

**KING SOLOMON MINES LIMITED**

**FINANCIAL REPORT**

**FOR HALF YEAR ENDED 30 SEPTEMBER 2008**

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# KING SOLOMON MINES LIMITED

## DIRECTORS' REPORT

### FOR HALF YEAR ENDED 30 SEPTEMBER 2008

Your directors have pleasure in presenting the interim financial report for the half year ended 30 September 2008.

#### **DIRECTORS**

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

John C. Quinn (Non-Executive Chairman)

Stephen J. McPhail (Managing Director)

A. Bruce Bell (Executive Director)

Fu La (Executive Director)

Christopher D. Castle (Non-Executive Director)

#### **REVIEW OF OPERATIONS**

The net loss of the Group for the half year ended 30 September 2008 amounted \$260,746 (half year ended 30 September 2007: \$555,698)

#### **EXPLORATION ACTIVITIES**

The principal focus of the period has been at Marmot where significant molybdenum mineralisation has been discovered. The Bu Dun Hua, Wuritu, Naogaoshandu and Beyinhar North projects have also been advancing steadily.

#### **Marmot Copper-Molybdenum project (100% KSO)**

Ongoing diamond drilling, detailed geological mapping and detailed geochemical sampling at Marmot has resulted in discovery of significant molybdenum mineralisation. The mineralisation is peripheral to the area being pursued as a porphyry copper target. Work on the porphyry copper area has refined the target enabling a drilling program to be designed for the 2009 field season.

#### **Wuritu Copper project (100% KSO)**

Widespread detailed soil geochemistry followed by over 400m of trenching has identified a number of copper anomalies at Wuritu. It has also indicated a

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relationship between copper mineralisation and lensoid magnetite-hematite occurrences that necessitates a re-evaluation of the mineralisation model applicable to this project.

#### **Beyinhar North Gold project (100%KSO),**

Encouraging results have been obtained from an IP (induced polarisation) survey over a large area immediately south of the earlier Roadside drilling. A model of gold mineralisation associated with a fault contact between granitoids and adjacent metasediments has been interpreted and will be followed-up by detailed geochemical sampling in 2009.

#### **Bu Dun Hua Copper-Gold project (100% KSO)**

Reconnaissance drilling at Bu Dun Hua has encountered significant lead/zinc anomalism along with geological evidence of porphyry-style Cu-Au mineralisation in the general vicinity of recent drilling. Widespread colluvial cover has severely limited the geological mapping and geochemical sampling required to follow-up this encouragement, but new Canadian developed sampling technologies for such environments, are to be attempted early in the 2009 field season.

#### **Naogaoshandu Gold project (100% KSO)**

Encouraging results from scout drilling at Three Eagles; prospecting-level sampling south of Three Eagles; and detailed geological mapping across the project area, has led to detailed rock-chip sampling being conducted through a 7km x 2km corridor. Indications of alteration and visible mineralisation have been located and assay results are now awaited.

*The information on mineralisation contained in this report accurately reflects information compiled by A B Bell, BSc, F AusIMM(CP), Executive Director a Competent Person (as defined by the Australasian Code for Reporting of Identified Mineral Resources and Ore Reserves), who has relevant experience in relation to such mineralisation and has consented to the inclusion of such information in this report.*

**KING SOLOMON MINES LIMITED**

**CONSOLIDATED INCOME STATEMENT**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

	Note	30 September 2008 Unaudited \$	30 September 2007 Unaudited \$
<b>Other Income</b>			
Dividend Income		397	405
Foreign Exchange Gain		126,513	-
Interest Received		138,709	194,268
		-----	-----
<b>Total Other Income</b>		265,619	194,673
<b>Expenses</b>			
Amortisation		1,264	115
Depreciation & Loss on Sale		19,342	2,957
Director Fees		50,025	49,895
Employee Benefits Expense		17,543	4,117
Foreign Exchange Loss		-	264,883
Office Expenses		100,469	62,180
Professional Fees		186,555	169,418
Share Option Expense		-	58,014
Other Expenses & Reporting		138,784	138,661
Write Off of Exploration Expenditure		12,260	-
		-----	-----
<b>Total Expenses</b>		526,242	750,240
<b>Loss before Tax</b>		(260,623)	(555,567)
Income Tax Expense		(123)	(131)
		-----	-----
<b>Net Loss attributable to Equity Holders of the Company</b>		(260,746)	(555,698)
		=====	=====
		\$/share	\$/share
<b>Loss Per Share</b>			
Basic Loss per Share	8	(0.00)	(0.01)
Diluted Loss per Share	8	(0.00)	(0.01)

The above income statement should be read in conjunction with the accompanying notes.

