

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong



德勤·關黃陳方會計師行  
香港金鐘道 88 號  
太古廣場一座 35 樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

November 17, 2010

The Directors

China Gold International Resources Corp. Ltd. (formerly known as Jinshan Gold Mines Inc.)  
Citigroup Global Markets Asia Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Skyland Mining Limited (the “Skyland”) and its subsidiaries (hereinafter collectively referred to as the “Skyland Group”) for each of the three years ended December 31, 2007, 2008 and 2009 and six months ended June 30, 2010 (the “Relevant Periods”) for inclusion in the prospectus of China Gold International Resources Corp. Ltd. (formerly known as Jinshan Gold Mines Inc.) (“China Gold International”) dated November 17, 2010 (“the Prospectus”) in connection with the dual primary listing of the shares of China Gold International in The Stock Exchange of Hong Kong Limited and the proposed acquisition of the entire equity interests in Skyland by China Gold International.

Skyland was incorporated in Cayman Islands as an exempted company with limited liability on October 6, 2004 and through various transfers of shares in Skyland during 2008, Skyland became a non-wholly-owned subsidiary of China National Gold Group Corporation (“CNG”). CNG is a state-owned enterprise registered in the People’s Republic of China (“PRC”). Details of the holding companies during the Relevant Periods are set out in Note 29 to Section A of this report.

The Skyland Group is principally engaged in the exploration, development and mining of mineral properties in the PRC.

All subsidiaries of Skyland have adopted December 31 as their financial year end dates. As of the date of this report, Skyland owns directly or indirectly the entire equity interests of the following subsidiaries and details of Skyland’s interests in these subsidiaries at December 31, 2007, December 31, 2008, December 31, 2009 and June 30, 2010 are as follows:

Name of subsidiary	Place of incorporation and operation/ date of incorporation	Registered capital	Equity interest attributable to the Skyland Group			At June 30, 2010	Principal activities
			At December 31, 2007	2008	2009		
西藏嘉爾通礦業開發有限公司 (“Jia Ertong”)	PRC October 31, 2003	US\$55,000,000	100%	100%	100%	100%	Exploration, development and mining of mineral properties and investment holding

Name of subsidiary	Place of incorporation and operation/ date of incorporation	Registered capital	Equity interest attributable to the Skyland Group			At June 30, 2010	Principal activities
			At December 31,				
			2007	2008	2009		
西藏華泰龍礦業開發有限公司 ("Huatailong")	PRC January 11, 2007	RMB371,800,000	N/A (note a)	100%	100%	100%	Exploration, development and mining of mineral properties
墨竹工卡縣甲瑪工貿有限公司 ("Jiama Industry and Trade")	PRC December 1, 2009	RMB5,000,000	N/A	N/A	51%	51%	Mining logistics and transport business

*Notes:*

- (a) Jia Ertong acquired the entire equity interest of Huatailong in May 2008. The acquisition is accounted for as acquisition of assets and liabilities through acquisition of a subsidiary as there was no mining operation of Huatailong at the date of acquisition.
- (b) Jiama Industry and Trade was incorporated by Huatailong and a non-controlling shareholder on December 1, 2009. The non-controlling shareholder of Jiama Industry and Trade is 墨竹工卡縣甲瑪經濟合作社 ("甲瑪經濟合作社"), an independent third party to the Skyland Group. The Skyland Group holds 51% indirect equity interest in Jiama Industry and Trade through Huatailong. The Group has the power to govern the financial and operating policies of Jiama Industry and Trade.

The statutory financial statements of the following group entities for each of the three years ended December 31, 2007, 2008 and 2009, or since their respective dates of incorporation, where this is a shorter period, were prepared in accordance with the generally accepted accounting principles in the PRC and were audited by the following certified public accountants registered in the PRC:

Name of subsidiary	Financial period	Name of auditors
Jia Ertong	Year ended December 31, 2007	西藏大德信會計師事務所有限公司
	Year ended December 31, 2008	中瑞岳華會計師事務所有限公司
	Year ended December 31, 2009	天職國際會計師事務所有限公司
Huatailong	For period from January 11, 2007 to December 31, 2007	西藏大德信會計師事務所有限公司
	Year ended December 31, 2008	中瑞岳華會計師事務所有限公司
	Year ended December 31, 2009	天職國際會計師事務所有限公司
Jiama Industry and Trade	For period from December 1, 2009 to December 31, 2009	天職國際會計師事務所有限公司

No audited financial statements have been prepared for Skyland since its date of incorporation to December 31, 2007 as it is incorporated in country where it is not subject to statutory audit requirement. To comply with the requirements for subsidiaries of state-owned enterprises in the PRC, the directors of Skyland prepared the consolidated financial statements of the Skyland Group for the years ended December 31, 2008 and 2009 in accordance with generally accepted accounting principles in the PRC and these consolidated financial statements were audited by 中瑞岳華會計師事務所有限公司 and 天職國際會計師事務所有限公司 respectively, certified public accountants registered in the PRC.

For the purpose of preparing this report, the directors of Skyland prepared the consolidated financial statements of the Skyland Group for the Relevant Periods in accordance with International Financial Reporting Standards ("IFRSs") (the "Underlying Financial Statements"). The Underlying Financial Statements have been audited by us in accordance with International Standards on Auditing issued by International Auditing and Assurance Standards Board. We have examined the Underlying Financial Statements and performed such additional procedures as necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to the Underlying Financial Statements for the Relevant Periods in preparing the Financial Information.

The directors of Skyland are responsible for preparing the Underlying Financial Statements and the directors of China Gold International are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon, for the purpose of this report, gives a true and fair view of the state of affairs of the Skyland Group and Skyland as of December 31, 2007, 2008 and 2009 and June 30, 2010 and of the results and cash flows of the Skyland Group for the Relevant Periods.

The comparative consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Skyland Group for the six months ended June 30, 2009 together with the notes thereon have been extracted from the Skyland Group's financial information for the same period (the "June 2009 Financial Information") which was prepared by the directors of Skyland solely for the purpose of this report. We conducted our review in accordance with the International Standards on Review Engagement 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity". Our review of the June 2009 Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the June 2009 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2009 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information, which conform with International Financial Reporting Standards.

## A. FINANCIAL INFORMATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended December 31,			Six months ended June 30,	
		2007 US\$	2008 US\$	2009 US\$	2009 US\$ (Unaudited)	2010 US\$
Revenue .....	6	—	—	—	—	917,250
Cost of sales .....		—	—	—	—	(710,348)
		—	—	—	—	206,902
Other income .....	8	231,933	330,046	142,853	62,845	183,590
Exploration and evaluation expenditure ..		—	(13,171,016)	—	—	—
Administrative expenses .....		(3,848)	(2,953,143)	(4,802,128)	(2,046,878)	(2,213,672)
Other expenses .....	9	—	(299,183)	(6,811,176)	(1,057,153)	(4,745,850)
Finance costs .....	10	—	(790,762)	(1,510,485)	(602,011)	(1,935,580)
Income (loss) before income tax .....		228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,504,610)
Income tax .....	11	—	—	—	—	(24,113)
Income (loss) for the year/period .....	12	228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,528,723)
Other comprehensive (loss) income, representing exchange difference arising on translation .....		(70,385)	(285,183)	18,574	10,340	49,760
<b>Total comprehensive income (loss) for the year/period .....</b>		<u>157,700</u>	<u>(17,169,241)</u>	<u>(12,962,362)</u>	<u>(3,632,857)</u>	<u>(8,478,963)</u>
Income (loss) for the year/period attributable to:						
Owners of Skyland .....		228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,562,886)
Non-controlling interests .....		—	—	—	—	34,163
		<u>228,085</u>	<u>(16,884,058)</u>	<u>(12,980,936)</u>	<u>(3,643,197)</u>	<u>(8,528,723)</u>
<b>Total comprehensive income (loss) for the year/period attributable to:</b>						
Owners of Skyland .....		157,700	(17,169,241)	(12,962,362)	(3,632,857)	(8,515,247)
Non-controlling interests .....		—	—	—	—	36,284
		<u>157,700</u>	<u>(17,169,241)</u>	<u>(12,962,362)</u>	<u>(3,632,857)</u>	<u>(8,478,963)</u>

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31,			As of
		2007	2008	2009	June 30,
		US\$	US\$	US\$	2010
				US\$	
<b>Non-current assets</b>					
Property, plant and equipment	15	—	18,161,009	98,361,523	145,980,033
Prepaid lease payments	16	—	—	3,573,002	3,555,834
Intangible assets	17	—	42,847,731	42,948,451	43,227,060
Other receivables	18	—	237,832	732,257	957,163
Amounts due from a non-controlling shareholder of a subsidiary	19	—	—	358,806	409,371
Deposit paid for acquisition of property, plant and equipment		—	8,577,242	18,874,617	20,388,911
		—	69,823,814	164,848,656	214,518,372
<b>Current assets</b>					
Inventories		—	—	—	1,207
Trade receivables, other receivables and prepayments	18	694,207	1,909,724	658,297	2,141,431
Prepaid lease payments	16	—	—	73,185	73,587
Cash and cash equivalents	20	563	4,893,935	5,584,297	36,788,414
		694,770	6,803,659	6,315,779	39,004,639
<b>Total assets</b>		694,770	76,627,473	171,164,435	253,523,011
<b>Current liabilities</b>					
Accounts payables and accrued expenses	21	1,583,526	7,449,866	15,030,546	19,290,621
Advance received from a customer	21	—	—	—	36,813,972
Amounts due to related companies	22	—	24,760,326	10,746,976	19,805,386
Tax payable		—	—	—	21,114
		1,583,526	32,210,192	25,777,522	75,931,093
<b>Non-current liabilities</b>					
Amounts due to related companies	22	—	16,094,578	34,274,747	34,816,654
Bank loans	23	—	—	95,193,462	131,860,284
Deferred income	24	—	—	—	3,475,239
		—	16,094,578	129,468,209	170,152,177
<b>Total liabilities</b>		1,583,526	48,304,770	155,245,731	246,083,270
<b>Owners' equity</b>					
Share capital	25	1,000,000	47,380,700	47,380,700	47,380,700
Reserves		(1,888,756)	(19,057,997)	(31,820,802)	(40,336,049)
Equity attributable to owners of Skyland		(888,756)	28,322,703	15,559,898	7,044,651
Non-controlling interests		—	—	358,806	395,090
<b>Total (deficiency) equity</b>		(888,756)	28,322,703	15,918,704	7,439,741
<b>Total liabilities and equity</b>		694,770	76,627,473	171,164,435	253,523,011
<b>Net current liabilities</b>		(888,756)	(25,406,533)	(19,461,743)	(36,926,454)
<b>Total assets less current liabilities</b>		(888,756)	44,417,281	145,386,913	177,591,918

