and from gold smelters.

BUSINESS

As of June 30, 2010, according to the Jiama Technical Report, the Jiama Mine's resources (inclusive of reserves) and reserves of copper, molybdenum, gold, silver, lead and zinc are as follows:

JORC Mineral Resource Category ⁽¹⁾⁽²⁾	Tonnage (Kt)	Grades						Contained Metals					
		Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (t)	Ag (t)	Pb (kt)	Zn (kt)
Skarn-Type⁽³⁾													
Measured	82,928	0.83	0.042	0.30	16.0	0.06	0.05	686.9	34.42	25.11	1,326	51.9	38.7
Indicated	102,187	0.68	0.041	0.22	13.7	0.10	0.05	691.6	42.07	22.33	1,396	100.6	55.4
Total Measured and Indicated . .	185,116	0.74	0.041	0.26	14.7	0.08	0.05	1,378.5	76.49	47.44	2,722	152.5	94.1
Inferred	165,763	0.64	0.053	0.21	13.1	0.14	0.06	1,068.0	88.57	35.42	2,179	239.0	106.9
Hornfels-Type⁽⁴⁾													
Inferred	655,000	0.23	0.045	0.02	1.17	0.00	0.01	1,500	290	13	770	—	—
JORC Ore Reserve Category⁽¹⁾⁽²⁾⁽⁵⁾													
	Tonnage (Kt)	Grades						Contained Metals					
		Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (t)	Ag (t)	Pb (kt)	Zn (kt)
Total Reserve													
Proved	53,541	0.83	0.038	0.32	16.3	0.06	0.04	442.8	20.31	17.1	874	29.6	21.3
Probable	52,358	0.85	0.040	0.29	16.5	0.11	0.05	442.8	20.96	15.2	864	55.4	27.2
Total	105,899	0.84	0.039	0.31	16.4	0.08	0.05	885.6	41.27	32.3	1,738	85.0	48.6

(1) JORC resources and reserves set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the Jiama Technical Report for further details.

(2) Cutoff grade for the estimate is 0.3% copper, 0.03% molybdenum, 1% lead or 1% zinc.

(3) The procedures and parameters used for the skarn-type resource modelling are set out in Item 17.1.2 of the Jiama Technical Report.

(4) The procedures and parameters used for the hornfels-type resource modelling are set out in Item 17.1.3 of the Jiama Technical Report.

(5) Please refer to Item 17.2.5 of the Jiama Technical Report for a description of the cutoff unit economic values for the reserve estimate.

Following the completion of its first phase of development, which primarily involves the Tongqianshan open-pit infrastructure, ore processing facilities, and underground ore transportation system, the Jiama Mine commenced commercial production in September 2010. The second phase of development, which primarily involves the Niumatang open-pit infrastructure, development and equipping of underground mine and expansion of ore processing facilities, is expected to commence at the end of 2010. We expect to ramp up the processing capacity at the Jiama Mine to 3.6 million tonnes of ore per annum (or 12,000 tonnes per day) at the beginning of 2012 after completion of the whole second phase development of the Jiama Mine.

In addition to our development plan, we are seeking to significantly increase the reserve base of our existing mines through further exploration efforts. With respect to the Jiama Mine, compared to two current mining permits, which only cover an area of approximately 2.9 square kilometers, two exploration permits of the Jiama Mine covered an area of approximately 76.9 square kilometers and 66.4 square kilometers, respectively. According to the Jiama Technical Report, the major mineralized body at the Jiama Mine is open along the dip direction, representing significant potential to discover more mineral resources after additional exploration in that area. The Independent Technical Expert also believes that with additional drilling and sampling, a significant portion of the inferred mineral resources at the Jiama Mine can be upgraded into the measured and indicated resource categories, which in turn can be used for ore reserve estimation. With respect to the CSH Mine, our mining permit covers an area of approximately 10.1 square kilometers, compared to our exploration permit which covers an area of approximately 25.9 square kilometers. The mineralization zone at the CSH Mine is generally open at depth, and the gold grade tends to increase with depth. The Independent Technical

BUSINESS

Expert believes that there is significant potential to discover additional mineral resources at depth and in other areas within the exploration permit where gold anomalies have been identified.

Our principal product from the CSH Mine is gold dore bars, which we sell to China National Gold at prevailing market prices pursuant to a long-term agreement. For the years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, our total revenue was US\$29.4 million, US\$81.0 million and US\$37.7 million, respectively. The products of the Jiama Mine consist of copper concentrate, molybdenum concentrate and lead concentrate. Gold and silver contained in our concentrates can be separated and smelted in downstream processing.

China National Gold, our Controlling Shareholder, will hold approximately 38.98% of our outstanding Shares immediately after the Global Offering and the Skyland Acquisition. It is the only enterprise directly supervised by the State Council that focuses on the exploration, mining, processing, smelting, refining and sale of gold. Under the terms of China National Gold's non-competition undertaking to us, we will have a mandate from China National Gold to focus on International Mining Businesses and to grow into a leading international mining company. China National Gold has undertaken not to compete with us in International Mining Businesses. As part of its undertaking, China National Gold has also granted us preferential rights on future International Mining Business opportunities as well as a right of first refusal and a call option right relating to such businesses. Meanwhile, with respect to any mineral assets located in China that are held directly or indirectly by an offshore company, in the event that Zhongjin Gold Corporation decides not to take up the business opportunity, China National Gold will refer such opportunity to us. Furthermore, China National Gold has also undertaken to procure all Controlled Entities to abide by its non-competition undertaking to us. However, as none of the Controlled Entities is a party to, or otherwise legally bound by, China National Gold's non-competition undertaking to us, there can be no assurance that the Controlled Entities will not compete with us for International Mining Business opportunities in the future. See "Risk Factors — Risk relating to Our Business and Industry—If our relationship with China National Gold materially changes, our growth prospects and results of operations may be materially and adversely affected" and "Relationship with Controlling Shareholder — Our Controlling Shareholder, China National Gold" and "— Non-competition Undertaking from China National Gold to Our Company".

Notwithstanding China National Gold's non-competition undertaking to us and our efforts to seek and acquire attractive International Mining Businesses with a particular focus on gold, we will own and focus on operating the CSH Mine and the Jiama Mine located in China immediately after the Global Offering which we believe have the potential to generate significant future growth through production ramp-up and resources upgrade and expansion. While we have been a Canadian listed company since April 23, 2001 and our management team is experienced in overseas acquisitions and capital market activities and we believe we are well-positioned to pursue the strategy of focusing on overseas gold and other non-ferrous business opportunities, we do not yet have any experience in operating any mines located outside of China. We are still in the process of identifying any mines or projects as potential acquisition targets outside of China and we may not be able to acquire and operate any gold or other non-ferrous mine outside of China in the future.

COMPETITIVE STRENGTHS

We believe the following competitive strengths distinguish us from our competitors:

- ***We benefit from our close relationship with China National Gold.*** We have been controlled by China National Gold since May 2008 and have benefited from our close relationship with China National Gold in various respects.
 - *Technology and management expertise.* We draw on China National Gold's extensive technology in gold exploration mining and processing and management resources, including a research institute and a metal mine design institute. We have accessed China National Gold's technology resources to resolve technical problems and enhance operation efficiencies. This relationship has expedited our commercial production schedule at the CSH Mine. We have also leveraged China National Gold's management human resources to build up our strong operation management team in a time and cost effective manner.

China National Gold owns Changchun Gold Research Institute which is the only national-level institute specialized in research that focuses on the gold industry in the PRC, and Changchun Gold Design Institute which is the only national-level gold engineering institute in the PRC. From 2000 to 2007, among the inventions and other technological achievements of the two institutes, 42 were registered or under application as patents, 81 were recognized as major scientific achievements, and 17 were granted other recognitions. In particular, we believe that China National Gold has reached an international advanced standard with respect to its refractory gold ore-related exploration and mining technologies and gold refining techniques. We expect to continue benefiting from China National Gold's extensive technology and management resources in our operations.

- *Procurement and outsourcing savings.* As China's largest gold producer in 2009 in terms of gold output (calculated based on total output of finished gold produced from mines and from gold smelters), through its strong market position and name recognition, and due to its bulk volume purchases and industry contacts, China National Gold has strong negotiating power, which enables China National Gold to obtain competitive price and stable supply from, and exercise effective quality control over, its suppliers. Due to our close relationship with China National Gold, we have been able to establish stable relationship with many of these suppliers and obtained similar terms from such suppliers.
- *Preferential opportunities to acquire mineral resources.* China National Gold has undertaken not to compete with us in International Mining Businesses. As part of its undertaking, China National Gold has granted us preferential rights on future International Mining Business opportunities as well as a right of first refusal and a call option right relating to such businesses. Meanwhile, with respect to any mineral assets located in China that are held directly or indirectly by an offshore company, in the event that Zhongjin Gold Corporation decides not to take up the business opportunity, China National Gold will refer such opportunity to us. These rights enhance our ability to effect acquisitions of additional large-scale mineral assets.
- *Effective communication with government regulators.* As the only enterprise directly supervised by the State Council that focuses on the exploration, mining, processing, smelting, refining and sale of gold, China National Gold has extensive relationships

BUSINESS

with the Chinese government agencies regulating the mining industry. Effective communication with the government is crucial due to stringent and extensive regulations of the mining industry in China. We are able to leverage China National Gold's relationships to obtain timely and effective communication with government regulators.

- ***Our overseas incorporated and listed status provides us benefits not yet available to many other metal and mining enterprises that are ultimately controlled by the PRC government.*** Among all the metal and mining enterprises that are ultimately controlled by the PRC government, we are one of the few companies that are incorporated and listed overseas. Our overseas corporate structure facilitates access to international capital markets and timely execution of overseas acquisitions. Our ability to capitalize on these favorable positions is enhanced through our on-the-ground international management team.
- ***Our mines have substantial mineral reserves and growth prospects.*** The CSH Mine is one of the largest gold mines in China in terms of mineral resources under the JORC Code, according to the CSH Technical Report. The mineralization zone at the CSH Mine is generally open at depth, and the gold grade tends to increase with depth. Therefore, the Independent Technical Expert believes there is significant potential to discover additional mineral resources at depth and in other areas within the exploration permit where gold anomalies have been identified.

The Jiama Mine will become one of the largest copper-polymetallic mining operations in China in terms of ore production rate, total metal production and mineral resources under the JORC Code, according to the Jiama Technical Report. According to the Jiama Technical Report, there are significant resources and reserves of copper, molybdenum, gold, silver, lead and zinc at the Jiama Mine. The major mineralized body at the Jiama Mine is open along the dip direction, representing significant potential to discover more mineral resources after additional exploration in that area. Our Independent Technical Expert believes it is also possible to find other similar mineralized bodies at the Jiama Mine. In addition, our Independent Technical Expert believes there is additional resource upgrade potential beyond the currently defined measured and indicated mineral resources at the Jiama Mine.

- ***Our mines are positioned for strong production growth.*** Gold production at the CSH Mine is forecast to realize a significant increase to 116,000 ounces and 146,570 ounces in 2010 and 2011, respectively, due to a series of steps we are implementing. We have installed a crushing facility to process the ore before loading it on the leach pad. The reduced ore size is expected to improve the efficiency of the leaching process and increase the overall gold recovery rate. During the first half of 2010, crushed ore achieved a gold recovery rate of 69.4% compared with 40% for uncrushed ore. The recovery rate is expected to reach an average of over 70%, according to the CSH Technical Report. The crushing facility ramped up to the design processing capacity of 30,000 tonnes of ore per day in March 2010.

Jiama Mine is under development to become a large-scale combined open-pit and underground mining operation. Following the completion of its first phase of development, which primarily involves the Tongqianshan open-pit infrastructure, ore processing facilities and underground ore transportation system, the Jiama Mine commenced commercial production in September 2010 with the total ore production

BUSINESS

expected to reach approximately 448 thousand tonnes in 2010. The second phase of development, which primarily involves the Niumatang open-pit infrastructure, development and equipping of underground mine and expansion of ore processing facilities, is expected to commence at the end of 2010. We expect to ramp up the processing capacity at the Jiama Mine to 3.6 million tonnes of ore per annum (or 12,000 tonnes per day) at the beginning of 2012 after completion of the whole second phase development of the Jiama Mine.

