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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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### OUR CONTROLLING SHAREHOLDER, CHINA NATIONAL GOLD

#### Overview

China National Gold, a Chinese State-Owned Enterprise (SOE), held approximately 39.25% of our issued share capital immediately prior to the Global Offering. China National Gold also held a 51% interest in Skyland immediately prior to our acquisition of Skyland. After giving effect to the Global Offering and the Skyland Acquisition, but excluding the exercise of the Over-allotment Option, China National Gold will hold approximately 38.98% of our issued share capital.<sup>(1)</sup>

China National Gold is the only enterprise directly supervised by the State Council that focuses on the exploration, mining, processing, smelting, refining and sales of gold. It also operates other non-ferrous mineral assets related business. The predecessor of China National Gold was China National Gold Corporation (中國黃金總公司), which was established in 1979 and headquartered in Beijing. It was one of the first Chinese enterprises to focus on the exploration of gold. Pursuant to the approval of the State Council, China National Gold was formed as a SOE in November 2002 with a management committee reporting directly to the SASAC of the State Council. China National Gold was the largest gold producer in China in 2009 by gold output<sup>(2)</sup>, according to the China Gold Association (中國黃金協會). It is also the only enterprise in the gold industry in China that explores, produces and processes gold with a grade of Au99999.

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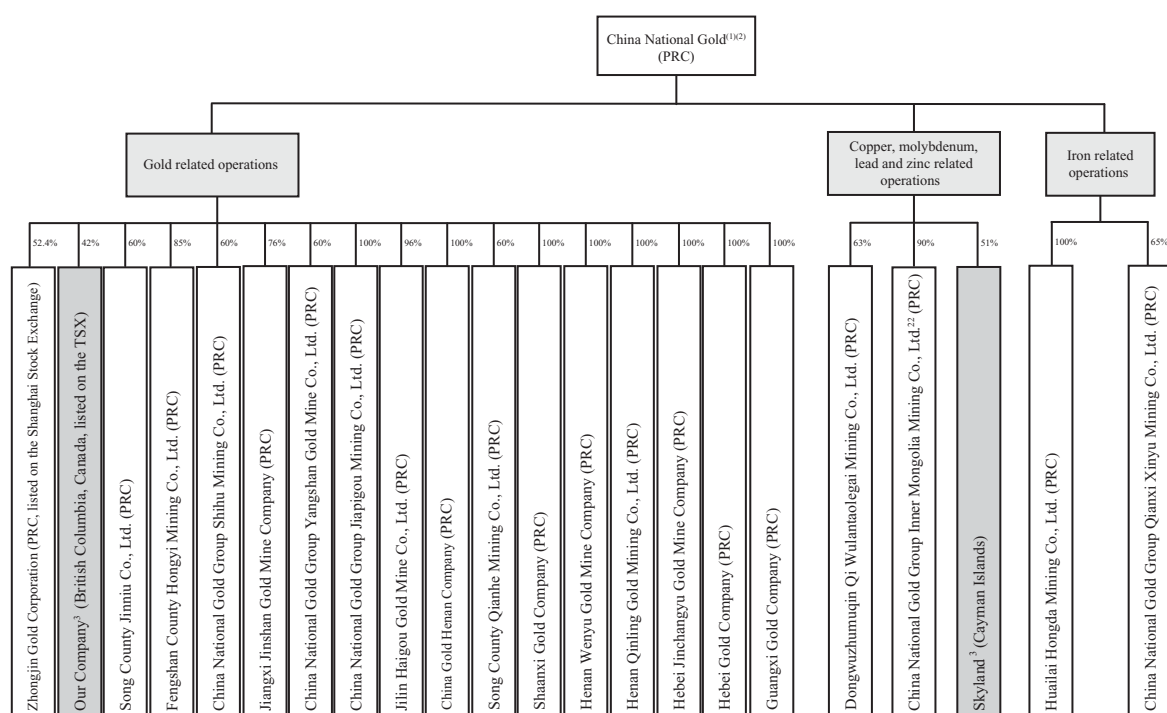
(1) Assuming no adjustment has been made to the Consideration Shares issuable pursuant to the working capital adjustment under the Sale and Purchase Agreement.

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

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### Major subsidiaries of China National Gold

China National Gold operates gold and other non-ferrous mineral assets related business through various direct and indirect subsidiaries that it wholly owns or otherwise controls. Among these subsidiaries, Zhongjin Gold Corporation is a PRC incorporated company and has been listed on the Shanghai Stock Exchange since August 2003. The businesses of our Company and Skyland are the only businesses controlled by offshore subsidiaries of China National Gold. China National Gold acquired 42% and 51% equity interests in our Company and Skyland in May 2008 and February 2009, respectively. Following is a corporate structure chart of China National Gold which lists its major subsidiaries:



- China National Gold has a total of 152 subsidiaries. The major subsidiaries listed above are: (i) in control by China National Gold, (ii) principally engaged in gold and non-ferrous mineral assets mining business, and (iii) those subsidiaries whose total assets and/or revenue contributed to 1% or more of the total assets and/or revenue of China National Gold. Except our Company and Skyland, China National Gold's interests in these major subsidiaries are not held by it through any offshore intermediate holding companies.
- The principal place of operations of China National Gold and its subsidiaries is in China:
  - The principal place of operation of Zhongjin Gold Corporation is in Beijing.
  - The principal place of operation of each of Song County Jinniu Co., Ltd., China Gold Henan Company, Song County Qianhe Mining Co., Ltd., Henan Wenyu Gold Mine Company and Henan Qinling Gold Mining Co., Ltd. is in Henan Province.
  - The principal place of operation of each of Fengshan County Hongyi Mining Co., Ltd. and Guangxi Gold Company is in Guangxi Zhuang Autonomous Region.
  - The principal place of operation of each of China National Gold Group Shihu Mining Co., Ltd., Hebei Jinchangyu Gold Mine Company, Hebei Gold Company, Huailai Hongda Mining Co., Ltd. and China National Gold Group Qianxi Xinyu Mining Co., Ltd. is in Hebei Province.
  - The principal place of operation of Jiangxi Jinshan Gold Mine Company is in Jiangxi Province.
  - The principal place of operation of China National Gold Group Yangshan Gold Mine Co., Ltd. is in Gansu Province.
  - The principal place of operation of each of China National Gold Group Jiapigou Mining Co., Ltd and Jilin Haigou Gold Mine Co., Ltd. is in Jilin Province.
  - The principal place of operation of Shaanxi Gold Company is in Shaanxi Province.
  - The principal place of operation of each of Dongwuzhumuqin Qi Wulantaolegai Mining Co., Ltd. and China National Gold Group Inner Mongolia Mining Co., Ltd. is in Inner Mongolia.