## STATEMENTS OF FINANCIAL POSITION

	Notes	As of December 31,			As of
		2007	2008	2009	June 30,
		US\$	US\$	US\$	2010
					US\$
<b>Non-current assets</b>					
Investment in a subsidiary	26	2,089,768	59,377,002	59,377,002	59,377,002
Amounts due from a subsidiary	26	149	4,715,554	5,062,264	28,920,980
		<u>2,089,917</u>	<u>64,092,556</u>	<u>64,439,266</u>	<u>88,297,982</u>
<b>Current assets</b>					
Other receivables and prepayment	18	694,207	—	6,765	2,875
Cash and cash equivalents	20	260	10,401	1,050,291	54,047
		<u>694,467</u>	<u>10,401</u>	<u>1,057,056</u>	<u>56,922</u>
<b>Total assets</b>		<u>2,784,384</u>	<u>64,102,957</u>	<u>65,496,322</u>	<u>88,354,904</u>
<b>Current liabilities</b>					
Accounts payables and accrued expenses	21	1,583,526	17,053	24,206	22,948
Amounts due to related companies	22	—	330,053	10,204,063	11,730,703
		<u>1,583,526</u>	<u>347,106</u>	<u>10,228,269</u>	<u>11,753,651</u>
<b>Non-current liabilities</b>					
Amounts due to related companies	22	—	16,094,578	10,603,309	34,180,315
		<u>—</u>	<u>16,094,578</u>	<u>10,603,309</u>	<u>34,180,315</u>
<b>Total liabilities</b>		<u>1,583,526</u>	<u>16,441,684</u>	<u>20,831,578</u>	<u>45,933,966</u>
<b>Owners' equity</b>					
Share capital	25	1,000,000	47,380,700	47,380,700	47,380,700
Reserves	28	200,858	280,573	(2,715,956)	(4,959,762)
<b>Total equity</b>		<u>1,200,858</u>	<u>47,661,273</u>	<u>44,664,744</u>	<u>42,420,938</u>
<b>Total liabilities and equity</b>		<u>2,784,384</u>	<u>64,102,957</u>	<u>65,496,322</u>	<u>88,354,904</u>
<b>Net current liabilities</b>		<u>(889,059)</u>	<u>(336,705)</u>	<u>(9,171,213)</u>	<u>(11,696,729)</u>
<b>Total assets less current liabilities</b>		<u>1,200,858</u>	<u>63,755,851</u>	<u>55,268,053</u>	<u>76,601,253</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of Skyland					Non-controlling interests	Total equity
	Share capital	Other reserve	Cumulative translation reserve	Deficit	Total		
	US\$	US\$	US\$	US\$	US\$		
At January 1, 2007 . . . . .	1,000,000	—	(14,968)	(2,130,706)	(1,145,674)	—	(1,145,674)
Exchange difference arising on translation . .	—	—	(70,385)	—	(70,385)	—	(70,385)
Income for the year . . . . .	—	—	—	228,085	228,085	—	228,085
Total comprehensive (loss) income for the year . . . . .	—	—	(70,385)	228,085	157,700	—	157,700
Additional contribution by an ex-shareholder of a subsidiary (note a) . . . .	—	99,218	—	—	99,218	—	99,218
At December 31, 2007 . . .	1,000,000	99,218	(85,353)	(1,902,621)	(888,756)	—	(888,756)
Exchange difference arising on translation . .	—	—	(285,183)	—	(285,183)	—	(285,183)
Loss for the year . . . . .	—	—	—	(16,884,058)	(16,884,058)	—	(16,884,058)
Total comprehensive loss for the year . . . . .	—	—	(285,183)	(16,884,058)	(17,169,241)	—	(17,169,241)
Issue of new shares . . . . .	46,380,700	—	—	—	46,380,700	—	46,380,700
At December 31, 2008 . . .	47,380,700	99,218	(370,536)	(18,786,679)	28,322,703	—	28,322,703
Exchange difference arising on translation . .	—	—	18,574	—	18,574	—	18,574
Loss for the year . . . . .	—	—	—	(12,980,936)	(12,980,936)	—	(12,980,936)
Total comprehensive income (loss) for the year . . . . .	—	—	18,574	(12,980,936)	(12,962,362)	—	(12,962,362)
Deemed contribution from shareholders (note b) . .	—	199,557	—	—	199,557	—	199,557
Incorporation of non-wholly owned subsidiary (Note 19) . .	—	—	—	—	—	358,806	358,806
At December 31, 2009 . . .	47,380,700	298,775	(351,962)	(31,767,615)	15,559,898	358,806	15,918,704
Exchange difference arising on translation . .	—	—	47,639	—	47,639	2,121	49,760
Loss for the period . . . . .	—	—	—	(8,562,886)	(8,562,886)	34,163	(8,528,723)
Total comprehensive income (loss) for the period . . . . .	—	—	47,639	(8,562,886)	(8,515,247)	36,284	(8,478,963)
At June 30, 2010 . . . . .	47,380,700	298,775	(304,323)	(40,330,501)	7,044,651	395,090	7,439,741

	Attributable to owners of Skyland					Non-controlling interests	Total equity
	Share Capital	Other reserve	Cumulative translation reserve	Deficit	Total		
	US\$	US\$	US\$	US\$	US\$		
<b>For the six months ended June 30, 2009 (Unaudited)</b>							
At January 1, 2009 . . . . .	47,380,700	99,218	(370,536)	(18,786,679)	28,322,703	—	28,322,703
Exchange difference arising on translation . . . . .	—	—	10,340	—	10,340	—	10,340
Loss for the period . . . . .	—	—	—	(3,643,197)	(3,643,197)	—	(3,643,197)
Total comprehensive loss for the period . . . . .	—	—	10,340	(3,643,197)	(3,632,857)	—	(3,632,857)
At June 30, 2009 . . . . .	<u>47,380,700</u>	<u>99,218</u>	<u>(360,196)</u>	<u>(22,429,876)</u>	<u>24,689,846</u>	<u>—</u>	<u>24,689,846</u>

*Notes:*

- (a) The amount represents part of the capital that should be refunded to an ex-shareholder of Jia Ertong when the entire equity interest of Jia Ertong was acquired by Skyland in 2005, but was subsequently waived by the ex-shareholder of Jia Ertong during the year ended December 31, 2007.
- (b) Deemed contribution from shareholders represents fair value adjustment on interest free advances from shareholders of Skyland as set out in Note 22(a) and (c).

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Note	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$	US\$
				(Unaudited)	
<b>OPERATING ACTIVITIES</b>					
Income (loss) before income tax	228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,504,610)
Adjustments for:					
Depreciation	—	64,121	703,254	354,845	427,616
Amortization of intangible assets	—	—	—	—	11,027
Bank interest income	—	(43,100)	(99,789)	(62,569)	(19,677)
Finance costs	—	790,762	1,510,485	602,011	1,935,580
Gain on disposal of exploration rights	(171,348)	—	—	—	—
Written off property, plant and equipment	—	—	121,439	—	—
Impairment loss on other receivables	—	—	—	—	175,075
Operating cash flows before movements in working capital	56,737	(16,072,275)	(10,745,547)	(2,748,910)	(5,974,989)
Change in non-cash operating working capital items:					
Inventories	—	—	—	—	(1,207)
Trade receivables, other receivables and prepayments	38,895	(502,033)	1,253,217	(1,058,097)	(1,654,593)
Accounts payables and accrued expenses	(111,826)	6,311,217	7,423,511	(1,716,617)	(7,779,422)
Advance received from a customer	—	—	—	—	36,813,972
Amounts due to related companies	—	—	19,444	—	(4,799)
Cash (used in) generated from operations	(16,194)	(10,263,091)	(2,049,375)	(5,523,624)	21,398,962
Income tax paid	—	—	—	—	(2,999)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(16,194)</b>	<b>(10,263,091)</b>	<b>(2,049,375)</b>	<b>(5,523,624)</b>	<b>21,395,963</b>
<b>INVESTING ACTIVITIES</b>					
Property, plant and equipment additions	—	(15,964,616)	(75,044,687)	(21,307,876)	(31,012,388)
Deposits for acquisition of property, plant and equipment	—	(8,437,552)	(12,623,664)	(18,239,203)	(4,250,067)
Prepaid lease payments	—	—	(359,288)	—	—
Intangible assets additions	—	(37,583,105)	(60,531)	(51,924)	(43,026)
Proceed from disposal of exploration rights	171,348	—	—	—	—
Acquisition of a subsidiary	27	(504,905)	—	—	—
Repayment from an ex-shareholder of Skyland	—	694,207	—	—	—
Repayment from an ex-shareholder of Huatailong	—	25,519,275	—	—	—
Advance to PRC local government/land administration bureau	—	(237,832)	(3,792,459)	(3,792,459)	(220,884)
Interest received	—	43,100	99,789	62,569	19,677
Advance to a non-controlling shareholder of a subsidiary	—	—	—	—	(48,594)
Government grant received	—	—	—	—	3,475,239
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>171,348</b>	<b>(36,471,428)</b>	<b>(91,780,840)</b>	<b>(43,328,893)</b>	<b>(32,080,043)</b>
<b>FINANCING ACTIVITIES</b>					
Net proceed from the issue of shares	—	46,380,700	—	—	—
Advance from related companies	—	7,282,311	47,875,793	—	31,233,291
Repayment to related companies	—	—	(44,063,134)	(23,910,282)	(23,457,315)
Repayment to an ex-shareholder of Skyland	—	(1,577,149)	—	—	—
Repayment to an ex-shareholder of Jia Ertong	(156,782)	—	—	—	—
New bank loans	—	—	95,141,908	95,141,908	36,143,958
Interest paid	—	(458,010)	(4,460,573)	(1,471,292)	(2,024,733)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(156,782)</b>	<b>51,627,852</b>	<b>94,493,994</b>	<b>69,760,334</b>	<b>41,895,201</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,628)</b>	<b>4,893,333</b>	<b>663,779</b>	<b>20,907,817</b>	<b>31,211,121</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(162)	39	26,583	1,934	(7,004)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD</b>	<b>2,353</b>	<b>563</b>	<b>4,893,935</b>	<b>4,893,935</b>	<b>5,584,297</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD</b>	<b>563</b>	<b>4,893,935</b>	<b>5,584,297</b>	<b>25,803,686</b>	<b>36,788,414</b>

**NOTES TO THE FINANCIAL INFORMATION****1. GENERAL**

Skyland together with its subsidiaries are principally engaged in the exploration, development and mining of mineral properties in the PRC and provision of mine logistic and transport service.

The address of the registered office of Skyland is Scotia centre, 4<sup>th</sup> Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and the principal place of business of Skyland Group is No. 34 Jinzhu Zhong Road, Lhasa City, Tibet Autonomous Region, the PRC.

The functional currency of Skyland and its subsidiaries is Renminbi ("RMB"). To conform with the presentation currency of China Gold International, the Financial Information is presented in United States Dollar ("US\$").

**2. BASIS OF PREPARATION**

In preparing the Underlying Financial Statements of the Skyland Group, the directors of Skyland have given careful consideration that the Skyland Group and Skyland has net current liabilities of US\$36,926,454 and US\$11,696,729 respectively and deficit of US\$40,330,501 and US\$5,272,054 respectively as of June 30, 2010. Taking into consideration a syndicated loan facility amounting to RMB750,000,000 (equivalent to approximately US\$110,441,000) was secured on June 4, 2010 and RMB554,550,000 (equivalent to approximately US\$81,727,000) remained available for drawdown from the date of this report and up to June 4, 2013, the directors of Skyland are satisfied that the Skyland Group and Skyland will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Underlying Financial Statements and the Financial Information have been prepared on a going concern basis.

