

CHINA NATURAL RESOURCES INC
Form 20-F
April 29, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

.. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR**
(g) OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

b **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**
SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended December 31, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**
THE SECURITIES EXCHANGE
ACT OF 1934

For the transition period from: _____ to _____

OR

.. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE
ACT OF 1934

Date of event requiring shell company report _____

Commission file number: **0-26046**

CHINA NATURAL RESOURCES, INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

British Virgin Islands

(Jurisdiction of incorporation or organization)

**Room 2205, 22/F, West Tower, Shun Tak Centre,
168-200 Connaught Road Central, Sheung Wan, Hong Kong**

(Address of principal executive offices)

(Name, telephone number, e-mail and/or facsimile number and address of Registrant's contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| <i>Title of each class</i> | <i>Name of each exchange on which registered</i> |
|---|--|
| Common Shares, without par value | NASDAQ Capital Market |

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 24,910,916 common shares as of December 31, 2012.

Indicate by check mark if the issuer is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registration has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued
By the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

CONVENTIONS

Unless otherwise specified, all references in this report to "U.S. Dollars," "Dollars," "US\$," or "\$" are to United States dollars; all references to "Hong Kong Dollars" or "HK\$" are to Hong Kong dollars; and all references to "Renminbi" or "CNY" are to Renminbi Yuan, which is the lawful currency of the People's Republic of China ("China" or the "PRC"). The accounts of the Company and its subsidiaries are maintained in either Hong Kong Dollars or Renminbi. The financial statements of the Company and its subsidiaries are prepared in Renminbi. Translations of amounts from Renminbi to U.S. Dollars and from Hong Kong Dollars to U.S. Dollars are for the convenience of the reader. Unless otherwise indicated, any translations from Renminbi to U.S. Dollars or from U.S. Dollars to Renminbi have been made at the single rate of exchange (the "CNY Exchange Rate") as quoted by Bloomberg Finance L.P. (Bloomberg) on December 31, 2012, which was US\$1.00 = CNY6.2306. Translations from Hong Kong Dollars to U.S. Dollars have been made at the official pegged exchange rate of US\$1.00 = HK\$7.80 as of December 31, 2012. The Renminbi is not freely convertible into foreign currencies and no representation is made that the Renminbi or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Renminbi, as the case may be, at the CNY Exchange Rate or at all.

References to Baiping Mining are to Jinsha Baiping Mining Co. Ltd., a company organized in the PRC and a 70%-owned subsidiary of Guizhou Puxin.

References to Bijie Feishang are to Bijie Feishang Energy Co. Ltd., a company organized in the PRC and a wholly-owned subsidiary of Guizhou Puxin.

References to "China Resources" are to China Resources Development, Inc., a Nevada company, and the predecessor to CHNR.

References to the Company or CHNR are to China Natural Resources, Inc. (formerly known as Billion Luck Company Ltd.), a British Virgin Islands company, which was the surviving company to a merger between China Resources and CHNR on December 9, 2004 (the Redomicile Merger). Unless the context otherwise requires, the Company and/ or CHNR includes the operations of its predecessor and subsidiaries.

References to "Central Government" refer to the national government of the PRC and its various ministries, agencies, and commissions.

References to "common stock" are to the common stock, \$0.001 par value, of China Resources. References to common shares are to the common shares, without par value, of CHNR after the Redomicile Merger.

References to "China Coal" are to China Coal Mining Investment Limited, a company organized in Hong Kong and a wholly-owned subsidiary of CHNR.

References to Dayuan Coal are to Guizhou Nayong Dayuan Coal Mining Co. Ltd., a company organized in the PRC and a 99%-owned subsidiary of Guizhou Puxin.

References to Feishang Dayun are to Feishang Dayun Coal Mining Limited, a company organized in Hong Kong and a wholly-owned subsidiary of Pineboom.

References to Feishang Enterprise are to Feishang Enterprise Group Limited, a related company organized in the PRC and controlled by Mr. Li Feilie, the Chairman and CEO of the Company.

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References to Feishang Management are to Shenzhen Feishang Management and Consulting Co. Limited, a company organized in the PRC and a wholly-owned subsidiary of Yunnan Mining.

References to Feishang Mining are to Feishang Mining Holdings Limited, a company organized in the British Virgin Islands and, since February 3, 2006, a wholly-owned subsidiary of CHNR.

References to Feishang Yongfu are to Feishang Yongfu Mining Limited, a company organized in Hong Kong and a wholly owned subsidiary of Newhold.

References to FMH Services are to FMH Corporate Services Inc., a company organized in Florida and, a wholly-owned subsidiary of CHNR.

References to "GAAP" or U.S. GAAP are to generally accepted accounting principles of the United States.

References to Gouchang Coal are to Nayong Gouchang Coal Mining Co. Ltd., a company organized in the PRC and a 99%-owned subsidiary of Guizhou Puxin.