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3. China National Gold controls our Company and Skyland through its intermediate wholly owned offshore subsidiary, China National Gold Hong Kong. The businesses of our Company and Skyland are the only businesses controlled by China National Gold through its offshore subsidiaries.

China National Gold held gold resources of approximately 1,280 tonnes as of December 31, 2009. In addition, China National Gold held various non-ferrous mineral assets (excluding gold), all of which are located in China. According to China National Gold, these non-ferrous mineral assets (excluding gold) collectively contain copper resources of approximately 8.0 million tonnes, molybdenum resources of approximately 610,400 tonnes, lead and zinc resources of approximately 721,300 tonnes, silver resources of approximately 2,143.5 tonnes and iron resources of approximately 89.1 million tonnes as of December 31, 2008<sup>(1)(2)(3)</sup>. In the fiscal years 2007, 2008 and 2009, China National Gold produced approximately 72, 78 and 108 tonnes of gold, respectively. China National Gold's revenues for the fiscal years 2007, 2008 and 2009 were RMB16,366 million, RMB23,314 million and RMB34,543 million, respectively. As of December 31, 2009, China National Gold had RMB34,760 million in total assets.

### **CNG Oversea and the consultancy agreement between CNG Oversea and Jackin**

China National Gold Investment Oversea Holdings Limited ("CNG Oversea") is a wholly-owned subsidiary of China National Gold Group Investment Co., Ltd. (中國上海黃金集團投資有限公司) which in turn is 60% owned by China National Gold. CNG Oversea was incorporated in Hong Kong on April 8, 2008 as a limited liability company. Jackin International Holding Limited ("Jackin") is a company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 00630).

CNG Oversea entered into a consultancy agreement with Jackin on December 18, 2009 (the "Consultancy Agreement"). Under the Consultancy Agreement, upon fulfillment of all preconditions, CNG Oversea will be engaged as a technical consultant for a term of 10 years after the completion of the conditional agreement dated the same date in relation to the proposed acquisition of the entire issued share capital of SE Metal Resource Corp., a company incorporated in the BVI with limited liability (the "Acquisition Agreement"), to provide consultancy services to Jackin including but not limited to: (i) the provision of technical support by CNG Oversea to Jackin in respect of its investment in certain mines in the United States, including a copper-gold mine, a gold mine and an iron-ore mine all located in Southern California (the "Three Mines") and other mining projects; and (ii) the assignment of senior technical personnel from CNG Oversea to Jackin to assist and advise Jackin in respect of its investment in the Three Mines and other mining projects. In addition, while engaged as a technical consultant by Jackin, CNG Oversea shall be obliged to take all reasonable steps to first refer any business opportunity regarding the Three Mines to Jackin as early as possible, and not to refer such business opportunity to any other party prior to referring such business opportunity to Jackin in all circumstances, provided that should the disclosure of such business opportunity to Jackin leads to a breach of confidentiality or trust obligations on the part of CNG Oversea, such obligation shall not be applicable. The Three Mines had been referred to Jackin by CNG Oversea.

As mentioned in the announcement (the "Announcement") dated January 8, 2010 of Jackin relating to the Consultancy Agreement, commencement of the engagement of CNG Oversea pursuant

- (1) The PRC mineral resources reporting standard is different from the JORC Code in calculating the resources and reserves. Therefore, the resources of China National Gold disclosed in this section may not be directly comparable with the resources and reserves of the CSH Mine and Jiama Mine, which are reported under the JORC Code in this prospectus.
- (2) The mineral resources of China National Gold disclosed in this section are calculated on a basis proportionate to its share of equity in the relevant subsidiaries that it owns or controls.
- (3) The mineral resources of China National Gold disclosed in this section include those of the Company and Skyland.

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to the Consultancy Agreement is conditional upon a number of conditions precedent, including completion of the Acquisition Agreement which, among other things, requires provision of an independent valuation report which values the Three Mines at no less than HK\$800 million on or before December 31, 2010. In the event that any of the conditions precedent in the Consultancy Agreement is not fulfilled, the Consultancy Agreement shall lapse and be of no further effect, and no party to the Consultancy Agreement shall have any liability to any other party, save in respect of any antecedent breaches.

On August 23, 2010, as it was expected that the completion of the Acquisition Agreement will not occur by December 31, 2010, Jackin and CNG Oversea entered into a termination agreement, pursuant to which Jackin and CNG Oversea have irrevocably and unconditionally agreed to terminate the Consultancy Agreement and the related referral agreement and the parties are discharged from their respective agreements, undertakings, duties, obligations, rights and/or, if applicable, liabilities under the Consultancy Agreement and the related referral agreement.

### ZHONGJIN GOLD CORPORATION

China National Gold owns 52.4% of the registered capital of Zhongjin Gold Corporation. Zhongjin Gold Corporation was listed on the Shanghai Stock Exchange in August 2003 and is principally engaged in the exploration, mining and smelting of gold and related by-products in the PRC. Zhongjin Gold Corporation holds interests in approximately 20 gold mines all of which are located in China, according to its annual report for the year ended December 31, 2009, the gold mines contain resources of approximately 421.18 tonnes under the applicable PRC mineral reserve reporting standards.