**KING SOLOMON MINES LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

	Note	Share Capital Unaudited \$	Share Options Unaudited \$	Foreign Currency Translation Reserve Unaudited \$	Accumulated Loss Unaudited \$	Total Shareholder Funds Unaudited \$
<b>Equity as at 1 April 2007</b>		<b>2,323,781</b>	<b>359,320</b>	<b>(49,975)</b>	<b>(1,519,864)</b>	<b>1,113,262</b>
Foreign Exchange		-	-	(153,289)	-	(153,289)
Options Issued	6	-	71,375	-	-	71,375
Loss for Period		-	-	-	(555,698)	(555,698)
<b>Total Recognised Income and Expense for the Period</b>		<b>-</b>	<b>71,375</b>	<b>(153,289)</b>	<b>(555,698)</b>	<b>(637,612)</b>
Issued Capital	6	10,000,000	-	-	-	10,000,000
Issued Capital Raising Expenses		(821,456)	-	-	-	(821,456)
<b>Equity as at 30 September 2007</b>		<b>11,502,325</b>	<b>430,695</b>	<b>(203,264)</b>	<b>(2,075,562)</b>	<b>9,654,194</b>
<b>Equity as at 1 April 2008</b>		<b>11,502,308</b>	<b>430,695</b>	<b>(85,915)</b>	<b>(2,962,541)</b>	<b>8,884,547</b>
Foreign Exchange		-	-	365,848	-	365,848
Loss for Period		-	-	-	(260,746)	(260,746)
<b>Total Recognised Income and Expense for the Period</b>		<b>-</b>	<b>-</b>	<b>365,848</b>	<b>(260,746)</b>	<b>105,102</b>
<b>Equity as at 30 September 2008</b>		<b>11,502,308</b>	<b>430,695</b>	<b>279,933</b>	<b>(3,223,287)</b>	<b>8,989,649</b>

**KING SOLOMON MINES LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 30 SEPTEMBER 2008**

	30 September 2008	31 March 2008	30 September 2007
	Unaudited	Audited	Unaudited
Note	\$	\$	\$
<b>SHAREHOLDERS' FUNDS</b>			
Share Capital	6	11,502,308	11,502,308
Share Options		430,695	430,695
Foreign Currency Translation Reserve		279,933	(203,264)
Accumulated Losses		(3,223,287)	(2,075,562)
		-----	-----
<b>TOTAL FUNDS EMPLOYED</b>		8,989,649	9,654,177
		=====	=====
<b>REPRESENTED BY:</b>			
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents	4	4,457,306	7,429,575
Prepayments		66,098	32,861
Other Receivables - Related Parties		19,672	16,472
Other Receivables - Tax on Interest		166,863	46,369
Other Receivables - Other		190,689	155,016
		-----	-----
Total Current Assets		4,900,628	7,680,293
<b>CURRENT LIABILITIES</b>			
Accounts Payable - Related Parties		(64,611)	-
Accounts Payable - Other		(279,586)	(245,882)
		-----	-----
Total Current Liabilities		(344,197)	(245,882)
		-----	-----
<b>NET CURRENT ASSETS</b>		4,556,431	7,434,411
<b>NON CURRENT ASSETS</b>			
Property Plant and Equipment		378,066	271,012
Intangible Assets		6,294	8,200
Exploration and Evaluation Assets	5	4,048,858	1,940,554
		-----	-----
Total Non Current Assets		4,433,218	2,219,766
		-----	-----
<b>NET ASSETS</b>		8,989,649	9,654,177
		=====	=====

On behalf of the Board



Bruce Bell **Director** 5 December 2008



Stephen McPhail **Director** 5 December 2008

The above balance sheet should be read in conjunction with the accompanying notes.