**3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The International Accounting Standards Board (the "IASB") issued a number of new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and related Interpretations ("IFRICs") which are effective for the Skyland Group's financial year beginning on or after January 1, 2010 (hereinafter collectively referred to as the "new IFRSs"). For the purpose of preparing and presenting the Financial Information of the Relevant Periods, the Skyland Group has consistently early adopted all these new IFRSs which are effective for the accounting period beginning on January 1, 2010 throughout the Relevant Periods, except for IFRS 3 (Revised 2008), which has been applied for business combination for which the acquisition date is on or after January 1, 2010 and IAS 27 (Revised 2008) which has been applied for accounting period beginning on January 1, 2010.

At the date of this report, the IASB has issued the following new and revised standards, amendments and interpretations which are not yet effective. The Skyland Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the Financial Information for the Relevant Periods.

IFRSs (Amendments)	Improvements to IFRSs issued in May 2010 <sup>(1)</sup>
IAS 24 (Revised)	Related Parties Disclosures <sup>(2)</sup>
IAS 32 (Amendments)	Classification of Rights Issues <sup>(3)</sup>
IFRS 1 (Amendment)	Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters <sup>(5)</sup>
IFRS 7 (Amendments)	Disclosures — Transfer of Financial Assets <sup>(6)</sup>
IFRS 9	Financial Instruments <sup>(4)</sup>
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirements <sup>(2)</sup>
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments <sup>(5)</sup>

*Notes:*

- (1) Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate
- (2) Effective for annual periods beginning on or after January 1, 2011
- (3) Effective for annual periods beginning on or after February 1, 2010
- (4) Effective for annual periods beginning on or after January 1, 2013
- (5) Effective for annual periods beginning on or after July 1, 2010
- (6) Effective for annual periods beginning on or after July 1, 2011

The directors of Skyland anticipate that the application of the new and revised standards, interpretations or amendments will have no material impact on the consolidated financial statements of the Skyland Group.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis and in accordance with the following accounting policies which conform with IFRSs. These policies have been consistently applied throughout the Relevant Periods. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

##### *Basis of consolidation*

These consolidated financial statements include the financial statements of Skyland and entities controlled by Skyland (its subsidiaries). Control exists when Skyland has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

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

Non-controlling interests in subsidiaries are presented separately from the equity of the owners of Skyland.

##### *Allocation of total comprehensive income to non-controlling interests*

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

***Investment in a subsidiary***

Investment in a subsidiary is included in Skyland's statements of financial position at cost less any impairment loss.

***Revenue recognition***

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

Service income from logistic and transport service is recognized when services are provided.

Interest income is recognized in the profit or loss as it accrues, using the effective interest method.

***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Skyland Group recorded in respective functional currency (i.e. RMB) are translated into the presentation currency of the Skyland Group (i.e. US\$) at the rate of exchange prevailing at the end of the reporting periods, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized as a separate component of equity (the cumulative translation reserve).

***Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

***Government grants***

Government grants are recognised in profit or loss on a systematic basis over the periods in which Skyland Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

***Retirement benefit costs***

Contributions to state-managed retirement benefits scheme are charged as expenses when employees have rendered services entitling them to the contributions.

***Property, plant and equipment***

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use.

***Depreciation***

Property, plant and equipment, other than construction in progress, are depreciated using the straight-line method over the estimated useful lives of the related assets, after taking into account their residual value.

Construction in progress representing assets under construction in connection with mining operations are depreciated when they are substantially complete and available for their intended use, over their respective estimated useful lives using the straight-line method or the unit of production method based on the actual production volume over the estimated total proven and probable reserves of the mines, as appropriate.

***Exploration and evaluation expenditure***

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

The directors of Skyland evaluate the following criteria in its assessment of economic recoverability and probability of future economic benefit:

- Geology: whether or not there is sufficient geologic and economic certainty of being able to convert a residual mineral deposit into a proven and probable reserve at a development stage or production stage mine, based on the known geology and metallurgy. A history of conversion of resources to reserves at operating mines to support the likelihood of conversion.
- Scoping: there is a scoping study or preliminary feasibility study that demonstrates the additional resources will generate a positive commercial outcome. Known metallurgy provides a basis for concluding there is a significant likelihood of being able to recoup the incremental costs of extraction and production.
- Accessible facilities: mineral property can be processed economically at accessible mining and processing facilities where applicable.

- Life of mine plans: an overall life of mine plan and economic model to support the mine and the economic extraction of resources/reserves exists. A long-term life of mine plan, and supporting geological model identifies the drilling and related development work required to expand or further define the existing ore body.
- Authorizations: operating permits and feasible environmental programs exist or are obtainable.

Therefore prior to capitalizing such costs, the directors of Skyland determine that the following conditions have been met:

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

### ***Development expenditure***

Drilling and related costs incurred to define and delineate a mineral deposit at a development stage mine are capitalized as part of mining assets in the period incurred, when the directors of Skyland determine that there is sufficient evidence that the expenditure will result in a probable future economic benefit to the Skyland Group.

### ***Intangible assets***

#### ***Mining rights***

Mining rights with definite useful lives are carried at cost less accumulated amortization and any accumulated impairment loss. Amortization is provided using the unit of production method based on the actual production volume over the estimated total proven and probable reserves of the ore mines.

#### ***Other intangible assets acquired separately***

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Amortization for other intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

### ***Inventory***

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

### ***Leasing***

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

*The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

*Prepaid lease payments*

The prepaid lease payments represent upfront payments for land use rights are initially recognized at cost and charged to profit or loss over the lease term on a straight-line basis, except for those are capitalized to the cost of construction in progress until such time as the assets are substantial ready for their intended use.

*Taxation*

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

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the Skyland Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited in other comprehensive income or directly to equity, in which case the deferred tax is also dealt with in other comprehensive income or in equity.

*Financial instruments*

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

*Financial assets*

Financial assets of Skyland and the Skyland Group are classified as loans and receivables. Loans and receivables including trade and other receivables, amount due from an ex-shareholder of Skyland, amounts due from a subsidiary, amounts due from a non-controlling shareholder of a subsidiary and cash and cash equivalents are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

*Effective interest method*

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

Interest income is recognized on an effective interest basis.

*Impairment of financial assets*

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, an impairment loss is recognized in profit or loss when there is objective evidence that the assets is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

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

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

#### *Financial liability and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Skyland Group's accounting policy for financial liabilities are described below.

#### Financial liabilities

Financial liabilities including account payables, other payables, amount due to an ex-shareholder of Skyland, retention payable, accrued expenses, amounts due to related companies and bank loans are subsequently measured at amortized cost, using the effective interest method.

#### Effective interest method

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

Interest expense is recognized on an effective basis.

#### Equity instruments

Equity instruments issued by Skyland are recorded at the proceeds received, net of direct issue costs.

#### *Derecognition*

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Skyland Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

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

#### ***Impairment of tangible and intangible assets***

At the end of each reporting period, the Skyland Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

### **5. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the accounting policies of Skyland Group, which are described in Note 4, the directors of Skyland have considered the following key sources of estimation uncertainty that have significant effect on the amounts recognized in the Financial Information. The key assumptions concerning the future, and other key sources of estimation uncertainty at June 30, 2010, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months, are discussed below.

#### ***Impairment of the construction in progress and mining assets included in property, plant and equipment and intangible assets in connection with mining operations***

Construction in progress representing assets under construction at December 31, 2008, December 31, 2009 and June 30, 2010 amounting to US\$15,633,193, US\$90,488,310, US\$134,504,052 respectively, mining assets amounting to US\$5,416,152 and US\$6,752,386 at December 31, 2009 and June 30, 2010 respectively and mining rights acquired at December 31, 2008, December 31, 2009 and June 30, 2010 amounting to US\$42,824,906, US\$42,865,045 and US\$43,100,488 respectively. These assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable or annually as required by relevant IFRSs. Determination as to how much an asset is impaired involve the estimates and judgment of the directors of Skyland such as future prices of copper, lead and silver etc., production profile and the estimation of the mining reserves. Any unfavorable changes may cause the assets to become impaired.

### **6. REVENUE**

Revenue for the six months ended June 30, 2010 represents the amounts received and receivable for provision of logistic and transport services, net of sales taxes, by Jiama Industry and Trade.

## 7. SEGMENT INFORMATION

The Skyland Group principally operates one mine, namely Jiama Mine in the PRC and is in development stage of mining operations. During 2009, it commenced provision of mine logistic and transport service.

During the three years ended December 31, 2009 and the six months ended June 30, 2010, the Skyland Group has not yet commenced production and there were no revenue from sales of minerals recognized. The revenue for the six months ended June 30, 2010 represents the logistic and transport service fee income generated by Jiama Industry and Trade.

The directors of Skyland, the chief operating decision maker, considered the Skyland Group's operations as a single operating segment and reviewed the consolidated financial statements prepared under the generally accepted accounting principles in the PRC ("PRC GAAP"), for the purposes of resource allocation and assessment of performance.

All non-current assets of Skyland Group are located in the PRC.

Segment revenue is the same as revenue reported in the consolidated statement of comprehensive income.

The following is a reconciliation of the Skyland Group's segment results to (loss) income for the year/period reported under IFRSs for the Relevant Periods:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$	US\$
				(unaudited)	
Segment results, representing (loss) income for the year/period prepared under PRC GAAP	(448,270)	171,477	(2,070,760)	(741,031)	(2,860,520)
Adjustments (note)	676,355	(17,055,535)	(10,910,176)	(2,902,166)	(5,668,203)
Income (loss) for the year/period reported under IFRSs	<u>228,085</u>	<u>(16,884,058)</u>	<u>(12,980,936)</u>	<u>(3,643,197)</u>	<u>(8,528,723)</u>
	As of December 31,			As of June 30,	
	2007	2008	2009	2010	
	US\$	US\$	US\$	US\$	
<b>Assets</b>					
Segment assets, representing total assets prepared under PRC GAAP	694,770	93,683,008	199,130,146	287,165,925	
Adjustment (note)	—	(17,055,535)	(27,965,711)	(33,633,914)	
Total assets reported under IFRSs	<u>694,770</u>	<u>76,627,473</u>	<u>171,164,435</u>	<u>253,523,011</u>	

No reconciliations of segment revenue and liabilities are prepared as the total revenue and liabilities prepared under PRC GAAP is the same as that reported under IFRSs.

*Note:* Adjustment for the year ended December 31, 2007 represents the adjustment of exploration and evaluation expenses which should be recognized in previous periods. The adjustments in other periods mainly relate to exploration and evaluation expenditure and other expenses which are capitalized as long-term deferred assets, intangible assets or property, plant and equipment under the PRC GAAP financial statements of the Skyland Group. According to the accounting policy of Skyland Group under PRC GAAP, all exploration and evaluation expenditure are capitalized. According to the accounting policy of China Gold International under IFRSs, exploration and evaluation expenditure are expensed as incurred to the date of establishing that costs incurred are economically recoverable. In addition, the adjustment also includes charging other expenses which do not meet the capitalization criteria under IFRS to profit or loss in the period it incurred.

**8. OTHER INCOME**

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$ (Unaudited)	US\$
Bank interest income	—	43,100	99,789	62,569	19,677
Net exchange gain	59,003	264,615	6,446	276	157,580
Gain on disposal of exploration rights (note)	171,348	—	—	—	—
Others	1,582	22,331	36,618	—	6,333
	<u>231,933</u>	<u>330,046</u>	<u>142,853</u>	<u>62,845</u>	<u>183,590</u>

*Note:* The amount represents sale proceeds from disposal of exploration rights to an independent third party in 2007, the corresponding cost incurred for the exploration and evaluation has been written off before 2007 as there was no proven and probable reserve when the expense incurred.