China National Gold provided three separate undertakings in favor of Zhongjin Gold Corporation in February 2002, August 2007 and January 2008, respectively. In the 2002 undertaking, China National Gold undertook to Zhongjin Gold Corporation that other than the existing gold mining business of China National Gold at the time of the undertaking, China National Gold will not engage in any other gold and other non-ferrous metal exploration business nor develop any new gold mine. In the two additional undertakings in 2007 and 2008, China National Gold undertook that should it acquire any gold mines, Zhongjin Gold Corporation would be entitled to a right of first refusal to acquire such gold mine from China National Gold.

Zhongjin Gold Corporation has issued a public statement by way of a public announcement to its shareholders on August 31, 2010 confirming that (i) the acquisitions by China National Gold through China National Gold Hong Kong of the controlling interests in us in May 2008 and Skyland in February 2009 as well as the Skyland Acquisition are acquisitions of equity interest in offshore companies as part of its overseas restructuring, and do not fall within the scope of any of these undertakings provided by China National Gold to Zhongjin Gold Corporation; and (ii) China National Gold has reiterated its adherence to the existing three undertakings and its support of Zhongjin Gold Corporation's gold business, while with respect to the Group, China National Gold will use the Group as its platform for overseas expansion to focus on international gold and non-ferrous mining business. Based on this confirmation, Haiwen & Partners, our PRC legal advisers, are of the view that the acquisitions by China National Gold of our interest in May 2008 and that in Skyland in February 2009, respectively, do not fall within the scope of these undertakings to Zhongjin Gold Corporation, and as a result, China National Gold was not in breach of these undertakings to Zhongjin Gold Corporation or the relevant CSRC rules, including the regulations governing corporate governance applicable to

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A share listed companies. Also, as the public announcement has been approved by the board of directors of Zhongjin Gold Corporation, which is merely a clarification of the real intent of the parties to the undertakings, Haiwen & Partners, our PRC legal advisers, are of the view that such public announcement does not vary or amend the terms of the undertakings.

### OUR CURRENT BUSINESS AND THE BUSINESS OF CHINA NATIONAL GOLD

We believe that the current business operations of our Enlarged Group do not compete with the business of China National Gold based on the following reasons:

- ***Exploration and mining***

The exploration and mining operations of the existing mine of our Enlarged Group are specific to a particular property and are localized activities in a defined geographical area. As the existing mines of our Enlarged Group and those of China National Gold are located in different regions in China, the exploration and mining activities of our Enlarged Group do not compete with those of China National Gold.

- ***Procurement of resources***

The exclusive exploration and mining permits of the CSH Mine and the Jiama Mine covered significant areas in Inner Mongolia and Tibet, respectively. More particularly, the exploration permit and the mining permit of the CSH Mine cover an area of 25.9 sq. km. and 10.1 sq. km., respectively, while the exploration permits and mining permits of the Jiama Mine covered an aggregate area of 143.3 sq. km. and 2.9 sq. km., respectively. As a result, our Enlarged Group has the exclusive rights to the defined mineral resources and reserves in the areas and develop the mines of our Enlarged Group in accordance with our business plans. In addition, the only two gold mines owned by Zhongjin Gold Corporation in Inner Mongolia are located at approximately 380 km and approximately 126 km from the CSH Mine, respectively. We believe that these two mines are not located in close proximity to the CSH Mine, and that they do not compete with us for resources. Save as disclosed in this prospectus, China National Gold (including Zhongjin Gold Corporation) does not own any other gold mining assets in Inner Mongolia, or any gold or other non-ferrous mining assets in Tibet.

- ***Processing, smelting and refining operations***

We process and smelt mineral ores extracted from our own mines into gold dore bars for sale to refineries, whereas China National Gold and Zhongjin Gold Corporation process, smelt and refine raw materials supplied from their own mines or by third parties into gold ingots for sale at the Shanghai Gold Exchange. We believe that no competition exists for our processing and smelting operations. Firstly, our Enlarged Group does not engage in any refining activities, while China National Gold and Zhongjin Gold Corporation engage in refining activities in addition to processing activities. Secondly, our Enlarged Group only processes and smelts mineral ores extracted from the mines of our Enlarged Group, while China National Gold and Zhongjin Gold Corporation process, smelt and refine ores and gold dore bars supplied from their own mines as well as from third parties.

- ***Sale of products***

Gold, molybdenum, lead and copper are commodity products with a readily available market. In China, gold products are traded at prevailing market price reflected in the daily trading

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prices on an open market platform operated by the Shanghai Gold Exchange, which follows the international gold price trend closely. Molybdenum, lead and copper are also traded with reference to prevailing PRC market prices. Our Enlarged Group therefore faces little competition with China National Gold in terms of sale of products.

While our Enlarged Group currently does not operate gold and non-ferrous mining assets located outside of China, going forward, we believe that our Enlarged Group is better positioned than many other Chinese gold mine operators to pursue the strategy of focusing on the International Mining Businesses, including the exploration and exploitation of gold and other non-ferrous mining assets located outside the PRC, although there cannot be assurance that such International Mining Business Opportunities will be available to us in the near future or at all. See “Business — Business Strategies — Acquiring high-quality mineral resources”.

