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CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD.

中國黃金國際資源有限公司

(根據加拿大英屬哥倫比亞法例成立的有限公司)

(香港股份代號：2099)

(多倫多股份代號：CGG)

海外監管公告

2018年3月28日溫哥華消息 - 中國黃金國際資源有限公司（多倫多股份代號：CGG，香港股份代號：2099）於溫哥華時間2018年3月28日向加拿大SEDAR（www.sedar.com）提交了截至2017年12月31日年度的管理層討論與分析以及財務報表。

詳情請參閱隨附的公告。

承董事會命
中國黃金國際資源有限公司
主席
宋鑫先生

香港，2018年3月29日

於本公告日期，本公司董事會由執行董事宋鑫先生、劉冰先生及姜良友先生，非執行董事孫連忠先生及江向東先生，及獨立非執行董事赫英斌先生、陳雲飛先生、Gregory Hall先生及John King Burns先生組成。

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China Gold International Resources Corp. Ltd.

Management's Discussion and Analysis of Financial Condition and Results of Operations Year ended December 31, 2017 (Stated in U.S. dollars, except as otherwise noted)

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MANAGEMENT'S DISCUSSION AND ANALYSIS



The following Management Discussion and Analysis of financial condition and results of operations (“MD&A”) is prepared as of March 28, 2018. It should be read in conjunction with the consolidated financial statements and notes thereto of China Gold International Resources Corp. Ltd. (referred to herein as “China Gold International”, the “Company”, “we” or “our” as the context may require) for the year ended December 31, 2017 and the year ended December 31, 2016, respectively. Unless the context otherwise provides, references in this MD&A to China Gold International or the Company refer to China Gold International and each of its subsidiaries collectively on a consolidated basis.

The following discussion contains certain forward-looking statements relating to the Company’s plans, objectives, expectations and intentions, which are based on the Company’s current expectations and are subject to risks, uncertainties and changes in circumstances. Readers should carefully consider all of the information set out in this MD&A, including the risks and uncertainties outlined further in the Company’s Annual Information Form (“Annual Information Form” or “AIF”) dated March 28, 2018 on SEDAR at www.sedar.com. For further information on risks and other factors that could affect the accuracy of forward-looking statements and the result of operations of the Company, please refer to the sections titled “Forward-Looking Statements” and “Risk Factors” and to discussions elsewhere within this MD&A. China Gold International’s business, financial condition or results of operations could be materially and adversely affected by any of these risks.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORWARD-LOOKING STATEMENTS

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE COMPANY**Overview**

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

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

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

Performance Highlights

Three months ended December 31, 2017

- Revenue increased by 42% to US\$133.3 million from US\$93.6 million for the same period in 2016.
- Mine operating earnings increased by 252% to US\$45.7 million from US\$13.0 million for the same period in 2016.
- Net profit after income taxes increased to US\$20.0 million from a net loss of US\$9.1 million for the same period in 2016.
- Gold production from the CSH Mine increased by 14% to 59,998 ounces from 52,828 ounces for the same period in 2016.
- Copper production from the Jiama Mine increased by 241% to 14,905 tonnes (approximately 32.9 million pounds) from 4,365 tonnes (approximately 9.6 million pounds) for the same period in 2016. Gold produced was 17,893 ounces compared to 6,133 ounces for the same period in 2016. The increase in production was primarily due to the output from the commissioning of phase II series I expansion.

Year ended December 31, 2017

- Revenue increased by 22% to US\$411.9 million from US\$338.6 million for the same period in 2016.
- Mine operating earnings increased by 108% to US\$116.8 million from US\$56.2 million for the same period in 2016.
- Net profit after income taxes increased to US\$64.3 million from a net loss of US\$12.3 million for the same period in 2016.
- Gold production from the CSH Mine increased by 1% to 186,957 ounces from 185,052 ounces for the same period in 2016.
- Copper production from the Jiama Mine increased by 96% to 35,844 tonnes (approximately 79.0 million pounds) from 18,321 tonnes (approximately 40.4 million pounds) for the same period in 2016. Gold produced was 47,710 ounces compared to 26,250 ounces for the same period in 2016. The increase in production was mainly due to the output from the commissioning of the phase II series I expansion.



MANAGEMENT'S DISCUSSION AND ANALYSIS

SELECTED ANNUAL INFORMATION*

	Year ended December 31				
	2017	2016	2015	2014	2013
<i>US\$ Millions except for per share</i>					
Total revenue	412	339	340	278	303
Profit from continuing operations	79	34	39	73	76
Net (loss) profit	64	(12)	(7)	42	57
Basic (loss) earnings per share (cents)	15.93	(3.36)	(2.07)	10.02	13.88
Diluted (loss) earnings per share (cents)	N/A	N/A	(2.07)	10.02	13.88
Total assets	3,230	2,967	2,781	3,013	2,219
Total non-current liabilities	1,324	737	971	850	431
Distribution or cash dividends declared per share	–	–	–	–	–

* Prepared under IFRS

OUTLOOK

- Projected gold production of 160,000 ounces in 2018.
- Projected copper production of approximately 100 million pounds in 2018.
- The Jiama Mine's Phase II expansion consists of two series, with each series having a mining and mineral processing capacity of 22,000 tpd. The Jiama Mine's Phase II, Series I expansion reached commercial production on December 31, 2017. As a result, throughput capacity has been increased to 28,000 tonnes per day ("tpd") from the previous capacity of 6,000 tpd. Construction of the Jiama Mine's Phase II, Series II is now complete and development and production testing is currently underway. The Company expects Series II, which will add an additional 22,000 tpd, to achieve commercial production in mid of 2019.
- The Company will continue to leverage the technical and operating experience of the Company's substantial shareholder, China National Gold Group Co., Ltd. (formerly known as China National Gold Group Corporation) ("CNG"), to improve operations at its mines. In addition, the Company continues to focus its efforts on increasing production while minimizing costs at both mines.
- To fulfill its growth strategy, the Company is continually working with CNG and other interested parties to identify potential international mining acquisition opportunities, namely projects outside of China.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Selected Quarterly Financial Data

(US\$ in thousands except per share)	31-Dec	Quarter ended						
		2017			2016			
		30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
Revenue	133,312	98,543	97,916	82,110	93,552	109,560	69,904	65,585
Cost of sales	87,621	71,565	72,923	62,986	80,517	85,681	58,162	58,039
Mine operating earnings	45,691	26,978	24,993	19,124	13,035	23,879	11,742	7,546
General and administrative expenses	19,309	7,103	5,660	5,776	5,127	5,902	5,361	5,049
Exploration and evaluation expenses	176	40	53	36	216	65	53	46
Income from operations	26,206	19,835	19,280	13,312	7,692	17,912	6,328	2,451
Foreign exchange gain (loss)	(492)	1,838	4,001	2,845	(9,154)	(2,493)	(5,980)	1,198
Finance costs	5,748	5,800	5,264	4,914	4,264	3,793	4,063	4,453
Profit (loss) before income tax	22,350	17,616	21,936	13,709	(2,703)	13,972	(1,870)	(2,986)
Income tax expense	2,394	208	1,332	7,332	6,431	6,276	5,531	500
Net profit (loss)	19,956	17,408	20,604	6,377	(9,134)	7,696	(7,401)	(3,846)
Basic earnings (loss) per share (cents)	4.91	4.33	5.09	1.60	(2.32)	1.82	(1.95)	(0.91)
Diluted earnings (loss) per share (cents)	N/A	N/A	N/A	N/A	N/A	1.82	(1.95)	(0.91)

Selected Quarterly and Annual Production Data and Analysis

CSH Mine	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Gold sales (US\$ million)	72.88	64.92	233.64	227.58
Realized average price ⁽¹⁾ (US\$) of gold per ounce	1,271	1,241	1,264	1,238
Gold produced (ounces)	59,998	52,828	186,957	185,052
Gold sold (ounces)	57,350	52,315	184,829	183,864
Total production cost (US\$ per ounce)	1,004	1,091	1,055	1,054
Cash production cost ⁽²⁾ (US\$ per ounce)	645	769	670	764

⁽¹⁾ Net of resource compensation fees that is based on revenue and paid to PRC government. The PRC government eliminated the resource compensation fee as of July 2016.

⁽²⁾ Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gold production at the CSH Mine increased by 14% to 59,998 ounces for the three months ended December 31, 2017 compared to 52,828 ounces for the three months ended December 31, 2016. The increase in gold production is attributed to higher grades of ore mines during the 2017 period.

The total production cost of gold for the three months ended December 31, 2017 decreased to US\$1,004 per ounce compared to US\$1,091 for the three month 2016 period. The cash production cost of gold for the three months ended December 31, 2017 decreased by approximately 16% to US\$645, from US\$769 per ounce for the same period in 2016, mainly due to an approximately 42% decrease in waste rock stripping costs.

Jiama Mine	Three months ended		Year ended	
	December 31, 2017	2016	December 31, 2017	2016
Copper sales ¹ (US\$ in millions)	39.81	19.40	117.12	69.28
Realized average price ² (US\$) of copper per pound after smelting fee discount	2.55	1.81	2.25	1.55
Copper produced (tonnes) ³	14,905	4,365	35,844	18,321
Copper produced (pounds) ³	32,859,328	9,622,602	79,021,963	40,391,851
Copper sold (tonnes) ³	8,333	4,708	25,814	19,158
Copper sold (pounds) ³	18,370,737	10,379,519	56,909,435	42,235,934
Gold produced (ounces) ³	17,893	6,133	47,710	26,250
Gold sold (ounces) ³	12,756	6,204	40,294	27,322
Silver produced (ounces) ³	808,457	281,628	2,365,578	1,233,312
Silver sold (ounces) ³	635,746	298,870	1,884,516	1,297,910
Total production cost ⁴ (US\$) of copper per pound	2.82	2.66	2.47	2.49
Total production cost ⁴ (US\$) of copper per pound after by-products credits ⁶	1.72	1.70	1.36	1.48
Cash production cost ⁵ (US\$) per pound of copper	2.27	2.29	2.05	2.09
Cash production cost ⁵ (US\$) of copper per pound after by-products credits ⁶	1.17	1.33	0.94	1.08

¹ Net of resource compensation fees that is based on revenue and paid to PRC government agency. The PRC government eliminated the resource compensation fee as of July 2016. The amount excludes sales from the commissioning of phase II series I production.

² A discount factor of 18.8% to 27% is applied to the copper bench mark price to compensate the refinery costs incurred by the buyers

³ 2017 Quantities of Copper, Gold and Silver produced and sold include the production and sales from the commissioning of phase II series I

⁴ Production costs include expenditures incurred at the mine sites for the activities related to production including mining, processing, mine site G&A and royalties etc.

⁵ Non-IFRS measure. See 'Non-IFRS measures' section of this MD&A

⁶ By-products credit refers to the sales of gold and silver during the corresponding period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

During the three months ended December 31, 2017, the Jiama Mine produced 14,905 tonnes (approximately 32.86 million pounds) of copper, an increase of 241% compared with the three months ended December 31, 2016 (4,365 tonnes, or 9.6 million pounds). The increase in production is due to the commissioning of phase II series I production.

During the three months ended December 31, 2017, total production cost of copper per pound after by-products remained consistent, while cash production cost of copper per pound after by-product decreased as compared to the same period in 2016 due to higher grades of ore.

Review of Quarterly and Annual Data

Three months ended December 31, 2017 compared to three months ended December 31, 2016

Revenue of US\$133.3 million for the fourth quarter of 2017 increased by US\$39.7 million or 42%, from US\$93.6 million for the same period in 2016.

Revenue from the CSH Mine was US\$72.9 million, an increase of US\$8.0 million, compared to US\$64.9 million for the same period in 2016. Gold sold by the CSH Mine was 57,350 ounces (gold produced: 59,998 ounces), compared to 52,315 ounces (gold produced: 52,828 ounces) for the same period in 2016.

Revenue from the Jiama Mine was US\$60.4 million, an increase of US\$31.8 million, compared to US\$28.6 million for the same period in 2016. Total copper sold was 8,333 tonnes (18.4 million pounds) for the three months ended December 31, 2017, an increase of 77% from 4,708 tonnes (10.38 million pounds) for the same period in 2016. Total tonnes (pounds) of copper sold during 2017 include output from phase II series I, such sales reduce the cost of construction in progress instead of being included in revenue until commercial production begins. Phase II, Series I expansion reached commercial production on December 31, 2017.

Cost of sales of US\$87.6 million for the quarter ended December 31, 2017, an increase of US\$7.1 million or 9% from US\$80.5 million for the same period in 2016. The overall increase is primarily attributed to an increase of 28% at Jiama. Cost of sales as a percentage of revenue for the Company decreased from 86% to 66% for the three months ended December 31, 2016 and 2017, respectively.

Mine operating earnings of US\$45.7 million for the three months ended December 31, 2017 an increase of 252%, or US\$32.7 million, from US\$13.0 million for the same period in 2016. Mine operating earnings as a percentage of revenue increased from 14% to 34% for the three months ended December 31, 2016 and 2017, respectively. The increase in mine operating earnings as a percentage of revenue can be attributed to a 41% increase in the realized average price of copper per pound for the three months ended December 31, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General and administrative expenses increased by US\$14.2 million, from US\$5.1 million for the quarter ended December 31, 2016 to US\$19.3 million for the quarter ended December 31, 2017. The increase is mainly due to R&D expenditure at both mine sites.

Income from operations of US\$26.2 million for the fourth quarter of 2017, increased by US\$18.5 million, compared to US\$7.7 million for the same period in 2016.

Finance costs of US\$5.7 million for the three months ended December 31, 2017, increased by US\$1.4 million compared to the same period in 2016. During the three months ended December 31, 2017, interest payments of US\$5.1 million (2016: US\$6.2 million) were capitalized for borrowing costs related to the Jiama Mine expansion.

Foreign exchange loss decreased to US\$0.49 million for the three months ended December 31, 2017 from US\$9.2 million for the same period in 2016. The decrease is related to the revaluation of monetary items held in Chinese RMB, which was based on changes in the RMB/USD exchange rates.

Interest and other income of US\$2.4 million for the three months ended December 31, 2017 decreased from US\$3.0 million for the same period in 2016, due to lower income earned on term deposits and related party loans.

Income tax expense of US\$2.4 million for the quarter ended December 31, 2017 decreased by US\$4.0 million from US\$6.4 million for the comparative period in 2016. During the current quarter, the Company had US\$0.9 million of deferred tax credit compared to US\$2.1 million deferred tax expense for the same period in 2016.

Net income of the Company increased by US\$29.1 million from a loss of US\$9.1 million for the three months ended December 31, 2016 to a gain of US\$20.0 million for the three months ended December 31, 2017.

Year ended December 31, 2017 compared to Year ended December 31, 2016

Revenue of US\$411.9 million for the year ended December 31, 2017 increased by US\$73.3 million or 22%, from US\$338.6 million for the same period in 2016.

Revenue from the CSH Mine was US\$233.6 million, increase of US\$6.0 million, compared to US\$227.6 million for the same period in 2016. Gold sold by the CSH Mine was 184,829 ounces (gold produced: 186,957 ounces), compared to 183,864 ounces (gold produced: 185,052 ounces) for the same period in 2016.

Revenue from the Jiama Mine was US\$178.2 million, an increase of US\$67.2 million, compared to US\$111.0 million for the same period in 2016. Total copper sold was 25,814 tonnes (56.9 million pounds) for the year ended December 31, 2017, an increase of 35% from 19,158 tonnes (42.2 million pounds) for the same period in 2016. Total tonnes (pounds) of copper sold during 2017 include output from phase II series I, such sales reduce the cost of construction in progress instead of being included in revenue until commercial production begins. Phase II, Series I expansion reached commercial production on December 31, 2017.

Cost of sales of US\$295.1 million for the year ended December 31, 2017, an increase of US\$12.7 million or 4% from US\$282.4 million for the same period in 2016. The overall increase is primarily attributed to higher copper sales volume at Jiama compared to the same period in 2016. Cost of sales as a percentage of revenue for the Company decreased from 83% to 72% for year ended December 31, 2016 and 2017, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mine operating earnings of US\$116.8 million for the year ended December 31, 2017 an increase of 108%, or US\$60.6 million, from US\$56.2 million for the same period in 2016. Mine operating earnings as a percentage of revenue increased from 17% to 28% for the year ended December 31, 2016 and 2017, respectively. The increase in mine operating earnings as a percentage of revenue can be attributed to a 45% increase in the realized average price of copper per pound and a 2% increase in the realized average price of gold per ounce for the year ended December 31, 2017.