**9. OTHER EXPENSES**

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$ (Unaudited)	US\$
Staff cost (Note a)	—	299,183	3,797,004	662,432	2,373,708
Written off property, plant and equipment	—	—	121,439	—	—
Listing expenses	—	—	2,204,956	—	1,544,558
Impairment loss on other receivable (Note 18)	—	—	—	—	175,075
Others (Note b)	—	—	687,777	394,721	652,509
	<u>—</u>	<u>299,183</u>	<u>6,811,176</u>	<u>1,057,153</u>	<u>4,745,850</u>

*Notes:*

- (a) Staff cost incurred by mine operation departments during the Relevant Periods was included in other expenses. As the Jiama Mine has not yet commenced production during the Relevant Periods, such non-administrative nature expenses are classified as other expenses.
- (b) The amount includes technical consultation fee and other expenses incurred by mine operation departments and donation made by the Group during the Relevant Periods.

**10. FINANCE COSTS**

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$ (Unaudited)	US\$
Interest on:					
— loans from related companies repayable within five years (note a)	—	1,356,550	2,055,990	1,169,072	1,581,851
— loan from an ex-shareholder of Huatailong repayable within five years	—	84,095	—	—	—
— bank loans repayable more than five years	—	—	3,049,360	1,098,632	2,024,733
— advance received from a customer (Note 21)	—	—	—	—	518,993
	<u>—</u>	<u>1,440,645</u>	<u>5,105,350</u>	<u>2,267,704</u>	<u>4,125,577</u>
Less: amount capitalized to construction in progress (note b)	<u>—</u>	<u>(649,883)</u>	<u>(3,594,865)</u>	<u>(1,665,693)</u>	<u>(2,189,997)</u>
	<u>—</u>	<u>790,762</u>	<u>1,510,485</u>	<u>602,011</u>	<u>1,935,580</u>

*Notes:*

- (a) Included in interest on loans from related companies for the year ended December 31, 2009 and the six months ended June 30, 2010 is imputed interest amounting to US\$16,193 and US\$48,418 respectively on interest-free loans from related companies as set out in Note 22.
- (b) All borrowing costs capitalized during the Relevant Periods mainly arose from bank loans and loans from related companies borrowed specifically for the purpose of obtaining qualifying asset as set out in Notes 22 and 23.

**11. INCOME TAX**

No provision for PRC Enterprise Income Tax has been made for the three years ended December 31, 2009 as Skyland and its subsidiaries have no assessable profit. Tax expense of US\$24,113 represents provision for PRC Enterprise Income Tax for the six months ended June 30, 2010, which is calculated at 15% of the assessable profit of Jiama Industry and Trade.

On March 16, 2007, the PRC government promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations has changed the statutory tax rate from 33% to 25%.

Under the New Law and Implementation Regulations regarding the westward development area, for domestic enterprise established in the westward development area of the PRC, the preferential tax rate of 15% would be effective until 2010. Therefore, for the Relevant Periods, Huatailong and Jiama Industry and Trade are subject to PRC Enterprise Income Tax at 15% of taxable income as they are established in westward development area (西部大開發地區) of the PRC.

For foreign investment enterprises established in the westward development area of the PRC, the preferential tax rate of 10% in year 2007 gradually increased to 15% during the transitional period at a tax rate of 10%, 12% and 15% in year 2008, 2009 and 2010 respectively. Therefore, for the Relevant Periods, Jia Ertong is subject to PRC Enterprise Income Tax at 10%, 10%, 12% and 15% of its taxable income for each of the three years ended December 31, 2009 and the six months ended June 30, 2010 respectively, as Jia Ertong is a wholly foreign owned enterprise established in westward development area (西部大開發地區) of the PRC.

No Hong Kong profits tax was provided for as Skyland Group had no assessable profit arising in or derived from Hong Kong.

The income tax for the Relevant Periods can be reconciled to the income (loss) for the year/period before income tax per the consolidated statements of comprehensive income as follows:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$	US\$
Income (loss) before income tax . . . . .	228,085	(16,884,058)	(12,980,936)	(3,643,197)	(8,504,610)
Applicable PRC Enterprise Income Tax rate (15%) . . . . .					
Tax at applicable PRC Enterprise Income Tax rate . . . . .	34,213	(2,532,609)	(1,947,140)	(546,480)	(1,275,692)
Tax effect (utilization) of tax losses not recognized . . . . .	183,165	251,662	(125)	9,277	(90,220)
(Utilisation) tax effect of deductible temporary differences not recognized . . . . .	(203,922)	2,182,317	1,251,376	398,620	870,829
Tax effect of income not taxable for tax purpose . . . . .	(8,844)	(39,733)	(968)	(40)	—
Tax effect of expenses not deductible for tax purpose . . . . .	574	138,230	688,342	138,623	519,196
Tax effect of different tax rates of Jia Ertong . . . . .	(5,186)	133	8,515	—	—
Income tax expenses for the year/period . . . . .	—	—	—	—	24,113

At December 31, 2007, December 31, 2008, December 31, 2009 and June 30, 2010, Skyland Group has unused tax losses of approximately US\$1,753,000, US\$3,811,000, US\$3,821,000 and US\$1,119,000 respectively available for offset against future profits. At December 31, 2007, December 31, 2008, December 31, 2009 and June 30, 2010, the deductible temporary differences are approximately nil, US\$17,479,000, US\$25,890,000 and US\$31,863,000, respectively. Deductible temporary difference mainly arises from exploration and evaluation expenditure that are recorded as long-term deferred assets or intangible assets under PRC GAAP but expensed under IFRSs as incurred. No deferred tax asset has been recognized in respect of these amounts due to the unpredictability of future profit streams. Included in the unused tax losses at December 31, 2008, December 31, 2009 and June 30, 2010 is tax loss amounting to approximately US\$1,700,000 approved by PRC tax authority with expiry dates in 2013 to 2014.

## 12. INCOME (LOSS) FOR THE YEAR/PERIOD

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$	US\$
				(Unaudited)	
Income (loss) for the year/period has been arrived at after charging:					
Auditor's remuneration	791	1,877	5,855	—	5,864
Amortization of intangible assets included in administrative expenses	—	—	—	—	11,027
Depreciation	—	64,121	703,254	354,845	427,616
Release of prepaid lease payments	—	—	13,066	—	36,632
Less: Amount capitalized in construction in progress	—	—	(13,066)	—	(36,632)
Operating lease for rented premises	—	47,651	73,339	24,146	34,893
Staff costs					
Directors' emoluments (Note 13)	—	—	—	—	—
Other staff costs	—	2,988,076	6,338,000	1,745,315	4,369,452
Retirement benefit costs excluding directors	—	25,166	247,423	119,788	82,063
Total staff costs	—	3,013,242	6,585,423	1,865,103	4,451,515
Less: Amount capitalized in construction in progress	—	(1,084,714)	(377,430)	(300,215)	(1,488,407)
Total staff costs charged to profit or loss	—	1,928,528	6,207,993	1,564,888	2,963,108
Total staff cost charged to profit or loss, representing:					
Staff costs included as exploration and evaluation expenditure	—	98,885	—	—	—
Staff costs included as administrative expenses	—	1,530,460	2,410,989	902,456	589,400
Staff costs included as other expenses	—	299,183	3,797,004	662,432	2,373,708
Total	—	1,928,528	6,207,993	1,564,888	2,963,108

**13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS***Directors*

During the Relevant Periods, no emoluments were paid by the Skyland Group, its parent, its ultimate holding or their affiliates to the directors of Skyland as compensation for the service provided to the Skyland Group nor as an inducement to join or upon joining the Skyland Group or Skyland or as compensation for loss of office. None of the directors of Skyland has waived any emoluments during the Relevant Periods.

*Five highest paid individuals*

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$	US\$
Employees					
— salaries and other benefits . . . . .	—	465,235	486,828	121,595	104,320
— retirement benefit contributions . . . . .	—	8,661	12,672	2,250	5,264
	—	473,896	499,500	123,845	109,584

The compensations paid to each individual employee during each of the Relevant Periods are below HK\$1,000,000.

During the Relevant Periods, no emoluments were paid by the Skyland Group to the five highest paid individuals as an inducement to join or upon joining the Skyland Group or Skyland or as compensation for loss of office.

**14. DIVIDEND**

No dividends have been paid or declared by Skyland during the Relevant Periods.

## 15. PROPERTY, PLANT AND EQUIPMENT

*THE SKYLAND GROUP*

	Machinery and equipments	Buildings	Furniture and office equipment	Motor vehicles	Mining assets	Construction in progress	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>Cost</b>							
As of January 1, 2007 and December 31, 2007 . . . .	—	—	—	—	—	—	—
Acquisition of a subsidiary (Note 27) . . . . .	12,567	—	30,025	611,526	—	703,973	1,358,091
Additions . . . . .	412,628	870,121	137,346	157,314	—	15,037,090	16,614,499
Transfer . . . . .	—	320,230	—	—	—	(320,230)	—
Exchange realignment . . . .	5,780	15,796	2,550	16,905	—	212,360	253,391
As of December 31,							
2008 . . . . .	430,975	1,206,147	169,921	785,745	—	15,633,193	18,225,981
Additions . . . . .	215,464	133,839	68,786	333,512	5,413,615	74,805,409	80,970,625
Written off . . . . .	—	(197,931)	—	—	—	—	(197,931)
Exchange realignment . . . .	506	1,101	191	893	2,537	49,708	54,936
As of December 31,							
2009 . . . . .	646,945	1,143,156	238,898	1,120,150	5,416,152	90,488,310	99,053,611
Additions . . . . .	101,731	—	26,593	2,542,421	1,300,739	43,327,315	47,298,799
Exchange realignment . . . .	4,003	6,279	1,430	17,384	35,495	688,427	753,018
As of June 30, 2010 . . . . .	752,679	1,149,435	266,921	3,679,955	6,752,386	134,504,052	147,105,428
<b>Accumulated depreciation</b>							
As of January 1, 2007 and December 31, 2007 . . . .	—	—	—	—	—	—	—
Charge for the year . . . . .	2,389	—	14,095	47,637	—	—	64,121
Exchange realignment . . . .	32	—	187	632	—	—	851
As of December 31,							
2008 . . . . .	2,421	—	14,282	48,269	—	—	64,972
Charge for the year . . . . .	184,161	396,106	36,335	86,652	—	—	703,254
Eliminated on written off . . . . .	—	(76,492)	—	—	—	—	(76,492)
Exchange realignment . . . .	89	150	29	86	—	—	354
As of December 31,							
2009 . . . . .	186,671	319,764	50,646	135,007	—	—	692,088
Charge for the period . . . .	119,238	163,270	17,308	127,800	—	—	427,616
Exchange realignment . . . .	1,552	2,478	355	1,306	—	—	5,691
As of June 30, 2010 . . . . .	307,461	485,512	68,309	264,113	—	—	1,125,395
<b>Carrying value</b>							
At December 31, 2007 . . .	—	—	—	—	—	—	—
At December 31, 2008 . . .	428,554	1,206,147	155,639	737,476	—	15,633,193	18,161,009
At December 31, 2009 . . .	460,274	823,392	188,252	985,143	5,416,152	90,488,310	98,361,523
At June 30, 2010 . . . . .	445,218	663,923	198,612	3,415,842	6,752,386	134,504,052	145,980,033

The property, plant and equipment, other than construction in progress and mining assets, are depreciated over their estimated useful lives, after taking into account their residual value. The estimated useful lives of the property, plant and equipment are as follows:

Machinery and equipments	2 to 10 years
Buildings	Over the shorter of 20 years or term of lease
Furniture and office equipment	5 years
Motor vehicles	10 years

Construction in progress represents construction cost incurred for building infrastructure of mining site and setting up mineral selection and processing machinery. Construction in progress will be reclassified to respective category of property, plant and equipment depending on their nature when completed and ready for use and are depreciated accordingly. Property, plant and equipment other than mining assets will be depreciated over their respective estimated useful lives while mining assets will be amortized using the unit of production method based on the actual production volume over the estimated total proven and probable reserves of the mines.