- ***We are positioned to enjoy favorable cost efficiencies.*** We expect to achieve significant cost efficiency improvements. According to the Independent Technical Reports, operating cash costs for the CSH Mine were US\$805 per ounce for 2008, US\$638 per ounce for 2009 and US\$800 per ounce for the first half of 2010, and are forecast to decrease to US\$586 per ounce in the second half of 2010 and US\$573 per ounce in 2011. Operating cash costs for the Jiama Mine are forecast to be US\$38.2 per tonne of ore, US\$36.5 per tonne of ore and US\$33.9 per tonne of ore, respectively, for 2010, 2011 and 2012. We believe the cost efficiency improvements are achieved through:
 - *Large-scale operations.* We conduct our operations through large-scale mining. The processing facilities at the CSH Mine have a design processing capacity of 30,000 tonnes of ore per day. Upon the completion of the whole second phase development of the Jiama Mine at the beginning of 2012, we expect the mine to reach the design processing capacity of 3.6 million tonnes of ore per annum (or 12,000 tonnes per day). We are well positioned to derive economies of scale from our large-scale operations.
 - *Favorable geological conditions.* The gold mineralization at the CSH Mine forms a large, near-surface and bulk-tonnage gold deposit, which enables us to derive cost efficiency by using open-pit mining techniques and conducting large-scale single heap leaching mining operations.
 - *Improved recovery rate.* We have installed a new crushing facility to process the extracted ore to a size of nine millimeters before loading it on the leach pad. The crushing facility ramped up to the design processing capacity of 30,000 tonnes of ore per day in March 2010. The crushing of the ore is expected to greatly improve the gold recovery. Historically, uncrushed ROM ore was put under leach. We have ceased all the ROM processing operations and started to process all extracted ore at the crushing facility in July 2010.
 - *Unified mineral processing at the Jiama Mine.* Due to the polymetallic content of the ore at the Jiama Mine, we are able to separate and produce three categories of concentrates simultaneously through a single and unified production process. As a result, we are able to enjoy the benefit of significant cost efficiencies in the production process and derive economic value from the products produced from the same production process.
- ***We are led by a distinguished integrated PRC and international management team.*** We have a senior management team that combines strong PRC-based leadership with an on-the-ground international management team. Their collective experience covers the full spectrum in the mining industry value chain, ranging from exploration, mining to processing, smelting and refining.

BUSINESS

Our Chairman Mr. Sun Zhaoxue brings to us his extensive industry contacts and approximately 27 years of industry experience, which we believe sets us apart from many of our PRC-based competitors. A management team led by Mr. Sun successfully executed the acquisition of our Company, expedited the commercial production of the CSH Mine. In addition, the team also identified the potential growth opportunity in the Jiama Mine and brought the Jiama Mine into commercial production in two years. Our Chief Executive Officer Mr. Song Xin has approximately 26 years experience in the mining industry and has held various senior management positions in the government and mining companies. Our executive Director and vice president of production Mr. Jiang Xiangdong was a senior geologist and project manager with several major international mining companies, including First Quantum Minerals Ltd., Kluane Drilling Ltd. and Cyprus Amax Minerals. Mr. Jiang has approximately 24 years of industry experience with extensive experience in overseas mining operation. We believe that our distinguished senior management team has contributed to the significant growth of our business and will continue to drive our growth in the future.

BUSINESS STRATEGIES

We intend to continue to grow our business into a leading international mining company by pursuing the following strategies:

- ***Leverage our relationship with China National Gold.*** We intend to continue to leverage our relationship with China National Gold to drive growth. We will focus our efforts primarily on collaborating with China National Gold to identify acquisition opportunities and capitalizing on the strong support from China National Gold.
- ***Expand production at our mines.*** We have achieved significant production growth in the past and are also expanding our processing facilities on the back of our substantial resources to achieve further production growth. Additionally, as part of our strategy to increase production, we will continue to upgrade our operation equipment and processing technology in order to increase operational efficiencies and improve the mineral recovery rates.
- ***Upgrade and expand mineral resources in our mines.*** According to the Independent Technical Reports, there is potential to identify additional resources in the areas covered by the mining permits and exploration permits for the CSH Mine and Jiama Mine. In addition, according to the Jiama Technical Report, it is highly likely a significant portion of the current inferred mineral sources at the Jiama Mine can be upgraded into measured and indicated resources with additional drilling. With a view to increasing our overall mineral resources and upgrading the inferred mineral sources at the Jiama Mine, we plan to conduct additional substantial drilling work at an increased drilling density in the vicinity and at depth of both mines.

BUSINESS

- ***Acquire high-quality mineral resources.*** To complement our existing resources, we intend to actively seek acquisition opportunities, with a priority on gold resources, to the extent such opportunities are available to us, by focusing on advanced mining projects and operating mines with high growth prospects. We believe we should be able to successfully integrate the mineral resources we acquire due to our substantial management and acquisition experience and strong technical capability. We believe we are well positioned to pursue the strategy of focusing on the exploration and exploitation of gold and other non-ferrous mining assets outside the PRC due to various factors, including:
 - (i) our overseas corporate structure and listing status which facilitates access to international capital markets and timely execution of overseas acquisitions;
 - (ii) our management team which has significant experience on overseas acquisitions and/or possesses experience in the development and operation of International Mining Businesses. Such experience of our management team includes, among others:
 - our executive Director, Mr. Sun Zhaoxue’s experience in managing overseas mining operation while employed by Aluminum Corporation of China Limited and supervising China National Gold’s acquisition of the controlling interest in our Company in 2008 and Skyland in 2009;
 - our executive Director, Mr. Song Xin’s experience in managing China National Gold’s acquisition of the interest in Skyland in 2009;
 - our executive Director, Mr. Wu Zhanming’s experience while working on corporate finance at Deutsche Bank AG (Securities Business) Beijing Representative Office and in managing China National Gold’s acquisition of the controlling interest in our Company in 2008;
 - our executive Director, Mr. Jiang Xiangdong’s experience while engaged as a geologist in various overseas mining and exploration companies, including Cyprus Amax Minerals and its division Cyprus Canada Inc., Kluane Drilling Ltd. and First Quantum Minerals Ltd.; and
 - our chief financial officer, Mr. Law Chi Yung, and our vice president of finance, Ms. Heather King’s substantial experience in finance related matters and corporate reporting of international companies. See “Director and Senior Management — Board of Directors” for details of the experience of our Directors and senior management in the International Mining Business.
 - (iii) we have already taken steps with a view to implementing the international business expansion strategy. In December 2009, our Company entered into a memorandum of understanding with a Mongolian company, Monnis International Inc. (“Monnis”), to jointly explore and develop gold projects in Mongolia. Pursuant to the memorandum of understanding, our Company and Monnis will hold 51% and 49% equity interests, respectively, in any such acquired projects and our Company will control and manage such acquired projects. We and Monnis have commenced the process of identifying potential gold projects for joint exploration and development in Mongolia. The business and financing arrangements between our Company and Monnis with respect to any acquired projects will be subject to due diligence, negotiation and execution of definitive agreements.

BUSINESS

- *Continue to undertake best international environmental and cultural practices.* We believe that maintaining high standards in environmental protection and cultural sensitivity is critical to our long-term success. Both of our mines are designed as zero-discharge sites. We have put in place advanced cyanide leakage prevention and monitoring system. We have adopted advanced technologies such as the recycling and reuse of water in the flotation process as well as dry heaping of tailings at the Jiama Mine to minimize the impact of our operations on the environment. We have also made substantial efforts to integrate with the local population in the areas where our mines are located and assisted them in advancing social and economic development. Such efforts are recognized by the local government and population in Inner Mongolia and Tibet, both of which are autonomous regions with a large minority ethnic population. We intend to continue to undertake best international environmental and cultural practices.

MINERAL PROPERTIES

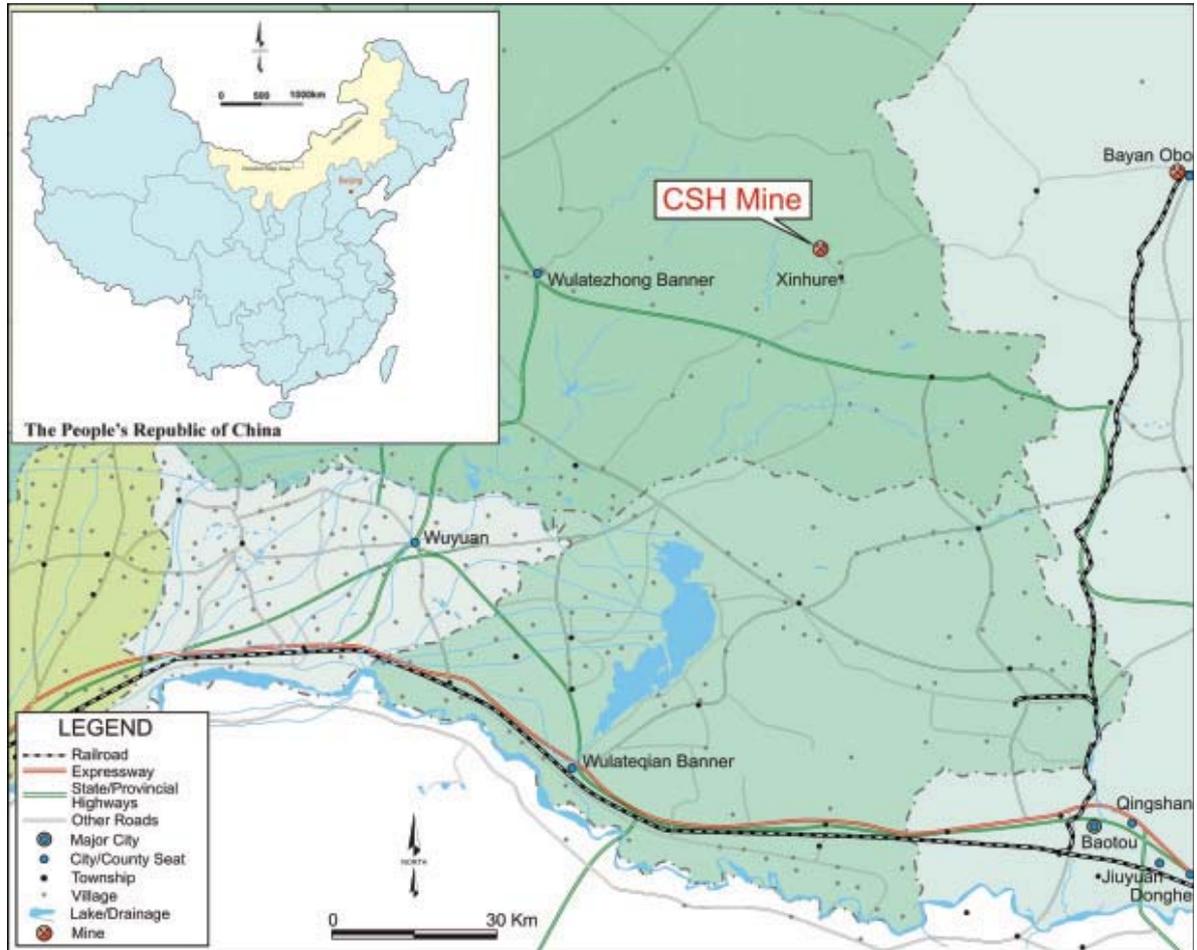
Upon the completion of the Global Offering and the acquisition of Skyland, our mineral properties will include primarily the CSH Mine and the Jiama Mine. We own a 96.5% interest in the CSH Mine located in Inner Mongolia, which is one of the largest gold mines in China in terms of mineral resources under the JORC Code, according to the CSH Technical Report. Upon the completion of the Global Offering and the Skyland Acquisition, we will fully own the Jiama Mine located in Tibet, which will become one of the largest copper-polymetallic mining operations in China in terms of ore production rate, total metal production and mineral resources under the JORC Code, according to the Jiama Technical Report.

CSH Mine

We own and operate the CSH Mine through the CSH CJV, a cooperative joint venture in which we hold a 96.5% interest and Ningxia Nuclear holds the remaining 3.5% interest.

The CSH Mine is located in Inner Mongolia. It is approximately 650 kilometers northwest of Beijing and approximately 126 kilometers northwest of the city of Baotou, a major industrial city in Inner Mongolia and the central service and supply point for the CSH Mine.

The map below illustrates the location of the CSH Mine in Inner Mongolia.



History of the mine

In the 1970s, gold mineralization associated with extremely narrow quartz veins at the CSH Mine area was discovered. In 1991, Brigade 217 acquired the CSH Mine and explored the property from 1992 to 1998.

In 1999, Brigade 217 entered into a joint venture with a Canadian consortium, Southwestern-Global Pacific Joint Venture (“SWGP”), to conduct exploration work with a coverage extending to the surrounding area of the CSH Mine. The exploration work completed in 1999 confirmed the presence of a major low grade gold mineralization system zone and suggested a significant potential for a bulk-tonnage, low-grade, open-pit gold target. The SWGP joint venture agreement was terminated in 2000 largely due to the downturn in the gold mining industry as a consequence of low gold prices.

In 2002, Brigade 217 formed the joint venture with our Company, and a major drilling program (comprising 4,997 meters of drilling in 23 diamond drilling holes) was completed in the same year. After the completion of several phases of drilling and metallurgical testing during 2003 to 2005, a positive feasibility study for a conventional open-pit mining, heap-leach processing operation was completed in May 2006.

BUSINESS

Construction at the CSH Mine started in January 2006, and commercial production of the mine commenced in July 2008.

Mineral resources and ore reserves

The CSH Mine is an open-pit mine. Gold mineralization at the CSH Mine is divided into a Northeast Zone and a Southwest Zone. The following table, which is based on Table 17.7 in the CSH Technical Report, provides information on the gold resources (inclusive of reserves) at the CSH Mine as of June 30, 2010 using a gold cutoff grade of 0.30 g/t.