General and administrative expenses increased by US\$16.4 million, from US\$21.4 million for the year ended December 31, 2016 to US\$37.8 million for the year ended December 31, 2017. The increase is mainly due to R&D expenditure at both mine sites.

Income from operations of US\$78.6 million for the year ended December 31, 2017, increased by US\$44.2 million, compared to US\$34.4 million for the same period in 2016.

Finance costs of US\$21.7 million for the year ended December 31, 2017, increased by US\$5.2 million compared to the same period in 2016. During the year ended December 31, 2017, interest payments of US\$24.7 million (2016: US\$24.8 million) were capitalized for borrowing costs related to the Jiama Mine expansion.

Foreign exchange gain increased to US\$8.2 million for the year ended December 31, 2017, from a loss of US\$16.4 million for the same period in 2016. The increase is related to the revaluation of monetary items held in Chinese RMB, which was based on changes in the RMB/USD exchange rates.

Interest and other income of US\$10.5 million for the year ended December 31, 2017 increased from US\$8.9 million for the same period in 2016, due to higher income earned on term deposits and related party loans.

Income tax expense of US\$11.3 million for the year ended December 31, 2017 decreased by US\$7.4 million from US\$18.7 million for the comparative period in 2016. During the year, both the CSH and Jiama mine qualified for preferential tax rates of 15% and 9%, respectively, which were previously 25% and 15%, respectively. In addition, a US\$2.1 million adjustment was made in 2017 for an overprovision of PRC enterprise income tax related to the prior year. During the current period, the Company had US\$3.0 million of deferred tax credit compared to US\$0.7 million deferred tax expense for same period in 2016.

Net income of the Company increased by US\$76.6 million from a loss of US\$12.3 million for the year ended December 31, 2016 to a gain of US\$64.3 million for the year ended December 31, 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NON-IFRS MEASURES

The following table provides certain unit cost information on a cost of production per tonne of ore processed (non-IFRS) basis for the CSH Mine for the three months and year ended December 31, 2017 and 2016:

CSH Mine	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
	US\$	US\$	US\$	US\$
Cost of mining per tonne of ore	1.36	1.18	1.35	1.37
Cost of mining waste per tonne of ore	2.14	2.08	1.86	2.76
Other mining costs per tonne of ore	0.20	0.05	0.20	0.28
Total mining costs per tonne of ore	3.70	3.31	3.41	4.41
Cost of reagents per tonne of ore	1.32	1.45	1.02	1.06
Other processing costs per tonne of ore	1.23	1.16	0.98	0.88
Total processing cost per tonne of ore	2.55	2.61	2.00	1.94

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	CSH Mine (Gold)							
	Three months ended December 31,				Year ended December 31,			
	2017		2016		2017		2016	
	US\$	US\$ Per ounce	US\$	US\$ Per ounce	US\$	US\$ Per ounce	US\$	US\$ Per ounce
Total production costs	57,590,615	1,004	57,066,133	1,091	195,005,420	1,055	193,797,572	1,054
Adjustments	(20,599,684)	(359)	(16,841,000)	(322)	(71,096,501)	(385)	(53,364,836)	(290)
Total cash production costs	36,990,931	645	40,225,133	769	123,908,919	670	140,432,736	764

	Jiama Mine (Copper with by-products credits)							
	Three months ended December 31,				Year ended December 31,			
	2017		2016		2017		2016	
	US\$	US\$ Per Pound	US\$	US\$ Per pound	US\$	US\$ Per pound	US\$	US\$ Per pound
Total production costs	44,326,022	2.82	27,577,076	2.66	127,705,079	2.47	105,122,287	2.49
Adjustments	(8,617,209)	(0.55)	(3,802,514)	(0.37)	(21,460,499)	(0.42)	(16,734,029)	(0.40)
Total cash production costs	35,708,813	2.27	23,774,562	2.29	106,244,580	2.05	88,388,258	2.09
By-products credits	(17,256,583)	(1.10)	(9,946,546)	(0.96)	(57,429,843)	(1.11)	(42,553,463)	(1.01)
Total cash production costs after by-products credits	18,452,230	1.17	13,828,016	1.33	48,814,737	0.94	45,834,795	1.08

The adjustments above include depreciation and depletion, amortization of intangible assets, and selling expenses included in total production costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MINERAL PROPERTIES**The CSH Mine**

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

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

The CSH Mine has two open-pit mining operations and has a mining and processing capacity of 60,000 tpd.

The capital expenditure incurred in the CSH Mine for the year ended December 31, 2017 was US\$89.1 million.

Major new contracts entered into during the year ended December 31, 2017 are as follows:

Item No.	Contract Name	Counterpart	Subject amount (US \$ millions) Unit price	Contract period (effective day and expiration date)	Date of Contract
1	Liquid Sodium Cyanide Purchase contract	Inner Mongolia Chengxin Yongan Chemical Co., Ltd.	Estimated: 31.4	2017.1.1 – 2017.12.31	2017.2.20
2	Mixed Explosive Purchase contract	Bayannuur Sheng An Chemical Co., Ltd.	Estimated: 16.7	2017.1.1 – 2017.12.31	2017.2.20
3	Explosives Purchase contract	Bayannuur Sheng An Chemical Co., Ltd.	Estimated: 5.2	2017.1.1 – 2017.12.31	2017.2.20
4	Liquid Sodium Cyanide purchase contract	Inner Mongolia Chengxin Yongan Chemical Co., Ltd.	Estimated: 17.9	2018.1.1– 2018.12.31	2017.12.05
5	Mixed Explosive Purchase contract	Bayannuur Sheng An Chemical Co., Ltd.	Estimated: 8.1	2018.1.1– 2018.12.31	2017.12.21

MANAGEMENT'S DISCUSSION AND ANALYSIS

Production Update

	CSH Mine			
	Three months ended December 31, 2017	2016	Year ended December 31, 2017	2016
Ore mined and placed on pad (tonnes)	4,665,896	5,005,467	19,666,184	22,275,694
Average ore grade (g/t)	0.57	0.49	0.56	0.49
Recoverable gold (ounces)	50,874	46,868	211,491	209,616
Ending ore inventory (ounces)	212,051	181,720	212,051	181,720
Waste rock mined (tonnes)	23,663,584	26,175,092	91,383,879	92,691,570

For the three months ended December 31, 2017, the total amount of ore placed on the leach pad was 4.7 million tonnes, with total contained gold of 50,874 ounces (1,582 kilograms). The overall accumulative project-to-date gold recovery rate has slightly increased to approximately 52.05% at the end of December 2017 from 51.79% at the end of September 2017.

In the second half of 2017, there were a series of wall failures on one side of the pit at the CSH Mine leading to short term interruptions of mining activities. 2017 production was not significantly impacted. The Company is conducting studies to develop remediation plans to address the slope stability issues. 2018 production estimates have been reduced accordingly.

Exploration

The Company proposed plan for mineral exploration work in 2017 and 2018, for 9 drilling holes with 10,450 meters. The drilling work commenced in the second half of 2017. As of the end of 2017, The Company has drilled 4,683 meters, or 45% of the drilling program has been completed.

Mineral Resource Update

CSH Mine Resources by category, Northeast and Southwest pits combined at December 31, 2017 under NI 43-101:

Type	Quantity Mt	Au g/t	Metal	
			Au t	Au Moz
Measured	16.25	0.65	10.57	0.34
Indicated	128.77	0.61	79.14	2.54
M+I	145.01	0.62	89.71	2.88
Inferred	81.54	0.51	41.93	1.35

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mineral Reserves Update

CSH Mine Reserves by category, Northeast and Southwest pits combined at December 31, 2017 under NI 43-101:

Type	Quantity Mt	Au g/t	Metal	
			Au t	Au Moz
Proven	15.41	0.66	10.22	0.33
Probable	85.50	0.64	55.14	1.77
Total	100.90	0.65	65.35	2.10

The Jiama Mine

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

The Jiama Mine has both underground mining and open-pit mining operations. Phase I of the Jiama Mine commenced mining operations in the latter half of 2010 and reached its design capacity of 6,000 tpd in early 2011.

Phase II Expansion*The Jiama Expansion Program*

The Jiama Mine's Phase II expansion consists of two series, with each series having a mining and mineral processing capacity of 22,000 tpd. The Jiama Mine's Phase II, Series I expansion has reached commercial production at the end of 2017. As a result, throughput capacity has been increased to 28,000 tonnes per day ("tpd") from the previous capacity of 6,000 tpd. The Company expects Series II, which will add an additional 22,000 tpd, to achieve commercial production in mid-2019.

During 2017, 82,555 tons of concentrate was produced from commissioning of Phase II Series I, which contained copper 12,476 tonnes, lead 8,590 tonnes, zinc 4,540 tonnes, gold 10,139 ounces and silver 832,302 ounces.

The capital expenditure incurred for the Jiama Mine expansion for the year ended December 31, 2017 was US\$207.0 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Major new contracts entered into during the year ended December 31, 2017 are as follows:

Item No.	Contact Name	Counterpart	Subject amount (US \$ millions) Unit Price	Contract period (effective day and expiration date)	Date of Contract
1	Copper Concentrate Sales contract	Gansu Boda Mining Co. Ltd	Estimated: 14.8	2017.6.24 – 2017.12.31	2017.06.24
2	Supplemental Agreement to Copper Concentrate Sales Contract	Tibet Huili investment Co, Ltd.	Estimated: 46.5	2017.6.15 – 2017.12.31	2017.06.15
3	Cu-pb-zn mixed concentrates sales	Tibet Fudeyuan Industrial and trade Co., Ltd.	Estimated: 3.7	2017.6.24 – 2017.12.31	2017.06.24
4	Cu-pb-zn mixed concentrates sales	Shanghai Honglu International Trade Co., Ltd.	Estimated: 11.8	2017.6.24 – 2017.12.31	2017.06.24
5	Cu-pb-zn mixed concentrates sales	Tibet Huili investment Co, Ltd.	Estimated: 11.8	2017.6.24 – 2017.12.31	2017.06.24
6	Phase II cutting well and ventilating well (VCR well) construction of underground mining Engineering contract	Sichuan Coal Group the Sixth Construction Co., Ltd.	Estimated: 4.0	2017.08.15 – 2018.08.14	2017.08.15
7	Supplemental Agreement to Copper Concentrate Sales Contract	Gansu Boda Mining Co. Ltd	Estimated: 9.6	2017.7.1 – 2017.12.31	2017.07.01
8	Supplemental Agreement to Copper Concentrate Sales Contract	Tibet Huili investment Co, Ltd.	Estimated: 30.6	2017.12.4 – 2017.12.31	2017.12.04
9	Cu-pb-zn mixed concentrates sales	Ruijia Trade Co. Ltd	Estimated: 5.4	2017.11.1 – 2017.12.31	2017.11.01
10	Cu-pb-zn mixed concentrates sales	Tibet Ming Chuan Trade Co., Ltd.	Estimated: 5.4	2017.11.1 – 2017.12.31	2017.11.01
11	Sales contract Molybdenum concentrates	Harcin Yi Song Trade Co., Ltd	Estimated: 6.6	2017.10.25 – 2018.10.25	2017.10.25

MANAGEMENT'S DISCUSSION AND ANALYSIS

Production Update

	Jiama Mine			
	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Ore mined (tonnes)	618,238	390,152	2,364,892	2,132,483
Waste mined (tonnes)	–	–	–	–
Average copper ore grade (%)	1.27	0.94	1.12	0.85
Copper recovery rate (%)	91	92	88	91
Average gold ore grade (g/t)	0.74	0.56	0.67	0.48
Gold recovery rate (%)	76	71	73	71
Average silver ore grade (g/t)	33.75	24.92	29.27	23.95
Silver recovery rate (%)	71	68	68	67

Exploration

The Company has planned peripheral prospecting and mineral exploration work in 2017 and 2018, for 6 drilling holes with 6,920 meters and 14 underground exploration drilling holes with 10,155 meters. Drilling work commenced in the second half of 2017. As of the end of 2017, the company has drilled 6,764 meters, of which all were surface drilling. The drilling work was suspended during the winter due to cold weather.

Mineral Resources Estimate

An NI 43-101 compliant mineral resource estimate was independently completed by Mining One Pty Ltd. in November 2013, based on information collected up to November 12, 2012. The drilling programs subsequent to November 2012, including an extensive drill program conducted in 2013, will be included in future updates of the Mineral Resources and Reserves.

Mining One Pty Ltd. noted that gold and silver mineralization within the ore body had a significantly higher spatial variability than the other elements. This classification takes into account the proposed large scale mining techniques where Au and Ag will only be credits to the overall products from the operations. Mining One Pty Ltd has assumed that Au and Ag will not be assigned a single cut-off grade for a selected mining block and will be mined in conjunction with the other elements.

**Jiama Project – Cu, Mo, Pb, Zn, Au, and Ag Mineral Resources under NI 43-101
Reported at a 0.3% Cu Equivalent Cut off grade*, as of December 31, 2017**

Class	Quantity Mt	Cu %	Mo %	Pb %	Zn %	Au g/t	Ag g/t	Cu	Mo	Pb	Zn	Au	Ag
								Metal (kt)	Metal (kt)	Metal (kt)	Metal (kt)	Moz	Moz
Measured	96.3	0.39	0.04	0.04	0.02	0.08	5.62	381	35	42	22	0.26	17.46
Indicated	1,378.0	0.41	0.03	0.05	0.03	0.11	6.00	5,654	466	732	460	4.88	270.57
M+I	1,474.4	0.41	0.03	0.05	0.03	0.11	5.97	6,035	500	774	482	5.14	288.03
Inferred	406.1	0.31	0.03	0.08	0.04	0.10	5.13	1,247	123	311	175	1.32	66.93

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

The Copper Equivalent basis for the reporting of resources has been compiled on the following basis:

$$\text{CuEq Resources} = (\text{Ag Grade} * \text{Ag Price} + \text{Au Grade} * \text{Au Price} + \text{Cu Grade} * \text{Cu Price} + \text{Pb Grade} * \text{Pb Price} + \text{Zn Grade} * \text{Zn Price} + \text{Mo Grade} * \text{Mo Price}) / \text{Copper Price}$$

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mineral Reserves Estimate

A Mineral Reserve estimate, dated November 20, 2013, has been independently verified by Mining One Pty Ltd. in accordance with the CIM Definitions Standards under NI 43-101.

Jiama Project Statement of NI 43-101 Mineral Reserve Estimate as of December 31, 2017

Class	Quantity		Cu %	Mo %	Pb %	Zn %	Au g/t	Ag g/t	Cu	Mo	Pb	Zn	Au	Ag
	Mt								Metal (kt)	Metal (kt)	Metal (kt)	Metal (kt)	Moz	Moz
Proven	21.2		0.60	0.05	0.05	0.03	0.21	9.05	129	10	10	7	0.14	6.23
Probable	408.0		0.61	0.03	0.13	0.08	0.18	11.28	2,499	131	548	317	2.41	149.67
P+P	429.1		0.61	0.03	0.13	0.07	0.19	11.17	2,628	141	559	324	2.56	155.90

Notes:

- All Mineral Reserves have been estimated in accordance with the JORC code and have been reconciled to CIM standards as prescribed by the NI 43-101.
- Mineral Reserves were estimated using the following mining and economic factors:
 - Open Pits:
 - 5% dilution factor and 95% recovery were applied to the mining method;
 - an overall slope angles of 43 degrees;
 - a copper price of US\$2.9/lbs;
 - an overall processing recovery of 88 – 90% for copper
 - Underground:
 - 10% dilution added to all Sub-Level Open Stopping;
 - Stope recovery is 87% for Sub-Level Open Stopping;
 - An overall processing recovery of 88 – 90% for copper.
- The cut-off grade for Mineral Reserves has been estimated at copper equivalent grades of 0.3% Cu (NSR) for the open pits and 0.45% Cu (NSR) for the underground mine.