Mining assets consist of development costs capitalized for Jiama Mine, when Skyland determined by way of a feasibility study that Jiama Mine had economically recoverable reserves.

During the year ended December 31, 2009, Skyland Group has written off buildings with carrying value of US\$121,439, which represents buildings acquired together with various mining rights during the year ended December 31, 2008. As such buildings will not be used in the future, the amount is fully written off.

Included in the cost above is US\$649,883, US\$4,244,748 and US\$6,434,745 as of December 31, 2008, December 31, 2009 and June 30, 2010 respectively related to finance costs which has been capitalized as construction in progress and buildings.

## 16. PREPAID LEASE PAYMENTS

### *THE SKYLAND GROUP*

	US\$	
As of January 1, 2007, December 31, 2007 and December 31, 2008 .....	—	
Additions .....	3,657,545	
Capitalized in construction in progress .....	(13,066)	
Exchange realignment .....	1,708	
As of December 31, 2009 .....	3,646,187	
Capitalized in construction in progress .....	(36,632)	
Exchange realignment .....	19,866	
As of June 30, 2010 .....	<u>3,629,421</u>	
	<u>As of</u>	<u>As of</u>
	<u>December 31,</u>	<u>June 30,</u>
	<u>2009</u>	<u>2010</u>
	<u>US\$</u>	<u>US\$</u>
Analyzed for reporting purposes as:		
Current assets .....	73,185	73,587
Non-current assets .....	<u>3,573,002</u>	<u>3,555,834</u>
	<u>3,646,187</u>	<u>3,629,421</u>

Prepaid lease payments represent payments for land use rights for lands located in the PRC. The Group's land use rights are under medium-term lease which is 50 years from date of acquisition in October and November of 2009.

The acquisition cost of the land use right during the year ended December 31, 2009 is partially offset by advances to the local land administration bureau (墨竹工卡縣土管局) in the PRC amounted to US\$237,832 and US\$3,060,425 during the year ended December 31, 2008 and 2009 respectively.

## 17. INTANGIBLE ASSETS

### THE SKYLAND GROUP

	<u>Mining rights</u>	<u>Others</u>	<u>Total</u>
	US\$	US\$	US\$
<b>Cost</b>			
As of January 1, 2007 and December 31, 2007 .....	—	—	—
Acquisition of a subsidiary (Note 27) .....	4,529,643	—	4,529,643
Additions .....	37,560,654	22,451	37,583,105
Exchange realignment .....	734,609	374	734,983
As of December 31, 2008 .....	42,824,906	22,825	42,847,731
Additions .....	—	60,531	60,531
Exchange realignment .....	40,139	50	40,189
As of December 31, 2009 .....	42,865,045	83,406	42,948,451
Additions .....	—	53,547	53,547
Exchange realignment .....	235,443	695	236,138
As of June 30, 2010 .....	<u>43,100,488</u>	<u>137,648</u>	<u>43,238,136</u>
<b>Amortization</b>			
As of January 1, 2007 and December 31, 2007, 2008 and 2009 .....	—	—	—
Charge for the period .....	—	11,027	11,027
Exchange realignment .....	—	49	49
As of June 30 2010 .....	<u>—</u>	<u>11,076</u>	<u>11,076</u>
<b>Carrying Values</b>			
December 31, 2007 .....	<u>—</u>	<u>—</u>	<u>—</u>
December 31, 2008 .....	<u>42,824,906</u>	<u>22,825</u>	<u>42,847,731</u>
December 31, 2009 .....	<u>42,865,045</u>	<u>83,406</u>	<u>42,948,451</u>
As of June 30, 2010 .....	<u>43,100,488</u>	<u>126,572</u>	<u>43,227,060</u>

Mining rights represent mining rights in Jiama Mine acquired through acquisition of a subsidiary and various mining rights of sites nearby Jiama Mine. The mining rights will expire in 2013 and in the opinion of the directors of Skyland, the Skyland Group will be able to renew the mining rights with the relevant government authority continuously. Other intangible assets represent mineral selection software.

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

Amortization for other intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Amortization on other intangible assets is provided for the mineral selection software used for the six months ended June 30, 2010 amounted to US\$11,027.

The recoverable amount of the mining rights held by Skyland Group has been determined based on a value in use calculation covering a 10-year period, being the first phase of the production of Jiama Mine. The calculation uses cash flows projections based on financial budgets approved by the directors of Skyland covering a 10-year period. The discount rate used in the cash flow projections is 9%. Other key assumptions for the value in use calculations relate to the estimation of production capacity level of Jiama Mine, as Jiama Mine is still in development stage and no production is noted during the Relevant Periods, such estimation is based on the latest reserve report for proven reserve issued in January 2009 and expectations of the directors of Skyland for the market development. No impairment is noted during the Relevant Periods.

The directors of Skyland believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of intangible assets of the Skyland Group.

## 18. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

### THE SKYLAND GROUP

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
				US\$
Trade receivables	—	—	—	666,959
Other receivables	—	2,147,556	1,383,789	2,563,634
Less: Impairment	—	—	—	(175,075)
	—	2,147,556	1,383,789	2,388,559
Amount due from an ex-shareholder of Skyland (note)	694,207	—	—	—
Prepayment	—	—	6,765	43,076
	694,207	2,147,556	1,390,554	3,098,594
Represented by:				
Other receivables — non-current portion	—	237,832	732,257	957,163
Trade receivable, other receivables and prepayments — current portion	694,207	1,909,724	658,297	2,141,431
	694,207	2,147,556	1,390,554	3,098,594

Trade receivables as of June 30, 2010 represent logistic and transport service income receivable.

Customers are provided with credit terms within 90 days.

The following is an aged analysis of trade receivables based on invoice date as of 30 June 2010:

	As of
	June 30,
	2010
	US\$
0-30 days	152,917
31-90 days	485,840
91-180 days	28,202
	666,959

Other receivables — current portion mainly represent temporary payment to employees and other tax paid on behalf of and recoverable from suppliers for construction work. The temporary payment to employees will be used to settle expenses of the Skyland Group while the other tax paid on behalf of and recoverable from suppliers for construction work will be used to offset future construction cost payable. No pre-determined credit terms are granted to these counterparties.

Other receivables — non-current portion mainly represent advances to PRC local land administration bureau (墨竹工卡縣土管局). The amount as of December 31, 2008 were used to offset part of the cost of acquisition of land use rights in Tibet, the PRC as set out in Note 16. The amount as of December 31, 2009 and June 30, 2010 mainly represents advances to PRC local land administration bureau for acquisition of properties in Tibet, the PRC, amounting to RMB5,000,000 (equivalent to approximately US\$732,257 and US\$736,279 as of December 31, 2009 and June 30, 2010 respectively). The Skyland Group is still negotiating the terms with the PRC local land administration bureau as of the date of this report. Other receivables at June 30, 2010 also included a deposit of RMB1,500,000 (equivalent to approximately US\$220,884) paid to the PRC local land administration bureau for undertaking the restoration of land to its present condition when the lease term is expired.

During the six months ended June 30, 2010, the Skyland Group has provided full impairment on certain other receivables with age more than one year amounting to US\$175,075 based on past experience of which receivables that are aged beyond one year are generally not recoverable. The directors of Skyland consider the remaining other receivables are not impaired as the amounts will be used to offset future payables to the counterparties and the counterparties are mainly state-owned enterprise or local government body, the credit risk is considered low.

### SKYLAND

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
				US\$
Amount due from an ex-shareholder of Skyland (note) . . . . .	694,207	—	—	—
Prepayment . . . . .	—	—	6,765	2,875
	<u>694,207</u>	<u>—</u>	<u>6,765</u>	<u>2,875</u>

*Note:* The amount due from an ex-shareholder of Skyland as of December 31, 2007 was denominated in US\$, unsecured, interest free and repayable on demand. The amount was fully settled in 2008.

### 19. AMOUNTS DUE FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amounts represent the amount due from 墨竹工卡縣甲瑪經濟合作社, a non-controlling shareholder of a 51% owned subsidiary, Jiama Industry and Trade. Included in the amounts is the registered capital 49% registered capital of Jiama Industry and Trade that contributed by Huatailong on behalf of the non-controlling shareholder amounting to RMB2,450,000 (equivalent to approximately US\$358,806), which is a non-cash transaction for the year ended December 31, 2009.

The amounts are unsecured, interest-free and repayable on demand. As agreed between the Skyland Group and the non-controlling shareholder, the non-controlling shareholder can use future distribution of dividend by Jiama Industry and Trade to settle the amount. The directors of Skyland consider that the amounts due from non-controlling shareholder will not be repayable within one year, therefore, it is classified as non-current assets. The directors of Skyland consider that the fair values of the amounts are approximate to the carrying value.

**20. CASH AND CASH EQUIVALENTS****THE SKYLAND GROUP**

Cash and cash equivalents of the Skyland Group comprise cash and demand deposits with an original maturity of three months or less and are denominated in the following currencies:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US\$	US\$	US\$	US\$
— Denominated in US\$ .....	367	10,618	1,055,437	30,310
— Denominated in HK\$ .....	10	10	—	28,677
— Denominated in RMB .....	186	4,883,307	4,528,860	36,729,427
	<u>563</u>	<u>4,893,935</u>	<u>5,584,297</u>	<u>36,788,414</u>
	2007	2008	2009	2010
Prevailing market interest rates: .....	3.30%	0.36%-0.63%	0.20%-0.36%	0.001%-0.36%

**SKYLAND**

Cash and cash equivalents of Skyland comprise cash and demand deposits with an original maturity of three months or less and are denominated in the following currencies:

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US\$	US\$	US\$	US\$
— Denominated in US\$ .....	250	10,391	1,050,291	25,370
— Denominated in HK\$ .....	10	10	—	28,677
	<u>260</u>	<u>10,401</u>	<u>1,050,291</u>	<u>54,047</u>
	2007	2008	2009	2010
Prevailing market interest rates: .....	3.30%	0.63%	0.20%	0.001%

**21. ACCOUNTS PAYABLE AND ACCRUED EXPENSES/ADVANCE RECEIVED FROM A CUSTOMER****THE SKYLAND GROUP**

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US\$	US\$	US\$	US\$
Accounts payables (note a) .....	—	5,264,390	10,530,263	15,387,182
Other payables .....	6,377	489,873	107,517	374,442
Amount due to an ex-shareholder of Skyland (note b) .....	1,577,149	—	—	—
Retention payable .....	—	—	1,634,462	2,604
Other tax payables .....	—	225,346	822,398	1,067,350
Accrued expenses (note c) .....	—	1,470,257	1,935,906	2,459,043
	<u>1,583,526</u>	<u>7,449,866</u>	<u>15,030,546</u>	<u>19,290,621</u>
Advance received from a customer (note d) .....	—	—	—	36,813,972

The following is an aged analysis of accounts payables at the end of the reporting periods:

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
0-30 days .....	—	4,387,363	10,435,967	7,394,376
31-90 days .....	—	873,335	72,328	2,979,208
Over 90 days .....	—	3,692	21,968	5,013,598
	—	<u>5,264,390</u>	<u>10,530,263</u>	<u>15,387,182</u>

### SKYLAND

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
Other payables .....	6,377	17,053	24,206	22,948
Amount due to an ex-shareholder of Skyland (note b) .....	<u>1,577,149</u>	—	—	—
	<u>1,583,526</u>	<u>17,053</u>	<u>24,206</u>	<u>22,948</u>

#### Notes:

- Accounts payables of Skyland Group principally comprise construction cost payables relating to mineral resources exploration activities. The average credit period taken for construction cost payables are approximately 30 to 90 days.
- Amount due to an ex-shareholder of Skyland as of December 31, 2007 represented the expenses paid on behalf of Skyland by the ex-shareholder of Skyland. The amount was denominated in US\$, unsecured, interest free and repayable on demand. The amount was fully settled in 2008.
- Accrued expenses mainly represent accrual for staff cost and bank loans and other interest.
- In February 2010, Skyland Group entered into a agreement with an independent third party customer, pursuant to which, the customer agreed to provide an interest-free advance to Skyland Group amounting to RMB250,000,000 (equivalent to approximately US\$36,814,000) and Skyland Group agreed to supply mineral products to the customer during the period from January 1, 2010 to January 15, 2011. Skyland Group received the advance in March 2010.