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**KING SOLOMON MINES LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

	Note	30 September 2008 Unaudited \$	30 September 2007 Unaudited \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash was received from:			
Interest		133,154	109,534
Dividends		274	274
		<u>133,428</u>	<u>109,808</u>
Cash was applied to:			
Payments to Suppliers		159,629	633,625
Withholding Tax on Interest		40,384	38,626
		<u>200,013</u>	<u>672,251</u>
Net Cash Flow - Operating Activities	9	(66,585)	(562,443)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash was applied to:			
Purchase of Property Plant and Equipment		104,515	182,601
Purchase of Intangible Assets		-	8,390
Exploration Expenditure		1,797,208	1,114,576
		<u>1,901,723</u>	<u>1,305,567</u>
Net Cash Flow - Investing Activities		(1,901,723)	(1,305,567)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash was applied to:			
Repayment of Share Oversubscriptions		-	387,967
Flotation Expenses		-	626,089
		<u>-</u>	<u>1,014,056</u>
Net Cash Flow - Financing Activities		-	(1,014,056)
Net cash flows from all activities		<u>(1,968,308)</u>	<u>(2,882,066)</u>
Cash at Beginning of Year		6,299,101	10,576,524
Exchange Gains / (Losses) on Cash Balances		126,513	(264,883)
Cash at End of Period		<u>4,457,306</u>	<u>7,429,575</u>
Represented by:			
Cash at Bank		793,108	1,994,950
Short Term Bank Deposits		3,664,198	5,434,625
Cash at End of Period	4	<u>4,457,306</u>	<u>7,429,575</u>

The above cash flow statement should be read in conjunction with the accompanying notes.

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

#### 1. GENERAL INFORMATION

*These financial statements are presented in Australian Dollars being the Group's presentation currency unless otherwise noted.*

King Solomon Mines Limited ('the Company') and its subsidiaries (together 'the Group') were incorporated for the purpose of exploring and developing gold, copper and other metallic deposits in China and are profit oriented entities.

The Company is a limited liability company incorporated on 28 January 2003 and domiciled in New Zealand. The address of its registered office is 3 Mutu Road, Paekakariki.

The financial statements of the Group have been prepared on a going concern basis. The Directors anticipate that King Solomon Mines Limited, as an exploration entity, will be required to raise additional capital in the future to continue as a going concern.

These consolidated financial statements were approved by the Board of Directors on 5 December 2008.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half yearly financial report does not include all notes of the type normally included within the annual financial report and therefore can not be expected to provide as full an understanding of the financial performance, financial position and financing activities of the Group as the full financial report. Accordingly, this report should be read in conjunction with the Annual Financial Report of King Solomon Mines Limited for the year ended 31 March 2008.

The principal accounting policies applied in the preparation of these consolidated financial statements of the Group are the same as those followed in the Annual Report for the year ended 31 March 2008. These policies have been consistently applied to all the years unless otherwise stated.

##### **Basis of preparation**

The consolidated financial statements of King Solomon Mines Limited Group have been prepared in accordance with NZ IAS 34 which deals with Interim Financial Reporting and follow Generally Accepted Accounting Practice in New Zealand.

The consolidated financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993, and comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS").

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company and Group's accounting policies.

##### **Change in Significant Accounting Policies**

There has been no change in accounting policies in the period.



# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

#### 3. SEGMENT INFORMATION

##### 3.1 Primary reporting format – business segments

As at 30 September 2008, the Group is organised into one main business segment; the activity of exploring and developing gold, copper and other metallic deposits. As there is only one main segment as at 30 September 2008 the disclosures on the face of the income statement and the balance sheet represent the Group's primary business segment.

##### 3.2 Secondary reporting format – geographical segments

The Group operates its business of exploration in China with the administrative functions being performed in New Zealand and Australia.

	Australia Unaudited \$	New Zealand Unaudited \$	China Unaudited \$	Consolidated Unaudited \$
<b>30 September 2008</b>				
a) Segment revenue from external customers	-	-	-	-
b) Segment assets	11,105	4,099,997	5,222,744	9,333,846
c) Other segment information:				
Acquisition of property, plant and equipment and other non-current assets	-	3,113	1,922,323	1,925,436
Depreciation and Amotisation	-	(7,238)	(12,104)	(19,342)
Other Income and Expenses	(97,529)	(58,880)	(84,995)	(241,404)
Net Loss	(97,529)	(66,118)	(97,099)	(260,746)