<u>JORC Mineral Resource Category⁽¹⁾⁽²⁾</u>	<u>Tonnage</u>	<u>Grade</u>	<u>Gold Content</u>
	(million tonnes)	(g/t)	(Moz)
Measured	100.8	0.68	2.196
Indicated	135.9	0.61	2.663
Total Measured and Indicated	236.7	0.64	4.858
Inferred	0.5	0.43	0.007

(1) JORC resources set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the CSH Technical Report for further details.

(2) The procedures and parameters used for resource modelling are set out in Item 17.1 of the CSH Technical Report.

The following table, which is based on Table 17.8 in the CSH Technical Report, provides information on the ore reserves at the CSH Mine as of June 30, 2010.

<u>JORC Ore Reserve Category⁽¹⁾⁽²⁾</u>	<u>Tonnage</u>	<u>Grade</u>	<u>Gold Content</u>
	(mt)	Au (g/t)	Au (koz)
Proved	79.7	0.70	1,784
Probable	52.2	0.63	1,059
Total	131.9	0.67	2,843

(1) JORC reserves set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the CSH Technical Report for further details.

(2) The procedures and parameters used for reserve modelling are set out in Item 17.2 of the CSH Technical Report.

According to the CSH Technical Report, a portion of the defined mineral resources and reserves as of June 30, 2010 for the CSH Mine are located below the lower elevation limit of the current mining permit. We are applying for a confirmation from the relevant government authority in the form of the modification of the renewed exploration permit for the CSH Mine that such exploration permit will also cover the mineral resources and mineral reserves below this lower elevation limit.

The mineralization zone at the CSH Mine is generally open at depth, and the ore grade tends to increase with depth. Therefore, the Independent Technical Expert believes there is significant potential to discover additional mineral resources at depth.

As of the Latest Practicable Date, no material changes have occurred in our mineral resources and reserves since the effective date of the CSH Technical Report included in Appendix V-A to this prospectus.

Exploration and mining rights

We hold an exploration permit and a mining permit in respect of the CSH Mine through Inner Mongolia Pacific Mining Co. Limited (內蒙古太平礦業有限公司), a CJV we formed with our PRC partner to develop and operate the CSH Mine. Our PRC legal advisers, Haiwen & Partners, have reviewed the

BUSINESS

copies of the exploration permit and the mining permit of the CSH Mine provided by the Company and are of the view that they are valid exploration and mining permits issued by the competent PRC authorities. The particulars of those permits are summarized in the following table.

<u>Type of permit</u>	<u>Exploration/ mining area (sq. km.)</u>	<u>Elevation range (m)</u>	<u>Validity period of exploration/mining rights</u>
Exploration permit	25.9	None	From August 4, 2010 to August 3, 2012
Mining permit	10.1	1,436-1,696	From October 25, 2009 to August 30, 2013

In 2009, we successfully renewed the mining permit for the CSH Mine for a four-year term. If any of our mines have a residual proved and probable reserve upon expiration of our mining permits, we will submit a renewal application. Under PRC laws and as advised by our PRC legal advisers, if residual reserves remain after the term of the mining rights expires, the holders of such mining rights are entitled to apply for extensions for additional terms. According to the “Administrative Measures on Registration of Mineral Resources Exploitation” (礦產資源開採登記管理辦法), the maximum duration of the initial term of a mining permit is determined based on the scale of the mine and may be up to 10 years for a small-scale mine, 20 years for a medium-scale mine and 30 years for a large-scale mine. Application for renewal of a mining permit must be made at least 30 days prior to expiration date. There is no specific restriction or limitation on the number of times the permits may be renewed. However, the new mining permit will be subject to the same maximum duration limit as the initial term.

In accordance with the “Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey” (礦產資源勘查區塊登記管理辦法), the maximum duration of a exploration permit for mineral resources (other than petroleum and natural gas) is three years. When a renewal of exploration permit is needed, an application must be submitted to the competent authority for renewal of such exploration permit at least 30 days prior to the expiration date. Each renewal term cannot exceed two years. There is no specific restriction or limitation on the number of times an exploration permit may be renewed. We plan to conduct further exploration activities in the area covered by the exploration permit, and upon obtaining satisfactory exploration results and if we consider it beneficial to do so, we plan to apply to the PRC government for a mining permit for the relevant area.

Development and Expansion Plans

We are engaged in expansion projects at the CSH Mine and also plan to continue to conduct exploration work at the mine.

Production expansion

The CSH Mine commenced commercial production in July 2008, with the original designed ore production capacity of 20,000 tonnes of ore per day or 6.6 million tonnes per annum. We plan to increase its ore production to 12.0 million tonnes per annum (including a significant portion of uncrushed ore) in 2010 and 10.65 million tonnes per year thereafter. Historically, uncrushed run-of-mine ore was put under leach. A three-stage crushing plant was installed in August 2009 and it ramped up to the designed processing capacity of 30,000 tonnes of ore per day in March 2010. The additional ore production capacity of 10,000 tonnes of ore per day is for the exploitation of ore below the cut-off

BUSINESS

grade of 0.5 g/t in order to increase the utilization of available mineral resources and reserves and the capacity of the CSH Mine could be increased without expanding the permitted construction scale of the mine. Based on consultations with the relevant officials of the MIIT, we do not expect that an updated mining permit will be required.

In 2009, the CSH Mine loaded 7.5 million tonnes of uncrushed run-of-mine ore with an average gold grade of 0.63 g/t and 2.2 million tonnes of crushed ore with an average gold grade of 0.60 g/t on the leach pad. The observed gold recovery from the uncrushed run-of-mine ore based on gold poured as of December 31, 2009 has been 37.3%. Since the total leach time is expected to be at least five years, it is estimated in the CSH Technical Report that the eventual recovery rate for the uncrushed ROM ore already on pad may reach 53%. As the new crusher has ramped up to the design capacity of 30,000 tonnes of ore per day, it is expected that the gold recovery will be greatly improved. According to the CSH Technical Report, the overall heap leach gold recoveries for the crushed ore are estimated to reach an average of over 70%. These recoveries are expected to be achieved in a period of five years after placing the ore on the leach pad.

We have constructed an extension to the leach pad at the CSH Mine to support the increased scale of operations. The construction commenced in June 2009 and was completed in June 2010. Upon completion of the construction, the leach pad loading capacity doubled to approximately 71 million tonnes of ore. We estimate the capital expenditure for the leach pad expansion to be approximately US\$8.0 million.

According to the CSH Technical Report, the throughput at our ore processing facilities at the CSH Mine is forecast to be 12.0 million tonnes and 10.65 million tonnes in 2010 and 2011, respectively, and the gold production is expected to be approximately 116,000 ounces and 146,570 ounces in 2010 and 2011, respectively.

Resources/Reserve expansion

The CSH Mine includes an area of approximately 25.9 square kilometers covered by an exploration permit held by the CSH CJV and another area of approximately 10.1 square kilometers covered by a mining permit held by the CSH CJV. The area under the exploration permit continuously surrounds the area covered by the mining permit, as warranted. The mineralization zone at the CSH Mine is generally open at depth, and the gold grade tends to increase with depth. As a result, the Independent Technical Expert believes that there is significant potential to discover additional mineral resources at depth.

We plan to conduct further exploration activities in the areas covered by the exploration permits. Upon the completion of such efforts, we may apply to the PRC government for mining permits for the relevant areas. Pursuant to relevant PRC laws and regulations and as advised by our PRC legal advisers, we have a right of priority in the grant of the relevant mining permit for the area covered by our exploration permit.

Products

We commenced pre-commercial gold production in July 2007 and commercial production in July 2008 at the CSH Mine. Our principal product is gold dore bar that contains silver as a by-product. We also sell gold contained in foul carbon from our production process. Such sales accounted for a small portion of our total sales during the Track Record Period.

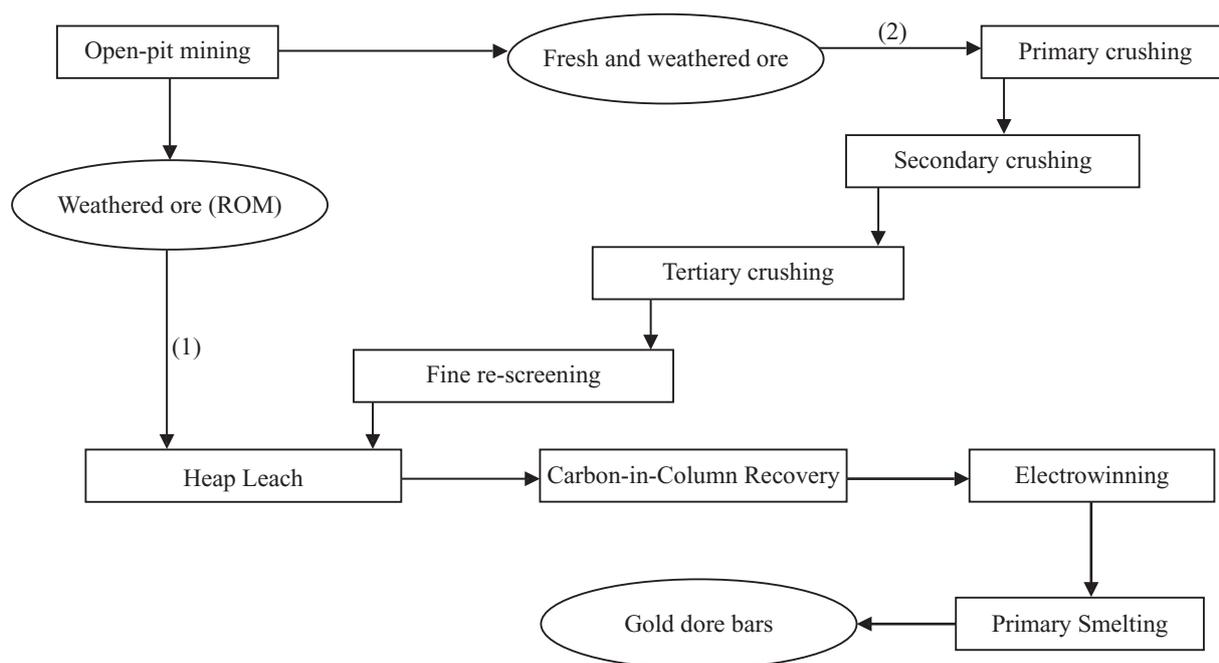
BUSINESS

The following table, which is based on Table 21.2 in the CSH Technical Report, provides information on the actual and forecast milled ore and gold dore bars production at our CSH Mine for the periods indicated.

	Actual			Forecast	
	2008	2009	2010 ^(1st H)	2010 ^(2nd H)	2011
Milled gold ore					
Tonnage (kt)	5,786	9,699	6,883	5,117	10,650
Average Au grade (g/t)	0.59	0.59	0.61	0.65	0.61
Cumulative mill recovery					
Au (%)	40.3%	42.7%	38.6%	44.7%	51.1%
Final products					
Au (koz)	57.5	83.6	36.2	79.7	146.6
Ag (koz)	23.1	29.8	15.4	21.9	51.3

Production processes and facilities

The production process at the CSH Mine consists of mining and processing. The following chart illustrates the production processes at the CSH Mine.



(1) This represents the process before the installation of the new crushing facility.

(2) This represents the process after the installation of the new crushing facility.

Mining

The ore deposits at the CSH Mine include weathered ore (or oxide and mixed ore) and fresh ore (or sulphide ore). The weathered ore (i.e., uncrushed run-of-mine ore) is amenable to ROM processing (i.e., placed directly on the heap leach pad without being crushed) while fresh ore needs to be crushed first to allow efficient heap leach recovery of gold. The ore deposits at the CSH Mine contain significantly more fresh ore than weathered ore. We commenced mining operation by extracting the

BUSINESS

weathered ore. Following the installation of the crushing facility in August 2009, we commenced extracting fresh ore as well. We have ceased all ROM processing operations and started to process all extracted ore at the crushing facility in July 2010.

We conduct open-pit mining at the CSH Mine using blasting, loading and hauling techniques. The extracted ore and waste are loaded to trucks and hauled from the open pits to the heap leach pad (for weathered ore) or the crushing facility (for fresh ore) and waste dumps, respectively.

We entered into a 10-year outsourcing contract in November 2006, as amended in November 2008, and outsourced all of the mining work at the CSH Mine to China Railway 19 Bureau Group Co., Ltd. (中鐵十九局集團有限公司), a major mining contractor in China. Under the terms of the outsourcing contract, our Group retains ultimate right of supervision over the mine site and conducts all gold processing operations through employees of the CSH CJV. We are also responsible for obtaining all relevant permits, licenses and certifications in relation to the mine. China Railway 19 Bureau is responsible for daily mining operations such as delivery of ore to the heap leach pad and the crusher, maintaining construction security guards and compliance with operational rules at the mining site. We agreed to pay the contractor a monthly service fee based on a fixed unit price determined on an arm's length basis for the amount of the work performed during each month. During the two years ended December 31, 2008 and 2009 and the six months ended June 30, 2010, we paid total service fees of RMB177.0 million, RMB232.4 million and RMB133.8 million, respectively, to China Railway 19 Bureau Group Co., Ltd.