References to Guangdong Longchuan are to Guangdong Longchuan Jinshi Mining Development Co. Limited, a PRC joint stock limited liability company, a 45% interest in which was owned by Yangpu Lianzhong. On February 1, 2010, Yangpu Lianzhong disposed of its 45% interest in Guangdong Longchuan to an unaffiliated third party.

References to Guizhou Dayun are to Guizhou Dayun Mining Co. Ltd., a company organized in the PRC and a wholly-owned subsidiary of Yangpu Dashi.

References to Guizhou Fuyuantong are to Guizhou Fuyuantong Energy Co. Ltd., a company organized in the PRC and a wholly-owned subsidiary of Smartact.

References to Guizhou Puxin are to Guizhou Puxin Energy Co. Ltd., a company organized in the PRC and a wholly-owned subsidiary of Guizhou Fuyuantong.

References to Guizhou Yongfu are to Guizhou Yongfu Mining Co. Limited, a company organized in the PRC and a 70%-owned subsidiary of Guizhou Puxin.

References to Hainan are to Hainan Province of the PRC.

References to Hainan Nonferrous Metal are to Hainan Nonferrous Metal Mining Co. Limited, a PRC joint stock limited liability company, a 48% interest in which was collectively owned by Yangpu Lianzhong and its nominee. On December 17, 2010, Yangpu Lianzhong and its nominee disposed of its 48% interest in Hainan Nonferrous Metal to an unaffiliated third party.

References to "IFRS" are to International Financial Reporting Standards as issued by the International Accounting Standards Board.

References to Jinsha Juli are to Jinsha Juli Energy Co. Limited, a company organized in the PRC which is 99% owned by Guizhou Puxin and 1% owned by Beijie Feishang.

References to JORC are to the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy. The JORC has established a code for the reporting of mineral resources and ore reserves that is widely accepted as a standard for professional reporting purposes.

References to Linjiaao Coal are to Liuzhi Linjiaao Coal Mining Co. Ltd., a company organized in the PRC and a 99%-owned subsidiary of Guizhou Puxin.

References to "Local Governments" are to governments in the PRC, including governments at all administrative levels below the Central Government, including provincial governments, governments of municipalities directly under the Central Government, municipal governments, county governments, and township governments.

References to "Newhold" are to Newhold Investments Limited, a company organized in the British Virgin Islands and a wholly-owned subsidiary of the Company.

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References to "Pineboom" are to Pineboom Investment Limited, a company organized in the British Virgin Islands and a wholly-owned subsidiary of the Company.

References to the "PRC" or "China" include all territory claimed by or under the control of the Central Government, except Hong Kong, Macao, and Taiwan.

References to "PRC Government" include the Central Government and Local Governments.

References to "Provinces" include provinces, autonomous regions, and municipalities directly under the Central Government of the PRC.

References to "Series B preferred stock" are to the Series B preferred stock, \$.001 par value, of China Resources. References to Series B preferred shares are to the Series B preferred shares, without par value, of CHNR, after the Redomicile Merger.

References to "shareholders" of CHNR are to the members of China Natural Resources, Inc., a British Virgin Islands corporation. Members under British Virgin Islands law are the equivalent of "shareholders" under the laws of the United States.

References to "Shenzhen Chixin" are to Shenzhen Chixin Information and Consulting Co. Limited, a company organized in the PRC and a wholly-owned subsidiary of Guizhou Puxin.

References to "Silver Moon" are to Silver Moon Technologies Limited, a company organized in the British Virgin Islands and an 80%-owned subsidiary of the Company. Silver Moon is currently inactive.

References to "Smartact" are to Hong Kong Smartact Limited, a company organized in Hong Kong and a wholly-owned subsidiary of Wealthy Year.

References to "Sunwide" are to Sunwide Capital Ltd., a company organized in the British Virgin Islands and a wholly-owned subsidiary of the Company. Sunwide is currently inactive.

References to "Wealthy Year" are to Wealthy Year Limited, a company organized in the British Virgin Islands and a wholly-owned subsidiary of the Company.

References to "Wuhu Feishang" are to Wuhu Feishang Mining Development Co. Limited, a company organized in the PRC and a wholly-owned subsidiary of Feishang Mining.

References to "Xinsong Coal" are to Liuzhi Xinsong Coal Mining Co. Ltd., a company organized in the PRC and a 99%-owned subsidiary of Guizhou Puxin.

References to "Yangpu Dashi" are to Hainan Yangpu Dashi Industrial Co. Limited, a company organized in the PRC and a wholly-owned subsidiary of Guizhou Puxin.

References to "Yangpu Lianzhong" are to Yangpu Lianzhong Mining Co. Limited, a company organized in the PRC and a wholly-owned subsidiary of China Coal.

References to "Yangpu Shuanghu" are to Yangpu Shuanghu Industrial Development Co. Limited, a company organized in the PRC and a wholly-owned subsidiary of Feishang Yongfu.