	Australia Unaudited \$	New Zealand Unaudited \$	China Unaudited \$	Consolidated Unaudited \$
<b>30 September 2007</b>				
a) Segment revenue from external customers	-	-	-	-
b) Segment assets	97,577	5,899,812	3,902,670	9,900,059
c) Other segment information:				
Acquisition of property, plant and equipment and other non-current assets	-	28,998	1,447,631	1,476,629
Depreciation and Amotisation	-	(2,076)	(881)	(2,957)
Other Income and Expenses	(92,118)	(381,664)	(78,959)	(552,741)
Net Loss	(92,118)	(383,740)	(79,840)	(555,698)

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# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

#### 4. CASH AND CASH EQUIVALENTS

	30 September 2008 Unaudited \$	31 March 2008 Audited \$	30 September 2007 Unaudited \$
Cash at Bank	793,108	5,949,101	1,994,950
Short Term Bank Deposits	3,664,198	350,000	5,434,625
	4,457,306	6,299,101	7,429,575

#### 5. EXPLORATION AND EVALUATION EXPENDITURE

The group is still in the exploration phase of its operations in China, as such all exploration and evaluation expenses incurred since the grant of a business licence have currently been capitalised as exploration phase expenditure.

As at 30 September 2008 the amount of liabilities arising from the exploration for and evaluation of mineral resources is \$243,098 (30 September 2007: \$153,085, 31 March 2008 \$192,781).

No income has been received from the exploration for and evaluation of mineral resources in the current period (30 September 2007: Nil).

The capitalised exploration and evaluation expenditure carried forward has been determined as follows:

	30 September 2008 Unaudited \$	31 March 2008 Audited \$	30 September 2007 Unaudited \$
<u>Exploration phase:</u>			
Opening balance	2,207,319	670,770	670,770
FX on Opening Balance	172,654	(13,927)	(28,539)
Expenditure incurred during the period	1,681,145	2,055,769	1,298,323
Expenditure written off during the period	(12,260)	(505,293)	-
Closing balance	4,048,858	2,207,319	1,940,554

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# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

The exploration and evaluation expenditure has been allocated across the following prospects:

Prospect	30 September 2008	31 March 2008	30 September 2007
	Unaudited \$	Audited \$	Unaudited \$
Sonid North	74,811	68,646	38,493
Naogaoshandu	313,886	118,617	53,211
Beyinhar North	426,130	203,312	129,016
Marmot	2,133,886	1,145,303	771,640
Wuritu	245,537	200,000	429,417
Amoyitele	-	-	81,512
Bu Dun Hua	854,608	471,441	374,168
Wang Jia Ying Zi	-	-	29,854
Dong Gou Zi	-	-	33,243
Total exploration and evaluation expenditure	<u>4,048,858</u>	<u>2,207,319</u>	<u>1,940,554</u>

#### 6. SHARE CAPITAL

Following a 15 for 1 share split on 1 February 2007 increasing the number of shares from 2,718,336 to 40,775,040 shares, the Company undertook an Initial Public Offering of 40 million ordinary shares in its capital at an issue price of \$A0.20 with provision to accept oversubscriptions for an additional 10 million shares. Allotment was contingent on listing with the ASX. Listing occurred 18 April 2007. No further shares have been issued since that time.

##### Share Capital

Issued share capital is represented by:

	30 September 2008	31 March 2008	30 September 2007
	Unaudited	Audited	Unaudited
Issue Price (\$)	11,502,308	11,502,308	11,502,308
Number of Shares	90,775,040	90,775,040	90,775,040
Average Issue Price (\$ per share)	0.13	0.13	0.13

All shares are fully paid and rank equally with regard to voting rights and distribution of profit. However 15,981,450 shares belonging to directors and their families are subject to an escrow agreement where they can not be sold until 18 April 2009.

##### Share Options

Options are currently issued to directors, an employee and to the lead broker (Cameron Sharebrokers Limited) who facilitated the float on 18 April 2007. All options are subject to an escrow agreement where options can not be exercised until 18 April 2009.