The contractor works under the supervision and management of our onsite engineer. We require the contractor to carry out its work according to our design and plan and in accordance with the applicable safety and environment protection requirements under the PRC laws and regulations. Any loss and liability that arise in respect of material safety incidents shall be borne by the party who is responsible for such incidents. The 10-year outsourcing contract will expire on March 22, 2018 unless terminated earlier by either party pursuant to the grounds specified in the outsourcing contract. In the event that the contract is terminated due to the fault of China Railway 19 Bureau Group Co., Ltd., it shall, in addition to paying damages, offer to sell to us all equipment and related materials used in the operations at a price lower than their market value at the time of the sale, subject to our right to reject the sale of such equipment and related materials to us. On the other hand, in the event that China Railway 19 Bureau Group Co., Ltd. terminates the contract due to our fault, we shall (i) purchase from China Railway 19 Bureau Group Co., Ltd. all equipment and related materials used in the operations at a price higher than their market value at the time of the purchase and (ii) pay China Railway 19 Bureau Group Co., Ltd. a lump sum of RMB5 million if the contract is terminated within the first four years of its signing, RMB2.5 million if the contract is terminated after the fourth year but before the eighth year of its signing, or RMB1 million if the contract is terminated after the eighth year of its signing, subject to the right of China Railway 19 Bureau Group Co., Ltd. to reject the sale of such equipment and related materials.

Processing

The processing method at the CSH Mine is conventional heap leaching, which is widely and successfully used for the recovery of gold from large tonnage low-grade ores. The processing comprises crushing, heap leaching and gold extraction.

Our processing facilities are located close to the open pits at the CSH Mine and include a crushing facility, a leach pad and a carbon adsorption-desorption-recovery plant. The processing

BUSINESS

facilities are designed to be environmentally friendly and have a design processing capacity of 30,000 tonnes per day. The crushing facility is equipped with international standard crushers and screens purchased from Metso Minerals, a leading manufacturer of mining equipment.

The crushing facility reached the design processing capacity in March 2010. We have started to process fresh ore at this facility before placing them on the leach pad. The crushed ore is then transported by trucks to the heap and stacked on the leach pad for leaching of the gold. Weathered ore is hauled directly to leach pad for ROM processing without being crushed. We have ceased all ROM processing operations and started to process all extracted ore at the crushing facility in July 2010.

The heap leach operation utilizes a multiple-lift and single-use leach pad. Our leach pad was designed by Golder Associates, a well-known Canadian engineering company, and is lined with a synthetic liner to maximize solution recovery and minimize the potential for impacting underground water. We have identified two adjacent leach pad sites close to the main ore deposit on relatively flat terrain. The leach pad originally had a surface area of approximately 390,000 square meters. We completed an expansion to the leach pad in June 2010 to provide additional 460,000 square meters of surface area and double the leach pad loading capacity to approximately 71 million tonnes of ore. The capacity of the heap leach pad is based on an average stacked ore density of 1.65 tonnes per cubic meter and a maximum heap height of 80 meters.

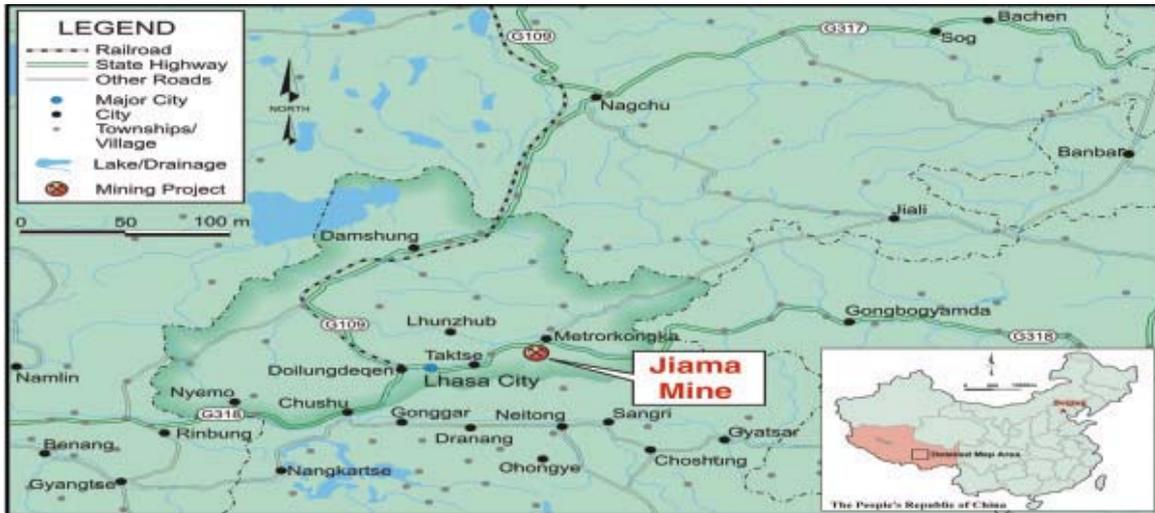
Our leach solution to leach the gold from the ore is distributed by a buried drip irrigation system during the winter months and a drip meter leaching system placed on the top of the stacked ore during the remaining months. The buried drip irrigation system is designed to operate in the harsh conditions of northern China and to reduce water loss due to evaporation. Gold-bearing pregnant solution is collected by a drainage system placed above the synthetic pad liner, which in turn directs the pregnant solution to flow to a pregnant pond constructed within the leach pad. Ore placed within the pond serves to insulate pregnant solution during cold winter months to prevent freezing of the solution. The gold-bearing pregnant solution is then pumped from the pregnant pond to the adsorption-desorption-recovery plant to recover gold and silver from the solution.

The gold extraction from the pregnant solution involves carbon-in-column adsorption, carbon elution, stripping, refining and smelting. The adsorption-desorption-recovery plant hosts a total of two parallel trains each containing five adsorption columns in series. Each column contains five to six tonnes of active carbon that is replenished as required. Pregnant solution flows through the adsorption columns, and precious metals (gold and silver) are adsorbed onto the carbon. They are then stripped off the loaded carbon and recovered through electronwinning onto stainless steel cathodes. The gold plated cathodes are then washed with high-pressure water hose, and the washed off gold sludge is then filtered and dried. The dried product is melted in an induction furnace and then poured into a cascaded series of molds to produce gold dore bars.

Jiama Mine

The Jiama Mine is currently owned and operated by Huatailong, a wholly-owned subsidiary of Skyland. Skyland is 51% owned by China National Gold Hong Kong and 49% owned by Rapid Result. Jiama Mine is located approximately 68 linear kilometers northeast of Lhasa, Tibet in China. Elevations of the Jiama Mine area are in the range of approximately 4,100 meters to 5,300 meters above sea level. The ore deposit at the Jiama Mine is located on a large-scale copper-polymetallic mineral bed.

The map below illustrates the location of the Jiama Mine in Tibet.



History of the mine

Geological work conducted from 1951 to 1990 at the Jiama Mine area delineated a 3,600 meter long copper-lead-zinc mineralization zone by mostly surface trenching. Preliminary estimation was also conducted. More detailed exploration work was conducted by the No. 6 Geological Brigade of Tibet Geology and Mineral Resources Bureau between 1991 and 1999.

Based on the Brigade 6's exploration work, four mining permits within the current Jiama Mine mining permit boundary were issued to different mining operators and four mining operations were established. These mining activities were stopped by the Tibet government on April 1, 2007 in an attempt to encourage better utilization of resources through large scale, modern and environmental-friendly mining operation. With the approval of the Tibet government, Huatailong consolidated the previously issued mining and exploration permits at the Jiama Mine in late 2007.

After acquiring the consolidated mining and exploration permits, Huatailong conducted an extensive exploration program in 2008, with additional drilling made in 2009. The 2008-2009 drilling programs have significantly expanded and upgraded the mineral resources of the project. Because of the significant increase in mineral resources, the Jiama project started first phase construction in June 2008. The currently proposed mining operation is able to be planned at a much larger scale which is expected to increase to 3.6 million tonnes of ore per annum (for 12,000 tonnes per day) after completion of the whole second phase development of the mine. According to the Jiama Technical Report, when it is fully developed, the Jiama Mine will become one of the largest copper-polymetallic mining operations in China in terms of ore production rate, total metal production and mineral resources under the JORC Code.

Mineral resources and ore reserves

The Jiama Mine is being developed into a large-scale combined open-pit and underground mining operation. As of June 30, 2010, the Jiama Mine had measured and indicated skarn-type resources (inclusive of reserves) of copper, molybdenum, gold, silver, lead and zinc of 1,378,500 tonnes, 76,490 tonnes, 47.4 tonnes, 2,722 tonnes, 152,500 tonnes and 94,100 tonnes, respectively and

BUSINESS

inferred skarn-type resources of 1,068,000 tonnes, 88,570 tonnes, 35.4 tonnes, 2,179 tonnes, 239,000 tonnes and 106,900 tonnes, respectively. As of June 30, 2010, the Jiama Mine also had inferred hornfels-type resources of copper, molybdenum, gold and silver of 1,500,000 tonnes, 290,000 tonnes, 13 tonnes and 770 tonnes, respectively.

The following table, which is based on Table 17.8 in the Jiama Technical Report, provides information on the skarn-type copper-polymetallic resources (inclusive of reserves) at the Jiama Mine as of June 30, 2010 using a cutoff grade of 0.3% copper, 0.03% molybdenum, 1% lead or 1% zinc.

JORC Mineral Resource Category ⁽¹⁾⁽²⁾	Tonnage (Kt)	Grades						Contained Metals					
		Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (t)	Ag (t)	Pb (kt)	Zn (kt)
Measured	82,928	0.83	0.042	0.30	16.0	0.06	0.05	686.9	34.42	25.11	1,326	51.9	38.7
Indicated	102,187	0.68	0.041	0.22	13.7	0.10	0.05	691.6	42.07	22.33	1,396	100.6	55.4
Total Measured and Indicated . .	185,116	0.74	0.041	0.26	14.7	0.08	0.05	1,378.5	76.49	47.44	2,722	152.5	94.1
Inferred	165,763	0.64	0.053	0.21	13.1	0.14	0.06	1,068.0	88.57	35.42	2,179	239.0	106.9

(1) JORC resources set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the Jiama Technical Report for further details.

(2) The procedures and parameters used for the skarn-type resource modelling are set out in Item 17.1.2 of the Jiama Technical Report.

The following table, which is based on Table 17.10 in the Jiama Technical Report, provides information on the inferred hornfels-type copper-polymetallic resources at the Jiama Mine as of June 30, 2010 using a cutoff grade 0.3% copper, 0.03% molybdenum, 1% lead or 1% zinc.

JORC Mineral Resource Category ⁽¹⁾⁽²⁾	Tonnage (Kt)	Grades						Contained Metals					
		Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (t)	Ag (t)	Pb (kt)	Zn (kt)
Inferred	655,000	0.23	0.045	0.02	1.17	0.00	0.01	1,500	290	13	770	—	—

(1) JORC resources set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the Jiama Technical Report for further details.

(2) The procedures and parameters used for the hornfels-type resource modelling are set out in Item 17.1.3 of the Jiama Technical Report.

As of June 30, 2010, the Jiama Mine had proved and probable skarn-type reserves of copper, molybdenum, gold, silver, lead and zinc of 885,600 tonnes, 41,270 tonnes, 32.3 tonnes, 1,738 tonnes, 85,000 tonnes and 48,600 tonnes, respectively, according to the Jiama Technical Report. The following table, which is based on Table 17.11 in the Jiama Technical Report, provides information on the skarn-type copper-polymetallic reserves at the Jiama Mine as of June 30, 2010.

JORC Ore Reserve Category ⁽¹⁾⁽²⁾⁽³⁾	Tonnage (kt)	Grades						Contained Metals					
		Cu (%)	Mo (%)	Au (g/t)	Ag (g/t)	Pb (%)	Zn (%)	Cu (kt)	Mo (kt)	Au (t)	Ag (t)	Pb (kt)	Zn (kt)
Total Reserve													
Proved	53,541	0.83	0.038	0.32	16.3	0.06	0.04	442.8	20.31	17.1	874	29.6	21.3
Probable	52,358	0.85	0.040	0.29	16.5	0.11	0.05	442.8	20.96	15.2	864	55.4	27.2
Total	105,899	0.84	0.039	0.31	16.4	0.08	0.05	885.6	41.27	32.3	1,738	85.0	48.6

(1) JORC reserves set forth in this table are the same as those under the CIM Standards. See Item 17.5 of the Jiama Technical Report for further details.

(2) The procedures and parameters used for the hornfels-type resource modelling are set out in Item 17.2 of the Jiama Technical Report.

(3) Please refer to Item 17.2.5 of the Jiama Technical Report for a description of the cut-off unit economic values for the reserve estimate.

BUSINESS

All the currently defined mineral resources and ore reserves are covered by the existing mining and exploration permits.

According to the Jiama Technical Report, the currently defined reserves of the Jiama Mine are expected to support approximately 29.4 years of mine production based on an assumed production rate of 3.6 million tonnes of ore per year. In addition, according to the Jiama Technical Report, the Independent Technical Expert expects that a significant portion of the inferred resources can be upgraded to the measured and indicated categories with additional drilling and sampling, which in turn can be used for additional ore reserve estimation. Meanwhile, exploration potential exists both in the current mineralized body and in discovery of similar and other types of mineralization within the area covered by mining and exploration permits.