### **NON-COMPETITION UNDERTAKING FROM CHINA NATIONAL GOLD TO OUR COMPANY**

On November 5, 2010, China National Gold has provided a non-competition undertaking in favor of our Company (“the Non-Competition Undertaking”) to the effect that:

- (i) none of China National Gold and its Controlled Entities currently engage in the International Mining Business;
- (ii) it will not compete with our Enlarged Group, directly or indirectly, in the International Mining Business;
- (iii) China National Gold will procure any Controlled Entity not to compete with our International Mining Business; and
- (iv) China National Gold grants us:

#### **(a) Options for Competing Business Opportunity**

With respect to any future business opportunity (“Competing Business Opportunity”) that may directly or indirectly compete with the International Mining Business, China National Gold has undertaken in the Non-Competition Undertaking that:

- (1) if China National Gold becomes aware of Competing Business Opportunities, China National Gold will notify us in writing immediately upon becoming aware of such business opportunities and provide us with all information which is reasonably necessary for us to consider whether or not to acquire such Competing Business Opportunities. China National Gold is also obliged to use its best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable; and
- (2) China National Gold shall procure any Controlled Entity to first offer to us any Competing Business Opportunities.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to take up a Competing Business Opportunity referred to by China National Gold or any Controlled Entity and such decision will be made by our independent non-executive Directors.

#### **(b) Call Option and Right of First Refusal**

With respect to any Competing Business Opportunity not taken up by us, and continue to be developed by China National Gold or any Controlled Entity, China



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National Gold has undertaken in the Non-Competition Undertaking that it will grant us:

- (1) a call option to purchase at a fair and reasonable price, and subject to any relevant laws and applicable listing rules; and
- (2) a right of first refusal to purchase on no less favourable terms, if China National Gold or any Controlled Entity intends to transfer or sell to any third party.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to exercise the call option or right of first refusal and such decision will be made by our independent non-executive Directors.

**(c) Additional Right to Review and Take Up Certain Business Opportunity with Underlying Mineral Assets Located in China**

With respect to any business opportunity where the underlying mineral assets are located in China that are directly or indirectly held through an offshore company, China National Gold will first refer such business opportunity to Zhongjin Gold Corporation pursuant to China National Gold's existing non-competition undertakings to Zhongjin Gold Corporation. See “— Zhongjin Gold Corporation.” However, in the event that Zhongjin Gold Corporation decides not to take up such business opportunity, our Company will be entitled to review and take up such business opportunity. Upon becoming aware of Zhongjin Gold Corporation's decision not to take up such business opportunity, China National Gold will notify us of such business opportunity and provide us with all information as though such business opportunity constitutes a Competing Business Opportunity under the Non-Competition Undertaking.

Our independent non-executive Directors will be responsible for reviewing and considering whether or not to take up such business opportunity and such decision will be made by our independent non-executive Directors.

Notwithstanding the undertakings granted by China National Gold to the Company, pursuant to the terms and conditions under the Non-Competition Undertaking:

- (i) China National Gold or its Controlled Entity may:
  - (a) hold and/or be interested in any shares or other securities in any company which engages or is involved in the International Mining Business, provided that such shares or securities are listed on a recognized stock exchange and the total shareholdings of China National Gold and any of its Controlled Entity in such company does not exceed three per cent. of such listed company's issued share capital and provided further that at all times there is a shareholder holding more shares in such listed company than the aggregate shareholdings of China National Gold and any of its Controlled Entity;
  - (b) hold shares and other securities in our Group; and/or
  - (c) engage in the International Mining Business, acquire and hold a business opportunity that is primarily related to the International Mining Business and in which China National Gold or a Controlled Entity has an actual or potential opportunity to invest

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or otherwise acquire an interest, to the extent permitted under the Non-Competition Undertaking.

Pursuant to the Non-Competition Undertaking, China National Gold is obligated not to, and to procure any Controlled Entity not to, compete with our Enlarged Group in the International Mining Business; otherwise it will be in breach of the Non-Competition Undertaking. We believe that China National Gold, in the capacity of a controlling shareholder, through exercising voting rights in the directors' meetings and/or shareholders' meetings of its Controlled Entities, as appropriate, will use its best endeavors to procure its Controlled Entities (including Zhongjin Gold Corporation), not to engage in the International Mining Business in order to prevent any breach of the Non-Competition Undertaking on its part. Furthermore, as the existing operations of such Controlled Entities (including Zhongjin Gold Corporation) are in the PRC whereas our Enlarged Group is designated as the only overseas flagship company of China National Gold to focus on International Mining Businesses after the Listing, we believe that such Controlled Entities (including Zhongjin Gold Corporation) are not expected to compete with our Enlarged Group in the International Mining Business that will eventually render their controlling shareholder, China National Gold, to be in breach of the Non-Competition Undertaking.

In addition, China National Gold has undertaken to us that all the business opportunities to be referred to us and all the businesses or assets to be transferred to us pursuant to the Non-Competition Undertaking will be free from any rights or claims of any Controlled Entity or any third party and China National Gold has agreed to indemnify us against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses incurred in connection with defending or investigating any such actions or claims) arising out of, relating to, or based on any actions or claims of any Controlled Entity or any third party in relation to such business opportunities, businesses or assets.

In the event of a breach of the Non-Competition Undertaking by China National Gold (including a breach arising from actions of its Controlled Entities), the Company is entitled to take appropriate legal proceedings against China National Gold to claim for damages for the losses suffered, if any, and may also seek other forms of remedies (legal, equitable or both) such as injunctive relief, where appropriate. Our independent non-executive Directors will be responsible for considering and determining what actions to take in order to address the breach of the Non-Competition Undertaking by China National Gold. In carrying out such responsibility, our independent non-executive Directors are required to take actions that are in our best interests and fully protect our rights under the Non-Competition Undertaking. Such actions, depending on the nature of the matter involved, could include, among others, (i) demanding for an accounting of the asset and for China National Gold to unwind the inappropriate transaction, and/or (ii) commencing legal proceedings against China National Gold for damages and seek injunctive reliefs and other legal or equitable remedies.

### **Compliance by China National Gold with the Non-Competition Undertaking**

Under the Non-Competition Undertaking, China National Gold will not have any discretion with respect to the International Mining Business opportunities that it is required to present to our Company, or the call option or right of first refusal we may exercise with respect to any Competing Business Opportunities.