LIQUIDITY AND CAPITAL RESOURCES

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

At December 31, 2017, the Company had an accumulated surplus of US\$229.1 million, working capital of US\$21.4 million and borrowings of US\$1,275 million. The Company's cash balance at December 31, 2017 was US\$147.3 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management believes that its forecast operating cash flows are sufficient to cover the next twelve months of the Company's operations including its planned capital expenditures and current debt repayments. The Company's borrowings are comprised of US\$504.4 million of 3.25% unsecured bonds maturing on July 6, 2020, of which US\$16.1 million is included in the current portion of borrowings, and US\$145.4 million of short term debt facilities with interest rates ranging from 2.35% to 4.35% per annum arranged through various banks in China. In addition, on November 3, 2015, the Company entered into a Loan Facility agreement with a syndicate of banks, led by Bank of China. The lenders agreed to lend an aggregate principle amount of RMB3.98 billion, approximately US\$613 million with the interest rate of 2.83% per annum currently. The People's Bank of China Lhasa Center Branch's interest rate serves as a benchmark for the interest on the drawdowns. The bank's interest rate is then discounted by 7 basis points (or 0.07%) to calculate the interest on the drawdowns. The proceeds from the Loan Facility are to be used for the development of the Jiama Mine. The loan is secured by the mining rights for the Jiama Mine. As of December 31, 2017, the Company has drawdown RMB3.495 billion, approximately US\$534.9 million under the Loan Facility. The Company believes that the availability of debt financing in China at favorable rates will continue for the foreseeable future. On July 6, 2017, the Company, through its wholly-owned subsidiary, Skyland Mining (BVI) Limited, completed the issuance of bonds in an aggregate principal amount of US\$500 million. The bonds were issued at a price of 99.663%, bearing coupon rate of 3.25% with a maturity date of July 6, 2020. The bonds are listed on the Stock Exchange of Hong Kong Limited on July 7, 2017.

Given the challenging market conditions in the global mining industry, the Company continues to rigorously test its assets for impairment as part of its financial reporting processes. To date, the testing procedures carried out by the Company support the carrying values of the Company's assets, and no impairment has been required. However, management of the Company continues to evaluate and test key assumptions on estimates and management judgments in order to determine the fair value less cost of disposal of the CSH Mine and the Jiama Mine.

CASH FLOWS

The following table sets out selected cash flow data from the Company's consolidated cash flow statements for the years ended December 31, 2017 and December 31, 2016.

	Year ended December 31,	
	2017	2016
	US\$'000	US\$'000
Net cash from operating activities	98,551	77,126
Net cash used in investing activities	(88,114)	(353,302)
Net cash from financing activities	78,193	225,808
Net increase (decrease) in cash and cash equivalents	88,630	(50,368)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,242)	(2,101)
Cash and cash equivalents, beginning of period	59,930	112,399
Cash and cash equivalents, end of period	147,318	59,930

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating cash flow

For the year ended December 31, 2017, net cash inflow from operating activities was US\$98.6 million which is primarily attributable to (i) profit before income tax of US\$75.6 million (ii) depreciation and depletion of US\$87.6 million and (iii) finance cost of US\$21.7 million partially offset by (i) interest paid of US\$43.6 million, (ii) increase in accounts receivable of US\$18.8 million and (iii) income tax paid of US\$14.8 million.

Investing cash flow

For the year ended December 31, 2017, the net cash outflow from investing activities was US\$88.1 million which is primarily attributable to (i) payment for the acquisition of property, plant and equipment of US\$255.4 million, (ii) placement of restricted cash balances of US\$173.3 million partially offset by (i) release of restricted bank balance of US\$177.4 million and (ii) repayment from loan to a related party of US\$158.0 million.

Financing cash flow

For the year ended December 31, 2017, the net cash inflow from financing activities was US\$78.2 million which is primarily attributable to (i) proceeds from borrowings of US\$699.4 million and (ii) proceeds from entrusted loan of US\$29.2 million partially offset by (i) repayment of borrowings of US\$621.5 million and (ii) repayment of entrusted loan of US\$28.6 million.

Expenditures Incurred

For the year ended December 31, 2017, the Company incurred mining costs of US\$76.7 million, mineral processing costs of US\$130.6 million, transportation costs of US\$5.9 million.

Gearing ratio

Gearing ratio is defined as the ratio of consolidated total debt to consolidated total equity. As at December 31, 2017, the Company's total debt was US\$1,275 million and the total equity was US\$1,510 million. The Company's gearing ratio was therefore 0.84 as at December 31, 2017 and 0.81 as at December 31, 2016.

Restrictive covenants

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

Under a Loan Facility agreement entered on November 3, 2015 between the Company and a syndicated of banks, led by Bank of China pursuant to which the banks agreed to lend to Tibet Huatailong, the Company's subsidiary, the aggregate principle amount of RMB3.98 billion (approximately US\$613 million), the debt to assets ratio of Huatailong should be less than 75% during the term of the agreement.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND FUTURE PLAN FOR MATERIAL INVESTMENTS OF CAPITAL ASSETS

Other than as disclosed elsewhere in this MD&A or in the audited annual consolidated financial statements for the year ended December 31, 2017, there were no significant investments held by the Company, nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the year ended December 31, 2017. Other than as disclosed in this MD&A, there was no plan authorized by the Board for other material investments or additions of capital assets at the date of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHARGE ON ASSETS

Other than as disclosed elsewhere in this MD&A, none of the Group's assets were pledged as at December 31, 2017.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they relate. The Company has not hedged its exposure to currency fluctuation. However, the Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. Refer to Note 30, Financial Instruments, in the annual consolidated financial statements for the year ended December 31, 2017.

COMMITMENTS AND CONTINGENCIES

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

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

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

On July 7, 2017, the Company, through its wholly owned subsidiary Skyland Mining (BVI) Limited, issued bonds on the HKSE, denominated U.S. dollar, with an aggregate principal amount of US\$500 million. The Bonds were issued at a price of 99.663%, bearing a coupon of 3.25% per annum with a maturity date of July 6, 2020. Interest is payable in semi-annual installments on January 6 and July 6 of each year.

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

	Total	Within	Within Two	Over
	US\$'000	One year	to five years	5 years
		US\$'000	US\$'000	US\$'000
Principal repayment of bank loans	770,561	145,389	277,004	348,168
Repayment of bonds	504,372	16,100	488,272	–
Operating lease commitments (a)	506	119	237	150
Capital Commitments (b)	188,293	188,293	–	–
Total	1,463,732	349,901	765,513	348,318

(a) Operating leases are primarily for premises and production.

(b) Capital commitments relate to contracts signed for construction and equipment supply.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to the table set forth above, the Company has entered into service agreements with third-party contractors such as China Railway for the provision of mining and exploration engineering work and mine construction work for the CSH Mine. The fees for such work performed and to be performed each year varies depending on the amount of work performed. The Company has similar agreements with third party contractors for the Jiama Mine.

RELATED PARTY TRANSACTIONS

CNG owned 39.3 percent of the outstanding common shares of the Company as at December 31, 2017 and December 31, 2016.

The Company had major related party transactions with the following companies related by way of shareholders and shareholder in common:

On October 24, 2008, the Company's subsidiary, Inner Mongolia Pacific entered into a non-exclusive contract for the purchase and sale of doré with CNG (the "2008 Contract") pursuant to which Inner Mongolia Pacific occasionally sold gold doré bars to CNG through to December 31, 2011. The pricing was based on the daily average price of gold ingot as quoted on the Shanghai Gold Exchange and the daily average price of silver as quoted on the Shanghai Huatong Platinum & Silver Exchange prevailing at the time of each relevant purchase order during the contract period. On January 27, 2012, the 2008 Contract was renewed for another three years ending December 31, 2014 and subsequently on June 30, 2014 for the period of January 1, 2015 to December 31, 2017. On June 28, 2017, the Supplemental Contract for the Purchase and Sale of Doré was approved, commencing on January 1, 2018 and expiring on December 31, 2020.

Revenue from sales of gold doré bars to CNG of US\$233.6 million for the year ended December 31, 2017 increased from US\$227.6 million for the year ended December 31, 2016.

On May 29, 2015, the Company entered into a revised continuing connected transaction and major transaction amending the Product and Service Framework Agreement with CNG. According to the amendments, CNG purchases the copper concentrates produced at the Jiama Mine. The quantity of copper concentrates, pricing terms and payment terms may be established from time to time by the parties with reference to the pricing principles for connected transactions set out under the Product and Service Framework Agreement. On June 28, 2017, the Supplemental Product and Service Framework Agreement was approved and extended to expire on December 31, 2020. For the year ended December 31, 2017, revenue from sales of copper concentrate and other products to CNG was US\$101.2 million, compared to US\$59.8 million for the same period in 2016.

For the year ended December 31, 2017, construction services of US\$21.9 million were provided to the Company by subsidiaries of CNG (US\$39.6 million for the year ended December 31, 2016).

In addition to the two aforementioned major related party transactions, the Company also obtains additional services from related parties in its normal course of business, including a Financial Services Agreement entered on May 29, 2015 among Inner Mongolia Pacific, Huatailong and China Gold Finance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PROPOSED TRANSACTIONS

The Board of Directors has given the Company approval to conduct reviews of a number of projects that may qualify as acquisition targets through joint venture, merger and/or outright acquisitions. The Group did not have any material acquisition and disposal of subsidiaries and associated companies in the year ended December 31, 2017. The Company continues to review possible acquisition targets.

CRITICAL ACCOUNTING ESTIMATES

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

Key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months are described in Note 4 of the audited annual consolidated financial statements for the year ended December 31, 2017.

CHANGE IN ACCOUNTING POLICIES

A summary of new and revised IFRS standards and interpretations are outlined in Note 2 of the audited annual consolidated financial statements as at December 31, 2017.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company holds a number of financial instruments, the most significant of which are available-for-sale investments, accounts receivables, accounts payables, cash and loans. The financial instruments are recorded at either fair values or amortized amount on the balance sheet.

The Company did not have any financial derivatives or outstanding hedging contracts as at December 31, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2017, the Company had not entered into any off-balance sheet arrangements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DIVIDEND AND DIVIDEND POLICY

The Company has not paid any dividends since incorporation and does not currently have a fixed dividend policy. The Board of Directors will determine any future dividend policy on the basis of, among others things, the results of operations, cash flows and financial conditions, operating and capital requirements, the rules promulgated by the regulators affecting dividends in both Canada and Hong Kong and at both the TSX and HKSE, and the amount of distributable profits and other relevant factors.

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

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

OUTSTANDING SHARES

As of December 31, 2017 the Company had 396,413,753 common shares issued and outstanding.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design of disclosure controls and procedures (“DC&P”) and the design of internal control over financial reporting (“ICFR”) to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company’s certifying officers. The Company’s Chief Executive Officer and Chief Financial Officer have each evaluated the Company’s DC&P and ICFR as of December 31, 2017 and, in accordance with the requirements established under Canadian National Instrument 52-109 – Certification of Disclosure in Issuer’s Annual and Interim Filings, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures were effective as of December 31, 2017, and provide reasonable assurance that material information relating to the Company is made known to them by others within the Company and that the information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

The Company’s Chief Executive Officer and Chief Financial Officer have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 framework to evaluate the Company’s ICFR as of December 31, 2017 and have concluded that these controls and procedures were effective as of December 31, 2017 and provide reasonable assurance that financial information is recorded, processed, summarized and reported in a timely manner. Management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The result of the inherent limitations in all control systems means design of controls cannot provide absolute assurance that all control issues and instances of fraud will be detected. During the year ended December 31, 2017, there were no changes in the Company’s DC&P or ICFR that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RISK FACTORS

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

QUALIFIED PERSON

Disclosure of scientific or technical information in this MD&A in respect of the CSH Gold Project was prepared by or under the supervision of Mr. Songlin Zhang, a qualified person for the purposes of NI 43-101.

Disclosure of scientific or technical nature in this MD&A in respect of the Jiama Mine for the Mineral Resources, Mineral Reserves and Phase II Expansion was prepared by or under the supervision of Mr. Bin Guo and Anthony R Cameron, both qualified person for the purposes of NI 43-101; all remaining information in regards to the Jiama project contained in this MD&A was prepared by or under the supervision of Mr. Songlin Zhang, a qualified person for the purposes of NI 43-101.

March 28, 2018

CHINA GOLD INTERNATIONAL RESOURCES
CORP. LTD.

(incorporated in British Columbia, Canada with
limited liability)

Report and Consolidated Financial Statements
For the year ended December 31, 2017

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of China Gold International Resources Corp. Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of China Gold International Resources Corp. Ltd. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 28, 2018

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>NOTES</u>	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Revenue	5	411,881	338,601
Cost of sales		<u>(295,095)</u>	<u>(282,399)</u>
Mine operating earnings		<u>116,786</u>	<u>56,202</u>
Expenses			
General and administrative expenses	6	(37,848)	(21,439)
Exploration and evaluation expenditure	7	<u>(305)</u>	<u>(380)</u>
		<u>(38,153)</u>	<u>(21,819)</u>
Income from operations		<u>78,633</u>	<u>34,383</u>
Other (expenses) income			
Foreign exchange gain (loss), net		8,192	(16,429)
Interest and other income		10,512	8,863
Finance costs	8	(21,726)	(16,573)
Impairment loss on available-for-sale investment	19	<u>-</u>	<u>(3,831)</u>
		<u>(3,022)</u>	<u>(27,970)</u>
Profit before income tax		75,611	6,413
Income tax expense	9	<u>(11,266)</u>	<u>(18,738)</u>
Profit (loss) for the year	10	64,345	(12,325)
Other comprehensive income (expenses) for the year			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation		18,783	(15,746)
Fair value gain (loss) on available-for-sale investment	19	6,943	(2,553)
Reclassification adjustment upon impairment of available-for-sale investment	19	<u>-</u>	<u>3,831</u>
Total comprehensive income (expenses) for the year		<u>90,071</u>	<u>(26,793)</u>

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

	<u>NOTE</u>	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Profit (loss) for the year attributable to:			
Non-controlling interests		1,199	979
Owners of the Company		<u>63,146</u>	<u>(13,304)</u>
		<u>64,345</u>	<u>(12,325)</u>
Total comprehensive income (expenses) for the year attributable to:			
Non-controlling interests		1,192	977
Owners of the Company		<u>88,879</u>	<u>(27,770)</u>
		<u>90,071</u>	<u>(26,793)</u>
Earnings (loss) per share - Basic (US\$)		<u>15.93 cents</u>	<u>(3.36) cents</u>
Weighted average number of common shares			
- Basic	13	<u>396,413,753</u>	<u>396,413,753</u>

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2017

	<u>NOTES</u>	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Current assets			
Cash and cash equivalents	14	147,318	59,930
Restricted bank balance	14	18,089	21,085
Trade and other receivables	15	24,848	163,228
Prepaid expenses and deposits	16	2,769	5,633
Prepaid lease payments	17	466	366
Inventories	18	224,501	220,557
		<u>417,991</u>	<u>470,799</u>
Non-current assets			
Prepaid expenses and deposits	16	15,431	12,156
Prepaid lease payments	17	15,659	14,403
Deferred tax assets	9	2,562	382
Available-for-sale investments	19	21,823	14,755
Property, plant and equipment	20	1,809,724	1,531,307
Mining rights	21	947,254	922,817
		<u>2,812,453</u>	<u>2,495,820</u>
Total assets		<u><u>3,230,444</u></u>	<u><u>2,966,619</u></u>
Current liabilities			
Accounts and other payables and accrued expenses	22	227,410	176,464
Borrowings	23	161,489	596,233
Entrusted loan payable	24	-	28,831
Tax liabilities		7,702	7,944
		<u>396,601</u>	<u>809,472</u>
Net current assets (liabilities)		<u>21,390</u>	<u>(338,673)</u>
Total assets less current liabilities		<u>2,833,843</u>	<u>2,157,147</u>
Non-current liabilities			
Borrowings	23	1,113,444	558,599
Deferred tax liabilities	9	123,959	124,808
Deferred income	25	4,579	4,214
Entrusted loan payable	24	30,608	-
Environmental rehabilitation	26	51,269	49,337
		<u>1,323,859</u>	<u>736,958</u>
Total liabilities		<u><u>1,720,460</u></u>	<u><u>1,546,430</u></u>