As of the Latest Practicable Date, no material changes have occurred in the mineral resources and reserves of the Jiama Mine since the effective date of the Jiama Technical Report included in Appendix V-B to this prospectus.

Exploration and mining rights

Huatailong currently holds two exploration permits and two mining permits for the Jiama Mine. Our PRC legal advisers, Haiwen & Partners, have reviewed copies of the mining permits of the Jiama Mine provided by our Company and are of the view that they are valid mining permits issued by the competent PRC authorities. The exploration permits for the Jiama Mine expired in early October and the relevant renewal application has been submitted to the relevant PRC authority. Huatailong is using its best endeavors to obtain the renewed permits for the Jiama Mine. Based on the current communications with the relevant PRC authority, we expect Huatailong to obtain such permits before the end of 2010. Our PRC legal advisers are of the view that, as long as we have fulfilled all the substantive and procedural conditions required by the relevant PRC laws and requests of the relevant authority, there will be no material substantive impediment in renewing such permits. Certain key information relating to these permits is summarized in the table below.

<u>Type of permit</u>	<u>Exploration/mining area (sq. km.)</u>	<u>Elevation Range (m)</u>	<u>Validity period of exploration/mining rights/mining method</u>
Exploration permit	66.4	None	From October 3, 2009 to October 3, 2010 ⁽¹⁾
Exploration permit	76.9	None	From October 3, 2009 to October 3, 2010 ⁽¹⁾
Mining permit	2.2	4,100 – 5,300	From July 2, 2008 to July 2, 2013; underground mining
Mining permit	0.7	4,100 – 5,000	From July 15, 2010 to July 15, 2015; open-pit mining

(1) As noted above, such exploration permit has expired and the relevant renewal application has been submitted to the relevant PRC authority.

Currently, a small-scale open-pit operation is planned for the Tongqianshan mining area. Such operation is mainly to construct surface infrastructure as well as to provide sufficient waste rock for establishing an operational work area at the level of the planned entrance to the underground mine. This small-scale open-pit operation is within the area covered by the underground mining permit for the Jiama Mine. In addition, a larger scale open-pit and underground mining operation will be

BUSINESS

developed in the Niumatang mining area at the Jiama Mine. In July 2010, Huatailong obtained an open-pit mining permit for the Niumatang mining area to cover the open-pit mining operations in that area.

As for the mining of the associated molybdenum with the main mineral in Jiama Mine, Huatailong has obtained the approval of MOLAR and MOFCOM, respectively, and is now in the process of amending its relevant mining permits to denote molybdenum on such permits.

We plan to conduct further exploration activities in the areas covered by the exploration permits. Upon obtaining satisfactory exploration results and if we consider it beneficial to do so, we plan to apply to the PRC Government for the relevant mining permits.

Development and expansion plans

There are a number of ongoing or planned expansion projects at the Jiama Mine and it is also planned that exploration will continue to be conducted at the mine.

Production expansion

The Jiama Mine's development consists of the open-pit mine and the underground mine. The first phase primarily involves the Tongqianshan open-pit infrastructure, ore processing facilities and underground ore transportation system. The Jiama Mine commenced commercial production in September 2010 with the total ore production expected to reach approximately 448 thousand tonnes in 2010 and 2,430 thousand tonnes in 2011.

The second phase development of the Jiama Mine is planned to commence at the end of 2010. It primarily involves the Niumatang open-pit infrastructure, development and equipping of underground mine and expansion of ore processing facilities. We expect to ramp up the processing capacity at the Jiama Mine to 3.6 million tonnes of ore per annum (or 12,000 tonnes per day) at the beginning of 2012 after completion of the whole second phase development of the Jiama Mine.

We expect the production rate at the Jiama Mine to increase as mining and processing operations continue to ramp up.

Resource/Reserve expansion

Huatailong has obtained two mining permits covering an area of approximately 2.9 square kilometers and two exploration permits to conduct exploration activities in the adjacent areas to the northeast and southwest of the area covered by the mining permits. The two exploration permits covered an area of approximately 76.9 square kilometers and 66.4 square kilometers, respectively. Through past drilling work at the Jiama Mine, the reported mineral resources and reserves have been identified. However, the drilling work has been limited to approximately 6.2 square kilometers as of September 30, 2010 among the total area of 145.5 square kilometers covered by the mining and exploration permits. According to the Jiama Technical Report, the major mineralized body at the Jiama Mine is open along the dip direction, representing significant additional exploration potential in that area. Our Independent Technical Expert believes it is also possible to find similar and other types of mineralized bodies at the Jiama Mine.

In addition, our Independent Technical Expert believes there is additional resource upgrade potential beyond the currently defined measured and indicated mineral resources at the Jiama Mine. As

BUSINESS

of June 30, 2010, there were approximately 1,068,000 tonnes of copper, 88,570 tonnes of molybdenum, 35.4 tonnes of gold, 2,179 tonnes of silver, 239,000 tonnes of lead and 106,900 tonnes of zinc resources in the inferred skarn-type category. Moreover, as of June 30, 2010, the Jiama Mine also had inferred hornfels-type resources of copper, molybdenum, gold and silver of 1,500,000 tonnes, 290,000 tonnes, 13 tonnes and 770 tonnes, respectively. According to the Jiama Technical Report, the Independent Technical Expert expects that a significant portion of such inferred resources, with additional drilling and sampling, can be upgraded into the measured and indicated resource categories, and the economic portion of the upgraded resource can be used for additional ore reserve estimation. With a view to increasing our overall mineral resources and mineral reserves at the Jiama Mine, we plan to conduct additional substantial drilling work at an increased drilling density in the vicinity of the Jiama Mine.

Upon the completion of exploration activities in the relevant areas covered by Huatailong's exploration permits, we may apply to the PRC government for mining permits for the relevant areas.

Award

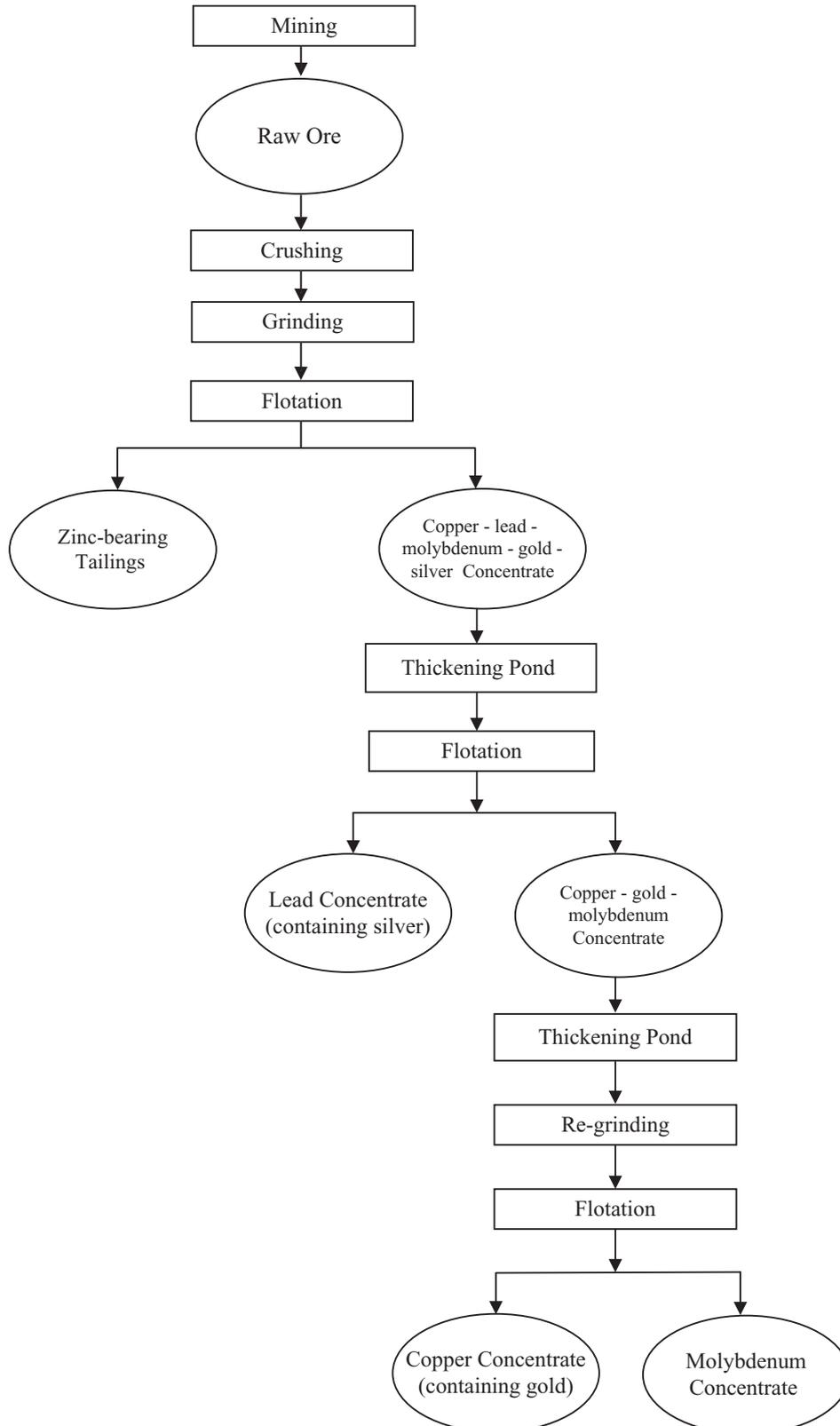
Huatailong was awarded the 2009 Chinese Mining Industry International Cooperation Prize — Best Mine Development Prize (2009 中國礦業國際合作獎最佳開發獎) for its development of the Jiama Mine. The prize was granted by the MOLAR and the Tianjin Municipal Government at the China Mining Congress & Expo (中國礦業大會) in 2009. In January 2010, Huatailong was awarded the Top 10 Mine Exploration Achievements award by the Geological Society of China (中國地質學會). It was also awarded the “2009 Top 10 Scientific Developments” award by the Chinese Academy of Geological Science (中國地質科學院). In addition, the Jiama Mine was also designated by the Tibet government as one of the “Top Eight Projects of Tibet” in 2008, which were eight prioritized industrial development projects in Tibet.

Products

Jiama Mine commenced commercial production in September 2010. The products of the Jiama Mine include copper concentrate, molybdenum concentrate and lead concentrate. Gold and silver contained in our concentrates can be separated and smelted in downstream processing.

Production processes and facilities

The production processes at the Jiama Mine involve mining (both open-pit and underground mining) and processing, which in turn includes crushing, grinding and flotation. The following chart illustrates the major steps of the production processes at the Jiama Mine.



BUSINESS

The main production facilities for the first phase of the Jiama Mine include the open-pit, an ore processing plant, a waste dump, a tailings storage facility and ore transportation system for the underground mine. The development of the second phase of the Jiama Mine is expected to provide a larger open-pit underground mining infrastructure and expand the current processing facilities, waste dump and tailing storage facility.

Mining

Open-pit mining at the Jiama Mine uses conventional mining methods, using hydraulic excavators and trucks for loading and haulage of ore and waste. The open-pits at the Jiama Mine are located in close proximity to the processing facilities and the waste dump. The raw ore extracted from the open-pits is hauled by truck to a crusher and ore pass within close proximity to the Niumatang pit, which connects to an internal underground rail to haul the ore to the processing plant, while wastes are hauled to the waste dump using another internal rail.

The underground mine is accessed through two inclined shafts and a ramp for trackless equipment. The mining method planned for both the steeply-dipping and flatter thick zones is open stope mining with variations based on access, stope dimensions and sublevel intervals. Stopes within the flatter section are planned to be backfilled with classified tailings, with and without cement depending on the requirements for accessing ore adjacent to each stope. Trackless electric load-haul-dump units are used to extract ore from the stopes and tipped to intermediate level rail haulage that transports the ore to the main ore pass connecting to the main internal rail to the processing plant. Trackless equipment is also used for development, production drilling, and blasting, as well as for the provision of services. For zones where open stoping mining methods are not appropriate due to ore dimensions, room-and-pillar or shrinkage stoping mining methods are used depending on the thickness of the ore zone and the dip.

We outsource all of the mining work at the Jiama Mine to third-party contractors. The mining work at the Jiama Mine currently is conducted by two third party contractors, namely, The 2nd Engineering Co., Ltd. of China Railway 17 Bureau Group Corporation (中鐵十七局集團第二工程有限公司) and China 10th Metallurgy Group Limited Corporation (中十冶集團有限公司). These two contractors undertook the construction projects for the first phase of development at the Jiama Mine and, pursuant to their project construction contracts with Huatailong, have performed the mining work for the related projects at the initial phase of their production operations in Tongqianshan area and Niumatang area, respectively.

The contractors work under the supervision and management of the onsite engineers of Huatailong. They are required to carry out their work according to the project design and production plan and in accordance with the applicable safety and environment protection requirements under the PRC laws and regulations. Any loss and liability that arise in respect of material safety incidents shall be borne by the party who is responsible for such incidents.