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To assist the Company in monitoring ongoing compliance with the terms of the Non-Competition Undertaking, China National Gold has further undertaken that:

- (i) subject to the request of a committee formed by our independent non-executive Directors, it will provide all information necessary for our independent non-executive Directors to review China National Gold's compliance with and enforcement of the Non-Competition Undertaking and the performance of the International Mining Business held by China National Gold (if any) or any Controlled Entity;
- (ii) it will provide to our Company all information in respect of its compliance with and enforcement of the Non-Competition Undertaking necessary for us to disclose the decision made by the above-mentioned committee in our continuous disclosure, or by way of announcement; and
- (iii) it will make a declaration to confirm to our Company and our independent non-executive Directors on its compliance with the Non-Competition Undertaking in our annual report including, it has given priority to the Group in selecting any Competing Business Opportunity.

Our Company will also adopt the following procedures to monitor that the undertakings under the Non-Competition Undertaking are being observed:

- (i) we will provide to our independent non-executive Directors proper notice and information on any Competing Business Opportunity or right of first refusal and the related International Mining Business, as the case maybe, within one week of receipt;
- (ii) our independent non-executive Directors will regularly review the performance of the International Mining Business held by China National Gold (if any) or any Controlled Entity;
- (iii) our independent non-executive Directors will report their findings on the compliance by China National Gold of the Non-Competition Undertaking, and the Company will disclose the views and the decisions, with basis, of the independent non-executive Directors for accepting or declining any Competing Business Opportunity or exercising the call option or right of first refusal in our annual reports and interim reports; and
- (iv) our Directors consider that our independent non-executive Directors have sufficient experience in assessing whether or not to take up any Competing Business Opportunity or exercise the call option or right of first refusal. In any event, the committee formed by our independent non-executive Directors may appoint financial adviser or professional expert to provide advice, at the cost of our Company, in connection with the exercise or non-exercise of the option, call option or right of first refusal under the Non-Competition Undertaking.

The Non-Competition Undertaking will remain in full force and be terminated upon the earlier of:

- (i) China National Gold and its subsidiaries, directly or indirectly, holding less than 30% of our total share capital; or
- (ii) our Shares no longer being listed on the Stock Exchange.

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Notwithstanding China National Gold's non-competition undertaking to us as described above, there remains potential risk that we may face competition for future International Mining Business opportunities from the Controlled Entities. While, pursuant to the Non-Competition Undertaking, China National Gold has undertaken to procure all Controlled Entities to abide by its non-competition undertaking to us, none of the Controlled Entities is a party to, or otherwise legally bound by, the Non-Competition Undertaking. Therefore, there can be no assurance that the Controlled Entities will not compete with us for International Mining Business opportunities in the future. See "Risk Factors — Risk relating to Our Business and Industry — If our relationship with China National Gold materially changes, our growth prospects and results of operations may be materially and adversely affected."

In addition, notwithstanding China National Gold's non-competition undertaking to us and our efforts to seek and acquire International Mining Businesses with a particular focus on gold, we may not be able to acquire and operate any gold or other non-ferrous mine outside of China in the future.

### **NON-COMPETITION UNDERTAKING FROM OUR COMPANY TO CHINA NATIONAL GOLD**

In order to induce China National Gold Hong Kong to enter into the Sale and Purchase Agreement and in consideration of the non-competition undertaking granted by China National Gold to us, our Company will provide a deed of non-competition in favor of China National Gold undertaking that we will not, and will not cause any of our Controlled Entities to, acquire any gold or other non-ferrous mining operations or assets located in the PRC without first receiving the written consent of China National Gold, provided that, with respect to any business opportunity where the underlying minerals are located in China that are directly or indirectly held through an offshore company, in the event that Zhongjin Gold Corporation decides not to take up the business opportunity, our Company will be able to take up such opportunity. For the avoidance of doubt, the CSH CJV and the Jiama Mine as well as any additions, accretion and expansion thereof do not fall within the scope of this deed of non-competition, which will remain in place until the earlier of such time as the Company's shares are no longer listed on the Stock Exchange or the date on which China National Gold, directly or indirectly, ceases to be a "controlling shareholder" of the Company within the meaning of the Listing Rules of the Stock Exchange.

### **INDEPENDENCE FROM CHINA NATIONAL GOLD**

Having considered the matters described above and the following factors, our Directors confirm that we are able to operate independently of our Controlling Shareholders and its associates.

#### **Financial Independence**

We have an independent accounting and financial system and we make financial decisions according to our own business needs. Pursuant to Canadian securities laws, our Audit Committee is comprised solely of independent non-executive directors, none of whom holds director or senior management position in China National Gold, thus increasing our financial independence from China National Gold.

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The following table presents the details of the financial assistance provided by China National Gold to our Group and the Skyland Group, respectively, as of the Latest Practicable Date:

To our Company<sup>(1),(2)</sup>:

<u>Date</u>	<u>Parties</u>	<u>Nature and amount of financial assistance</u>	<u>Duration</u>	<u>Key terms</u>	<u>Proposed/actual use of proceeds</u>
September 10, 2009	China National Gold, Agricultural Bank of China	Guarantee of the bank loan for the sum of RMB290.0 million (US\$42.3 million) advanced by the Agricultural Bank of China to us	Five years	<ul style="list-style-type: none"> <li>● Unconditional guarantee of loan</li> <li>● Principal loan to mature in September 2014</li> </ul>	To fund the expansion of the CSH Mine
December 7, 2009	China National Gold Hong Kong, the Company	Term loan for the sum of US\$40.0 million	Two years	<ul style="list-style-type: none"> <li>● Maturity on December 6, 2011</li> <li>● Interest at the rate of 6% to be repayable quarterly</li> <li>● Early repayment is permitted</li> </ul>	To redeem outstanding promissory notes for the sum of CAD42.5 million held by various third parties

(1) A promissory note issued by our Company for the principal amount of CAD7.5 million was assumed by China National Gold Hong Kong when it acquired its interest in the Company in May 2008.