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

	<u>NOTE</u>	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Owners' equity			
Share capital	27	1,229,061	1,229,061
Reserves		37,176	5,191
Retained profits		229,099	172,205
		<u>1,495,336</u>	<u>1,406,457</u>
Non-controlling interests		14,648	13,732
		<u>1,509,984</u>	<u>1,420,189</u>
Total owners' equity		<u>1,509,984</u>	<u>1,420,189</u>
Total liabilities and owners' equity		<u>3,230,444</u>	<u>2,966,619</u>

The consolidated financial statements on pages 3 to 70 were approved and authorized for issue by the Board of Directors on March 28, 2018 and are signed on its behalf by:

(Signed by) Xin Song

Xin Song
Director

(Signed by) Bing Liu

Bing Liu
Director

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Attributable to the owners of the Company									
	Number of shares	Share capital US\$'000	Equity reserve US\$'000 Note (a)	Investment revaluation reserve US\$'000	Exchange reserve US\$'000	Statutory reserves US\$'000 Note (b)	Retained profits US\$'000	Subtotal US\$'000	Non- controlling interests US\$'000	Total owners' equity US\$'000
At January 1, 2016	396,413,753	1,229,061	11,179	-	(3,685)	11,355	186,317	1,434,227	13,027	1,447,254
(Loss) profit for the year	-	-	-	-	-	-	(13,304)	(13,304)	979	(12,325)
Fair value loss on available-for-sale investment	-	-	-	(2,553)	-	-	-	(2,553)	-	(2,553)
Reclassified adjustment upon impairment of available-for-sale investment (note 19)	-	-	-	3,831	-	-	-	3,831	-	3,831
Exchange difference arising on translation	-	-	-	-	(15,744)	-	-	(15,744)	(2)	(15,746)
Total comprehensive income (expenses) for the year	-	-	-	1,278	(15,744)	-	(13,304)	(27,770)	977	(26,793)
Transfer to statutory reserve	-	-	-	-	-	808	(808)	-	-	-
Dividend paid to a non-controlling shareholder	-	-	-	-	-	-	-	-	(272)	(272)
At December 31, 2016	396,413,753	1,229,061	11,179	1,278	(19,429)	12,163	172,205	1,406,457	13,732	1,420,189
Profit for the year	-	-	-	-	-	-	63,146	63,146	1,199	64,345
Fair value gain on available-for-sale investment	-	-	-	6,943	-	-	-	6,943	-	6,943
Exchange difference arising on translation	-	-	-	-	18,790	-	-	18,790	(7)	18,783
Total comprehensive income for the year	-	-	-	6,943	18,790	-	63,146	88,879	1,192	90,071
Transfer to statutory reserve - appropriation from retained profits	-	-	-	-	-	825	(825)	-	-	-
Transfer to statutory reserve - safety production fund	-	-	-	-	-	5,427	(5,427)	-	-	-
Dividend paid to a non-controlling shareholder	-	-	-	-	-	-	-	-	(276)	(276)
At December 31, 2017	396,413,753	1,229,061	11,179	8,221	(639)	18,415	229,099	1,495,336	14,648	1,509,984

Notes:

- (a) Amounts represent equity reserve arising from share-based compensation provided to directors and employees under the stock option plan of the Company.
- (b) Statutory reserves which consist of (1) appropriations from the profit after taxation of the subsidiaries established in the People's Republic of China ("PRC") and (2) provision of safety production fund of the subsidiaries engaged in the exploration and development in the mining industry, form part of the equity of PRC subsidiaries. In accordance with the PRC Company Law and the Articles of Association of the PRC subsidiaries, the PRC subsidiaries are required to appropriate an amount equal to a minimum of 10% of their profits after taxation each year to a statutory reserve until the reserve reaches 50% of the registered capital of the respective subsidiaries. In accordance with the PRC Company Law and the Articles of Association of the PRC subsidiaries, the PRC subsidiaries are required to appropriate an amount, equal to RMB5 per ton multiplied by the volume of ore mined less actual payment, each year to a statutory reserve.

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2017</u>	<u>2016</u>
	US\$'000	US\$'000
Operating activities		
Profit before income tax	75,611	6,413
Items not requiring use of cash and cash equivalents:		
Amortization of mining rights	5,603	4,814
Depreciation	87,617	77,686
Interest income	(5,187)	(2,616)
Finance costs	21,726	16,573
Impairment loss on available-for-sale investment	-	3,831
Loss on disposal of property, plant and equipment	206	34
Release of prepaid lease payment	374	208
Release of deferred income	(548)	(658)
Reversal of allowance for doubtful debts	(188)	-
Unrealized foreign exchange (gain) loss	(11,773)	21,142
Change in operating working capital items:		
Trade and other receivables	(18,806)	15,704
Prepaid expenses and deposits	394	1,414
Inventories	(3,347)	(30,612)
Accounts and other payables and accrued expenses	5,254	19,358
Cash generated from operations	156,936	133,291
Environmental rehabilitation expense paid	(11)	(284)
Interest paid	(43,620)	(38,376)
Income taxes paid	(14,754)	(17,505)
Net cash from operating activities	<u>98,551</u>	<u>77,126</u>
Investing activities		
Interest received	5,620	2,204
Payment for acquisition of property, plant and equipment	(255,446)	(194,333)
Deposit paid for acquisition of property, plant and equipment	(115)	(90)
Proceeds from disposal of property, plant and equipment	35	-
Payment for acquisition of land use right	(866)	(7,586)
Placement of restricted bank deposits	(173,253)	(33,654)
Release of restricted bank balance	177,429	20,669
Receipt of government grant	482	3,488
Proceeds from repayment of loans to related companies	158,000	6,000
Loan to a related company	-	(150,000)
Net cash used in investing activities	<u>(88,114)</u>	<u>(353,302)</u>

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Financing activities		
Proceeds from borrowings	699,389	411,705
Repayments of borrowings	(621,534)	(185,625)
Proceeds from entrusted loan	29,186	-
Repayment of entrusted loan	(28,572)	-
Dividend paid to a non-controlling shareholder	(276)	(272)
Net cash from financing activities	<u>78,193</u>	<u>225,808</u>
Net increase (decrease) in cash and cash equivalents	88,630	(50,368)
Cash and cash equivalents, beginning of year	59,930	112,399
Effect of foreign exchange rate changes on cash and cash equivalents	(1,242)	(2,101)
Cash and cash equivalents, end of year	<u><u>147,318</u></u>	<u><u>59,930</u></u>

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2017

1. GENERAL

China Gold International Resources Corp. Ltd., formerly known as Jinshan Gold Mines Inc., (the "Company") is a publicly listed company incorporated in British Columbia, Canada on May 31, 2000 with limited liability under the legislation of the Province of British Columbia and its shares are listed on the Toronto Stock Exchange ("TSX") and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company together with its subsidiaries (collectively referred to as the "Group") is principally engaged in the acquisition, exploration, development and mining of mineral reserves in the PRC. Particulars of the subsidiaries of the Company are set out in note 34. The Group considers that China National Gold Group Co., Ltd. (formerly known as China National Gold Group Corporation) ("CNG"), a state owned company registered in Beijing, PRC which is controlled by State-owned Assets Supervision and Administration Commission of the State Council of the PRC, is able to exercise significant influence over the Company.

The head office, principal address and registered and records office of the Company are located at Suite 660, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada, V7X 1M4.

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

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

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied the amendments to IAS 7 *Disclosure Initiative* for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 33. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 33, the application of these amendments has had no impact on the Group's consolidated financial statements.

Other than the amendments to IAS 7, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
IFRS 16	Leases ²
IFRS 17	Insurance Contracts ⁴
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC 23	Uncertainty over Income Tax Treatments ²
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
Amendments to IFRS 9	Prepayment Features with Negative Compensation ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle ¹
Amendments to IAS 40	Transfers of Investment Property ¹
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015 - 2017 Cycle ²

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

New and amendments to IFRSs in issue but not yet effective - continued

- ¹ Effective for annual periods beginning on or after January 1, 2018
- ² Effective for annual periods beginning on or after January 1, 2019
- ³ Effective for annual periods beginning on or after a date to be determined
- ⁴ Effective for annual periods beginning on or after January 1, 2021

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading), in other comprehensive income, with only dividend income generally recognized in profit or loss.
- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model ("ECL"), as opposed to an incurred credit loss model under IAS 39 *Financial Instruments: Recognition and Measurement*. The ECL model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

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

New and amendments to IFRSs in issue but not yet effective - continued

IFRS 9 Financial Instruments - continued

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 19: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the fair value gains or losses accumulated in the investments revaluation reserve as at January 1, 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;
- Unlisted equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 19: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of IFRS 9, the fair value gains relating to these securities would be adjusted to investments revaluation reserve as at January 1, 2018. In the opinion of the directors, the fair value of the unlisted equity securities approximate to their carrying values as at December 31, 2017;
- Except for financial assets at amortized costs which are subject to ECL model upon application of IFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the ECL model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the ECL model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at January 1, 2018 would have no material impact as compared to the accumulated amount recognised under IAS 39.

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

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

IFRS 16 Leases - continued

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under IAS 17, the Group has already recognized prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Other than those new IFRSs mentioned above, the directors of the Company do not anticipate that the application of other new and amendments to IFRSs will have a material impact on the Group's consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

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 recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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 consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. US\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale, which includes completion of all necessary activities to bring the assets to readiness of fulfilling relevant regulatory requirements and obtaining relevant regulatory consent.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before income tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Taxation – continued

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

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary difference and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit scheme are recognized as an expense when employees have rendered service entitling them to the contributions.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Gold in process inventory

Gold in process inventory consists of gold contained in the ore on leach pads and in-circuit material within processing operations. Gold doré bar is gold awaiting refinement and gold refined and ready for sales.

Production costs are capitalized and included in gold in process inventory based on the current mining and processing cost incurred up to the point prior to the refining process including the cost of raw materials and direct labour; mine-site overhead expenses; stripping costs; and allocated indirect costs, including depreciation and depletion of mining interests.

3. SIGNIFICANT ACCOUNTING POLICIES – continued
Inventories – continued

Gold doré bars inventory

The recovery of gold from ore is achieved through a heap leaching process. Under this method, ore is placed on leach pads where it is treated with a chemical solution which dissolves the gold contained in the ore. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. Costs are subsequently recycled from ore on leach pads as ounces of gold are recovered based on the average cost per recoverable ounce on the leach pad. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured in tonnes added to the leach pads), the grade of the ore placed on the leach pads (based on assay data), and a recovery percentage (based on ore type).

Others

Copper inventory is copper concentrate after metallurgical processing and ready for sales. Consumables used in operations, such as fuel, chemicals, and reagents and spare parts inventory are valued at the lower of cost or net realizable value.

Property, plant and equipment

General

Property, plant and equipment (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation, depletion and impairment losses, if any.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized and the carrying amount of the component being replaced is derecognized. Directly attributable costs incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

The Management of the Group (the "Management") reviews the estimated useful lives, residual values and depreciation methods of the Group's property, plant and equipment at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

All direct costs related to the acquisition of mineral assets are capitalized, at their cost at the date of acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

Construction in progress

Assets under construction are capitalized as construction in progress until the asset is available for use. The cost of construction in progress comprises its purchase price of crushers, and machinery and equipment, any costs directly attributable to the construction for bringing it into working condition for its intended use and for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Construction in progress amounts related to development projects are included in the carrying amount of the construction in progress.

The Company uses the following factors to assess whether the criteria of construction completion and ready for intended use have been met such that the construction in progress are classified to the appropriate categories of the property, plant and equipment: (1) the completion of the constructions as planned; (2) the completion of testing of mine plant and equipment which demonstrates their ability to sustain ongoing production of minerals, and ability to produce minerals in saleable form (within specifications).

Exploration and evaluation expenditure

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

Management evaluates the following criteria in its 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 - mining property can be processed economically at accessible mining and processing facilities where applicable.
- Life of mine plans - an overall life of mine plan and economic model to support the mine and the economic extraction of resources/reserves exists. A long-term life of mine plan, and supporting geological model identifies the drilling and related development work required to expand or further define the existing orebody.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Exploration and evaluation expenditure - continued

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

Therefore prior to capitalizing exploration drilling and related costs, Management determines that the following conditions have been met that will contribute to future cash flows:

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

Development expenditure

Drilling and related costs incurred to define and delineate a mineral deposit are capitalized as part of mineral assets in the period incurred, when Management determines that there is sufficient evidence that the expenditure will result in a probable future economic benefit to the Group.

Production expenditure

A mine that is under construction is determined to enter the production stage when the project is in the position and condition necessary for it to be capable of operating in the manner intended by management. Therefore, such costs incurred are capitalized as part of the mineral assets and the proceeds from sales prior to commercial production are offset against costs capitalized.

Mine development costs incurred to maintain current production are included in cost of inventories. For those areas being developed which will be mined in future periods, the costs incurred are capitalized and depleted when the related mining area is mined.

Depreciation

Mineral assets are depreciated using the unit-of-production method based on the actual production volume over the estimated total recoverable ounces contained in proven and probable reserves at the related mine when the mine is capable of operating as intended by the Management.

Management reviews the estimated total recoverable ounces contained in proven and probable reserves at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated total recoverable ounces contained in proven and probable reserves are accounted for prospectively.

Assets under construction are not depreciated until they are substantially complete and available for their intended use.

Leasehold improvements are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Mining rights

Mining rights are amortised using the unit-of-production method based on the actual production volume over the estimated total recoverable ounces contained in proven and probable reserves at the related mine.

Mining rights acquired in a business combination

Mining rights acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, mining rights with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization is provided using the unit of production method based on the actual production volume over the estimated total proven and probable reserves of the ore mines.

Impairment of tangible assets and mining rights

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and mining rights to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Mining rights – continued

Impairment of tangible assets and mining rights- continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognized 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified as available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in marketplace.

Effective interest method

The effective interest method is a method calculating the amortized cost of a debt instrument 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 debt instrument or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months or those that are expected to be settled after twelve months from the end of the reporting period, which are classified as non-current assets. Assets in this category include "cash and cash equivalents", "restricted bank balance" and "trade and other receivables".

Loans and receivables are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment except for short-term receivables when the recognition of interest would be immaterial.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Equity securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity investments are recognized in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets

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

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial assets, such as trade receivables (included in trade and other receivable), are assessed for impairment on an individual basis. Objective evidence of impairment for the receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period of 90 and 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade 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 receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets – continued

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

In respect of AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Derecognition of financial assets

The Group derecognised a financial asset only when the contractual rights to receive cash flows from the assets expire. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulated gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities at amortized cost

Financial liabilities including borrowings, entrusted loan payable, bills payable and accounts and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discount) 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 interest basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when the Group's obligations specified in the relevant contract are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Environmental rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mining property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized as part of the related property, plant and equipment at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognized in profit or loss over the life of the operation, through depreciation of the asset. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are recognized in profit or loss.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work that result from changes in the estimated timing or amount of the cash flow, including the effects of inflation and movements in foreign exchange rates, revisions to estimated reserves, resources and lives of operations, or a change in the discount rate, are added to, or deducted from, the cost of the related asset in the period it occurred. The periodic unwinding of discount is recognized in profit or loss as a finance cost as it occurs. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed in accordance with the Group's accounting policy.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity instruments - continued

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.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) *Impairment of mining rights and property, plant and equipment*

While assessing whether any indications of impairment exist for mining rights and property, plant and equipment, consideration is given to both external and internal sources of information. Information the Management considered includes changes in the market, economic and legal environment in which the Group operates that are not within its control and affect the recoverable amounts of the mining rights and property, plant and equipment. The carrying amounts of mining rights and property, plant and equipment are reviewed for impairment in accordance with IAS 36 *Impairment of Assets* whenever certain events or changes in circumstances indicate that the carrying amount may not be recoverable. As at December 31, 2017, the market capitalization of the Company was below the carrying value of its net assets of approximately US\$1,510 million (2016: US\$1,420 million). This may indicate the need for a write-down of the carrying amounts of the Group's mining rights and property, plant and equipment. The Group's two cash-generating units ("CGUs") for impairment assessment of mining rights and related property, plant and equipment are two significant mine sites which are producing gold and copper.