Processing

Extracted ore is processed and final products are produced by a unified flotation method in an integrated processing plant near our mines. First, raw ore is put through a primary crushing machine and a secondary crushing machine and is grinded into smaller particles. Water is then added to the particles to form a slurry and the slurry is pumped to a series of floatation machines for the extraction

BUSINESS

of lead concentrate, copper concentrate and molybdenum concentrate. The slurry is first pumped to the first floatation machine for extraction of copper-lead-molybdenum-gold-silver concentrate. Chemicals are added to the slurry, and air is added to the bottom of the thickening pond and rises through the slurry. The chemicals added to the slurry attach themselves to the metal-bearing ore and to the passing air bubbles and float to the top of the pond, where they form a copper-lead-molybdenum-gold-silver concentrate froth. This copper-lead-molybdenum-gold-silver froth is then collected and dewatered. The resulting product is lead-silver concentrate that can be sold to downstream refineries. The material that does not float is placed into the second floatation machine for extraction of copper-gold-molybdenum concentrate. This process is repeated until molybdenum concentrate has been collected from the fourth floatation machine. The remaining tailings are then pumped to a tailings storage facility.

The ore processing at the Jiama Mine is designed to be environmentally friendly. In addition, the water discharged from the processing plant is recycled for ore grinding. Therefore the processing plant does not discharge wastewater. The Jiama Mine has also adopted the technology of pressure filtration and dry heaping of tailings, which reduces the size of the tailings and demand for fresh water. See “— Environmental Protection and Community Development” for further information.

OTHER PROJECTS

Dadiangou Project

The Dadiangou Project covers an area of 14.9 square kilometers and is located in the southeast portion of Gansu Province, China. We established the Dadiangou CJV with NINETC to develop the Dadiangou Project. The exploration permit for the Dadiangou Project is held by NINETC and is valid from February 12, 2008 to February 12, 2010. The Dadiangou CJV and NINETC entered into a transfer agreement with Gansu Zhongjin Gold Mining Co. Ltd. on April 28, 2010 for the transfer of the Dadiangou Project. See “History and Corporate Structure — History and Development — Cooperative Joint Ventures — Dadiangou CJV” for further details.

We had incurred a total of approximately US\$6.1 million in exploration expenditures for the Dadiangou Project as of December 31, 2009. As the exploration work for the project has been suspended and the project is expected to be sold to a third party, we do not expect to incur any significant additional costs on the project. All the exploration expenditures for the Dadiangou Project have been charged as expenses when incurred. No expenditure in connection with the exploration of the Dadiangou Project was capitalized and recorded as assets. Accordingly, no significant impairment charge is expected to be recognized for such expenditures.

Disposed Project

Prior to the disposal of our interest in Xinjiang CJV, we held twelve exploration permits covering 433.3 square kilometers in Xinjiang, through Xinjiang CJV, a CJV in which we previously held a 99% interest and Yunnan Geological previously held the remaining 1% interest. All of the twelve exploration permits have expired. We entered into a sale and purchase agreement on April 26, 2010 to transfer our 99% interest in Xinjiang CJV. The completion of such transfer took place on May 15, 2010. See “History and Corporate Structure — History and Development — Cooperative Joint Ventures — Disposed CJV” for further details.

We had incurred a total of approximately US\$5.1 million in exploration expenditures for the Xinjiang Project as of December 31, 2009. As the exploration work for the project has been suspended

BUSINESS

and the project was sold to a third party, we have not incurred any significant additional costs on the project since December 31, 2009. All the exploration expenditures for the Xinjiang Project have been charged as expenses when incurred. No expenditure in connection with the exploration of the Xinjiang Project was capitalized and recorded as assets. Accordingly, no significant impairment charge was recognized for such expenditures.

SALES AND CUSTOMERS

Our principal product from the CSH Mine is gold dore bars which also contain silver as a by-product. Between July 2008 and October 2008, we sold our gold dore bars to Inner Mongolia Qiankun Gold and Silver Refinery Corporation (內蒙古乾坤金銀精煉股份有限公司), which is an independent third party. In October 2008, we entered into a three-year non-exclusive sale agreement with China National Gold with a view to achieving better payment settlement and mitigate counterparty credit risk, as we believed the business reputation and creditworthiness of China National Gold should allow us to avoid the delay in payment of gold dore bar purchase prices we had previously experienced with Inner Mongolia Qiankun Gold and Silver Refinery Corporation. Since then, we have sold all of our gold dore bars to China National Gold and encountered no delay in its payment of purchase prices to us.

Under the sale agreement, China National Gold has agreed to purchase not less than 50 kilograms of gold dore bars per delivery from us upon our notification and we are entitled to designate one delivery per week. The purchase price consists of a market price for gold multiplied by the weight of gold contained in the gold dore bars, plus a market price for silver multiplied by the weight of silver contained in the gold dore bars, and minus flat rate refinery expenses. The market price for gold is the average daily price of Au9995 gold ingot as quoted on the Shanghai Gold Exchange on the date of our notification of delivery. The market price for silver is the average daily price of No. 2 silver as quoted on the Shanghai Huatong Platinum & Silver Exchange. China National Gold pays an estimate sale price calculated on the basis of the estimated weight of gold and silver contained in the gold dore bars within two days before delivery. After delivery of the gold dore bars, the parties will finalize the weight of the gold and silver delivered in accordance with the weighing and sampling procedures specified in the sale agreement. The final sale price will then be settled accordingly. China National Gold is responsible for transporting gold dore bars. Title to gold dore bars passes at our gold vault door when gold dore bars are stowed into China National Gold's transporting vehicle. The term of the sale agreement is from October 24, 2008 to December 31, 2011. However, either party may terminate the sale agreement by giving not less than six month prior written notice to the other party. In the event of a material breach of the contract, the non-defaulting party is entitled to submit the dispute to arbitration or claim for default payment, provided that it is not entitled to any anticipated profit or consequential loss or damage of whatsoever nature. Starting from December 2008, we also sell gold contained in fowl carbons from our production process. Such product has been sold to an independent party and accounted for less than 5% of our revenue during the Track Record Period.

We started to record revenue in 2008. We had sales to three customers in 2008. Sales to two of these three customers, Inner Mongolia Qiankun Gold and Silver Refinery Corporation and China National Gold, accounted for 50.9% and 47.7% of our revenue, respectively, for the year ended December 31, 2008. In 2009 and the first half of 2010, we had sales to China National Gold and another customer. Sales to China National Gold accounted for 95.9% and 91.6% of our total revenue for the year ended December 31, 2009 and the six months ended June 30, 2010, respectively. As of the Latest Practicable Date, none of our Directors, their respective associates or any of the Shareholders (which to the knowledge of our Directors own more than 5% of the issued share capital of our

BUSINESS

Company) had any interests in any of the top five customers of our Group apart from those that serve as directors or officers of China National Gold, and solely in such capacity.

Our target customers for the copper, molybdenum and lead concentrates produced at the Jiama Mine are major refineries in China. In line with the industry practice, the sale prices of the concentrates are primarily based on the prevailing market prices of the relevant minerals contained in the concentrates, with refinery expenses deducted. In February 2010, Huatailong entered into a copper concentrate purchase and sale contract with Jinchuan Group Ltd. (an independent third party), a large state-owned non-ferrous metal refinery in Gansu Province of China. Pursuant to the contract, Huatailong shall supply copper concentrates to Jinchuan Group Ltd. for the period from January 1, 2010 to January 15, 2011 with pricing referenced to the daily average price of copper quoted on the Shanghai Futures Exchange and shall deliver the first lot of 500 tonnes of copper concentrates on or before June 30, 2010, while Jinchuan Group Ltd. paid the sum of RMB250 million as advance payment. China National Gold has agreed to guarantee for the performance and fulfilment of all of the obligations of Huatailong under the copper concentrate purchase and sale contract. In addition, under the copper concentrate purchase and sale contract: (i) Huatailong has agreed to sell all copper concentrates produced at the Jiama Mine for the year 2010 to Jinchuan Group Ltd.; (ii) it is agreed that Jinchuan Group Ltd. will provide technical assistance to Huatailong in various areas such as mining and processing of mineral resources; and (iii) Huatailong shall promptly notify Jinchuan Group Ltd. of matters such as (a) any incident of breach of contract relating to third parties which may hinder the return of the advance payment; (b) any material incident such as litigation or arbitration, which may hinder the supply of copper concentrates and the return of the advance payment; and (c) cease of development of the Jiama Mine or any disposal of material assets of the Jiama Mine.

THIRD-PARTY CONTRACTORS

In line with the industry practice, we outsource all of our mining and exploration work (such as drilling) and most of our mine construction work to reputable third-party contractors such as China Railway 19 Bureau Group Co., Ltd. and China Metallurgical Chenggong Construction Co., Ltd. Our Directors believe that these outsourcing arrangements, if managed properly, can lower our operational costs and reduce our capital expenditures for equipment and machinery. For the three years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, we paid aggregate fees of US\$11.3 million, US\$42.1 million, US\$42.3 million and US\$21.3 million, respectively, to third-party contractors while Skyland Group paid aggregate fees of nil, US\$13.2 million, US\$5.7 million and US\$1.4 million, respectively, to third-party contractors. See “Risk Factors — We rely on third-party contractors to conduct a substantial portion of our exploration, mine construction and mining activities”.

We select contractors through a tendering process taking into accounting the contractors’ skills and experience. All of our contractors must possess the requisite qualifications for undertaking the work for which they are commissioned. We generally retain control over project design, production planning, on-site work monitoring and quality inspection. We have not experienced any material dispute with our contractors during the Track Record Period.

We require third-party contractors to carry out their work according to the design and plan of the relevant assignment and in accordance with our quality standards and production safety requirements. Pursuant to the agreements we entered into with our third-party contractors, third-party contractors shall maintain insurance over the safety and casualty of their own employees that perform work for us. We are not responsible for and do not carry any insurance for the employees of third-party contractors.

BUSINESS

In accordance with the Mineral Resources Law (礦產資源法), the Safe Production Law and the Implementation Rules therefor (安全生產法及其實施條例), the Mine Safety Law (礦山安全法) and other relevant laws and regulations, and on the basis of the provisions on safety responsibility in the outsourcing contracts between the Group and the third-party contractors, our PRC legal advisers are of the view that:

- (1) pursuant to the outsourcing contract between the Group and each of the third-party contractors, the contractor shall bear all legal liabilities and all economic losses that may arise out of an accident resulting from the deficiency of the safety protections adopted by the contractor or from the contractor's breach of the relevant safety laws or operating rules. In the event that a dispute arises in relation to liability on an incident, the matter should be dealt with by the relevant government authorities; and
- (2) as the relevant PRC laws and regulations impose a statutory obligation on the owner of an exploration or mining permit to ensure safe production, the Group may be held directly liable or liable for compensation to the extent of its fault, regardless of any contractual provisions to the contrary; however, if the liability is incurred as a result of the contractor's fault, the Group may claim for indemnification from the contractor in accordance with the relevant outsourcing contract.

INFRASTRUCTURE, SUPPLIES AND EQUIPMENT

Electricity and Water

We have not experienced any material interruption in our operations due to shortage or suspension of our power supply. At the CSH Mine, we rely on the local power grids to supply electricity to meet our requirements. The Jiama Mine has been granted priority in electricity supply as it was designated by the government as one of the "Top Eight Projects of Tibet" in 2008, which were eight prioritized industrial development projects in Tibet. In addition, we expect to have a more stable electricity supply for the Jiama Mine in the future as the Tibet's local power grid is expected to be integrated with China's national power grid. However, the Jiama Mine may experience power shortage until the central power grid of Tibet is connected to the national power grid. See "Risk Factors — We may not be able to maintain an adequate and timely supply of electricity, water, auxiliary materials, equipment, spare parts and other critical supplies at reasonable prices or at all".

Water supply for our CSH Mine is derived from two major aquifers located within nine kilometers of the CSH Mine site. Water for the Jiama Mine is provided by the Chikang River, a tributary of the Lhasa River in Tibet. Water recycling facilities have also been installed at the Jiama Mine. There was no material water supply interruptions or shortages at the CSH Mine or Jiama Mine during the Track Record Period.

Raw Materials and Auxiliary Materials

Raw material for the processing operations at the CSH Mine and Jiama Mine is the mineral ore extracted from the mines. Neither mine purchases raw materials from third parties.

Ore processing at the CSH Mine and Jiama Mine consumes many types of auxiliary materials including forged steel grinding balls, chemical products, explosives, lubricating oil, electric wires and cables, pipes, rubber products and fuel such as diesel oil. Most of the auxiliary materials are sourced from domestic suppliers.

BUSINESS

Machinery and Equipment

We purchase major machinery and equipment at our mines through a selective tendering process. The suppliers of the major ore processing machinery and equipment for the CSH Mine and Jiama Mine include leading international manufacturers such as Metso Minerals.