According to the agreement, if Skyland Group fails to supply the first batch of mineral products to the customer on or before June 30, 2010, the advance will be interest bearing at 5.31% per annum during the period from the date of advance received by Skyland Group to the date of delivery of first batch of mineral products to the customer. This agreement is guaranteed by CNG. During the six months ended June 30, 2010, accrued interest of US\$518,993 was recognized as finance costs.

The first batch of mineral products was delivered to the customer in August 2010.

## 22. AMOUNTS DUE TO RELATED COMPANIES

**THE SKYLAND GROUP**

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
				US\$
Loan from Rapid Result Investments Limited ("Rapid Result"), a shareholder of Skyland (note a) . . . . .	—	16,094,578	9,332,597	20,878,854
Loans from CNG (note b) . . . . .	—	23,900,448	23,432,237	7,362,794
Loans from China National Gold Group Hong Kong Limited ("CNG Hong Kong") (note c) . . . . .	—	—	9,713,215	21,731,067
Interest payable on loan from Rapid Result (note d) . . . . .	—	330,053	273,031	730,125
Interest payable on loans from CNG (note e) . . . . .	—	529,825	782,114	1,348,228
Interest payable on loans from CNG Hong Kong (note f) . . . . .	—	—	284,174	807,490
Amount due to Rapid Result (note g) . . . . .	—	—	4,799	—
Amount due to CNG (note g) . . . . .	—	—	14,645	14,726
Listing expenses payable (note h) . . . . .	—	—	1,184,911	1,748,756
	—	40,854,904	45,021,723	54,622,040
Represented by:				
Current liabilities . . . . .	—	24,760,326	10,746,976	19,805,386
Non-current liabilities . . . . .	—	16,094,578	34,274,747	34,816,654
	—	40,854,904	45,021,723	54,622,040

**SKYLAND**

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
				US\$
Loan from Rapid Result (note a) . . . . .	—	16,094,578	9,332,597	20,878,854
Loans from CNG Hong Kong (note c) . . . . .	—	—	9,713,215	21,731,067
Interest payable on loan from Rapid Result (note d) . . . . .	—	330,053	273,031	730,125
Interest payable on loans from CNG Hong Kong (note f) . . . . .	—	—	284,174	807,490
Amount due to Rapid Result (note g) . . . . .	—	—	4,799	—
Amount due to CNG (note g) . . . . .	—	—	14,645	14,726
Listing expenses payable (note h) . . . . .	—	—	1,184,911	1,748,756
	—	16,424,631	20,807,372	45,911,018
Represented by:				
Current liabilities . . . . .	—	330,053	10,204,063	11,730,703
Non-current liabilities . . . . .	—	16,094,578	10,603,309	34,180,315
	—	16,424,631	20,807,372	45,911,018

*Notes:*

(a) The amount at December 31, 2008 represents the loan granted by Rapid Result to Skyland in September 2008. The loan is unsecured, repayable in September 2010 and interest bearing at fixed interest rate of 7.56% per annum. Skyland repaid part of the loan to Rapid Result amounting to approximately US\$7,663,000 during the year end December 31, 2009. The amounts are denominated in RMB.

In November 2009, a loan of US\$980,000 was granted by Rapid Result to Skyland. The amount is unsecured, interest-free and repayable in November 2011. Fair value adjustment of the interest-free loan amounting to US\$97,783, calculated by using discount period of 2 years and an effective interest rate at 5.40% per annum has been recognized in equity. The amounts are denominated in US\$.

In April 2010, a loan of US\$11,515,000 was granted by Rapid Result to Skyland. The amount is unsecured, interest bearing at fixed interest rate of 5.40% per annum and repayable in April 2012. The amount is denominated in US\$.

- (b) The amounts at December 31, 2008 represented the loans granted by CNG to the Skyland Group in September and November 2008. The loans were unsecured, interest bearing at fixed interest rate ranged from 5.58% to 7.2% per annum and repayable in December 2008. The amounts were subsequently fully repaid in April 2009. The amount at December 31, 2009 represented the loan amounting to RMB160,000,000 (equivalent to approximately US\$23,432,000) granted by CNG to the Skyland Group in October 2009, which was unsecured, interest bearing at fixed interest rate at 5.40% per annum and with original maturity date in October 2012 but was fully repaid in April 2010. The amounts are denominated in RMB.

In January and March 2009, loans of RMB46,760,000 (equivalent to approximately US\$6,845,000) and RMB38,550,000 (equivalent to approximately US\$5,643,000) respectively were granted by CNG to the Skyland Group. The amounts were unsecured, interest bearing at fixed interest rate of 5.31% per annum and the amounts were fully repaid in April 2009. The amounts were denominated in RMB.

In January 2010, a loan of RMB50,000,000 (equivalent to approximately US\$7,325,000) was granted by CNG to the Skyland Group. The amount is unsecured, interest bearing at fixed interest rate of 4.86% per annum and repayable in July 2010. The amount is denominated in RMB.

- (c) The amounts represent the loans granted by CNG Hong Kong to the Skyland Group.

In July 2009, a loan of RMB60,000,000 (equivalent to approximately US\$8,783,000) was granted by CNG Hong Kong to Skyland. The amount is unsecured, interest bearing at fixed interest rate of 7.56% per annum and repayable in July 2011. The amounts are denominated in RMB.

In November 2009, a loan of US\$1,020,000 was granted by CNG Hong Kong to Skyland. The amount is unsecured, interest-free and repayable in November 2011. Fair value adjustment of the interest-free loan amounting to US\$101,774, calculated by using discount period of 2 years and an effective interest rate at 5.40% per annum has been recognized in equity. The amounts are denominated in US\$.

In March 2010, a loan of US\$11,985,000 was granted by CNG Hong Kong to Skyland. The amount is unsecured, interest bearing at fixed interest rate of 5.40% per annum and repayable in March 2012. The amount is denominated in US\$.

- (d) The amounts represent the interest payable on loan granted by Rapid Result as set out in note a above.
- (e) The amounts represent the interest payable on loans granted by CNG as set out in note b above.
- (f) The amounts represent the interest payable on loans granted by CNG Hong Kong as set out in note c above.
- (g) Amounts due to Rapid Result and CNG represent the expenses paid on behalf of Skyland. The amounts are interest-free, unsecured and repayable on demand. The amounts are denominated in RMB.
- (h) Listing expense payable is due to China Gold International based on a cost sharing agreement between Skyland and China Gold International entered into in September 2009. Skyland and China Gold International agreed to share equally costs related to the proposed listing of China Gold International on the Stock Exchange of Hong Kong Limited and Skyland has recorded this as an expenses in the profit or loss. CNG is a substantial shareholder of China Gold International.

## 23. BANK LOANS

### THE SKYLAND GROUP

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
				US\$
RMB700,000,000 bank loan from Bank of China .....	—	—	95,193,462	103,079,121
RMB750,000,000 syndicated loan .....	—	—	—	28,781,163
	—	—	95,193,462	131,860,284
	==	==	==	==

During the year ended December 31, 2009, the Group obtained a bank loan facility of RMB700,000,000 from Bank of China. The bank loan of RMB650,000,000 (equivalent to approximately US\$95,141,908) and RMB50,000,000 (equivalent to approximately US\$7,324,612) was drawdown in March 2009 and January 2010 respectively, which carries interest at floating rate based on the People's Bank of China base rate (the interest rate at date of inception of loan agreement is 3.96% per annum) and is repayable in four annual instalments starting from December 28, 2011. RMB200,000,000, RMB200,000,000, RMB150,000,000 and RMB150,000,000 will be repayable on December 28, 2011, December 28, 2012, December 28, 2013 and December 28, 2014 respectively.

On June 4, 2010, the Group entered into a syndicated loan facility agreement with various banks for a loan facility amounting to RMB750,000,000 (equivalent to approximately US\$110,441,000) which is available for the Group to drawdown up to June 4, 2013. The syndicated loan of RMB195,450,000 (equivalent to approximately US\$28,781,000) was drawdown in June 2010. The loan carries interest at floating rate based on the People's Bank of China base rate (the interest rate at date of inception of loan agreement is 3.96% per annum) and is repayable in four annual instalments starting from 2013. RMB100,000,000, RMB150,000,000, RMB200,000,000 and RMB300,000,000 will be repayable in June 2013, June 2014, June 2015 and June 2016 respectively.

Both loans are guaranteed by CNG.

#### 24. DEFERRED INCOME

Pursuant to the approval notice issued by Tibet local government in November 2009, the Skyland Group received government grants in relation to the construction of property, plant and equipment of the Skyland Group amounting to RMB23,600,000 (equivalent to approximately US\$3,475,000) during the six months ended June 30, 2010. The grants are recorded as deferred income in the consolidated statement of financial position and will be credited to profit or loss on a straight-line basis over the expected useful lives of the related assets. As the relevant asset is still under construction up to June 30, 2010, no deferred income is credited to profit or loss during the six months ended June 30, 2010.

#### 25. SHARE CAPITAL

	<u>Number of shares</u>	<u>Amount</u> US\$
Ordinary shares of US\$1.00 each		
Authorized:		
On January 1, 2007 and December 31, 2007 .....	1,000,000	1,000,000
Increase in authorized share capital .....	<u>49,000,000</u>	<u>49,000,000</u>
On December 31, 2008, December 31, 2009 and June 30, 2010 .....	<u>50,000,000</u>	<u>50,000,000</u>
Issued and fully paid:		
On January 1, 2007 and December 31, 2007 .....	1,000,000	1,000,000
Issue of shares .....	<u>46,380,700</u>	<u>46,380,700</u>
On December 31, 2008, December 31, 2009 and June 30, 2010 .....	<u>47,380,700</u>	<u>47,380,700</u>

On December 31, 2008, Skyland's authorized share capital increased from 1,000,000 ordinary shares to 50,000,000 ordinary shares by the creation of 49,000,000 ordinary shares of US\$1.00 each.