References to "Yunnan Mining" are to Yunnan Feishang Mining Co. Limited, a company organized in the PRC and a wholly-owned subsidiary of Wuhu Feishang.

Forward-Looking Statements

This report contains statements that constitute forward-looking statements within the meaning of Federal securities laws. These statements appear in a number of places in this report and include, without limitation, statements regarding the intent, belief and current expectations of the Company, its directors or its officers with respect to the Company's policies regarding investments, dispositions, financings, conflicts of interest and other matters; and trends affecting the Company's financial condition or results of operations. Forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statement as a result of various factors. Among the risks and uncertainties that could cause our actual results to differ from our forward-looking statements are our intent, belief and current expectations as to business

operations and operating results, uncertainties regarding the governmental, economic and political circumstances in the People's Republic of China, risks and hazards associated with the Company's mining activities, uncertainties associated with metal price volatility, uncertainties associated with the Company's reliance on third-party contractors, uncertainties relating to possible future increases in operating expenses, including costs of labor and materials, and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission, including without limitation the information set forth in Item 3.D. of this report under the heading, "Risk Factors". With respect to forward-looking statements that include a statement of its underlying assumptions or bases, the Company cautions that, while it believes such assumptions or bases to be reasonable and has formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished.

PART I

ITEM 1.

IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

No disclosure is required in response to this Item.

ITEM 2.

OFFER STATISTICS AND EXPECTED TIMETABLE

No disclosure is required in response to this Item.

ITEM 3.

KEY INFORMATION

A.

Selected Financial Data

On February 3, 2006 (the Acquisition Date), we consummated the acquisition of all of the issued and outstanding capital stock of Feishang Mining (the Acquisition). Our acquisition of Feishang Mining was accounted for using the purchase method of accounting and was treated as a reverse acquisition because on a post-merger basis, the former Feishang Mining shareholder holds 86.4% of our outstanding common shares. As a result, Feishang Mining is deemed to be the acquirer for accounting purposes. We have retroactively restated our issued share capital to reflect the acquisition by Feishang Mining. The selected financial data are stated in CNY and are derived from the audited consolidated financial statements of the Company for the years ended December 31, 2010, 2011 and 2012, prepared and presented in accordance with IFRS. Details of the Company's acquisition of Feishang Mining are described elsewhere in this report.

We adopted IFRS effective as of and for the fiscal year ended December 31, 2011 by applying IFRS 1: First Time Adoption of International Reporting Standards. Our consolidated financial statements as of and for the year ended December 31, 2010 were originally prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, and were restated in accordance with IFRS for comparative purposes only.

In accordance with rule amendments adopted by the U.S. Securities Exchange Commission, or SEC, which became effective on March 4, 2008, we do not provide a reconciliation to U.S. GAAP for financial information prepared in accordance with IFRS. The selected financial information as of and for the years ended December 31, 2010, 2011 and 2012 set forth below should be read in conjunction with, and is qualified in its entirety by reference to Item 5. Operating and Financial Review and Prospects and our audited consolidated financial statements and the notes thereto included in this Annual Report.

| | Amounts in thousands, except share amounts and per share data | | |
|-------------------------------------|--|---|---|
| | Year Ended December 31, 2010 CNY | Year Ended December 31, 2011 CNY | Year Ended December 31, 2012 CNY |
| Income Statements Data | | | |
| Revenue | 93,354 | 148,151 | 156,667 |
| Cost of sales | (53,539) | (95,534) | (104,925) |
| Gross profit | 39,815 | 52,617 | 51,742 |
| Profit (loss) before income taxes * | 580,334 | (52,081) | (97,622) |
| Profit (loss) for the year * | 568,110 | (66,116) | (81,447) |
| Profit (loss) attributable to: | | | |
| Owners of the Company | 572,251 | (65,975) | (89,703) |
| Non-controlling interests | (4,141) | (141) | 8,256 |
| | 568,110 | (66,116) | (81,447) |

*

Including gain from bargain purchase of Guizhou Puxin and its five subsidiaries including Baiping Mine, Dayuan Coal, Gouchang Coal, Linjiaao Coal and Xinsong Coal of CNY624,148 (US\$100,175) in 2010.

| | Amounts in thousands, except share amounts and per share data | | |
|--|--|---|---|
| | Year Ended December 31, 2010 CNY | Year Ended December 31, 2011 CNY | Year Ended December 31, 2012 CNY |
| Earnings (losses) per share: | | | |
| Basic | 25.50 | (2.79) | (3.60) |
| Diluted | 25.15 | (2.79) | (3.60) |
| Weighted average number of shares outstanding | | | |
| Basic | 22,443,416 | 23,613,238 | 24,910,916 |
| Diluted | 22,751,864 | 23,613,238 | 24,910,916 |
| Statements of Financial Position Data | | | |
| Total assets | 2,028,929 | 2,418,168 | 2,854,260 |
| Current assets | 176,475 | 255,733 | 347,255 |
| Current liabilities | 328,461 | 585,046 | 1,097,879 |
| Total equity | 535,909 | 625,893 | 546,875 |
| Non-controlling interests | 85,826 | 85,685 | 93,941 |
| Equity attributable to Owners of the Company | 450,083 | 540,208 | 452,934 |
| Capital stock | 312,081 | 312,081 | 312,081 |