SUPPLIERS

Our five largest suppliers during the Track Record Period included third-party contractors and suppliers of machinery and equipment and auxiliary materials. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, purchases from our five largest suppliers accounted for approximately 76.3%, 83.6%, 70.6% and 65.7% of our total purchases, respectively. During the same periods, purchases from our largest supplier accounted for approximately 37.6%, 43.5%, 39.0% and 38.0% of our total purchases, respectively. As of the Latest Practicable Date, none of our Directors, their respective associates or any of the Shareholders (which to the knowledge of our Directors owns more than 5% of the issued share capital of our Company) had any interest in any of the top five suppliers of our Group.

RESEARCH & DEVELOPMENT

Our research and development activities are primarily directed towards providing technical support to our exploration, mining, processing and operations. Huatailong has entered into joint technology cooperation agreements with certain academic and research institutes to improve and develop technologies for exploration, mining, processing and smelting. Those agreements generally provide that Huatailong would share with its partners the intellectual property rights arising from the cooperation.

INTELLECTUAL PROPERTY

We hold a trademark  registered under our name. We have also registered the domain names chinagoldintl.com and jinshanmines.com. Skyland Group has registered a domain name, <http://www.xzhtl.com>. Details of our owned and licensed trademarks are set out in “Statutory and General Information — Further Information about Our Business — Intellectual Property Rights”.

CUSTODY OF ASSETS AND ACCESS CONTROL

We keep the gold dore bars we produce in the storage facilities located in our own mines with access restricted to authorized persons. Each storage facility is attended by security guards and is equipped with stringent security systems, including electronic security and alarm systems. Transportation of gold-bearing materials to the smelting plant is guarded by our mine personnel. Our customer China National Gold is responsible for delivering gold dore bars, and therefore we do not insure against losses arising from thefts or misappropriation that may take place during the delivery of gold dore bars or our concentrate products.

OCCUPATIONAL HEALTH AND SAFETY

We operate in a responsible manner to ensure the health and safety of our employees, contractors and the communities in which we operate. We are committed to meeting applicable legal requirements and where possible seek to implement leading international industry standards in our

BUSINESS

operations. Our commitment to occupational health and safety extends to our highest levels of management, as we have established a Safety, Health and Environmental Committee reporting directly to our Board of Directors. This committee is responsible for formulating appropriate workplace health and safety-related policies and standards.

We are subject to PRC national and local production and mine safety laws and regulations as described in “PRC Laws and Regulations Relating to the Industry — Laws and Regulations Relating to Production Safety”. Production safety permit has been obtained for the CSH Mine.

A comprehensive set of internal occupational health and safety policies has been adopted for the CSH Mine and Jiama Mine. The safety and environmental protection department at each of the CSH Mine and Jiama Mine conducts staff training, reviews internal safety procedures, carries out site safety inspections on a regular basis and continuously monitors the implementation of safety policies. We have adopted an internal safety and management procedures handbook, which contains guidelines with respect to occupational safety, covering safety production measures, procedures for handling chemicals and explosive materials and emergency plans. Relevant PRC occupational safety laws and regulations are also set out in this handbook.

We conduct occupational safety training for our new hires as well as existing staff. All of our equipment operators must be properly licensed, and our safety management staff members are certified by the relevant safety regulatory authorities. We conduct annual health examinations for our mining personnel. Protective equipment and clothing are regularly provided to our mine personnel, and we regularly check proper usage of such equipment.

We require our contractors to possess appropriate qualifications in their contracted tasks and in production safety. We provide regular training to our contractors, who work under the supervision of our safety and environmental protection department. In addition, we require our contractors to enter into production safety contracts with us pursuant to which our contractors shall undertake appropriate safety measures.

We have been in compliance with relevant occupational health and safety laws and regulations in all material aspects. Up to the Latest Practicable Date, the CSH Mine and the Jiama Mine had not had any major or catastrophic incidents related to the health or safety of our employees, contractors or communities in which it operates, except for one fatal incident at the CSH Mine in July 2008 arising at the fault of a third-party contractor. This incident did not involve any breach of safety production regulations or other fault on our part. As a result of this incident, we have required our contractors to enhance employee safety training and implementation of their operating procedures.

ENVIRONMENTAL PROTECTION AND COMMUNITY DEVELOPMENT

Our operations are subject to various PRC laws and regulations with respect to environmental protection and environmental rehabilitation as described under “PRC Laws and Regulations Relating to the Industry — Laws and Regulations Relating to Environmental Protection”. Our policy is to develop and manage operations with a view to minimizing pollution and environmental impact and maintaining sensitivities to local cultural and community expectations. Three of the major environmental issues in the mining industry are management of wastewater, tailings and dust. We have implemented various measures to address those environmental issues and minimize the impact of our operations on the environment. Our PRC legal advisers have advised us that, up to the Latest Practicable Date, other than the rehabilitation undertaking and rehabilitation deposits described below,

BUSINESS

each of the CSH Mine and Jiama Mine has been in compliance with relevant environmental laws and regulations in all material respects.

Cyanide Leakage Prevention and Monitoring

We have installed leakage prevention system under the leach pads at the CSH Mine to prevent leakage of sodium cyanide. In addition, we have drilled various holes around the leach pad sites to monitor quality of ground water and detect leakage of sodium cyanide.

Recycling and Reuse of Water

Water reuse and recycling systems have been installed at the CSH Mine to recycle water discharged from the processing plant for use in mineral processing and dust suppression. Similarly, the Jiama Mine is being developed as a zero discharge operation and all used process and tailings storage facility drainage waters are to be recycled. Under the water reuse and recycling system, top-up water is drawn from bores and any mine pump-out water is recycled and reused for processing and dust suppression in the mine. Monitoring of water quality will be undertaken regularly to ensure the pH and other measures are at an acceptable level. With the annual evaporation rate higher than national average in Tibet, this system is especially valuable in that it not only saves water and protects the environmental by discharging zero wastewater but also lowers our production costs.

Dry Heaping of Tailings

At the Jiama Mine, pressure filtration and dry heaping of tailings are employed whereby tailings are pressed and filtered into dry tailings and the water is recycled and reused. This technology reduces the size of the tailings and reduces the demand for fresh water.

Dust Mitigation

The ore processing facilities at the CSH Mine and Jiama Mine are designed to be environmentally friendly. Dust collectors and exhaust fans fitted with filters have been installed at the CSH Mine and Jiama Mine processing facilities, and water is regularly sprayed to reduce dust. In addition, special chemicals will be sprayed on the top of the tailings to mitigate dust at the Jiama Mine.

Rehabilitation

Rehabilitation includes measures such as covering tailing dams with clay and rock, back filling slopes and planting vegetation to stabilize the area and to prevent erosion. Our PRC legal advisers have advised us that in accordance with the applicable PRC laws and regulations, each of CSH Mine and Jiama Mine is required to submit rehabilitation undertakings and pay rehabilitation deposits to the Department of Land and Resources of Inner Mongolia and Tibet, respectively.

The relevant national regulation on the submission of rehabilitation undertakings and payment of rehabilitation deposits became effective on May 1, 2009, while the Tibet and Inner Mongolia local rules were promulgated in 2003 and 2008, respectively. See “PRC Laws and Regulations relating to the Industry — Other Relevant Laws and Regulations — Laws and Regulations relating to Geological Environment Protection”. CSH CJV became aware of the relevant requirement in 2008, shortly after the promulgation of the local rules, and initiated the contact with the Department of Land and Resources of Inner Mongolia regarding the amount and payment schedule of rehabilitation deposits.

BUSINESS

On January 21, 2010, CSH CJV submitted rehabilitation undertakings as approved by the Department of Land and Resources of Inner Mongolia and paid the rehabilitation deposits of RMB5,421,219 as specified in the undertakings. Another instalment of the same amount will be due in three years thereafter. As CSH CJV obtained its mining right before the relevant rules were promulgated, we believe there is no late submission on the part of CSH CJV.

Shortly after China National Gold acquired Huatailong in April 2008, China National Gold procured Huatailong to contact the Department of Land and Resources of Tibet regarding the amount and payment schedule of rehabilitation deposits. Huatailong submitted proposed rehabilitation undertakings in respect of the Jiama Mine and on December 26, 2009, it received the approval of such submission from the Department of Land and Resources of Tibet. Pursuant to the approval, Huatailong is required to pay rehabilitation deposits in a total amount of RMB34,980,000 in installments within five years after the approval date. Pursuant to the approval, the Department of Land and Resources of Tibet did not impose any penalty in relation to the late submission of the undertakings by Huatailong. Huatailong paid the first installment of RMB1,500,000 in January 2010. We will continue to pay the remaining installments when they become due after we acquire Skyland Group. Huatailong has undertaken to make full payment of the remaining installments within five years from the approval date as required by the Department of Land and Resources of Tibet. During such period, Huatailong is to determine the amount and timing of each installment of the remaining rehabilitation deposits. The payment of the remaining rehabilitation deposits will be funded with Huatailong's operating cash flow.

According to the relevant PRC law and regulations, the rehabilitation deposits are the special fund for the rehabilitation works of a specific mine. When the mining enterprise has discharged its obligation of environmental and geological rehabilitation as provided for in its environmental and geological rehabilitation plan and when such rehabilitation work has passed the inspection of the local land and resources authority, the local land and resources authority will refund the deposits and interest thereon based on the performance of the rehabilitation obligations by such mining enterprise.

Both the CSH Mine and Jiama Mine have in place internal handbooks on environmental management, which set out, among other things, the environmental protection controls and measures adopted by the management and assign the duties in relation to environmental issues to different responsible departments. The safety and environmental department of each of IMPM and Huatailong conducts regular inspection of the implementation of environmental protection control policies and measures. For the years ended December 31, 2007, 2008 and 2009, we expended US\$0.9 million, US\$0.8 million and US\$0.7 million on environmental protection and Skyland Group expended nil, US\$0.4 million and US\$1.8 million on environmental protection. The environmental protection costs of our Company and Skyland Group are budgeted at US\$4.6 million and US\$1.1 million, respectively, for the year ending December 31, 2010, and US\$0.5 million and US\$1.9 million, respectively, for the year ending December 31, 2011.

Community Development

We have a policy of protecting local social heritage and culture, assisting community and social development and supporting the public interest initiatives in the local community. At the CSH Mine, more than half of our work forces are hired locally, and at least half of the local employees are female. The Jiama Mine has also employed a significant number of local residents. The non-Tibetan employees at the Jiama Mine are encouraged to learn the Tibetan language. According to the Jiama Technical Report, the operations at the Jiama Mine have provided the local community with new employment

BUSINESS

opportunities and improved transportation, communication, drinking water supply and other infrastructure.

REAL PROPERTIES

Our Group

Land

As of September 30, 2010, we held granted land use rights to a parcel of land with a site area of approximately 99,535.0 square meters.

We have also leased a parcel of collectively-owned land in China with an area of approximately 12,261,395.0 square meters, of which we hold a state-owned land use right certificate for a portion of the land with a site area of approximately 99,535.0 square metres and a short-term land use right for a term of two years for an area of approximately 909,958.0 square metres. We have used the land with a site area of approximately 99,535.0 square meters primarily for an office building, a processing plant and staff quarters and the land with a site area of approximately 909,958.0 square meters primarily for our heap leaching facility. We have not occupied or constructed, nor do we have any current plans to occupy or construct, any buildings or structures on the remaining portion of the land with a site area of approximately 11,251,902.0 square meters. Accordingly, we believe that the title defects with respect to this site area of 11,251,902.0 square meters will not have a material and adverse effect on our business operations. CSH CJV signed the lease agreement with the site area in excess of its current needs for the purposes of ensuring that CSH CJV will have adequate land for future expansion. CSH CJV has no current plan to use the land. If any parcel of the land needs to be used for production expansion in the future, CSH CJV will apply for the short-term land use rights in accordance with the relevant legal procedures and other requirements.

Buildings

As of September 30, 2010, we owned 70 buildings in China with a total gross floor area of approximately 39,939.4 square meters. We have obtained building ownership certificates for 69 buildings with a total gross floor area of approximately 39,863.8 square meters. Among those 69 buildings, nine buildings (all of which were vacant) with a total gross floor area of approximately 1,769.1 square meters were constructed on a parcel of land for which no state-owned land use right certificate has been issued. With respect to the nine buildings, our PRC legal advisers have advised us that, as these buildings are currently vacant and as we have no plans to occupy such buildings, the title defects with respect to these nine vacant buildings will not likely have a material and adverse effect on our business operations. For the other building used for office purposes with a gross floor area of approximately 75.6 square meters, we have applied for a state-owned land use right certificate and a building ownership right certificate. Our PRC legal advisers have advised us that, if we follow the required legal procedures in applying for the state-owned land use right certificate and building ownership certificate, there shall be no legal impediment for us to obtain those certificates.

As of September 30, 2010, we also leased a unit with a gross floor area of approximately 146 square meters, which is located in China. The unit is used for office purpose. Our PRC legal advisers have advised us that the relevant lessor has not obtained valid title certificate for the office unit with a gross floor area of approximately 146 square meters. The lessor, however, has provided a written undertaking to us to confirm that it has valid title to the leased property and indemnify us from any losses we may incur as a result of any dispute relating to the title of the leased property.

BUSINESS

We also leased office space with a gross floor area of approximately 333.0 square meters in Canada.

Details of all of the above properties are set out in “Appendix IV — Property Valuation” to this prospectus.