When an impairment review is undertaken, recoverable amount is assessed by reference to the higher of 1) value in use ("VIU") and 2) fair value less costs to disposal ("FVLCD"). The best evidence of FVLCD is the value obtained from an active market or binding sale agreement. Where neither exists, FVLCD is based on the best information available to reflect the amount the Group could receive for the CGU in an arm's length transaction. This is often estimated using discounted cash flow techniques. In determining the recoverable amounts of the Group's mining rights and property, plant and equipment, the Group estimates the recoverable amount based on VIU and makes estimates of the discounted future pre-tax cash flows expected to be derived from the Group's CGUs, costs to sell the mining properties and the appropriate discount rate. The key assumptions used in estimating the projected cash flows are metal selling price, recoverable reserves, resources, and exploration potential, production cost estimates, future operating costs, discount rates and exchange rates.

Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future operating costs, reductions in the amount of recoverable reserves, resources, and exploration potential, and/or change in economic conditions can result in a write-down of the carrying amounts of the Group's mining rights and property, plant and equipment.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

(a) *Impairment of mining rights and property, plant and equipment - continued*

The Group uses its internal experts to perform the valuation for the purpose of impairment assessment with the assistance from third party qualified valuers. The Management works closely with internal experts and qualified external valuers to establish the appropriate valuation techniques and inputs to the model to estimate the VIU for the mining rights and property, plant and equipment.

The carrying amounts of property, plant and equipment and mining rights as at December 31, 2017 and 2016 are disclosed in notes 20 and 21, respectively.

During the years ended December 31, 2017 and 2016, no impairment loss was recognized for the property, plant and equipment in the Group's gold producing mine and the mining rights and property, plant and equipment in the Group's copper producing mine as the recoverable amounts were higher than their respective carrying amounts.

(b) *Inventories*

The Group records the cost of gold mining ore placed on its leach pads and in process at its mine as gold in process inventory, and values gold in process inventory at the lower of cost and estimated net realizable value. The assumptions used in the valuation of gold in process inventories include estimates of gold contained in the ore placed on leach pads, assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads, and the amount of gold in the processing plant and an assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove inaccurate, the Group could be required to write down the recorded value of its gold in process inventories. During the year, there is no change in the relevant estimation.

Although the quantities of recoverable gold placed on the leach pad and the processing plant are reconciled by comparing the grades of ore placed on the leach pad to the quantities actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. The actual recovery of gold from the leach pad is not known until the leaching process has concluded at the end of the mine life.

Management periodically reassesses the assumptions used in the valuation of gold in process and the costing of production of gold doré bars, particularly the assumptions of the amount of gold that is expected to be recovered from the ore placed on leach pads (the "Estimated Recovery Rate"). As a result of such reassessments, an increase/decrease in the Estimated Recovery Rate led to a decrease/increase in the average production cost of gold doré bars. During the year, there is no change in the relevant estimation.

The carrying amount of gold in process and gold doré bars as at December 31, 2017 and 2016 are disclosed in note 18.

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5. REVENUE AND SEGMENT INFORMATION

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

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

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

Information regarding the above segments is reported below.

(a) Segment revenues and results

The following is an analysis of the Group's revenues and results by operating and reportable segment:

For the year ended December 31, 2017

	Mine - produced <u>gold</u> US\$'000	Mine - produced <u>copper</u> US\$'000	Segment <u>total</u> US\$'000	<u>Unallocated</u> US\$'000	<u>Consolidated</u> US\$'000
Revenue - external and segment revenue	233,641	178,240	411,881	-	411,881
Cost of sales	<u>(195,005)</u>	<u>(100,090)</u>	<u>(295,095)</u>	-	<u>(295,095)</u>
Mining operating earnings	<u>38,636</u>	<u>78,150</u>	<u>116,786</u>	-	<u>116,786</u>
Income (expenses) from operations	38,331	50,536	88,867	(10,234)	78,633
Foreign exchange gain (loss), net (Note)	(7,474)	15,161	7,687	505	8,192
Interest and other income	920	4,375	5,295	5,217	10,512
Finance costs	<u>(5,458)</u>	<u>(5,219)</u>	<u>(10,677)</u>	<u>(11,049)</u>	<u>(21,726)</u>
Profit (loss) before income tax	<u>26,319</u>	<u>64,853</u>	<u>91,172</u>	<u>(15,561)</u>	<u>75,611</u>

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5. REVENUE AND SEGMENT INFORMATION - continued

(a) Segment revenues and results - continued

For the year ended December 31, 2016

	Mine - produced <u>gold</u> US\$'000	Mine - produced <u>copper</u> US\$'000	Segment <u>total</u> US\$'000	<u>Unallocated</u> US\$'000	<u>Consolidated</u> US\$'000
Revenue - external and segment revenue	227,580	111,021	338,601	-	338,601
Cost of sales	(193,797)	(88,602)	(282,399)	-	(282,399)
Mining operating earnings	<u>33,783</u>	<u>22,419</u>	<u>56,202</u>	<u>-</u>	<u>56,202</u>
Income (expenses) from operations	33,405	7,177	40,582	(6,199)	34,383
Foreign exchange gain (loss), net (Note)	6,036	(22,322)	(16,286)	(143)	(16,429)
Interest and other (expense)					
Income	(2,948)	980	(1,968)	10,831	8,863
Finance costs	(3,667)	(4,401)	(8,068)	(8,505)	(16,573)
Impairment loss on available-for-sale investment	-	-	-	(3,831)	(3,831)
Profit (loss) before income tax	<u>32,826</u>	<u>(18,566)</u>	<u>14,260</u>	<u>(7,847)</u>	<u>6,413</u>

Note: Due to the appreciation of RMB against US\$, the Group incurred net exchange gain amounting to US\$8,192,000 for the year ended December 31, 2017 (net exchange loss due to depreciation of RMB against US\$ for the year ended December 31, 2016: US\$16,429,000), which was mainly from the translation of US\$ denominated intra-group borrowing of Tibet Huatailong Mining Development Co. Ltd. ("Huatailong") from Skyland Mining (BVI) ("Skyland (BVI)") Limited to RMB, the functional currency of Huatailong, for the Jiama Mine development in mine-produced copper segment.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent profit (loss) before income tax attributable to the respective segment. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

There are no inter-segment sales for the years ended December 31, 2017 and 2016.

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by segment representing assets/liabilities directly attributable to the respective segment:

	Mine - produced <u>gold</u> US\$'000	Mine - produced <u>copper</u> US\$'000	Segment <u>total</u> US\$'000	<u>Unallocated</u> US\$'000	<u>Consolidated</u> US\$'000
As of December 31, 2017					
Total assets	733,032	2,446,753	3,179,785	50,659	3,230,444
Total liabilities	208,545	1,003,410	1,211,955	508,505	1,720,460
As of December 31, 2016					
Total assets	726,956	2,049,043	2,775,999	190,620	2,966,619
Total liabilities	229,336	816,873	1,046,209	500,221	1,546,430

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5. REVENUE AND SEGMENT INFORMATION - continued

- (c) Other segment information (included in the measure of segment profit or loss or regularly provided to the CODM)

	Mine - produced <u>gold</u> US\$'000	Mine - produced <u>copper</u> US\$'000	Segment <u>total</u> US\$'000	<u>Unallocated</u> US\$'000	<u>Consolidated</u> US\$'000
For the year ended December 31, 2017					
Additions of property, plant and equipment	89,088	206,928	296,016	-	296,016
Depreciation of property, plant and equipment	(70,766)	(16,851)	(87,617)	-	(87,617)
Additions of mining rights	-	26,694	26,694	-	26,694
Amortization of mining rights	-	(5,603)	(5,603)	-	(5,603)
For the year ended December 31, 2016					
Additions of property, plant and equipment	82,987	145,309	228,296	-	228,296
Depreciation of property, plant and equipment	(65,086)	(12,600)	(77,686)	-	(77,686)
Amortization of mining rights	-	(4,814)	(4,814)	-	(4,814)

- (d) Geographical information

The Group operated in two geographical areas, Canada and the PRC. The Group's corporate division located in Canada only earns revenue that is considered incidental to the activities of the Group and therefore is not presented as an operating segment. During the years ended December 31, 2017 and 2016, the Group's revenue was generated from gold sales and copper multi-products to customers in the PRC. Approximately 99% (2016: 99%) of non-current assets of the Group are located in the PRC.

- (e) Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's total revenue are sales of gold doré bars and copper and other products to CNG and its subsidiaries as disclosed in note 28 (a) (i). In addition, a third-party customer, Customer A, who is engaged in the business of commodity trading, contributes 10% or more of the total revenue of the Group for US\$74,499,000 (2016: US\$51,270,000), which is from the mine-produced copper segment.

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6. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Administration and office	11,479	7,394
Depreciation of property, plant and equipment	4,626	2,721
Professional fees	5,249	1,546
Salaries and benefits	13,382	8,590
Others	<u>3,112</u>	<u>1,188</u>
Total general and administrative expenses	<u>37,848</u>	<u>21,439</u>

Research and development expenses of US\$8,745,000 for the year ended December 31, 2017 (2016: nil) were recognized as part of general and administrative expenses.

7. EXPLORATION AND EVALUATION EXPENDITURE

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
CSH Gold Mine (note 20(a))	304	378
Generative exploration	<u>1</u>	<u>2</u>
Total explorative and evaluation expenditure	<u>305</u>	<u>380</u>

8. FINANCE COSTS

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Effective interests on borrowings:		
- wholly repayable within 5 years	29,410	28,447
- wholly repayable over 5 years	14,210	9,929
Accretion on environmental rehabilitation (note 26)	<u>2,757</u>	<u>2,967</u>
	46,377	41,343
Less: Amounts capitalised to property, plant and equipment	<u>(24,651)</u>	<u>(24,770)</u>
Total finance cost	<u>21,726</u>	<u>16,573</u>

Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction, or, where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings.

	<u>2017</u> %	<u>2016</u> %
Capitalization rate	<u>4.23</u>	<u>4.12</u>

9. INCOME TAX EXPENSE

The Company was incorporated in Canada and is subject to Canadian federal and provincial tax requirements which are calculated at 26% (2016: 26%) of the estimated assessable profit for the year ended December 31, 2017. Since its incorporation, the Company had no assessable profit subject to Canadian federal and provincial tax requirements. PRC Enterprise Income Tax ("EIT") is calculated at the prevailing tax rate of 25% (2016: 25%) on the estimated taxable profit of the group entities located in the PRC for the year ended December 31, 2017 except as described below.

Pursuant to the Enterprise Income Tax Law (the "EIT" Law) effective on 1 January, 2008, IMP, Huatailong and Metrorkongka County Jiama Industry and Trade Co. ("Jiama Industry and Trade") obtained a "High and New Technology Enterprise" (the "HNTE") in 2017 which IMP was entitled to a preferential tax rate of 15%, 9% and 9% from 2017 to 2019, respectively, and eligible for renewal every three years; the current active HNTE certificate will expire during the year ended December 31, 2020.

For the year ended December 31, 2017, Tibet Jia Ertong Minerals Exploration Ltd. ("Jia Ertong"), established in the westward development area of the PRC was subject to preferential tax rate of 15% of taxable profit. For the year ended December 31, 2016, Huatailong and Jiama Industry and Trade, established in the westward development area of the PRC, were subject to a preferential tax rate of 15% of taxable profit.

Under relevant PRC Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC subsidiaries amounting to approximately US\$366,841,000 and US\$334,637,000 at December 31, 2017 and 2016, respectively, as the Group is able to control the timing of the reversal of temporary differences and it is probable the temporary differences will not reverse in the foreseeable future.

Taxation for other relevant jurisdictions is calculated at the rates prevailing in each of those jurisdictions respectively.

Tax expense comprises:

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Current tax expense - PRC EIT	16,395	17,998
Overprovision in prior year - PRC EIT	(2,100)	-
Deferred tax (credit) expense	<u>(3,029)</u>	<u>740</u>
Total income tax expense	<u>11,266</u>	<u>18,738</u>

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9. INCOME TAX EXPENSE - continued

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

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Profit before income tax	<u>75,611</u>	<u>6,413</u>
PRC EIT tax rates	<u>25%</u>	<u>25%</u>
Tax at the PRC EIT tax rates	18,903	1,603
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(64)	(22)
Tax effect of concessionary tax rate	(11,368)	1,857
Tax effect of tax losses and other deductible temporary differences not recognized	4,081	654
Tax effect of non-deductible expenses	2,889	4,552
Tax effect of non-taxable income	(808)	(1,086)
Impacts on opening deferred tax asset/liability resulting from decrease in applicable tax rate	152	-
Impacts on foreign exchange	(2,076)	8,446
Withholding tax in respect of interest income earned from PRC subsidiaries	1,657	2,734
Overprovision of PRC EIT in prior year	<u>(2,100)</u>	<u>-</u>
	<u>11,266</u>	<u>18,738</u>

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

	<u>Property, Plant and equipment</u> US\$'000	<u>Environmental rehabilitation</u> US\$'000	<u>Mining Rights</u> ⁽¹⁾ US\$'000	<u>Inventories</u> US\$'000	<u>Others</u> US\$'000	<u>Total</u> US\$'000
At January 1, 2016	(10,811)	(9,962)	133,171	12,390	(1,102)	123,686
Charge (credit) to profit or loss	<u>6,420</u>	<u>(212)</u>	<u>(676)</u>	<u>(5,204)</u>	<u>412</u>	<u>740</u>
At December 31, 2016	(4,391)	(10,174)	132,495	7,186	(690)	124,426
Charge (credit) to profit or loss	(2,477)	21	(751)	(542)	568	(3,181)
Effect of change in tax rate	<u>42</u>	<u>2,925</u>	<u>-</u>	<u>(2,874)</u>	<u>59</u>	<u>152</u>
At December 31, 2017	<u>(6,826)</u>	<u>(7,228)</u>	<u>131,744</u>	<u>3,770</u>	<u>(63)</u>	<u>121,397</u>

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

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9. INCOME TAX EXPENSE - continued

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Deferred tax assets	2,562	382
Deferred tax liabilities	<u>(123,959)</u>	<u>(124,808)</u>
	<u>(121,397)</u>	<u>(124,426)</u>

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

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Deferred income tax assets		
Tax loss carry forwards	17,139	14,797
Other deductible temporary differences	<u>3,917</u>	<u>2,178</u>
Total unrecognized deferred income tax assets	<u>21,056</u>	<u>16,975</u>

Deferred tax asset of US\$17,139,000 (December 31, 2016: US\$14,797,000) has not been recognized in respect of unused tax loss due to the unpredictability of future profit streams. Under Canadian tax laws, unused tax loss can be carried forward for 20 years if the loss is arising in tax years ended after December 31, 2005.

Other deductible temporary differences of US\$15,067,000 (December 31, 2016: US\$8,377,000) primarily comprise of share issue costs and cumulative eligible capital expenditures that were incurred by the Company which are tax deductible according to the relevant tax law in Canada. No deferred tax asset has been recognized because the amount of future taxable profit that will be available to realize such assets is unpredictable and not probable.