The Company has not paid any dividends with respect to its common shares and has no present plan to pay any dividends in the foreseeable future. The Company intends to retain its earnings to support the development of its business. Any dividends paid in the future by the Company will be paid at the discretion of the Company's Board of Directors and will be dependent upon distributions, if any, made by its subsidiaries, and on the Company's results of operations, its financial condition and other factors deemed relevant by the Board of Directors. In accordance with the relevant PRC regulations and the Articles of Association of companies incorporated in the PRC, appropriations of net income of wholly owned foreign enterprises and sino-foreign joint venture companies as reflected in its statutory financial statements are to be allocated to either (i) each of the general reserve, enterprise expansion reserve and staff bonus and welfare reserve, respectively, or (ii) statutory reserve, as determined by the resolution of the Board of Directors annually. Since the acquisition of CHNR by China Resources in December 1994, the Company has not received any distributions from any of its subsidiaries and has not made any distributions to its shareholders. Prior to the Acquisition, the Board of Directors of Wuhu Feishang declared and paid dividends of CNY44.01 million (US\$7.06 million) and CNY38.46 million (US\$6.17 million) on February 28, 2005 and January 27, 2006, respectively. Wuhu Feishang declared dividends of CNY127.10 million (US\$20.40 million) on April 27, 2012.

Exchange Rates

The Company's reporting currency is Renminbi. Translations of amounts from Renminbi to U.S. Dollars are for the convenience of the reader. The following table provides information concerning the exchange rate of Renminbi for U.S. Dollars during the preceding five years, and the preceding six months. The rate of exchange means the rate quoted by Bloomberg L.P. The Renminbi is not freely convertible into foreign currencies and the quotation of exchange rates does not imply convertibility of Renminbi into U.S. Dollars or other currencies. All foreign exchange transactions take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China, the PRC's central bank. No representation is made that the Renminbi or U.S. Dollar amounts referred to herein could have been or could be converted into U.S. Dollars or Renminbi, as the case may be, at the CNY Exchange Rate or at all.

The exchange rate on April 24, 2013 was US\$1.00 = CNY6.1773.

The following table reflects the high and low exchange rates for each month during the previous six months:

| MONTH | Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 |
|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| High | 6.2989 | 6.2455 | 6.2515 | 6.2376 | 6.2445 | 6.2251 |
| Low | 6.2373 | 6.2223 | 6.2243 | 6.2153 | 6.2217 | 6.2102 |

The following table reflects the average exchange rate for each of the preceding five years, calculated by using the average of the exchange rates on the last day of each month during the period:

| YEAR | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| High | 7.3041 | 6.8519 | 6.8338 | 6.6350 | 6.3885 |
| Low | 6.8113 | 6.8192 | 6.6070 | 6.2949 | 6.2223 |
| Average for period | 6.9256 | 6.8315 | 6.7666 | 6.4479 | 6.2993 |

B.

Capitalization and Indebtedness

No disclosure is required in response to this Item.

C.

Reasons for the Offer and Use of Proceeds

No disclosure is required in response to this Item.

D.

Risk Factors

Risks Relating to Mining Operations

If we are unable to fund our capital expenditure requirements our growth and profitability may be adversely affected.

Our continued growth is dependent upon our ability to generate increased revenue from our existing operations and to raise capital from outside sources. We believe that in order to continue to capture additional market share and generate additional revenue, we will be required to raise additional capital to fund the acquisition of additional mines and mining rights. In the future we may be unable to obtain the necessary financing on a timely basis and on acceptable terms, and our failure to do so may adversely affect our financial position, competitive position, growth and profitability. Our ability to obtain acceptable financing at any time may depend on a number of factors, including:

our financial condition and results of operations;

the condition of the PRC economy and the mining industry in the PRC; and

general conditions in relevant financial markets in the United States, the PRC and elsewhere in the world.

We may not be able to effectively control and manage our growth.

If our business and markets grow and develop, it will be necessary for us to finance and manage expansion in an orderly fashion. We may face challenges in identifying attractive mining sites, additional mining rights and/or complementary mining businesses, acquiring those rights, sites and/ or businesses, integrating their activities with ours and managing them profitably. Such eventualities will increase demands on our existing management, workforce and facilities. Failure to satisfy such increased demands could interrupt or adversely affect our operations and cause administrative inefficiencies.

We may be unable to successfully compete for mineral rights with companies having greater financial resources than we have.