(2) Pursuant to the financial service agreement dated June 22, 2009 entered into between China National Gold and the Company, China National Gold received US\$0.4 million in exchange for providing the financial assistance.

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### To Skyland:

Date	Party	Nature and amount of financial assistance	Duration	Key terms	Proposed/actual use of proceeds
March 16, 2009	China National Gold, Bank of China	Guarantee of the loan facility for the sum of RMB650.0 million (US\$95.1 million) was advanced by Bank of China to Huatailong	Approximately two years and nine months to five years and nine months	<ul style="list-style-type: none"> <li>● Unconditional guarantee of loan</li> <li>● Principal loan to be repaid in four installments of RMB200 million, RMB200 million, RMB150 million and RMB100 million on December 28, 2011, December 28, 2012, December 28, 2013 and December 28, 2014, respectively</li> </ul>	To fund construction of Jiama Mine
July 27, 2009	China National Gold Hong Kong, Skyland	Loan for the sum of RMB60.0 million (US\$8.8 million)	Approximately two years <sup>(3)</sup>	<ul style="list-style-type: none"> <li>● Maturity on July 26, 2011<sup>(3)</sup></li> <li>● Interest at the rate of 7.56% per annum</li> </ul>	To fund construction of Jiama Mine
November 2, 2009	China National Gold Hong Kong, Skyland	Shareholder loan for the sum of US\$1,020,000	Approximately two years <sup>(4)</sup>	<ul style="list-style-type: none"> <li>● Maturity on November 2, 2011<sup>(3)</sup></li> <li>● Nil interest payable</li> </ul>	To fund part of listing expenditure
January 27, 2010	China National Gold, Bank of China	Guarantee of the loan facility for the sum of RMB50.0 million (US\$7.3 million) provided by Bank of China to Huatailong	Approximately two years	<ul style="list-style-type: none"> <li>● Unconditional guarantee of loan</li> <li>● Principal loan to be repaid on December 28, 2011</li> </ul>	To fund working capital of Jiama Mine
February 4, 2010	China National Gold, Jinchuan Group Ltd.	Guarantee for performance and fulfillment of obligations of Huatailong under the copper concentrate purchase and sales contracts with Jinchuan Group	From January 1, 2010 to January 15, 2011	<ul style="list-style-type: none"> <li>● Supply all copper concentrates produced at Jiama Mine to Jinchuan for the term with pricing referenced to the daily average copper price on the Shanghai Futures Exchange</li> <li>● Deliver the first lot of 500 tonnes of copper concentrates on or before June 30, 2010</li> <li>● Jinchuan Group to pay RMB250 million as advance payment</li> </ul>	N/A
March 16, 2010	China National Gold Hong Kong, Skyland	Loan for the sum of US\$12.0 million	Approximately two years <sup>(3)</sup>	<ul style="list-style-type: none"> <li>● Maturity in March, 2012<sup>(3)</sup></li> <li>● Interest at the rate of 5.40% per annum</li> </ul>	To fund the repayment of the Jia Ertong Loan
June 7, 2010	China National Gold, Bank of China, Postal Savings Bank of China, Agricultural Bank of China	Guarantee of the loan facility for the sum of RMB750.0 million was advanced by Bank of China, Postal Savings Bank of China and Agricultural Bank of China to Huatailong	Approximately eight years	<ul style="list-style-type: none"> <li>● Unconditional loan</li> <li>● Principal loan to be repaid in four installments of RMB100.0 million, RMB150.0 million, RMB200.0 million and RMB300.0 million on the anniversary date of the first draw-down in 2013, 2014, 2015 and 2016, respectively</li> </ul>	To fund the upgrade of technology of Jiama Mine

(3) Pursuant to the Sale and Purchase Agreement, the loans will be assumed by our Company upon the completion of the Skyland Acquisition. They will be fully settled upon Listing and will thereby cease to be outstanding.

(4) It is expected that the loan will be waived by China National Gold Hong Kong upon the completion of the Skyland Acquisition.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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With respect to the financial assistance provided by China National Gold to the Enlarged Group as set forth in the table above, as of September 30, 2010,

- the total amount of guarantee provided by China National Gold to the Enlarged Group (including its guarantee with respect to the customer advance (amounting to approximately RMB206.7 million as of September 30, 2010)) under the Jinchuan copper concentrate purchase and sales agreement) amounted to approximately RMB1,513.6 million;
- the total amount of guarantee provided by China National Gold (including its guarantee with respect to the customer advance) to the Enlarged Group represented approximately 78.3% of the total borrowings of the Enlarged Group (including such customer advance);
- the total amount of loans provided by China National Gold to the Enlarged Group amounted to approximately RMB418.9 million; and
- the loans provided by China National Gold to the Enlarged Group represented approximately 24.3% of the total borrowings of the Enlarged Group.

It is expected that all outstanding loans provided by China National Gold to the Enlarged Group will be repaid by the Group using a portion of the net proceeds of the Global Offering or with a portion of the Consideration Shares, except that the shareholder loans from China National Gold Hong Kong to Skyland to fund part of the listing expenditure will be waived by China National Gold upon or immediately after the Completion. See the sections “Financial Information — Financial Information of our Group — Indebtedness” and “Financial Information — Financial Information of Skyland Group — Indebtedness” in this prospectus for further information.