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

	30 September 2008		31 March 2008		30 September 2007	
	Average exercise price in \$A per share Unaudited	Options Unaudited	Average exercise price in \$A per share Audited	Options Audited	Average exercise price in \$A per share Unaudited	Options Unaudited
At 1 April 2007	0.30	6,279,999	0.30	6,279,999	0.30	6,279,999
At 1 April 2007	0.25	500,000	0.25	500,000	0.25	500,000
Converted	-	-	-	-	-	-
Granted	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Lapsed	-	-	-	-	-	-
	<u>0.30</u>	<u>6,779,999</u>	<u>0.30</u>	<u>6,779,999</u>	<u>0.30</u>	<u>6,779,999</u>

At the 31 March 2008 Annual General Meeting, an employee share option scheme was adopted. This resolution enabled the board to issue shares and options to acquire ordinary shares. No securities (either shares or options) have been issued pursuant to the resolution.

#### 7. INVESTMENT IN SUBSIDIARIES

On 8 March 2006, King Solomon Mines Limited and Inner Mongolia Ao Meng Xin Economic and Trade Co. Limited signed an agreement to form Inner Mongolia Plate Mining Co Limited, a sino foreign equity joint venture of which King Solomon Mines Limited owns 90% and Inner Mongolia Ao Meng Xin Economic and Trade Co. Limited holds 10% in trust for King Solomon Mines Limited due to Chinese regulatory requirements.

As King Solomon Mines Limited effectively owns 100% of this subsidiary and retains all the risks and rewards of ownership, the Group has not accounted for any minority interest.

The King Solomon Mines Limited subsidiary Inner Mongolia Plate Mining Co Limited entered into an agreement on 25 May 2007 to acquire 85% of the shares in Chifeng Tianfeng Mineral Co. Limited. whose sole assets are 3 exploration licences in the Chifeng mineral district of Inner Mongolia. The remaining 15% is held by King Solomon Mines Limited director Fu La under a trust agreement for King Solomon Mines Limited. The cost of the acquisition was 2,500,000 RMB (\$A397,749) with accompanying legal costs of \$3,867.

The full cost of the purchase is recognised in exploration expenditure as the directors consider the purchase to be a fair reflection of the price of the licences at the time. As Chifeng Tianfeng Mineral Co. Limited has undertaken no activity on its own behalf since acquisition, no profit or loss for the period is recognised by the Group for Chifeng Tianfeng Mineral Co. Limited.

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

#### 8. EARNINGS PER SHARE

	30 September 2008 Unaudited \$	30 September 2007 Unaudited \$
Loss attributable to equity holders of the Company	(260,746)	(555,698)
Weighted average number of ordinary shares on issue	90,775,040	86,130,231
Basic earnings per share (\$ per share)	(0.00)	(0.01)
Diluted earnings per share (\$ per share)	(0.00)	(0.01)

#### 9. RECONCILIATION OF FINANCIAL PERFORMANCE AND OPERATING CASH FLOW

	30 September 2008 Unaudited \$	30 September 2007 Unaudited \$
(Loss) for period	(260,746)	(555,698)
Non Cash Items		
Amortisation	1,264	115
Depreciation	19,342	2,957
Share Options Expense	-	71,375
Foreign Currency Translation Movement	365,848	(153,289)
Foreign Exchange	(126,513)	264,883
Write Off of Exploration Expenditure	12,260	-
Movement in Working Capital		
Other Receivables - Related Parties	(4,370)	(14,483)
Other Receivables - Tax on Interest	(40,384)	(38,752)
Other Receivables - Other	(126,074)	(102,418)
Prepayments	38,614	(26,631)
Share Subscriptions	-	(10,016,877)
Accounts Payable - Related Parties	(3,228)	(75,940)
Accounts Payable - Other	113,992	41,662
Items classified as Investing Activities		
Increase in Accounts Payable for Exploration	(56,590)	(151,950)
Items classified as Financing Activities		
Flotation Expenses	-	(195,363)
Shares Yet to be issued	-	10,387,966
Net Cash Used in Operating Activities	<u>(66,585)</u>	<u>(562,443)</u>

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# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

#### 10. EXPOSURE TO RISK

Exposures to credit, foreign currency, interest rate and liquidity risks arise in the normal course of business.

##### Credit risk

Financial instruments which potentially expose the Group to credit risk principally consist of bank deposits and receivables.

Deposits held with major New Zealand banks are not considered to be at significant risk. Chinese Yuan are required to be held with a Chinese bank. These are not considered to be at significant risk for the Group as the bank is considered secure and most of these funds are being held on a short term basis for payment of exploration expenditure.