Mines have limited lives and as a result, we seek to expand mineral reserves through the acquisition of additional mining rights. As there is a limited supply of desirable mineral deposits in the PRC, we face strong competition for mining rights from other mining companies, some of which have greater financial resources than we have. As a result, we may not be able to acquire attractive mineral rights on acceptable terms.

We are subject to numerous risks and hazards associated with the mining industry.

Our mining operations are subject to a number of risks and hazards including:

- .
- environmental hazards;
- .
- industrial accidents;
- .
- unusual or unexpected geologic formations;
- .
- explosive rock failures; and
- .
- flooding and periodic interruptions due to inclement or hazardous weather conditions.

Such risks could result in:

- .
- damage to or destruction of mineral properties or production facilities;
- .
- personnel injury or death;
- .
- environmental damage;
- .
- delays in mining;
- .
- monetary losses; and
- .

legal liability.

We emphasize environmental protection in our operations and related activities, and a significant financial commitment has been made towards the construction of environmental protection facilities and the establishment of a sound environmental protection management and monitoring system. While we believe that our operating subsidiaries are currently in compliance with applicable environmental regulations of the PRC government, any changes to these regulations may increase operating costs and may adversely affect our results of operations.

During the course of mining activities, we use dangerous materials. Although we have established stringent rules relating to the storage, handling and use of such dangerous materials, there is no assurance that accidents will not occur. Should we be held liable for any such accident, we may be subject to penalties, and possible criminal proceedings may be brought against our employees.

Our metallic ore and coal mining operations are subject to government regulations on the State, provincial and county levels and if we are unable to comply with regulations for any reason, our operations may be disrupted, we may become subject to fines and other sanctions and our financial condition and results of operations may be adversely affected.

Our metallic ore and coal mining operations are subject to government regulations on the State, provincial and county levels. These regulations relate to, among other things:

.

Environmental concerns;

.

Safety concerns; and

.

Licensing, permitting, taxes and fees.

The State Administration for Environmental Protection is responsible for overall supervision and control of environmental protection in China. It formulates national standards for discharging waste materials and environmental protection and monitors the PRC environmental protection system. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective areas of jurisdiction. Compliance with State, provincial and county environmental regulations can be costly and disrupt operations; and failure to comply could subject us to fines, penalties and operational suspensions.

Because all of the underlying land on which our mines are situated are owned by the State, our mining rights are subject to licensure, license renewal, coal resource taxes and other fees. The licensing and renewal process is subject to a great deal of discretion, particular on the local level, and there is no assurance that our licenses and permits, once granted, will be renewed upon expiry. In addition, coal resource taxes are generally imposed based upon the amount of ore extracted from our mines, and these taxes can be significant.

State and local laws regulating work safety conditions have also been adopted. Compliance with these regulations can be expensive and until compliance is achieved, our mining operations will be delayed or suspended. In addition, it is common for provincial governments to suspend the operations of local mines to investigate mining accidents and to order remedial action to be taken. Suspensions also occur in furtherance of provincial initiatives to consolidate smaller local coal mines. While we welcome the opportunity to grow our mining operations in connection with these initiatives, the consolidation process necessarily includes production suspensions. Production suspensions, whether due to government investigations or in furtherance of consolidation initiatives, disrupt our mining operations, delay our receipt of revenues from the suspended operations and otherwise adversely affect our financial condition and results of operations.

Risks Factors Specific Relating to our Non-ferrous Metal Operations

Our earnings and, therefore, our profitability, may be affected by metals price volatility.

The majority of our revenue is derived from the sale of iron and zinc, and as a result, our earnings are directly related to the prices of these metals. At present, the prices of these metals in the PRC are generally in line with those in the international markets. However, there are many factors influencing the price of iron and zinc including expectations for inflation; global and regional demand and production; political and economic conditions; and production costs in major producing regions.

These factors are beyond our control and are impossible for us to predict. Changes in the prices of zinc and iron may adversely affect our operating results. We do not have any formal hedging policies to manage possible price fluctuations.

Our estimates of the probable reserves contained in the mines that we operate are based upon various assumptions, and if our assumptions prove to be inaccurate, or if minerals are depleted from our mines prior to termination of our mineral rights, our revenues, profitability and the market price for our shares may be adversely affected.

The mines in which we have acquired mineral rights are the subject of geological surveys performed by licensed valuers in the PRC in conformity with procedures and protocols in the PRC. While these procedures and protocols are different from the procedures and protocols generally recognized in the United States, they are, with respect to certain of our mining properties, sufficient to support the existence of probable reserves. However, reserve estimation is an interpretive process based upon available data and various assumptions that are believed to be reasonable, and the economic value of ore reserves may be adversely affected by price fluctuations in the metal market, reduced recovery rates or a rise in production costs as a result of inflation or other technical problems arising in the course of extraction. In addition, if the assumptions upon which our estimates of probable reserves are based prove to be inaccurate, there may not be sufficient mineral deposits at our properties to allow us to extract minerals at current levels for the duration of our mining rights. If we are unable to extract minerals at the current rate and for the full duration of our mineral rights, our revenues, profitability and, possibly, the market price for our shares may suffer.