On December 31, 2008, Skyland issued 46,380,700 ordinary shares of US\$1.00 each at par value. 28,292,227 and 18,088,473 ordinary shares were issued to Rapid Result and CNG Hong Kong respectively to provide additional working capital for Skyland.

All the shares issued by Skyland during the Relevant Periods rank pari passu with the then existing shares in all respects.

**26. INVESTMENT IN A SUBSIDIARY/ AMOUNTS DUE FROM A SUBSIDIARY**

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
Investment in a subsidiary:				
Unlisted investment, at cost	2,089,768	55,709,549	55,709,549	55,709,549
Deemed contribution	—	3,667,453	3,667,453	3,667,453
	<u>2,089,768</u>	<u>59,377,002</u>	<u>59,377,002</u>	<u>59,377,002</u>
Amounts due from a subsidiary	<u>149</u>	<u>4,715,554</u>	<u>5,062,264</u>	<u>28,920,980</u>

Except for an amount due from a subsidiary amounting to US\$23,500,000 as of June 30, 2010, which is unsecured, interest bearing at 5.4% per annum and repayable on April 20, 2012, the remaining amounts due from a subsidiary are unsecured and interest free. In the opinion of the directors of Skyland, the amounts will not be repayable within one year, deemed contribution arising from fair value adjustment of the interest free advances amounted to approximately US\$3,667,453, calculated by using discount period of 8 years and an effective interest rates ranges from 7.47% to 7.83% per annum has been recognized.

**27. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY**

In May 2008, Jia Ertong acquired the following assets and liabilities through acquisition of a subsidiary, Huatailong at a consideration of approximately RMB16,971,000 (US\$2,424,372). The fair value of assets and liabilities acquired are set out as follows:

	US\$
Net assets acquired:	
Property, plant and equipment	1,358,091
Intangible assets — mining rights	4,529,643
Deposits paid for acquisition of property, plant and equipments	136,385
Amount due from a shareholder of Huatailong	25,519,275
Other receivables	1,374,390
Cash and cash equivalents	1,919,467
Accounts payable and accrued expenses	(985,205)
Loan from CNG	<u>(31,427,674)</u>
Net assets acquired	<u>2,424,372</u>
Net cash outflow arising from acquisition of a subsidiary:	
Cash consideration paid	(2,424,372)
Cash and cash equivalents acquired	<u>1,919,467</u>
	<u>(504,905)</u>

**28. RESERVES OF SKYLAND**

	Cumulative translation reserve	Other reserve	Accumulated earnings (deficit)	Total
	US\$		US\$	US\$
As of January 1, 2007	59,707	—	9,998	69,705
Exchange difference arising on translation	75,955	—	—	75,955
Income for the year	—	—	55,198	55,198
As of December 31, 2007	135,662	—	65,196	200,858
Exchange difference arising on translation	79,220	—	—	79,220
Income for the year	—	—	495	495
As of December 31, 2008	214,882	—	65,691	280,573
Exchange difference arising on translation	(11,823)	—	—	(11,823)
Deemed contribution on interest free loans	—	199,557	—	199,557
Loss for the year	—	—	(3,184,263)	(3,184,263)
As of December 31, 2009	203,059	199,557	(3,118,572)	(2,715,956)
Exchange difference arising on translation	(90,324)	—	—	(90,324)
Loss for the period	—	—	(2,153,482)	(2,153,482)
As of June 30, 2010	112,735	199,557	(5,272,054)	(4,959,762)

Skyland's reserves available for distribution to shareholders at December 31, 2007 and 2008 are US\$65,196 and US\$65,691 respectively. No reserve is available for distribution at December 31, 2009 and June 30, 2010.

**29. RELATED PARTY TRANSACTIONS**

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Details of the holding companies of Skyland during the period from January 1, 2007 to the date of this report are as follows:

Period	Immediate holding company	Ultimate holding company
From January 1, 2007 to February 6, 2008	N7C Resources Inc. (note (a))	Continental Minerals Corporation (note (b))
From February 7, 2008 to April 10, 2008	Rapid Result (note (c))	One Nominees Limited (note (d))
From April 11, 2008 to the date of this report	CNG Hong Kong (note (e))	CNG

*Notes:*

- (a) N7C Resources Inc. is a private company incorporated in the Cayman Islands with limited liability.
- (b) Continental Minerals Corporation is a company incorporated in British Columbia, Canada with limited liability. It shares are listed in Toronto Stock Exchange.
- (c) Rapid Result is a private company incorporated in the British Virgin Islands with limited liability.
- (d) One Nominees Limited is a private company incorporated in Hong Kong with limited liability.
- (e) CNG Hong Kong is a wholly-owned subsidiary of CNG and a private company incorporated in Hong Kong with limited liability. On April 10, 2008, CNG Hong Kong entered into a sale and purchase agreement with Rapid Result to acquire ultimately 51% interest in Skyland. CNG Hong Kong completed the acquisition through two stages, by (i) acquiring 13% equity interest in Skyland in April 2008, and (ii) exercising an option to acquire additional 38% equity interest from June 2008 to February 2009. CNG Hong Kong has therefore the power to govern the financial and operating policies of Skyland and it is considered as the immediate holding company of Skyland since April 10, 2008.

After April 10, 2008, Skyland Group is subject to the control of the PRC Government which also controls state-owned enterprises. In accordance with IAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Skyland Group ("other state-owned enterprises").

For the purpose of related party transactions disclosure, the Skyland Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state owned enterprises have multilayered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, the directors of Skyland believe that meaningful information relating to significant related party transactions has been adequately disclosed.

The following is a summary of significant related party balances and transactions. In the opinion of the directors of Skyland, the transactions (except for financing provided by related parties) were entered into in the ordinary course of business between the Skyland Group and its related parties, including other state-owned enterprises, during the Relevant Periods.

**Balance with related parties:**

***THE SKYLAND GROUP***

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
				US\$
Balance with Rapid Result:				
Loans from	—	16,094,578	9,332,597	20,878,854
Interest payable to	—	330,053	273,031	730,125
Amount due to	—	—	4,799	—
Balance with CNG:				
Loans from	—	23,900,448	23,432,237	7,362,794
Interest payable to	—	529,825	782,114	1,348,228
Amount due to	—	—	14,645	14,726
Balance with CNG Hong Kong:				
Loans from	—	—	9,713,215	21,731,067
Interest payable to	—	—	284,174	807,490
Amounts due from a non-controlling shareholder of a subsidiary	—	—	358,806	409,371
Guarantee on bank loans provided by CNG	—	—	95,193,462	131,860,284
Balance with a subsidiary of CNG:				
Deposit paid for acquisition of property, plant and equipment	—	1,346,900	1,521,975	1,971,813
Listing expenses payable to China Gold International	—	—	1,184,911	1,748,756
Balance with other state-owned enterprises:				
Deposit paid for acquisition of property, plant and equipment	—	130,880	—	—
Accounts payables — construction cost payable to	—	1,205,921	9,341,819	8,157,685
Other receivables — other tax paid on behalf of other state-owned enterprises	—	1,226,467	1,291,430	15,885
Other payables — deposit received	—	109,736	87,871	110,442
Retention payable	—	—	1,502,282	—

**SKYLAND**

	As of December 31,			As of
	2007	2008	2009	June 30,
	US\$	US\$	US\$	2010
Balance with Rapid Result:				
Loans from	—	16,094,578	9,332,597	20,878,854
Interest payable to	—	330,053	273,031	730,125
Amount due to	—	—	4,799	—
Balance with CNG:				
Amount due to	—	—	14,645	14,726
Balance with CNG Hong Kong:				
Loans from	—	—	9,713,215	21,731,067
Interest payable to	—	—	284,174	807,490
Listing expenses payable to China Gold International	—	—	1,184,911	1,748,756

**Transactions with related parties:****THE SKYLAND GROUP**

	Year ended December 31,			Six months ended	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$	US\$
				(Unaudited)	
Transactions with Rapid Result:					
Interest expenses on loan	—	330,053	981,943	602,011	477,320
Transactions with CNG:					
Interest expenses on loans	—	1,026,497	781,748	567,061	559,347
Transactions with CNG Hong Kong:					
Interest expenses on loan	—	—	292,299	—	545,184
Transactions with subsidiaries of CNG:					
Staff training expenses incurred	—	—	77,852	77,852	—
Consultancy fee incurred for mining technique	—	—	8,780	8,780	—
Agency fee incurred for import equipments	—	—	97,026	20,901	—
Other state-owned enterprises:					
Construction cost incurred	—	8,680,237	40,183,842	14,540,418	26,409,916
Consultancy fee incurred for mining technique	—	368,215	731,914	73,169	762,363

**SKYLAND**

	Year ended December 31,			Six months ended	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$	US\$
				(Unaudited)	
Transactions with Rapid Result:					
Interest expenses on loan	—	330,053	981,943	602,011	477,320
Transactions with CNG Hong Kong:					
Interest expenses on loan	—	—	292,299	—	545,184

In the opinion of the directors of Skyland, except for the loans from related parties, the above related party transactions were conducted in the ordinary course of business and these transactions will continue after the dual primary listing of China Gold International.

### Compensation of key management:

	Year ended December 31,			Six months ended June 30,	
	2007	2008	2009	2009	2010
	US\$	US\$	US\$	US\$	US\$
Short-term benefits .....	—	465,235	486,828	121,595	104,320
Retirement benefit contributions .....	—	8,661	12,672	2,250	5,264
	—	473,896	499,500	123,845	109,584
	—	—	—	—	—

## 30. CAPITAL COMMITMENTS

### THE SKYLAND GROUP

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US\$	US\$	US\$	US\$
<b>Capital commitments</b>				
Contract costs contracted but not provided for .....	—	66,902,368	56,876,939	58,200,580

### SKYLAND

Skyland does not have any capital commitments as of December 31, 2007, December 31, 2008, December 31, 2009 and June 30, 2010.

## 31. OPERATING LEASE COMMITMENTS

At December 31, 2007, December 31, 2008, December 31, 2009 and June 30, 2010, the Skyland Group had outstanding commitments payable under non-cancellable operating leases in respect of rented office premises and the lands in PRC which fall due as follows:

### THE SKYLAND GROUP

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US\$	US\$	US\$	US\$
Within one year .....	—	50,859	130,664	130,051
Between two to five years .....	—	158,897	251,399	209,311
More than five years .....	—	359,494	391,904	361,808
	—	569,250	773,967	701,170

Leases are negotiated for a term ranging from 3 to 20 years.

### SKYLAND

Skyland did not have any non-cancellable operating lease commitments as of December 31, 2007, December 31, 2008, December 31, 2009 and June 30, 2010.

**32. CAPITAL RISK MANAGEMENT**

Skyland Group manages its ordinary shares as capital. Skyland Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to operate its mine, pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

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

In order to facilitate the management of its capital requirements, the Skyland Group prepares annual expenditure budgets that are updated as necessary depending on various factors, including operating results, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the directors of Skyland. Syndicated loan facilities and additional capital injection from shareholders have been arranged to finance the exploration and development plans and operations (see Notes 23 and 30) of the Skyland Group. The Skyland Group has complied with all covenants of its bank loans.