In relation to the guarantees provided by China National Gold to our Enlarged Group, we believe that the premature release of such guarantees is not cost effective, and it is in the interest of the Company and the Shareholders to arrange for an orderly release of the guarantees. Our Enlarged Group is at an advanced stage of negotiation with the relevant banks on the release of the guarantees in light of the current stage of operation at our CSH Mine and/or the Jiama Mine. We expect that all guarantees will be released within six months from the Listing Date. With respect to the guarantee provided by China National Gold in favor of Jinchuan Group under the Jiama Contract for Purchase and Sale of Copper Concentrates, it was provided in relation to Jinchuan Group’s advance payment of purchase price at a time when the Jiama Mine was still at a pre-production stage and such guarantee will not be a standard business practice for the Jiama Mine. As the Jiama Contract has only a one-year term, Huatailong and Jinchuan Group have been in discussions regarding renewal of the contract. We confirm that upon the expiry of the Jiama Contract for Purchase and Sale of Copper Concentrates on January 15, 2011, the guarantee provided by China National Gold in favor of Jinchuan Group for the performance and fulfillment of all obligations of Huatailong under such contract shall cease to be effective and no guarantee will be required for any new purchase and sales contract with Jinchuan Group. Moreover, as the Jiama Mine commenced commercial production in September 2010 and its production continues to ramp up, the Company confirms that no additional guarantee from China National Gold will be required for the on-going operations of the Jiama Mine. Going forward, it is expected that our Enlarged Group is in a position to obtain financing independently without guarantee from China National Gold.

With respect to all loans provided by China National Gold, our Group had obtained indicative term sheets and expression of interests from several financial institutions for a comparable loan prior to

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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entering into such loans. Also, the term loan for the sum of US\$40.0 million advanced by China National Gold to us is expected to be repaid by part of the net proceeds to be received by us from the Global Offering. The promissory note was purchased by China National Gold Hong Kong concurrently with their acquisition of 42.0% of our equity interest in May 2008 and is expected to be repaid by part of the net proceeds to be received by us from the Global Offering. Our Company has no immediate plan to issue further promissory note upon the expiration of the promissory note in June 2011.

As such, we believe that we are able to obtain new financings and extend existing financings from commercial banks on comparable terms without guarantee and security from China National Gold following the Listing. Therefore, our Directors confirm that there is no financial dependence on China National Gold or its associates after the Listing.

Upon completion of the Global Offering, we do not expect to rely on any new guarantee, loan or other financial assistance from China National Gold.

### **Management Independence**

China National Gold (including its subsidiary, Zhongjin Gold Corporation) and our Company have boards of directors that function independently of each other. In addition, we have our own internal control and accounting system, accounting and finance departments and independent treasury function for cash receipts and payments.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

The following table presents the details of the directorships and senior management of our Company and China National Gold (including its subsidiary, Zhongjin Gold Corporation):

<u>Name</u>	<u>Director/senior position in our Company</u>	<u>Directorship/Management position in China National Gold<sup>(1)</sup> (including its subsidiary, Zhongjin Gold Corporation<sup>(2)</sup>)</u>
Sun, Zhaoxue . . . . .	Chairman and Executive Director	General Manager of China National Gold  Director of Zhongjin Gold Corporation <sup>(3)</sup>
Song, Xin . . . . .	Chief Executive Officer and Executive Director	Deputy General Manager of China National Gold  Director of Zhongjin Gold Corporation <sup>(3)</sup>
Wu, Zhanming . . . . .	Executive Director and vice president of business development	Manager of Capital Markets department of China National Gold
Jiang, Xiangdong . . . . .	Executive Director and vice president of production	None
Liu, Bing . . . . .	Non-executive Director	Deputy General Manager and Chief Accountant of China National Gold  Director of Zhongjin Gold Corporation <sup>(3)</sup>
He, Ying Bin Ian . . . . .	Independent non-executive director	None
Chen, Yunfei . . . . .	Independent non-executive director	None
Hall, Gregory Clifton . . . . .	Independent non-executive director	None
Burns, John King . . . . .	Independent non-executive director	None
Xie, Quan Jerry . . . . .	Executive vice president, corporate secretary and secretary to the Board	None
Law, Chi Yung . . . . .	Chief financial officer	None
King, Heather . . . . .	Vice president of finance	None
Ma, Sau Kuen Gloria . . . . .	Hong Kong company secretary	None

(1) The management committee of China National Gold consists of eight members.

(2) The board of directors of Zhongjin Gold Corporation consists of nine members.

(3) Performing a non-executive role.

Our Board comprises four executive Directors, one non-executive Directors and four independent non-executive Directors. Two of our executive Directors, being Mr. Zhaoxue Sun and Mr. Xin Song, and one of our non-executive Directors, being Mr. Bing Liu, also hold senior management positions in China National Gold, and are directors of Zhongjin Gold Corporation. One of our executive Directors, being Mr. Wu Zhanming, is a manager of the capital markets department of China National Gold. Their duties and responsibilities are as follows:

**Sun Zhaoxue:** Mr. Sun is the Chairman and Executive Director of the Company and is expected to spend at least 50% of his time managing the business operation of the Company. The

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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balance of his time will be spent on his responsibility as the general manager of China National Gold. His role as the director of Zhongjin Gold Corporation is in the form of a non-executive role, primarily to attend board meetings, and he is not involved in the daily operations of Zhongjin Gold Corporation.

**Song Xin:** Mr. Song is the Executive Director and the Chief Executive Officer of the Company. He expects to spend the majority of his time as full-time executive overseeing the operations of the Company. His role as the director of Zhongjin Gold Corporation is in the form of a non-executive role, primarily to attend board meetings, and he is not involved in the daily operations of Zhongjin Gold Corporation.

**Wu Zhanming:** Mr. Wu is the Executive Director and the vice president of business development of the Company. He expects to spend the majority of his time as full-time executive overseeing the operations of the Company. Mr. Wu will also assume the executive position of vice-president, business development with responsibility for the Company's strategic business planning and investor relations. Mr. Wu expects to continue to spend a small amount of his time as the manager of the capital market department but he does not expect such commitment to conflict with his overall full-time management responsibility for the affairs of the Company. Following the overall business strategies of China National Gold, as the manager of its capital market department, Mr. Wu formulates and implements capital market development plans, develops capital market operation proposals and operates investment projects of China National Gold, with a focus on overseas strategies and projects.