The Directors of our Company are of view that the lack of title certificates of the defective properties owned or leased by our Company, either on an individual or aggregated basis, are not crucial to our Company’s operations primarily for the following reasons:

- ***Properties with defective titles that are owned by our Company***
 - In respect of 9 buildings (all of which were vacant) which were constructed on a parcel of land without state-owned land use rights certificate, the Company’s PRC legal advisers have advised that, as these buildings have been vacant since 2007 and as CSH CJV has no plans to occupy such buildings, the title defects with respect to these 9 vacant buildings will not likely have a material and adverse effect on CSH CJV’s business operations.
 - In respect of an office unit, CSH CJV has applied for relevant state-owned land use right certificate and building ownership certificate. The Company’s PRC legal advisers have advised that, if CSH CJV follows the required legal procedures in applying for the state-owned land use right certificate and the building ownership certificate, there shall be no legal impediment to obtain those certificates. And CSH CJV has been applying for those certificates in compliance with required legal procedures.
- ***Properties with defective titles leased by our Company***
 - In respect of a portion of leased collectively-owned land with a site area of approximately 11,251,902 sq.m., CSH CJV has no plan to use it at present. If it is required to use it for the purpose of enlarging production scale in the future, CSH CJV will apply for the short-term land use rights in compliance with required legal procedures in advance.
 - In respect of the office unit leased by Dadiangou CJV, the lessor has provided a written undertaking to confirm that it has valid title to the leased property and indemnify Dadiangou CJV from any losses as a result of any dispute relating to the title of the leased property; and Dadiangou CJV can search for new location easily at any time if it is required to relocate related operations.

We believe that with respect to those defective properties owned or leased by our Company for which we do not expect to obtain the relevant title certificates in the near future and which are currently in use, the related operations could be easily relocated at no significant costs, if needed.

Skyland Group

Land

As of September 30, 2010, Huatailong held granted land use rights to six parcels of land in China with a total site area of approximately 517,991.7 square meters. All of these parcels of land are used for industrial purposes.

BUSINESS

Huatailong also leased 10 parcels of collectively-owned land in our mine sites with a total site area of approximately 2,091,820.22 square meters, for which we have obtained short-term land use rights approvals issued by the Mozhuogongka County Programming Bureau of Land and Resource for a term of two years. Huatailong currently does not have any above-ground buildings. It is legal for Huatailong to use the 10 parcels of land according to the terms, conditions and the use of the land as approved by the competent PRC authorities. Also, Huatailong can apply for extending the term of land use rights one month before the expiry date of relevant short-term land use rights approvals on the condition of compliance with relevant PRC laws.

Buildings

As of September 30, 2010, Huatailong owned 35 buildings in China with a total gross floor area of approximately 45,273.82 square meters. Huatailong currently does not possess the building ownership certificates with respect to these buildings. With respect to the 2 buildings with a total gross floor area of approximately 4,096.8 square meters, our Directors believe that because (i) such buildings are used for temporary storage and thus not essential for Huatailong's operations and (ii) as Huatailong plans to demolish the building upon completion of its mine construction in the future, the lack of building ownership certificates will not likely have a material and adverse effect on Huatailong's business operations. With respect to the 33 newly completed buildings with a total gross floor area of approximately 41,177 square meters, Huatailong has obtained all requisite construction permits, and there shall be no material legal impediment to obtain relevant Building Ownership Certificates on condition that these buildings have passed the completion and acceptance inspection and Huatailong can follow the required legal procedures in applying for title registration.

Huatailong also leased and occupied five buildings with a total gross floor area of approximately 3,790.2 square meters. The relevant lessors have obtained the building ownership certificates for two buildings with a total gross floor area of approximately 412.2 square meters. The relevant lessors have not obtained building ownership certificates for the remaining three buildings with a total gross floor area of approximately 3,378.0 square meters. These three buildings are used as ancillary facilities or for office or residential purposes. The relevant lessors for three buildings with a total gross floor area of approximately 3,378.0 square meters have each provided a written undertaking to Huatailong to confirm that it has valid title to the leased property and indemnify Huatailong from any losses it may incur as a result of any dispute relating to the title of the leased property.

Details of all of the above properties are set out in "Appendix IV — Property Valuation" to this prospectus.

The Directors of our Company are of view that the lack of title certificates of the defective properties owned or leased by Skyland, either on an individual or aggregated basis, are not crucial to Skyland's operations primarily for the following reasons:

- Properties with defective titles owned by Skyland
 - In respect of 33 newly completed buildings without building ownership certificates, Huatailong has obtained all requisite construction permits, and there shall be no material legal impediment to obtain relevant Building Ownership Certificates on condition that these buildings have passed the completion and acceptance inspection and Huatailong can follow the required legal procedures in applying for title registration. Huatailong expects to obtain the certificates in 2011.

BUSINESS

- Properties with defective titles leased by Skyland
 - In respect of Huatailong's 3 leased properties without valid title certificates. The lessors have provided 3 written undertakings to confirm that they have valid titles to the leased properties and indemnify Huatailong from any losses as a result of any dispute relating to the titles of these leased properties; and Huatailong can search for new location easily at any time if it is required to relocate related operations.

We believe that with respect to those defective properties owned or leased by Skyland Group for which Skyland Group do not expect to obtain the relevant title certificates in the near future and which are currently in use, the related operations could be easily relocated at no significant costs, if needed.

EMPLOYEES

As of the Latest Practicable Date, we had a total of 365 full-time employees. The following table shows a breakdown of our employees by function:

<u>Functions</u>	<u>Employees as of the Latest Practicable Date</u>
Operations ⁽¹⁾	281
Administration	62
Accounting/finance	15
Management	<u>7</u>
Total	<u>365</u>

(1) Less than 30 of these employees were engaged in exploration and mining related work, as we have outsourced all exploration and mining work. The remaining employees were engaged in processing and other related works.

As of the Latest Practicable Date, the Skyland Group had 640 full-time employees. The following table shows a breakdown of the Skyland Group's employees by function:

<u>Functions</u>	<u>Employees as of the Latest Practicable Date</u>
Operations ⁽¹⁾	488
Administration	135
Accounting/finance	9
Management	<u>8</u>
Total	<u>640</u>

(1) Less than 20 of these employees were engaged in exploration and mining related work, as the Skyland Group has outsourced all exploration and mining work. The remaining employees were engaged in processing and other related works.

We recognize the importance of a good relationship with our employees. The remuneration payable to the our employees includes salaries and allowances. We continue to provide training for our staff to enhance technical and product knowledge as well as knowledge of industry quality standards and work place safety standards.

During the Track Record Period, we have not experienced any significant problems with our employees or disruption to our operations due to labor disputes, nor have we experienced any difficulties in the recruitment and retention of experienced staff. We believe that we have a good working relationship with our employees.

For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our employee costs (including Directors' and senior management's emoluments) were US\$3.9

BUSINESS

million, US\$4.2 million, US\$1.0 million and US\$0.7 million, respectively, and Skyland's employee costs (including directors' and senior management's emoluments) were nil, US\$3.0 million, US\$6.6 million and US\$4.5 million, respectively.

We and Skyland make contributions to mandatory social security funds for the employees to provide for retirement, medical, work-related injury, maternity and unemployment benefits. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, our employee benefit contributions were approximately US\$84,000, US\$0.2 million, US\$35,000 and US\$19,000, respectively, and Skyland's employee benefit contributions were nil, US\$25,000, US\$0.2 million and US\$82,000, respectively.

Dadiangou CJV has not arranged for registration of employment insurance nor paid the relevant expense for its only two employees. According to the relevant PRC law and regulations, our PRC legal advisers are of view that, as a consequence of the non-registration and our non-payment of employment insurance, the Dadiangou CJV may be ordered to pay all the outstanding employment insurance premium for its employees or to make the compensation to its unemployed former employee who is unable to receive the unemployment insurance payments as a result of such non-compliance. Based on the advice of Haiwen & Partners, our PRC legal advisers, and given the fact the Dadiangou CJV currently only has two employees, we are of the view that the aggregate maximum compensation payable to the affected employees is immaterial.

Save as disclosed above, we are in compliance with the PRC laws and regulations relating to mandatory social security funds and housing funds in all material aspects.

INSURANCE

Consistent with the PRC industry practice, our Company and Huatailong maintain property insurance for certain of their assets as well as business interruption and liability insurances.

In addition, pursuant to the PRC Work-Related Injury Insurance Regulations (工傷保險條例), PRC employers of all types of enterprises shall participate in work-related injury insurance and pay work-related injury insurance premiums for all employees in their work unit in accordance with the regulations. We have maintained such personal injury insurance for our relevant PRC employees. We are also in compliance with the applicable PRC laws and regulations relating to work-related injury insurance in all material aspects.

INTERNAL CONTROL

We focus on enhancing our internal control and risk management systems. Our Board of Directors and senior management assume the overall responsibilities for overseeing the implementation of our internal controls and procedures. Our management discovered a material weakness in internal control over financial reporting as of December 31, 2008. Such material weakness related to the following aspects:

- (a) Control environment: we did not have sufficient communication with and education for some of the incoming personnel about the Company's Code of Conduct, whistle blowing procedures, and the internal control and regulatory financial reporting requirements as a Canadian public company. This was identified as part of the process in which the management and board changes occurred in later 2008;

BUSINESS

- (b) Management override: certain management members of the CSH CJV circumvented and overrode internal control over financial reporting procedures on several occasions; and
- (c) Fraud risk assessment: we had not conducted a comprehensive fraud risk assessment.

While each of these factors represented a procedural weakness in the internal control reporting environment of our Company, there was no evidence of actual loss or misstatement in the financial affairs of our Company resulting from such deficiencies. A thorough review of our internal control system was conducted by management as part of audit process and specifically by independent consultants retained to review internal controls. There was no evidence of actual malfeasance, misstatement or loss. Since December 31, 2008, our Company has taken and, in certain cases, is continuing to take appropriate steps in an effort to enhance its overall internal control over financial reporting and to address the material weakness identified above. These measures included (a) we together with our Canadian legal counsel held special sessions to communicate and educate new board members and employees about our Company's Code of Conduct, whistle blowing procedures, and the internal control and regulatory financial reporting requirements of a Canadian public company, and will reaffirm these procedures on an annual basis or as needed, (b) we have enhanced the reporting responsibilities of our subsidiaries to the corporate head office to strengthen oversight and monitoring of their activities, (c) we held training sessions for management at the CSH CJV to enhance their understanding of the importance of complying with its existing procedural and other requirements for the delegation of management authority, (d) appropriate disciplinary actions were taken against the individuals involved in the management override described above, (e) we have undertaken a comprehensive fraud risk assessment to identify and evaluate the risk of fraud, and (f) our audit committee will review and monitor on a quarterly basis the progress of the above efforts to improve internal control over financial reporting. We believe that these measures would improve our risk management and internal control systems and prevent material weakness over financial reporting of our Company in the future. See "Risk Factors — Our risk management and internal control systems many not be adequate or effective".

The Directors have not declared a material weakness in the design of the internal controls of the Group since December 31, 2008. In addition, our auditors have considered the Company's internal control relevant to the Group's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. No material weakness in the Company's system design of internal control has come to the attention of the auditors during the 2009 audit.

To further enhance the Group's internal control, an independent internal control consultant was engaged to review and assess the internal control procedures of the Group. An initial review was conducted in October 2009 with some deficiencies identified and a follow-up review was performed in May 2010. The Directors confirmed that none of such deficiencies has caused material adverse effect on, or serious disruption to, the business operations and finance of the Group. The Group has taken remedial measures to address such deficiencies and no further internal control deficiencies were identified during the follow up review.

LEGAL PROCEEDINGS AND COMPLIANCE

As of the Latest Practicable Date, we were not a party to any legal or administrative proceedings that would have a material adverse impact on our operations and financial condition and

BUSINESS

there were no claims in relation to exploration rights made or notified either by third parties against us or vice versa.

As of the Latest Practicable Date, the Skyland Group was not a party to any legal or administrative proceedings that would have a material adverse impact on its operations and financial condition and there were no claims in relation to exploration rights made or notified either by third parties against the Skyland Group or vice versa.

We are subject to a wide variety of laws and regulations in the ordinary course of our business operations and other activities. See “PRC Laws and Regulations relating to the Industry.” We have established a committee to supervise our overall legal compliance. We have also established a safety, health and environment committee, which has the responsibility to ensure that appropriate performance targets and benchmarks are in place for the fulfillment of the health, safety and environmental obligations of the Group and to ensure on-going compliance with the relevant regulatory requirements. We also from time to time provide training on regulatory requirements to our employees, and remain in close contact with the relevant regulatory authorities with the view to keeping abreast of any major regulatory developments that may have a significant impact on our business and operations. Except for certain property title defects and the non-registration and non-payment of employment insurance for Dadiangou CJV disclosed under “— Real Properties” and “— Employees” and the exploration permits for the Jiama Mine which have recently expired and the renewal applications of which have been submitted to the relevant PRC authority, and the production safety permits of Jiama Mine which are in the process of being obtained, our PRC legal advisers are of view that we are in compliance with the relevant PRC laws and regulations and have maintained all the permits and licenses necessary for our operations in all material aspects.