The receivables are principally withholding tax deducted from interest receipts, GST and accrued interest. The counterparties are considered secure and the funds are accessible after filing the appropriate returns within required timeframes.

##### Currency risk

The Group is exposed to fluctuations in foreign currency exchange rates as a result of maintaining foreign currency denominated bank accounts and entering into foreign currency transactions. The exposure to currencies of the Group is as follows:

	30 September 2008 Unaudited \$	31 March 2008 Audited \$	30 September 2007 Unaudited \$
United States dollar	1,331,113	2,775,088	3,935,994
New Zealand dollar	607,882	862,754	1,131,706
Australian dollar	2,182,963	1,743,070	1,726,764
Chinese Yuan	347,707	926,561	725,505
	<u>4,469,665</u>	<u>6,307,473</u>	<u>7,519,969</u>

The Group incurred a gain on foreign exchange in the six months to 30 September 2008 of \$A126,513 (30 September 2007 \$A264,883 loss) due in part to the depreciation of the Australian dollar relative to the United States dollar and Chinese Yuan.

The potential impact on the bank accounts at 30 September 2008 of movements in foreign currency exchange rates is indicated below:

	5% Unaudited \$	10% Unaudited \$	20% Unaudited \$
<b>Impact on valuation of holding in:</b>			
United States dollar	66,556	133,111	266,223
New Zealand dollar	30,394	60,788	121,576
Chinese Yuan	17,385	34,771	69,541
Total Impact of potential change in exchange rate	<u>114,335</u>	<u>228,670</u>	<u>457,340</u>

If the 31 October 2008 foreign exchange rates had been applied to the 30 September holdings, a further gain of \$A324,676 would have been recognised on cash, bank balances and deposits due to further depreciation of the Australian Dollar.

# KING SOLOMON MINES LIMITED

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

#### Interest rate and liquidity risks

The Group receives interest on its bank deposits. Deposits have a weighted average maturity period of 187 days from 30 September 2008 (31 March 2008: 30 days, 30 September 2007: All deposits were on call). As such interest rate risk is not considered to be significant. Liquidity risk is not considered significant as deposits are planned to mature as required. The impact of potential changes of interest rate at 30 September 2008 is illustrated below:

<b>Potential Interest Rate Fluctuation</b>	1% Unaudited \$	2% Unaudited \$
<b>Impact of potential interest rate movement</b>		
United States dollar	13,311	26,622
New Zealand dollar	6,079	12,158
Australian dollar	21,830	43,659
Chinese Yuan	3,477	6,954
Total Impact of potential change in interest rate	<u>44,697</u>	<u>89,393</u>

The Company and Group expects future interest revenue to decrease along the lines indicated above as central banks lower interest rates in response to the "Credit Crunch".

#### Capital Requirements

The Company and Group did not have any externally imposed capital requirements as they did not have borrowings.

#### Fair value

The fair value of all financial instruments is not materially different from the carrying value.

#### 11. COMMITMENTS, CONTINGENT ASSETS AND LIABILITIES

The Company and Group leases property in New Zealand and China and has entered into four non cancellable operating leases terminating between 31 May 2010 and 1 April 2013. The lease expiring in New Zealand on 31 May 2010 has an automatic right of renewal for a further 2 years. In addition, the Group has the first call when its leases come up for renewal in China.

The Group is upgrading its exploration base camp facilities and has for this commitments in the order of \$A95,000.

The Group had no other commitments, nor contingent assets or liabilities at 30 September 2008 (30 September 2007: Nil).

#### 12. SUBSEQUENT EVENTS

There are no subsequent events for this period.

## Accountants' Report

To the shareholders of King Solomon Mines Limited

We have reviewed the interim condensed consolidated financial statements ("financial statements") on pages 4 to 15. The financial statements provide information about the past financial performance and cash flows of the Group, for the period ended 30 September 2008 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 8.

### Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 September 2008 and its financial performance and cash flows for the period ended on that date.

### Accountants' responsibilities

We are responsible for reviewing the financial statements presented by the Directors in order to report whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

### Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 30 September 2008 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as accountants conducting this review.

### Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 30 September 2008 and its financial performance and cash flows for the period ended on that date.

Our review was completed on 5 December 2008 and our review opinion is expressed as at that date.

*PricewaterhouseCoopers*

Chartered Accountants

Wellington

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