**Liu Bing:** Mr. Liu is a Non-executive Director of the Company and expects to spend a substantial portion of his time in the operations of China National Gold. His role as the director of Zhongjin Gold Corporation is in the form of a non-executive role, primarily to attend board meetings, and he is not involved in the daily operations of Zhongjin Gold Corporation.

During the Track Record Period, Mr. Sun, Mr. Song, Mr. Wu and Mr. Liu derived all of their remuneration from China National Gold. After the Listing, the remuneration of Mr. Sun and Mr. Liu, being an executive Director and a non-executive Director, respectively, will continue to be paid by China National Gold.

As senior officials of China National Gold, Mr. Sun and Mr. Song were invited to serve as directors (performing non-executive role) of Zhongjin Gold Corporation to represent the interest of China National Gold in the affairs of Zhongjin Gold Corporation. Likewise, Mr. Sun and Mr. Wu were appointed to join the board of the Company after China National Gold acquired approximately 42.0% of the issued share capital of the Company in May 2008, to represent the interest of China National Gold in the affairs of the Company.

As the chairman of Skyland since April 2008, Mr. Song was invited to join the board of the Company in October 2009 to promote synergy of operation of our Group in contemplation of the completion of the Skyland Acquisition upon the Listing.

Mr. Liu expects to continue to spend the majority of his time as the deputy general manager and chief accountant of China National Gold primarily responsible for finance-related matters of China National Gold, in addition to his role as a director of Zhongjin Gold Corporation. Notwithstanding his responsibility in China National Gold and his position as a director of Zhongjin Gold Corporation, the Company has invited Mr. Liu to serve as one of its non-executive directors to benefit from his more than 10 years' experience in strategic financial planning for mining companies.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and avoids any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, the interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only. In the event that our Board is required to consider whether or not to acquire a Competing Business Opportunity, or otherwise, such that the overlapping Directors are required to abstain from attending our Board meetings, our Board can function effectively given the qualifications, expertise and experience of the independent Directors in the International Mining Business. Our independent non-executive Directors, Mr. Ying Bin Ian He, Mr. Yunfei Chen, Mr. Gregory Clifton Hall and Mr. John King Burns each have approximately 17 years, nine years, 35 years and 14 years, respectively, of experience in the mining industry, largely accrued while working for overseas mining companies in Canada, Australia, the United States or Asia. See “Directors and Senior Management — Board of Directors” for details of international mining experience of our independent non-executive Directors. We are satisfied that the independence of our Board is not compromised with the common directorship of the aforementioned Directors.

In addition, the Listing Rules and the Canadian securities laws impose disinterested shareholder approval requirements for connected transactions, thus imposing independence from China National Gold for connected transactions of our Company.

Our Directors who hold common directorship or senior management positions do not perform the role as an executive director or an executive personnel in Zhongjin Gold Corporation. As a result, they are able to substantially devote their time to the management and operation of our Group.

Pursuant to Canadian securities laws, our Audit Committee, Compensation and Benefits Committee, Nominating and Corporate Governance Committee, and Safety, Health and Environmental Committee are comprised solely of independent non-executive directors, none of whom holds director or senior management position in China National Gold, thus increasing our management independence from China National Gold.

Considering all the foregoing factors, we are satisfied that our Board is capable to properly discharge its duties and to act in the best interest of our Shareholders as a whole.

### **Operational Independence**

Our senior management is experienced in the mining industry, in particular, Sun Zhaoxue, Song Xin and Jiang Xiangdong have over 20 years of experience in the mining industry. They have accumulated strong technology and management expertise in the mining industry. We are familiar with advanced technology in the mining industry and possess the know-how to operate our business. We are thus capable of operating our mines and expanding our resource base independent of China National Gold.

### **Customer and Supplier Independence**

We have sold substantially all of our gold dore bars to China National Gold since October 2008 under the terms of a three-year sale agreement based on an agreed formula. During the Track Record

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDER

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Period, our sales to China National Gold accounted for 47.7% and 95.9% of our total sales for the years ended December 31, 2008 and 2009, respectively. Our sales arrangement with China National Gold is to achieve better payment settlement and mitigate counterparty risk. We are not dependant on China National Gold for the sale of our gold dore bars as gold is a commodity product with a readily available market. In China, gold is traded at a prevailing market price reflected in the average daily trading prices at the Shanghai Gold Exchange. There are currently over 160 members of the Shanghai Gold Exchange which are qualified to perform gold trading on the Shanghai Gold Exchange and authorised to purchase gold dore from gold manufacturers. We therefore believe we are able to sell our gold dore to other members of the Shanghai Gold Exchange at comparable pricing and commercial terms. In addition, there is a significant number of alternative third-party refiners which undertake refinement of gold dore. Likewise, there is a substantial number of third party customers of copper concentrate, molybdenum concentrate and lead concentrate. We believe the Skyland Group is able to sell its products to third party customers. Our Enlarged Group is thus not dependent on China National Gold as our customer source.

Our Group does not purchase raw material from third parties as our raw material is the mineral ore extracted from our mines. Our Group has extensive network of sourcing suppliers of auxiliary materials, who are independent suppliers not related to China National Gold. Our Group is thus not dependent on China National Gold for sourcing our suppliers.

The Skyland Group's principal raw material is the mineral ore extracted from the Jiamia Mine. The Skyland Group has extensive network of sourcing suppliers of auxiliary materials, who are independent suppliers not related to China National Gold. The Skyland Group is thus not dependent on China National Gold for sourcing suppliers.

### **Business Opportunity Independence**

Our senior management has extensive industry contacts and management experience. Our Enlarged Group is capable of identifying projects and assets, for the exploration and exploitation and production of gold and other non-ferrous metals, which have potential growth opportunity. Our Enlarged Group is thus not dependent on the option granted by China National Gold under the Non-Competition Undertaking to purchase its projects or assets, for the exploration and exploitation and production of gold and other non-ferrous metals outside the PRC in enhancing the development and growth of our business.