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10. PROFIT (LOSS) FOR THE YEAR

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Auditor's remuneration	<u>847</u>	<u>633</u>
Depreciation included in cost of sales and inventories	82,991	74,965
Depreciation included in administrative expenses (note 6)	<u>4,626</u>	<u>2,721</u>
Total depreciation	<u>87,617</u>	<u>77,686</u>
Release of prepaid lease payment (included in cost of sales)	<u>374</u>	<u>208</u>
Amortization of mining rights (included in cost of sales)	<u>5,603</u>	<u>4,814</u>
Loss on disposal of property, plant and equipment	<u>206</u>	<u>34</u>
Staff costs		
Directors' and chief executive's emoluments (note 11)	428	328
Staff salaries and benefits	12,355	7,744
Retirement benefit contributions	<u>599</u>	<u>518</u>
Total salaries and benefits included in administrative expenses (note 6)	13,382	8,590
Total salaries and benefits capitalized in construction in progress	6,416	5,368
Staff costs included in cost of sales and inventories	<u>16,885</u>	<u>14,220</u>
Total staff costs	<u>36,683</u>	<u>28,178</u>
Research and development costs included in general and administrative expenses (note 6)	<u>8,475</u>	<u>-</u>
Operating lease payment	<u>4,125</u>	<u>1,163</u>
Loan interest income	<u>(3,635)</u>	<u>(2,054)</u>
Bank interest income	<u>(1,552)</u>	<u>(562)</u>
Government subsidies	<u>(548)</u>	<u>(660)</u>
Reversal of allowance for doubtful debts of other receivables	<u>(188)</u>	<u>-</u>

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11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' and Chief Executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

For the year ended December 31, 2017

	<u>Fees</u> US\$'000	<u>Salaries and other benefits</u> US\$'000	<u>Retirement benefits contributions</u> US\$'000	<u>Total</u> US\$'000
<u>Executive Directors and Chief Executive</u> (Note a)				
Bing Liu (Note e)	-	-	-	-
<u>Executive Directors</u> (Note b)				
Xin Song (Note e)	-	-	-	-
Liangyou Jiang	-	130	7	137
<u>Non-executive Directors</u> (Note c)				
Lianzhong Sun (Note e)	-	-	-	-
Xiangdong Jiang	36	-	2	38
<u>Independent Non-executive Directors</u> (Note d)				
Ian He	68	-	2	70
Yunfei Chen	61	-	-	61
Gregory Hall	61	-	-	61
John King Burns	61	-	-	61
	<u>287</u>	<u>130</u>	<u>11</u>	<u>428</u>

For the year ended December 31, 2016

	<u>Fees</u> US\$'000	<u>Salaries and other benefits</u> US\$'000	<u>Retirement benefits contributions</u> US\$'000	<u>Total</u> US\$'000
<u>Executive Directors and Chief Executive</u> (Note a)				
Bing Liu (Note e)	-	-	-	-
<u>Executive Directors</u> (Note b)				
Xin Song (Note e)	-	-	-	-
Xiangdong Jiang	-	119	2	121
Liangyou Jiang	-	56	-	56
<u>Non-executive Directors</u> (Note c)				
Lianzhong Sun (Note e)	-	-	-	-
<u>Independent Non-executive Directors</u> (Note d)				
Ian He	41	-	2	43
Yunfei Chen	36	-	-	36
Gregory Hall	36	-	-	36
John King Burns	36	-	-	36
	<u>149</u>	<u>175</u>	<u>4</u>	<u>328</u>

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES - continued

(a) Directors' and Chief Executive's emoluments- continued

Notes:

- (a) Mr. Bing Liu is a director and the Chief Executive of the Company. The emoluments disclosed above are inclusive of services rendered by him as the Chief Executive.
- (b) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.
- (c) The non-executive directors' emoluments shown above were mainly for their services as directors of the Company.
- (d) The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.
- (e) Mr. Bing Liu, Mr. Xin Song and Mr. Lianzhong Sun have also been employed by CNG and the payment of their emoluments was centralized and made by CNG for both years, in which the amounts are considered as insignificant.

For the years ended December 31, 2017 and 2016, none of the directors of the Company waived or agreed to waive any emoluments.

(b) Five highest paid employees

The five highest paid employees included nil (2016: nil) director for the year ended December 31, 2017. The emoluments of the remaining five (2016: five) non-director employees for the year ended December 31, 2017, are as follows:

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Employees		
Salaries and other benefits	995	964
Retirement benefits contributions	<u>6</u>	<u>4</u>
	<u>1,001</u>	<u>968</u>

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES - continued

(b) Five highest paid employees - continued

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	<u>No. of individuals</u>	
	<u>2017</u>	<u>2016</u>
Nil to HK\$1,000,000 (equivalent to approximately nil to US\$129,000)	-	-
HK\$1,000,001 to HK\$1,500,000 (equivalent to approximately US\$129,001 to US\$193,000)	4	4
HK\$1,500,001 to HK\$2,000,000 (equivalent to approximately US\$193,001 to US\$258,000)	-	-
HK\$2,000,001 to HK\$2,500,000 (equivalent to approximately US\$258,001 to US\$323,000)	1	1
	<u>1</u>	<u>1</u>

During the years ended December 31, 2017 and 2016, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during the years ended December 31, 2017 and 2016, nor has any dividend been proposed since the end of reporting period.

13. EARNINGS (LOSS) PER SHARE

Profit (loss) used in determining earnings (loss) per share are presented below:

	<u>2017</u>	<u>2016</u>
Profit (loss) attributable to owners of the Company for the purposes of basic earnings (loss) per share (US\$'000)	<u>63,146</u>	<u>(13,304)</u>
Weighted average number of shares, basic	<u>396,413,753</u>	<u>396,413,753</u>
Basic earnings (loss) per share (US\$)	<u>15.93 cents</u>	<u>(3.36) cents</u>

The Group had no outstanding potential dilutive instruments issued as at December 31, 2017 and 2016 and during the years ended December 31, 2017 and 2016. Therefore, no diluted earnings (loss) per share is presented.

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14. CASH AND CASH EQUIVALENTS/RESTRICTED BANK BALANCE

Cash and cash equivalents of the Group are comprised of bank balances and bank deposits with an original maturity of three months or less. The Group's bank balances, cash equivalents and restricted bank balances are denominated in the foreign currencies other than the respective group entities' functional currencies are presented below:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Denominated in:		
Canadian dollars ("CAD")	1,087	1,512
Renminbi ("RMB")	27,180	43,447
US\$	25	35
Hong Kong dollars ("HK\$")	245	571
	<u>28,537</u>	<u>45,565</u>

The bank balances and bank deposits carry interest rates ranging from 0.01% to 2% (2016: 0.3% to 2%) per annum for the year ended December 31, 2017.

Restricted bank balance carries interest at market rates ranging from 0.3% to 1.11% (2016: 0.3% to 1.55%) per annum for the year ended December 31, 2017. The balance represents deposits pledged to banks to secure bills payable issued to suppliers for mining costs.

15. TRADE AND OTHER RECEIVABLES

The Group's accounts receivable arise from the following sources: trade receivables and amounts due from related companies. The components are as follows:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Trade receivables	20,685	4,054
Less: allowance for doubtful debts	(33)	(94)
	<u>20,652</u>	<u>3,960</u>
Amounts due from related companies (note 28(a)) ⁽¹⁾	69	128
Loans to related companies (note 28(a))	-	158,433
Other receivables ⁽²⁾	4,127	707
Total trade and other receivables	<u>24,848</u>	<u>163,228</u>

⁽¹⁾ The outstanding balances represent service fee receivables arising from provision of transportation services to the subsidiaries of CNG during the years ended December 31, 2017 and 2016. The amounts are unsecured, interest free and repayable on demand.

⁽²⁾ Included in the balance as at December 31, 2017 is an amount of approximately US\$3,424,000 (2016: US\$279,000) value-added tax recoverable which is expected to be recovered within twelve months after the end of the reporting period.

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15. TRADE AND OTHER RECEIVABLES - continued

The Group allows an average credit period of 90 days and 180 days to its external trade customers including CNG for gold dofe bar sales and copper sales, respectively.

Below is an aged analysis of trade receivables (net of allowance) presented based on invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Less than 30 days	20,538	-
31 to 90 days	33	1,307
91 to 180 days	26	2,387
Over 180 days	<u>55</u>	<u>266</u>
Total trade receivables	<u><u>20,652</u></u>	<u><u>3,960</u></u>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The customers with balances that are neither past due nor impaired have good repayment history and thus no impairment is considered necessary.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of US\$55,000 and US\$266,000 at December 31, 2017 and 2016, respectively, which are past due over six months for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience.

Movement in the allowance for doubtful debts:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
At January 1	94	398
Amount written off as uncollectible	(65)	(291)
Exchange realignment	<u>4</u>	<u>(13)</u>
At December 31	<u><u>33</u></u>	<u><u>94</u></u>

The Group holds no collateral for any receivable amounts outstanding as at December 31, 2017 and 2016.

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16. PREPAID EXPENSES AND DEPOSITS

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Deposits for mine supplies and services (Note a)	565	509
Deposits for spare parts (Note a)	1,566	4,670
Deposits for environmental protection (Note b)	14,545	11,425
Deposit for acquisition of property, plant and equipment (Note c)	205	90
Prepaid property and machinery insurance	222	152
Amount due from a non-controlling shareholder of a subsidiary (Note d)	375	353
Other prepayment and deposits	<u>722</u>	<u>590</u>
	18,200	17,789
Less: Amounts that will be settled or utilized within one year shown under current assets	<u>(2,769)</u>	<u>(5,633)</u>
Amounts that will be settled or utilized for more than one year shown under non-current assets	<u>15,431</u>	<u>12,156</u>

Notes:

- a. The amount represents deposits paid to third party vendors and related companies (note 28) for purchasing of raw materials, consumable, spare parts and mine services.
- b. The amounts represent deposits paid to the PRC local land administration bureau for undertaking the restoration of land when the lease terms expire. Such amounts are receivable upon the end of the mine life and are expected to be repaid after one year and therefore are shown as non-current assets at both 2017 and 2016 year end.
- c. The amount represents deposits paid to third party contractors for the acquisition of property, plant and equipment to expand its mining capacity in Tibet, the PRC. The amount is shown as non-current asset.
- d. The amount due from a non-controlling shareholder is non-interest bearing, unsecured and repayable after one year.

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17. PREPAID LEASE PAYMENTS

	US\$'000
At January 1, 2016	7,845
Additions	7,586
Release to profit or loss	(208)
Exchange realignment	(454)
	<hr/>
At December 31, 2016 and January 1, 2017	14,769
Additions	866
Release to profit or loss	(374)
Exchange realignment	864
	<hr/>
At December 31, 2017	<u>16,125</u>

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Analysed for reporting purpose:		
Current portion	466	366
Non-current portion	<u>15,659</u>	<u>14,403</u>
Total prepaid lease payments	<u>16,125</u>	<u>14,769</u>

Prepaid lease payments represent payments for medium-term leasehold land located in the PRC. The prepaid lease payments are released to profit or loss over the remaining lease terms.

18. INVENTORIES

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Gold in process	196,611	190,832
Gold doré bars	14,726	14,118
Consumables	3,812	4,923
Copper	672	544
Spare parts	<u>8,680</u>	<u>10,140</u>
Total inventories	<u>224,501</u>	<u>220,557</u>

Inventories totalling US\$290,486,000 (2016: US\$277,896,000) for the year ended December 31, 2017 was recognized in cost of sales.

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19. AVAILABLE-FOR-SALE INVESTMENTS

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Listed investment, at fair value:		
- Equity securities listed in Hong Kong ⁽¹⁾	19,680	12,737
Unlisted investment, at cost:		
- Equity securities ⁽²⁾⁽³⁾	<u>2,143</u>	<u>2,018</u>
Total available-for-sales investments	<u><u>21,823</u></u>	<u><u>14,755</u></u>

- (1) On June 29, 2012, the Group acquired 70,545,000 shares of China Nonferrous Mining Corporation Limited ("CNMC"), a listed company in Hong Kong at HK\$2.20 per share for a total consideration of US\$20,011,000 which represents 2.03% equity interest in CNMC. CNMC engaged in mining, processing and trading of nonferrous metals in Zambia.

During the year ended December 31, 2017 a fair value gain of US\$6,943,000 (2016: US\$1,278,000) was recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve in accordance with the Group's accounting policies. During the year ended December 31, 2016, impairment loss of US\$3,831,000 was recognised in profit or loss as there was significant decline in fair value of the security below its cost in the first quarter of the year and the Group considered that such a drop was an impairment.

- (2) As of December 31, 2017, the Group has invested RMB10,000,000, approximately US\$1,530,000 (2016: US\$1,441,000), representing 10% share interest in Inner Mongolia Chengxin Yong'an Chemicals Co., Ltd. ("Yong'an Chemicals"). Yong'an Chemicals is established in the PRC and principally engaged in the development and manufacturing of chemicals.

- (3) As of December 31, 2017, the Group has invested RMB4,000,000, approximately US\$613,000 (2016: US\$577,000), representing 7.425% share interest in Mozu Gongka Jiulian Industrial Explosives Material Co. Ltd. ("Mozu Explosives"). Mozu Explosives is established in the PRC and principally engaged in the development and manufacturing of explosives.

Both Yong'an Chemicals and Mozu Explosives are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the fair values cannot be measured reliably.

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20. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u> US\$'000	<u>Crushers</u> US\$'000	<u>Furniture and office equipment</u> US\$'000	<u>Machinery and equipment</u> US\$'000	<u>Motor vehicles</u> US\$'000	<u>Leasehold improvements</u> US\$'000	<u>Mineral assets</u> US\$'000	<u>Construction in progress ("CIP")</u> US\$'000	<u>Total</u> US\$'000
COST									
At January 1, 2016	208,508	215,879	3,761	99,705	8,608	198	387,490	752,176	1,676,325
Additions	1,075	-	398	3,216	454	-	60,870	162,283	228,296
Reversal	-	(2,735)	-	-	-	-	-	-	(2,735)
Disposals	-	-	(25)	-	(145)	-	-	-	(170)
Transfer from CIP	2,196	-	425	11,117	-	-	-	(13,738)	-
Environmental rehabilitation adjustment (note 26)	-	-	-	-	-	-	857	-	857
Exchange realignment	(13,066)	-	(156)	(3,661)	(415)	-	(6,683)	(53,931)	(77,912)
At December 31, 2016	198,713	213,144	4,403	110,377	8,502	198	442,534	846,790	1,824,661
Additions	1,288	-	1,233	3,807	1,599	-	170,141	117,948	296,016
Reversal	-	-	-	-	-	-	-	-	-
Disposals	-	-	(4)	-	(1,985)	-	-	-	(1,989)
Transfer from CIP	565,087	10,295	-	136,131	-	-	135,043	(846,556)	-
Environmental rehabilitation adjustment (note 26)	-	-	-	-	-	-	(3,899)	-	(3,899)
Exchange realignment	26,671	-	223	7,292	360	-	13,567	30,969	79,082
At December 31, 2017	791,759	223,439	5,855	257,607	8,476	198	757,386	149,151	2,193,871
ACCUMULATED DEPRECIATION									
At January 1, 2016	(37,101)	(46,379)	(2,192)	(44,506)	(5,004)	(125)	(86,699)	-	(222,006)
Provided for the year	(9,033)	(16,837)	(466)	(9,451)	(1,027)	(18)	(40,854)	-	(77,686)
Reversal	-	1,537	-	-	-	-	-	-	1,537
Eliminated on disposals	-	-	24	-	112	-	-	-	136
Exchange realignment	2,177	-	65	1,660	247	-	516	-	4,665
At December 31, 2016	(43,957)	(61,679)	(2,569)	(52,297)	(5,672)	(143)	(127,037)	-	(293,354)
Provided for the year	(9,455)	(12,985)	(1,169)	(9,483)	(853)	(23)	(53,649)	-	(87,617)
Reversal	-	-	-	-	-	-	-	-	-
Eliminated on disposals	-	-	4	-	1,744	-	-	-	1,748
Exchange realignment	(2,472)	-	(95)	(1,557)	(206)	-	(594)	-	(4,924)
At December 31, 2017	(55,884)	(74,664)	(3,829)	(63,337)	(4,987)	(166)	(181,280)	-	(384,147)
CARRYING VALUE									
At December 31, 2017	735,875	148,775	2,026	194,270	3,489	32	576,106	149,151	1,809,724
At December 31, 2016	154,756	151,465	1,834	58,080	2,830	55	315,497	846,790	1,531,307

The above items of property, plant and equipment, except for mineral assets, are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings	Over the shorter of the term of lease, or 24 years
Crushers	14 years
Furniture and office equipment	2 to 5 years
Machinery and equipment	2 to 10 years
Motor vehicles	5 to 10 years
Leasehold improvements	Over the shorter of the term of lease, or 5.5 years

Mineral assets mainly represent drilling, stripping and related costs incurred on sites with an existing mine and on areas within the boundary of a known mineral deposit which contains proven and probable reserves and are capitalized when they are incurred to improve access to the future ores. Mineral assets are depreciated using the unit-of-production method based on the actual production volume over the estimated total proven and probable reserves of the mines.