We are also engaged in mineral exploration activities at certain mining properties for which feasibility studies have not yet been performed. As to these properties, we are unable to provide any estimates of proven or probable reserves, and there is no assurance that any or all of these properties will be found to contain sufficient mineral deposits to justify further exploration activities.

We rely on sub-contractors to perform mineral extraction and we have little control over their operations.

We sub-contract the non-ferrous ore extraction to third parties. To a large extent, our operations are affected by the performance of these subcontractors, whose activities are substantially outside of our control. If the contractors fail to achieve monthly extraction volumes, or the contractors otherwise fail to perform their obligations to us, the agreement may be terminated by us; however, termination of the relationship would cause delays in our mineral production, require that we identify and engage other third-party contractors, and otherwise adversely affect our operating results.

Wuhu Feishang depends on a single customer for its zinc production with whom Wuhu Feishang has no binding contractual understandings, and the loss of that customer would materially and adversely affect our results of operations.

Wuhu Feishang's entire production of zinc for the years ended December 31, 2010, 2011 and 2012 were sold to a single customer, Huludao Zinc Industry Co. Ltd. (Huludao), the largest zinc smelter in Asia.

Wuhu Feishang is a party to a one-year sales contract with Huludao, subject to renewal every year; however, the sales contract does not obligate Huludao to purchase zinc from Wuhu Feishang. In the event Huludao ceases or reduces its purchases from Wuhu Feishang, or if Wuhu Feishang and Huludao are unable to agree upon renewal terms or Wuhu Feishang's sales contract with Huludao is not renewed for any other reason, Wuhu Feishang will have to identify one or more alternative outlets for its mineral production. While the sales contract has been renewed on an annual basis since 2002, the loss of Huludao as a source for Wuhu Feishang's zinc production could cause delays in revenue generation and otherwise adversely affect our results of operations.

Zinc production contributed 1.51% and 1.50% of the Company's total sales and gross profit respectively in 2012.

Risks Factors Specific Relating to our Coal Operations

Temporary suspensions of operations at our coal mines imposed by the provincial government could cause delays in production and adversely affect our financial condition and results of operations.

The construction and/ or operation of our coal mines in Guizhou province are subject to the temporary suspensions orders issued from time to time by provincial and/ or local government. These suspensions may be imposed as a result of the promulgation of coal mine consolidation policies or investigations due to the occurrence of accidents in the surrounding mines. Coal mine suspensions cause delays in mine construction progress and resulting adverse affect on the income/ cash flow of the affected coal mines.

Certain of our coal mines are in development stage.

Certain of our coal mining operations have not yet generated revenues for the Company. The Company has incurred debt in connection with exploration, construction and mine development of our coal mines. In the event of unforeseen delays in the production or sale of coal, cash flows from coal mines may be insufficient to repay bank loans as and when due.

The future financial performance of our coal mines is highly dependent on the price of coal.

Several of the coal mines as to which our subsidiaries have acquired rights are currently undergoing upgraded mine development and/ or construction. During the upgrade and construction process, the affected coal mine sites are expected to produce limited amounts of raw coal that will be available for sale to third parties. However (a) full production and revenue generation will not commence until upgrades, construction and pilot runs are completed and (b) the future financial performance of the mines is and will continue to be significantly affected by the market prices of the raw coal or anthracite that they produce.

The world and PRC market prices for coal have historically fluctuated widely and are affected by numerous factors beyond our and our subsidiaries' control, including the overall demand for and world-wide supply of coal, the availability and prices of competing commodities, international economic and political conditions, inventory levels maintained by users and currency exchange rates.

It is difficult to predict whether coal prices will rise or fall in the future. A decline in coal price could have an adverse impact on our future results of operations and financial condition.

Coal reserve data are estimates and may be inaccurate and hence our future annual production volumes and capital expenditures, which are based on these estimates, may differ materially from actual figures.

We base our production, turnover and expenditure plans on our coal reserve data. Our coal reserve data were estimated by us based on the results of geological exploration, and were reviewed by Behre Dolbear Asia, Inc. (Behre Dolbear). The coal reserve data are only estimates and may differ materially from our actual mining results. There are many factors, assumptions and variables beyond our control that result in inherent uncertainties in estimating reserves. Our actual volume of reserves and rates of production may be different from these estimates.

Fluctuations in factors including the price of coal, production costs and transportation costs of coal, a variation on recovery rates or unforeseen geological or geotechnical perils may render it necessary to revise the estimates of coal reserves. If such a revision results in a substantial reduction in recoverable reserves at one or more of our major mines, it could materially and adversely affect our results of operations, financial condition and growth prospects.