**33. FINANCIAL INSTRUMENTS****a. Categories of financial instruments***THE SKYLAND GROUP*

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US\$	US\$	US\$	US\$
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents) .....	694,770	7,041,491	7,326,892	40,253,303
<b>Financial liabilities</b>				
Financial liabilities carried at amortized cost .....	1,583,526	48,079,424	154,423,333	204,705,595

*SKYLAND*

	As of December 31,			As of June 30,
	2007	2008	2009	2010
	US\$	US\$	US\$	US\$
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents) .....	694,616	4,725,955	6,112,555	28,975,027
<b>Financial liabilities</b>				
Financial liabilities carried at amortized cost .....	1,583,526	16,441,684	20,831,578	45,933,966

**b. Financial risk management objectives and policies**

The major financial instruments of Skyland include amounts due from a subsidiary, other receivables, cash and cash equivalents, accounts payable and amounts due to related companies. The major financial instruments of Skyland Group include trade and other receivables, amounts due from a

non-controlling shareholder of a subsidiary, cash and cash equivalents, accounts payable, accrued expenses, amounts due to related companies and bank loans. Details of these financial instruments are set out in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The directors of Skyland manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner.

### **Market risk**

#### **(i) Currency risk**

Skyland is exposed to currency risk for the two years ended December 31, 2008 as certain bank balances are denominated in US\$ and HK\$ and the amount due from/to an ex-shareholder of Skyland are denominated in US\$, however, the risk is insignificant as the bank balances is not material and the amount due from/to ex-shareholder are fully settled in 2008.

Skyland and Skyland Group is exposed to currency risk for the year ended December 31, 2009 and June 30, 2010 as certain bank balances and amounts due to related parties (see Note 22 for details of these amounts) are denominated in US\$.

The sensitivity analysis below details Skyland and the Skyland Group's sensitivity to a 1% change in exchange rate of US\$ against RMB for the year ended December 31, 2009 and the six months ended June 30, 2010, while all other variables are held constant. The sensitivity analysis includes only outstanding US\$ denominated monetary items and adjusts their translation at December 31, 2009 and June 30, 2010 for a change in foreign currency rates as set out below.

If the exchange rate of US\$ against RMB had been increased or decrease by 1% and all other variables were held constant, the loss for the year ended December 31, 2009 of Skyland and Skyland Group will increase or decrease by US\$21,346 and US\$21,295 respectively.

If the exchange rate of US\$ against RMB had been increased or decrease by 1% and all other variables were held constant, the loss for the six months ended June 30, 2010 of Skyland and Skyland Group will increase or decrease by approximately US\$272,234 and US\$272,184 respectively.

#### **(ii) Interest rate risk**

Skyland and Skyland Group are exposed to fair value interest rate risk in relation to fixed-rate amounts due to related companies (see Note 22 for details of these amounts).

Skyland and Skyland Group are exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits which carry interest at prevailing deposit interest rates during the Relevant Periods. The directors of Skyland considered the fluctuation in the prevailing market interest rate on bank deposits during the Relevant Periods is insignificant and concluded there is no significant cash flow interest rate risk during the Relevant Periods.

In addition, Skyland Group is exposed to cash flow interest rate risk in relation to variable-rate bank loan and syndicated loan drawdown in March 2009 and January 2010 and June 2010 (see Note 23 for details of these loans) respectively. The Skyland Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of Skyland will consider hedging significant interest rate exposure should the need arise.

*Interest rate sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates risk of the bank loan and syndicated loan at December 31, 2009 and June 30, 2010 assuming it were outstanding for the year ended December 31, 2009 and the six months ended June 30, 2010. A 50 basis point decrease or increase is used when reporting interest rate risk internally to key management personnel and represents the assessment of the directors of Skyland of the possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the interest expenses capitalized under the Skyland Group's construction in progress for the year ended December 31, 2009 and the six months ended June 30, 2010 would increase/decrease by US\$475,967 and US\$329,651 respectively.

As the directors of Skyland considered that the fluctuation in the prevailing market interest rate on bank deposits is insignificant, no sensitivity analysis for fluctuation in bank deposit interest rate is prepared.

**Credit risk**

Skyland Group is still at the exploration and development stage of mining operations and the Skyland Group has not yet commenced production during the Relevant Periods. Skyland and the Skyland Group's maximum exposure to credit risk which will cause a financial loss to Skyland and the Skyland Group due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of trade and other receivables, amounts due from a non-controlling shareholder of a subsidiary and cash and cash equivalents.

In addition, Skyland is also exposed to the credit risk on the amounts due from a subsidiary due to the failure to discharge an obligation by its subsidiary. However, the credit risk is considered as insignificant as the subsidiary is still at development stage and expected to commence operation in near future.

In order to minimise the credit risk, the directors of Skyland review the recoverable amount of the trade and other receivable and amounts due from a non-controlling shareholder of a subsidiary at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings in the PRC.

Skyland Group and Skyland had high concentration of credit risk as of December 31, 2007 as other receivables mainly represented amount due from an ex-shareholder of Skyland, the amount was subsequently settled in 2008. Skyland Group had concentration of credit risk as of December 31, 2008, December 31, 2009 and June 30, 2010 on other receivables from certain construction contractors, advance to PRC local land administration bureau and amounts due from a non-controlling shareholder of a subsidiary, however, as the amounts can be used to offset future construction cost payment or the counterparties are local government, or state-owned enterprises, the risk is considered low.

**Liquidity risk**

In the management of the liquidity risk, Skyland Group monitors and maintains a level of cash and cash equivalents deemed adequate by the directors of Skyland to finance Skyland Group's

operations and mitigate the effects of fluctuations in cash flows. The directors of Skyland monitor the utilization of bank loans and loans from related companies and ensures compliance with the loan covenant throughout the Relevant Periods.

Skyland Group is required to obtain additional fund to meet the additional capital resources to complete and carry out its exploration and development plans and operations for the next twelve months. Having considered the syndicated loan facility amounting to RMB750,000,000 (equivalent to approximately US\$110,441,000) that the Skyland Group obtained in June 2010, the directors of Skyland considered that Skyland Group will be able to raise sufficient fund to meet its future exploration and development plans and operations.

The following table details Skyland's and the Skyland Group's expected remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Skyland and the Skyland Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

The amounts included below for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## THE SKYLAND GROUP

	Weighted average interest rate	On demand and within one year	Within the second year	Within the third year	Within the fourth year	Within the fifth year	Total undiscounted cash flows	Total carrying amount
	%	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>As of December 31, 2007</b>								
Accounts payable and accrued expenses	N/A	1,583,526	—	—	—	—	1,583,526	1,583,526
<b>As of December 31, 2008</b>								
Accounts payable and accrued expenses	N/A	7,224,520	—	—	—	—	7,224,520	7,224,520
Loan from and interest payable to Rapid Result	7.56	1,546,803	17,007,140	—	—	—	18,553,943	16,424,631
Loans from and interest payable to CNG	6.55	24,430,273	—	—	—	—	24,430,273	24,430,273
		33,201,596	17,007,140	—	—	—	50,208,736	48,079,424
<b>As of December 31, 2009</b>								
Accounts payable and accrued expenses	N/A	14,208,148	—	—	—	—	14,208,148	14,208,148
Loan from and interest payable to Rapid Result	7.35	9,266,293	1,020,054	—	—	—	10,286,347	9,605,628
Loans from and interest payable to CNG	5.40	2,047,455	23,920,949	—	—	—	25,968,404	24,214,351
Loan from and interest payable to CNG Hong Kong	7.35	998,489	10,873,110	—	—	—	11,871,599	9,997,389
Amount due to Rapid Result	N/A	4,799	—	—	—	—	4,799	4,799
Amount due to CNG	N/A	14,645	—	—	—	—	14,645	14,645
Listing expenses payable	N/A	1,184,911	—	—	—	—	1,184,911	1,184,911
Bank loan	3.96	3,769,661	33,059,957	31,900,061	23,417,592	15,225,096	107,372,367	95,193,462
		31,494,401	68,874,070	31,900,061	23,417,592	15,225,096	170,911,220	154,423,333
<b>As of June 30, 2010</b>								
Accounts payable and accrued expenses	N/A	18,223,271	—	—	—	—	18,223,271	18,223,271
Loan from and interest payable to Rapid Result	6.27	9,991,310	12,958,712	—	—	—	22,950,022	21,608,979
Loans from and interest payable to CNG	4.86	8,711,022	—	—	—	—	8,711,022	8,711,022
Loans from and interest payable to CNG Hong Kong	6.32	2,180,169	22,266,553	—	—	—	24,446,722	22,538,557
Amount due to CNG	N/A	14,726	—	—	—	—	14,726	14,726
Listing expenses payable	N/A	1,748,756	—	—	—	—	1,748,756	1,748,756
Bank loans	3.96	5,221,667	34,089,711	47,649,033	38,012,608	22,525,733	147,498,752	131,860,284
		46,090,921	69,314,976	47,649,033	38,012,608	22,525,733	223,593,271	204,705,595

## SKYLAND

	Weighted average interest rate	On demand and within one year	Within the second year	Total undiscounted cash flows	Total carrying amount
	%	US\$	US\$	US\$	US\$
<b>As of December 31, 2007</b>					
Accounts payable .....	N/A	1,583,526	—	1,583,526	1,583,526
<b>As of December 31, 2008</b>					
Accounts payable .....	N/A	17,053	—	17,053	17,053
Loan from and interest payable to Rapid Result .....	7.56	1,546,803	17,007,140	18,553,943	16,424,631
		1,563,856	17,007,140	18,570,996	16,441,684
<b>As of December 31, 2009</b>					
Accounts payable .....	N/A	24,206	—	24,206	24,206
Loan from and interest payable to Rapid Result .....	7.35	9,266,293	1,020,054	10,286,347	9,605,628
Loan from and interest payable to CNG Hong Kong .....	7.35	998,489	10,873,110	11,871,599	9,997,389
Amount due to Rapid Result .....	N/A	4,799	—	4,799	4,799
Amount due to CNG .....	N/A	14,645	—	14,645	14,645
Listing expenses payable .....	N/A	1,184,911	—	1,184,911	1,184,911
		11,493,343	11,893,164	23,386,507	20,831,578
<b>As of June 30, 2010</b>					
Accounts payable .....	N/A	22,948	—	22,948	22,948
Loan from and interest payable to Rapid Result .....	6.27	9,991,310	12,958,712	22,950,022	21,608,979
Loans from and interest payable to CNG Hong Kong .....	6.32	2,180,169	22,266,553	24,446,722	22,538,557
Amount due to CNG .....	N/A	14,726	—	14,726	14,726
Listing expenses payable .....	N/A	1,748,756	—	1,748,756	1,748,756
		13,957,909	35,225,265	49,183,174	45,933,966

*c. Fair value of financial instruments*

The fair values of financial assets and financial liabilities at amortized cost are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The directors of Skyland consider that the carrying amounts of all financial assets and financial liabilities recorded at amortized cost in the consolidated statements of financial positions approximate their corresponding fair values.

**B. DIRECTORS' REMUNERATION**

As set out in Note 13 to Section A above, no remuneration has been paid in respect of the Relevant Periods to the directors of Skyland. Under the arrangement presently in force, the amount of Skyland's directors' remuneration payable for period ending December 31, 2010 is estimated to be nil.

**C. SUBSEQUENT EVENTS**

There were no significant subsequent events after June 30, 2010.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Skyland Group have been prepared in respect of any period subsequent to June 30, 2010.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
*Hong Kong*