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20. PROPERTY, PLANT AND EQUIPMENT - continued

Mineral Assets

(a) CSH Gold Mine

CSH Gold Mine, in which the Group holds a 96.5% equity interest, consists of a licensed area of 36 square kilometers ("km²") in the western part of Inner Mongolia, northern China. The site is centrally positioned within the east-west-trending Tian Shan Gold Belt and is approximately 650 kilometers ("km") northwest of Beijing. The carrying value of the CSH Gold Mine in relation to mineral assets is US\$286,824,000 as at December 31, 2017 (December 31, 2016: US\$252,467,000).

(b) Jiama Mine

The Jiama Mine, a large copper-gold polymetallic deposit consisting of skarn-type and hornfels-type mineralization located in Metrorkongka County in Tibet, in which the Group holds 100% equity interest through its wholly-owned subsidiary, Skyland. The Group acquired Skyland on December 1, 2010. The carrying value of the Jiama Mine in relation to mineral assets is US\$289,282,000 as at December 31, 2017 (December 31, 2016: US\$63,030,000).

21. MINING RIGHTS

	US\$'000
COST	
At January 1, 2016	977,399
Exchange realignment	<u>(3,058)</u>
At December 31, 2016 and January 1, 2017	974,341
Additions	26,694
Exchange realignment	<u>3,526</u>
At December 31, 2017	<u>1,004,561</u>
ACCUMULATED AMORTIZATION	
At January 1, 2016	(46,883)
Additions	(4,814)
Exchange realignment	<u>173</u>
At December 31, 2016 and January 1, 2017	(51,524)
Additions	(5,603)
Exchange realignment	<u>(180)</u>
At December 31, 2017	<u>(57,307)</u>
CARRYING VALUE	
At December 31, 2017	<u>947,254</u>
At December 31, 2016	<u>922,817</u>

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21. MINING RIGHTS - continued

The amounts represent mining rights in the Jiama Mine, in relation to the copper concentrate and other by-products production, acquired through the acquisition of Skyland. The mining permit will expire in 2023. The Group considers that it will be able to renew the mining rights with the relevant government authority continuously at insignificant cost until the end of mine life.

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.

22. ACCOUNTS AND OTHER PAYABLES AND ACCRUED EXPENSES

Accounts and other payables of the Group are principally comprised of amounts outstanding for trade purchases relating to minerals production activities and construction activities. The average credit period taken for trade purchases is between 120 to 150 days.

Accounts and other payables and accrued expenses comprise the following:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Accounts payable	26,191	17,738
Bills payable	67,338	73,785
Construction costs payable	112,194	69,582
Advances from customers	2,724	46
Mining cost accrual	1,940	5,453
Payroll and benefit payable	4,833	4,967
Other accruals	4,714	1,138
Other tax payables	4,523	1,762
Other payables	<u>2,953</u>	<u>1,993</u>
Total accounts and other payables and accrued expenses	<u>227,410</u>	<u>176,464</u>

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

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Less than 30 days	15,838	7,277
31 to 90 days	3,703	5,445
91 to 180 days	2,850	2,396
Over 180 days	<u>3,800</u>	<u>2,620</u>
Total accounts payable	<u>26,191</u>	<u>17,738</u>

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22. ACCOUNTS AND OTHER PAYABLE AND ACCRUED EXPENSES - continued

The credit period for bills payable is 180 days from the bills issue date.

The following is an ageing analysis of bills payables, presented based on bills issue date at the end of the reporting period:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Less than 30 days	12,243	18,739
31 to 60 days	6,122	7,208
61 to 90 days	12,243	11,799
91 to 180 days	<u>36,730</u>	<u>36,039</u>
Total bills payable	<u><u>67,338</u></u>	<u><u>73,785</u></u>

23. BORROWINGS

The borrowings are repayable as follows:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Carrying amount repayable on demand and within one year ⁽¹⁾	161,489	596,233
Carrying amount repayable within one to two years ⁽²⁾	128,799	57,662
Carrying amount repayable within two to five years ^{(1), (2)}	636,478	204,699
Carrying amount repayable over five years ⁽²⁾	<u>348,167</u>	<u>296,238</u>
	1,274,933	1,154,832
Less: Amounts due within one year (shown under current liabilities)	<u>(161,489)</u>	<u>(596,233)</u>
Amounts shown under non-current liabilities	<u><u>1,113,444</u></u>	<u><u>558,599</u></u>

⁽¹⁾ On July 17, 2014, the Company, through its wholly-owned subsidiary, Skyland (BVI), completed the issuance of bonds to independent third parties in an aggregate principal amount of US\$500 million, listed on The Stock Exchange of Hong Kong Limited. The bonds were issued at a price of 99.634%, bearing interest rate of 3.5% with a maturity date of July 17, 2017. The bond was fully repaid on July 11, 2017.

On July 7, 2017, the Company, through its wholly-owned subsidiary, Skyland (BVI), completed the issuance of bonds to independent third parties in an aggregate principal amount of US\$500 million, listed on the Stock Exchange. The bonds were issued at a price of 99.663%, bearing coupon rate of 3.25% with a maturity date of July 6, 2020. Interest is payable in equal semi-annual instalments on January 6 and July 6 in each year.

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23. BORROWINGS - continued

- (2) Skyland entered into a syndicated long term loan facility agreement with a syndicate of banks ("The Lenders"), on November 3, 2015 which is available for Skyland to draw down up to October 30, 2018. As at December 31, 2017, Skyland has drawn down the loan amount of RMB3,495,000,000 (equivalent to approximately US\$534,878,000) (2016: RMB2,885,000,000 (equivalent to approximately US\$415,886,000)). The unutilized facility was RMB485,000,000 (equivalent to approximately US\$74,225,000) as at December 31, 2017 (2016: RMB1,095,000,000 (equivalent to approximately US\$157,849,000)). The loan carries a floating rate, currently set at 2.83% per annum, set by the People's Bank of China Lhasa Center Branch's interest rate bench mark, discounted by 7 base points (or 0.07%) as at December 31, 2017 and 2016. Repayment of the loan is scheduled to begin in May 2019 and will reach full maturity and repayment in November 2023. The loan is subject to a financial covenant with which the Company was in compliance as at December 31, 2017 and 2016.

Analysed as:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Secured	534,878	415,886
Unsecured	<u>740,055</u>	<u>738,946</u>
	<u>1,274,933</u>	<u>1,154,832</u>

Fixed rate loans amounting to approximately US\$740,055,000 (December 31, 2016: US\$738,946,000), carry weighted average effective interest rate of 3.27% (2016: 3.13%) per annum.

The carrying values of the pledged assets to secure borrowings by the Group are as follows:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Mining rights	<u>947,254</u>	<u>922,817</u>

24. ENTRUSTED LOAN PAYABLE

On January 17, 2014, the Group entered into a three-year entrusted loan agreement with CNG (note 28) and China Construction Bank ("CCB") in which CNG provided a loan of RMB200 million (equivalent to approximately US\$32,221,000 based on the spot rate at the withdrawal date) to the Group through CCB as the entrusted bank. The entrusted loan is unsecured and carries interest at a fixed rate of 3% per annum. The principal amount was fully repaid on January 18, 2017.

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24. ENTRUSTED LOAN PAYABLE - continued

On January 16, 2017, the Group renewed the entrusted loan by entering into a three-year entrusted loan agreement with CNG (note 28) and China National Gold Group Finance Company Limited ("China Gold Finance"), a subsidiary of CNG, in which CNG provided a loan of RMB200 million (equivalent to approximately US\$29,186,000 based on the spot rate at the withdrawal date) to the Group through China Gold Finance as the entrusted bank. The entrusted loan is unsecured and carries interest at a fixed rate of 2.75% per annum. The principal amount is repayable on January 15, 2020.

25. DEFERRED INCOME

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Deferred income - government grants	4,560	4,195
Deferred lease inducement	19	19
Total deferred income	<u>4,579</u>	<u>4,214</u>

Movement in the deferred income - government grants:

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
At January 1	4,195	1,779
Addition	482	3,488
Charged to other income	(548)	(658)
Exchange realignment	431	(414)
At December 31	<u>4,560</u>	<u>4,195</u>

26. ENVIRONMENTAL REHABILITATION

The environmental rehabilitation relates to reclamation and closure costs relating to the Group's mine operations at the CSH Gold Mine and Jiama Mine. The environmental rehabilitation is calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, which total US\$88,772,000 (2016: US\$85,467,000), discounted at 7.0% (2016: 6.19%) per annum at December 31, 2017.

The following is an analysis of the environmental rehabilitation:

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
At January 1	49,337	49,090
Changes from change in discount rate during the year	(3,899)	857
Accretion incurred in the current year	2,757	2,967
Payment during the year	(11)	(284)
Exchange realignment	3,085	(3,293)
At December 31	<u>51,269</u>	<u>49,337</u>

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27. SHARE CAPITAL

Common shares

(i) Authorized - Unlimited common shares without par value

(ii) Issued and outstanding

	<u>Number of shares</u>	<u>Amount US\$'000</u>
Issued & fully paid: At January 1, 2016, December 31, 2016 and 2017	<u>396,413,753</u>	<u>1,229,061</u>

28. RELATED PARTY TRANSACTIONS

The Group operates in an economic environment currently predominated by enterprises directly or indirectly owned or controlled or significantly influenced by the PRC government (hereinafter collectively referred to as "Government-related entities"). In addition, the Group itself is a Government-related entity. CNG, a substantial shareholder with significant influence over the Group, is a state owned company registered in Beijing, PRC, which is controlled by State-owned Assets Supervision and Administration Commission of the State Council of the PRC.

During the year, except as disclosed below, the Group did not have any individually significant transactions with other government-related entities in its ordinary and usual course of business.

Name and relationship with related parties during the years are as follows:

CNG owned the following percentages of outstanding common shares of the Company:

	December 31, <u>2017</u> %	December 31, <u>2016</u> %
CNG	<u>39.3</u>	<u>39.3</u>

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28. RELATED PARTY TRANSACTIONS - continued

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

(i) Transactions/balances with CNG and its subsidiaries

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

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Gold doré bars sales by the Group (Note a)	<u>233,641</u>	<u>227,580</u>
Copper and other product sales by the Group (Note b)	<u>101,225</u>	<u>59,750</u>
Provision of transportation services by the Group (Note b)	<u>699</u>	<u>633</u>
Construction, stripping and mining services provided to the Group (Note b, c)	<u>21,852</u>	<u>39,624</u>
Office lease to the Group (Note b)	<u>3,924</u>	<u>1,129</u>
Interest income	<u>4,124</u>	<u>2,054</u>
Interest expense	<u>3,003</u>	<u>2,892</u>
Loan advanced by the Group (Note d)	<u>-</u>	<u>150,000</u>
Entrusted loan (Note 24) and loans provided to the Group (Note e)	<u>105,065</u>	<u>43,246</u>
Cash and cash equivalent held by the Group (Note e)	<u>96,337</u>	<u>31,052</u>

28. RELATED PARTY TRANSACTIONS - continued

- (a) Transactions/balances with government-related entities in the PRC - continued
 - (i) Transactions/balances with CNG and its subsidiaries - continued

Notes:

- a. On May 7, 2014, the Company's subsidiary, Inner Mongolia Pacific Mining Co. Ltd. ("IMP") entered into an exclusive contract for the sale of doré with CNG pursuant to which IMP sells gold doré bars to CNG for the period up to December 31, 2017. On May 26, 2017, the Company and Inner Mongolia Pacific entered into the Supplemental Contract for Purchase and Sale of Dore for an extended term commencing on January 1, 2018 and expiring on December 31, 2020.

The extent of the continuing connected transactions for the years ended December 31, 2017 and 2016 did not exceed the limit as set out in the announcement of the Company on May 7, 2014.

- b. On April 26, 2013, the Company entered into a product and service framework agreement with CNG for the provision of providing mining related services and products to the Company for three years until June 18, 2016. The agreement was amended to extend the term of the agreement to December 31, 2017 and to include copper concentrates sales contract and office lease contract with CNG since May 29, 2015. On May 26, 2017 the Company and CNG entered into the second Supplemental Product and Service Framework Agreement to extend the term to December 31, 2020 and to extend the scope of the Supplemental Product and Service Framework Agreement to include leasing services to be provided by Zhongxin International Financial Leasing (Shenzhen) Co. Ltd., the shares of which are 80% owned by China National Gold.

The extent of the continuing connected transactions for the years ended December 31, 2017 and 2016 did not exceed the limit as set out in the announcement of the Company on May 29, 2015.

- c. On May 7, 2014, Tibet Huatailong entered into a stripping and mining agreement with China Tenth Metallurgy Group Limited Corporation ("CTMG"), a subsidiary of CNG, whereby CTMG shall provide stripping and mining services for phase II production-period hornfels at the Jiama Mine for the period up to December 31, 2016.

The extent of the continuing connected transactions for the year ended December 31, 2016 did not exceed the limit as set out in the announcement of the Company on May 7, 2014.

28. RELATED PARTY TRANSACTIONS - continued

- (a) Transactions/balances with government-related entities in the PRC - continued
 - (i) Transactions/balances with CNG and its subsidiaries - continued

- d. On August 25, 2016, Skyland (BVI), the wholly-owned subsidiary of the Company, entered into a loan agreement with China National Group Hong Kong Limited ("CNGHK"), a subsidiary of CNG, pursuant to which Skyland (BVI) as a lender, agreed to provide the loan in the principal amount up to US\$120 million and expiring on July 1, 2017, to CNGHK as borrower. On July 31, 2017, the loan was extended from July 1, 2017 to July 31, 2017 and was fully settled as at the end of the extended loan term.

On September 13, 2016, Skyland (BVI) entered into a loan agreement with Kichi Chaarat CISC ("Kichi") a subsidiary of CNG, pursuant to which Skyland (BVI) as a lender, agreed to provide the loan in the principal amount up to US\$30 million and expiring on July 10, 2017, to Kichi as borrower. On July 31, 2017, the loan was extended from July 10, 2017 to July 31, 2017 and was fully settled as at the end of the extended loan term.

The transaction constituted a connected transaction for the Company under Chapter 14A of the Listing Rules, details of which are set out in the announcement of the Company dated April 14, 2015 and May 24, 2016, respectively.

- e. On May 29, 2015, the Company's subsidiaries, IMP, Huatailong and China Gold Finance, a subsidiary of CNG, entered into a financial services agreement pursuant to which China Gold Finance will provide deposit services, loan, settlement, credit facility, financial advisory and other financial services subject to terms and conditions provided therein for a term of three years.

On May 26, 2017(as amended May 29, 2017), the Company and China Gold Finance entered into the New Financial Services Agreement pursuant to which China Gold Finance agreed to satisfy the financial needs of the Company and its subsidiaries (including but not limited to Inner Mongolia Pacific and Huatailong) within the PRC by providing the certain functions performed by financial institutions on substantially the same terms as the Financial Services Agreement for a term of three years expiring on June 30, 2020.

The extent of the continuing connected transactions for the year ended December 31, 2017 and 2016 did not exceed the limit as set out in the announcement of the Company on May 29, 2015.

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28. RELATED PARTY TRANSACTIONS - continued

- (a) Transactions/balances with government-related entities in the PRC - continued
 (i) Transactions/balances with CNG and its subsidiaries - continued

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

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
<u>Assets</u>		
Loans receivable from CNG subsidiaries (note 15)	-	158,433
Amounts due from related companies (note 15)	65	128
Cash and cash equivalents held in a CNG subsidiary	96,337	31,052
Trade receivables from CNG subsidiaries (note 15)	19,721	490
Deposits	81	168
	<u>116,204</u>	<u>190,271</u>

Loans receivable from CNG subsidiaries, which was included in trade and other receivables, carried fixed interest rates at 3.9% to 5% per annum and were unsecured and were repaid on July 31, 2017. The remaining amounts due from CNG and its subsidiaries which are included in other receivables is non-interest bearing, unsecured and repayable on demand.