We may experience a shortage of reliable and adequate transport capacity for our coal products and any material increase in transportation costs could have a material adverse effect on our business and results of operations.

We currently use roadway transportation to transport our coal to our customers. We have not experienced any roadway transportation disruptions that had a material adverse effect on our operations or financial condition. After our coal mines in Guizhou province commence operation, we will also rely on the national railway system to deliver coal products from those locations to our customers. There can be no assurance that we will be able to secure sufficient railway transport capacity to transport the coal products we produce in Guizhou province. Further, in the event of railway transport shortages, there can be no assurance that road transportation will be able to satisfy the shortfall. In addition, any material increase in transportation costs could have a negative effect on the competitiveness of our coal products, which may in turn have a material adverse effect on our business and results of operations.

We have grown primarily through acquisitions in the past, which may affect your ability to evaluate our business and growth potential.

Our growth to date has occurred primarily as a result of acquisitions, many of which have been consummated with related parties. Due to our significant and rapid growth in recent years, our historical financial results may not be indicative of our future performance. In addition, our future turnover and profitability will depend on a number of factors beyond our control, in particular, the global and domestic coal markets and our ability to acquire and develop new coal mines and coal resources and reserves. There can be no assurance that we will be able to increase or maintain our historical turnover or profit levels.

We may not be able to successfully integrate new coal mines into our existing business operations.

Integration of new coal mines we may acquire in the future may consume a considerable amount of management and financial resources. The acquisitions may result in unforeseen operating difficulties and expenditures. They may also require significant management attention that would otherwise be available for ongoing development of our existing business. Our inability to manage and finance such undertakings while managing our existing operations may have a material adverse effect on our overall operations, our financial condition or our results of operations.

Risks Relating to Our Financial Condition

We have incurred losses from operations for each of the preceding three fiscal years and there is no assurance that we will generate profits in the future.

For the three years ended December 31, 2010, 2011 and 2012, we incurred operating losses of CNY61.31 million (US\$9.84 million), CNY25.88 million (US\$4.15 million) and CNY52.99 million (US\$8.50 million), respectively. Our operating losses are attributable, in part, to depressed prices for ore that we mine and the significant expenses we incur in connection with the exploration and development of our coal mines at a time when we are not yet producing coal or generating significant revenues from coal production. Our profitability is dependent upon many factors, including our ability to fund our operating expenses, mine ore and coal, and sell our production output to third parties. There is no assurance that we will be successful in our efforts to achieve profitability.

Our operating results may be negatively impacted by amortization policies applicable to mining rights.

Mining rights are amortized based on actual units of production over estimated proven and probable reserves of the mines, subject to impairment. We review the production plans and the reserve levels of our mines periodically. Accordingly, any material change in mining production or modification of reserve levels may have a negative impact on our operating results.

We have a significant working capital deficit that could adversely affect our liquidity.

As of December 31, 2012, the Company has a working capital deficiency of CNY750.62 million (US\$120.47 million), and the Company has undrawn loan facilities totaling CNY275.00 million (US\$44.14 million). Feishang Group Limited (Feishang Group or the Shareholder) has confirmed its continuous financial support to the Company. Subsequent to year end, the Company has secured additional loan facilities totaling CNY603.60 million (US\$96.88 million). The Company is in the process of negotiating renewals of existing credit facilities with its banks. The Company also has held discussions with its bankers about its future borrowing needs and no matters have been drawn to management's attention to suggest that renewal may not be forthcoming on acceptable terms. The Company's internal forecasts and projections, taking account of reasonably possibly changes in trading performance, operating as well as capital expenditures, continued Shareholder support and the availability of bank facilities, demonstrate that the Company should be able to operate within the level of its current capacity.

In view of the foregoing, the Company expects that it will have sufficient liquidity to finance its operations for the next 12 months. Therefore, the consolidated financial statements have been prepared on a going concern basis. The going concern basis assumes that the Company will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

If we are unable to fund capital expenditures our growth and results of operations may be adversely affected.

To date, the Company has financed its coal mine construction and upgraded mine development projects through internally generated cash, short-term and long-term bank loans, and non-interest bearing loans from the Shareholder. However, we anticipate that we will incur significant capital expenditures in connection with future acquisitions. We expect to fund acquisitions with cash-on-hand, the issuance of our debt or equity securities, or a combination of both, and we may use our securities to raise capital to be used to fund operations. However, there is no assurance that we will be able to obtain bank financing and/ or access the capital markets to fund our PRC operations.

Our historical results of operations include significant non-recurring and non-cash transactions that should not be viewed as indicative of future results of operations.

We recognized a significant increase in profit for the year ended December 31, 2010 which included a CNY624.15 million (US\$100.17 million) bargain purchase gain relating to the acquisition of Guizhou Puxin as a part of Guizhou provincial governments' mining resource consolidation programs. The gain arises from non-recurring and non-cash transactions and, accordingly, should not be viewed as indicative of future earnings of the Company. No similar bargain purchase gain was recognized in 2011 and 2012.