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
<u>Liabilities</u>		
Loans payable to a CNG subsidiary	53,564	43,304
Entrusted loan payable (note 24)	30,608	28,831
Construction costs payable to CNG subsidiaries	22,852	14,970
Trade payable to CNG subsidiaries	722	-
Customer advance paid by a CNG subsidiary	35	33
	<u>107,781</u>	<u>87,138</u>

The loans payable to a CNG subsidiary, which are included in borrowings, carry fixed interest rates at 4.35% (2016: 4.35%) per annum and are unsecured and repayable within one year. With the exception of the entrusted loan payable to CNG and loans payable to a CNG subsidiary, the amounts due to CNG and its subsidiaries which are included in other payables and construction costs payable, are non-interest bearing, unsecured and have no fixed terms of repayments.

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

Apart from the transactions with CNG and its subsidiaries disclosed above, the Group has also entered into transactions of bank deposits, borrowings and other general banking facilities with other government-related entities in its ordinary course of business. Over 24%, 52% and 100% (2016: over 74%, 56% and 100%) of the Group's bank deposits, borrowings and other general banking facilities are with government-related entities respectively.

28. RELATED PARTY TRANSACTIONS - continued

(b) Compensation of key management personnel

Other than the directors' emoluments disclosed in note 11(a), the Group has the following compensation to other key management personnel during the years:

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Salaries and other benefits	869	854
Post-employment benefits	<u>19</u>	<u>13</u>
	<u>888</u>	<u>867</u>

29. CAPITAL RISK MANAGEMENT

The Group manages its common shares as capital. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to operate its mines, pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Group's overall strategy remains unchanged from prior years.

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

In order to facilitate the Management of its capital requirements, the Group prepares annual expenditure budgets that are updated as necessary depending on various factors, including operating results, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the board of directors of the Company.

In order to maximize ongoing development efforts, the Group does not pay out dividends. The Group's policy is to invest its short-term excess cash in fixed bank deposits with maturities of 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from its operations.

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30. FINANCIAL INSTRUMENTS

	<u>Financial instrument classification</u>	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
<i>Financial assets</i>			
Cash and cash equivalents	Loans and receivables	147,318	59,930
Restricted bank balance	Loans and receivables	18,089	21,085
Trade and other receivables ⁽¹⁾	Loans and receivables	21,424	162,949
Amount due from a non-controlling shareholder of a subsidiary (included in prepaid expenses)	Loans and receivables	375	353
Available-for-sale investments	Available-for-sale financial assets	<u>21,823</u>	<u>14,755</u>
<i>Financial liabilities</i>			
Accounts and other payables ⁽²⁾	Other financial liabilities	208,676	163,098
Borrowings			
- Loans, other than syndicated loan	Other financial liabilities	740,055	738,946
- Syndicated loan	Other financial liabilities	534,878	415,886
Entrusted loan payable	Other financial liabilities	<u>30,608</u>	<u>28,831</u>

⁽¹⁾ Excluded VAT recoverables.

⁽²⁾ Excluded advances from customers, mining cost accrual, other accrual, payroll and benefit payable and other tax payables.

The Group's financial instruments are exposed to certain financial risks including market risk (e.g. currency risk and interest rate risk), credit risk and liquidity risk.

(a) Currency risk

The Group is exposed to the financial risk related to the fluctuation of foreign exchange rates for the monetary assets and liabilities denominated in the currencies other than the functional currencies to which they related. The Group has not hedged its exposure to currency fluctuations. However, the Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At the end of each reporting period, Huatailong of which its functional currency is RMB, had US\$ denominated intra-group borrowings from Skyland (BVI). The intra-group borrowing is approximately US\$224,631,000 (2016: US\$251,000,000) as at December 31, 2017.

30. FINANCIAL INSTRUMENTS - continued

(a) Currency risk - continued

The Group is mainly exposed to exchange rate fluctuation of RMB and US\$.

RMB monetary assets and liabilities

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Cash and cash equivalents	9,091	22,362
Restricted bank balances	18,089	21,085
Trade and other receivables	78	20
Available-for-sale investments	1,530	1,442
Accounts and other payables	(89,461)	(112,290)
Borrowings	<u>(84,173)</u>	<u>(72,077)</u>
	<u>(144,846)</u>	<u>(139,458)</u>

Based on the above net exposures, and assuming that all other variables remain constant, a 5% (2016: 5%) depreciation/appreciation of the RMB against the US\$ would result in an increase/decrease in the Group's profit for the year of approximately US\$6,158,000 (2016: decrease/increase in the Group's loss for the year of approximately US\$5,230,000) for the year ended December 31, 2017.

US\$ monetary assets and liabilities

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Cash and cash equivalents	25	35
Inter-company loans	(224,631)	(251,000)
Other payables	<u>(16,165)</u>	<u>(9,686)</u>
	<u>(240,771)</u>	<u>(260,651)</u>

Based on the above net exposures, and assuming that all other variables remain constant, a 5% (2016: 5%) depreciation/appreciation of the US\$ against the RMB would result in an increase/decrease in the Group's profit for the year of approximately US\$10,233,000 (2016: decrease/increase in the Group's loss for the year of approximately US\$11,078,000) for the year ended December 31, 2017.

In Management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

30. FINANCIAL INSTRUMENTS - continued

(b) Interest rate risk

Interest rate risk is the risk that the fair value in relation to bank balance, borrowings, entrusted loan payable and loan to a CNG subsidiary of US\$744,418,000 (2016: US\$753,033,000) bearing fixed interest rate or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate bank balances and variable-rate bank borrowings (see note 23 for details of these borrowings).

Sensitivity analysis

The following analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant. A 25 basis point (2016: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents Management's assessment of the reasonably possible change in interest rates.

The analysis below reflects the sensitivity that the interest rate may be higher/lower by 25 basis points (2016: 25 basis points).

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
25 basis points (2016: 25 basis points) higher		
- decrease in profit (2016: increase in loss) for the year	(175)	(152)
- addition in finance costs capitalized	756	671
	<u> </u>	<u> </u>
25 basis points (2016: 25 basis points) lower		
- increase in profit (2016: decrease in loss) for the year	175	152
- reduction in finance costs capitalized	(756)	(671)
	<u> </u>	<u> </u>

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(c) Other price risk

The Group is exposed to equity price risk through its investments in equity securities listed in Hong Kong. The Group's equity price risk is mainly concentrated on equity instruments operating in mining industry sector quoted in The Stock Exchange of Hong Kong Limited. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date. If the prices of the respective equity instruments had been 10% (2016: 10%) higher/lower:

30. FINANCIAL INSTRUMENTS – continued

(c) Other price risk - continued

Sensitivity analysis - continued

- Investments revaluation reserve would increase/decrease by US\$1,968,000 (2016: increase/decrease by US\$1,274,000) for the Group as a result of the changes in fair value of other available-for-sale investments.

(d) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. The Group sold approximately 100% (2016: 100%) of its gold to one creditworthy customer, CNG, approximately 57% (2016: 54%) and 42% (2016: 46%) of its copper concentrate and other by-product to a CNG subsidiary and a third party respectively for the year ended December 31, 2017 and exposes the Group to concentration of credit risk. The failure of these customers to make required payments could have a negative impact on the Group's results. The Group manages this risk by demanding upfront payment from CNG and has set up monitoring procedures to ensure that follow-up action is taken for timely settlement of receivables from the CNG subsidiary and the third party. The Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure the adequate impairment losses are made for irrecoverable amounts. In this regard, Management consider the Group's credit risk is significantly reduced.

The Group was exposed to credit risk on loans to related parties. Management periodically monitors the financial position of each of the related companies to ensure each related company is financially viable to settle the amount due to the Group.

The Group's cash and short-term bank deposits are held in large PRC, Hong Kong and Canadian financial institutions. These investments mature at various dates within three months from inception date. The exchange rate of RMB is determined by the Government of the PRC and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The Group had concentration of credit risk by geographical locations as the other receivables comprise various debtors which are located either in the PRC or Canada for the years ended December 31, 2017 and 2016.

Other than the concentration of the credit risk on bank balances and accounts receivable, the Group does not have any other significant concentration of credit risk.

30. FINANCIAL INSTRUMENTS - continued

(e) Liquidity risk

The Group operates in a capital intensive industry. The Group's liquidity requirements arise principally from the need for financing the expansion of its mining and processing operations.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk through the Management of its capital structure and financial leverage as outlined in note 29.

Where the entity manages its liquidity primarily through maintaining adequate level of cash and cash equivalents and bank borrowings.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. Details of which are set out in note 23.

The following table details the Group's remaining contractual maturities for its financial liabilities (see note 31 for other commitments). The table is based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to satisfy the liabilities.

To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period:

	On demand or within <u>1 year</u> US\$'000	1 - 2 <u>years</u> US\$'000	2 - 5 <u>years</u> US\$'000	Over 5 <u>years</u> US\$'000	Total undiscounted <u>cashflow</u> US\$'000	Carrying <u>Amount</u> US\$'000
<u>At December 31, 2017</u>						
Accounts and other payables	208,676	-	-	-	208,676	208,676
Borrowings	183,818	145,382	674,611	371,191	1,375,002	1,274,933
Entrusted loan payable	31,450	842	37	-	32,329	30,608
	<u>423,944</u>	<u>146,224</u>	<u>674,648</u>	<u>371,191</u>	<u>1,616,007</u>	<u>1,514,217</u>

	On demand or within <u>1 year</u> US\$'000	1 - 2 <u>years</u> US\$'000	2 - 5 <u>years</u> US\$'000	Over 5 <u>years</u> US\$'000	Total undiscounted <u>cashflow</u> US\$'000	Carrying <u>Amount</u> US\$'000
<u>At December 31, 2016</u>						
Accounts and other payables	163,098	-	-	-	163,098	163,098
Borrowings	615,386	72,756	238,590	319,098	1,245,830	1,154,832
Entrusted loan payable	28,869	-	-	-	28,869	28,831
	<u>807,353</u>	<u>72,756</u>	<u>238,590</u>	<u>319,098</u>	<u>1,437,797</u>	<u>1,346,761</u>

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30. FINANCIAL INSTRUMENTS - continued

(f) Fair value

Except for the available-for-sale investment - listed equity securities which are measured at quoted bid price in an active market (Level 1), the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values. There was no transfer between 1, 2 and 3 in the current and prior years.

31. COMMITMENTS AND CONTINGENCIES

Operating leases commitments

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
Within one year	119	108
In the second to fifth year inclusive	237	304
Over five years	<u>150</u>	<u>171</u>
	<u>506</u>	<u>583</u>

Operating lease payments represent rentals payable by the Group for its premises. Leases are negotiated for a term of 1 to 14 years.

	December 31, <u>2017</u> US\$'000	December 31, <u>2016</u> US\$'000
<i>Capital commitments</i>		
Capital expenditure in respect of acquisition of property, plant and equipment in the consolidated financial statements - contracted but not provided for	<u>188,293</u>	<u>218,994</u>
Capital expenditure in respect of capital injection to an investee	<u>3,826</u>	<u>3,604</u>

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31. COMMITMENTS AND CONTINGENCIES - continued

Other commitments existed at the end of each reporting period

In October 2006, the Group signed a ten-year service contract with a third party to provide mining services to the Group commencing in the first quarter of 2007. The value of the mining service of each year will vary and is dependent upon the amount of mining work performed.

32. RETIREMENT BENEFITS SCHEMES

The employees of the Group's subsidiaries are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of payroll cost to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately US\$2,493,000 and US\$1,964,000 for the years ended December 31, 2017 and 2016, respectively, represent contributions payable to the scheme by the Group.

33. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<u>Borrowings</u> US\$'000 (note 23)	<u>Entrusted loan</u> payable US\$'000 (note 24)	<u>Total</u> US\$'000
At January 1, 2017	1,154,832	28,831	1,183,663
Financing cash flows	77,855	614	78,469
Exchange difference arising on translation	37,590	1,163	38,753
Unrealised foreign exchange loss, net	4,656	-	4,656
At December 31, 2017	<u>1,274,933</u>	<u>30,608</u>	<u>1,305,541</u>

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34. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at December 31, 2017 and 2016 are as follows:

<u>Name of subsidiaries</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued and fully paid share capital/ registered capital</u>	<u>Equity interest attributable to the Group as at December 31,</u>		<u>Principal activities</u>
			<u>2017</u>	<u>2016</u>	
Pacific PGM Inc.	British Virgin Islands ("BVI") May 17, 2001	US\$100	100%	100%	Investment holding
Pacific PGM (Barbados) Inc.	Barbados September 6, 2007	US\$200,000	100%	100%	Investment holding
IMP	PRC April 29, 2002	US\$45,000,000	96.5%	96.5%	Engaged in exploration and development of mining properties in China
Skyland	Barbados October 6, 2004	US\$233,380,700 plus RMB1,510,549,032	100%	100%	Investment holding
Tibet Jia Ertong Minerals Exploration Ltd. ⁽¹⁾	PRC October 31, 2003	US\$273,920,000	100%	100%	Exploration, development and mining of mineral properties and investment holding
Huatailong ⁽¹⁾	PRC January 11, 2007	RMB1,760,000,000	100%	100%	Exploration, development and mining of mineral properties
Jiama Industry and Trade ⁽¹⁾	PRC December 1, 2011	RMB5,000,000	51%	51%	Mining logistics and transport business
Skyland Mining (BVI) Limited	BVI October 26, 2012	US\$1	100%	100%	Issue of bonds

⁽¹⁾ Domestic limited liability company.

None of the subsidiaries had issued any debt securities at the end of the year except for Skyland (BVI) which has issued US\$500 million of listed bonds, in which the Group has US\$17 million interest.

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35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	<u>2017</u> US\$'000	<u>2016</u> US\$'000
Current assets		
Cash and cash equivalents	4,360	10,180
Other receivables	14	27
Prepaid expenses and deposits	234	438
Loan receivables from subsidiaries	-	452,684
Amounts due from subsidiaries	7,252	49,258
	<u>11,860</u>	<u>512,587</u>
Non-current assets		
Property, plant and equipment	53	91
Loan receivables from subsidiaries	59,585	58,033
Available-for-sale investment	19,680	12,737
Investments in subsidiaries	987,016	987,016
Amounts due from subsidiaries	54,236	50,664
	<u>1,120,570</u>	<u>1,108,541</u>
Total assets	<u>1,132,430</u>	<u>1,621,128</u>
Current liabilities		
Other payable and accrued expenses	4,011	834
Advance from a subsidiary	-	490,000
	<u>4,011</u>	<u>490,834</u>
Non-current liability		
Deferred income	19	19
Total liabilities	<u>4,030</u>	<u>490,853</u>
Net current assets	<u>7,849</u>	<u>21,753</u>
Total assets less current liabilities	<u>1,128,419</u>	<u>1,130,294</u>
Owners' equity		
Share capital (note 27)	1,229,061	1,229,061
Reserves (note 36)	11,016	4,073
Deficits (note 36)	(111,677)	(102,859)
Total owners' equity	<u>1,128,400</u>	<u>1,130,275</u>
Total liabilities and owners' equity	<u>1,132,430</u>	<u>1,621,128</u>

CHINA GOLD INTERNATIONAL RESOURCES CORP. LTD

36. RESERVES AND DEFICITS OF THE COMPANY

	<u>Reserves</u> US\$'000	<u>Accumulated</u> <u>losses</u> US\$'000	<u>Total</u> US\$'000
At January 1, 2016	2,795	(102,967)	(100,172)
Profit for the year	-	108	108
Fair value loss on available- for-sale investment	(2,553)	-	(2,553)
Reclassification adjustment upon impairment of available-for-sale investment	3,831	-	3,831
Total comprehensive income for the year	<u>1,278</u>	<u>108</u>	<u>1,386</u>
At December 31, 2016 and January 1, 2017	<u>4,073</u>	<u>(102,859)</u>	<u>(98,786)</u>
Loss for the year	-	(8,818)	(8,818)
Fair value gain on available- for-sale investment	6,943	-	6,943
Total comprehensive loss for the year	<u>6,943</u>	<u>(8,818)</u>	<u>(1,875)</u>
At December 31, 2017	<u><u>11,016</u></u>	<u><u>(111,677)</u></u>	<u><u>(100,661)</u></u>