Risks Relating to PRC Operations

Any failure to achieve and maintain effective internal control could have material adverse effect on our business, results of operations and the market price of our shares.

The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, adopted rules requiring most public companies to include a management report on such company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal control over financial reporting. In addition, under certain circumstances, an independent registered public accounting firm must report on the effectiveness of the company's internal control over financial reporting.

Our management and independent registered public accounting firm have concluded that our internal control over financial reporting as of December 31, 2012 was effective. However, we cannot assure you that in the future our management or our independent registered public accounting firm will not identify material weaknesses during the Section 404 of the Sarbanes-Oxley Act audit process or for other reasons. In addition, because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. As a result, if we fail to maintain effective internal control over financial reporting or should we be unable to prevent or detect material misstatements due to error or fraud on a timely basis, investors could lose confidence in the reliability of our financial statements, which in turn could harm our business, results of operations and negatively impact the market price of our shares, and harm our reputation. Furthermore, we have incurred and expect to continue to incur considerable costs and to use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

Investors should consider economic, legal and political factors applicable to investments in the PRC prior to investing in our company.

Since 1979, the PRC government has been making efforts to promote reforms of its economic system. These reforms have brought about marked economic growth and social progress, and the economy of China has shifted from a planned economy to a market-oriented economy. Our PRC subsidiaries have also benefited from the economic reforms implemented by the PRC government and the economic policies and measures. However, economic, legal and social policies in the PRC are not similar to those of Western governments and revisions or amendments may be made to these policies and measures from time to time, and we are not in a position to predict whether any change in the political, economic or social conditions may adversely affect our operating results, and how those changes may impact on us.

The PRC legal system is a statutory law system. Unlike the common law system, decided legal cases have little significance for guidance, and rulings by the court can only be used as reference with little value as precedents. Since 1979, the PRC government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs. The PRC government is still in the process of developing a comprehensive set of laws and regulations. Examples are the organization of companies and their regulation, foreign investment, commerce, taxation and trade. However, these regulations are relatively new and the availability of public cases as well as the judicial interpretation of them is limited in number. Moreover, as they are not binding, both the implementation and interpretation of these regulations are uncertain in many areas. Also, more stringent environmental regulations may also affect our ability to comply with, or our costs to comply with, such regulations. Such changes, if implemented, may adversely affect our business operations and may reduce our profitability.

The interpretation of PRC laws may also be subject to policy changes reflecting domestic political changes, and new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. The activities of our subsidiaries in China are subject to PRC regulations governing PRC companies.

We face the risk that changes in the policies of the PRC government could have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.

The PRC's economy is in a transition from a planned economy to a market-oriented economy subject to five-year and annual plans adopted by the government that set national economic development goals. Policies of the PRC government can have significant effects on the economic conditions of the PRC. During this transition, we believe that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces. While we believe that this trend will continue, we cannot assure you that this will be the case. A change in policies by the PRC government could adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. Although the PRC government has been pursuing economic reform policies for more than three decades, we cannot assure you that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting the PRC's political, economic and social life.

PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such laws and regulations may have a material and adverse effect on our business.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. We and any future subsidiaries are considered foreign persons or foreign-funded enterprises under PRC laws, and as a result, we are required to comply with PRC laws and regulations. These laws and regulations are sometimes vague and may be subject to future changes, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses.

A slowdown or other adverse developments in the PRC economy may materially and adversely affect our customers, demand for our services and our business.

We are a holding company. All of our operations are conducted in the PRC, and all of our revenues are generated from sales in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that such growth will continue. The mining industry in the PRC is relatively new and growing, but we do not know how sensitive we are to a slowdown in economic growth or other adverse changes in the PRC economy which may affect demand for our products. A slowdown in overall economic growth, an economic downturn or recession or other adverse economic developments in the PRC may materially reduce the demand for our products and adversely affect our business.

Inflation in the PRC could negatively affect our profitability and growth.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on our profitability. In order to control inflation in the past, the PRC

government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on bank lending. Such an austere policy can lead to a slowing of economic growth, and recent statistics have, indeed, suggested that China's high annual economic growth will slow down. To inject more market liquidity and shore up the economy, the People's Bank of China, the PRC's central bank, cut interest rates in June 2012 and July 2012 and lowered the reserve requirement ratio in February 2012 and May 2012. Such moves may sustain growth, however, they may cause inflation and further austere policy. And increases in interest rates by the central bank will likely slow economic activity in China which could, in turn, materially increase our costs and also reduce demand for our products.

Our PRC subsidiaries are subject to restrictions on paying dividends and making other payments to us.

We are a holding company incorporated in the British Virgin Islands and do not have any assets other than our investments in our subsidiaries in China. As a result of our holding company structure, we rely primarily on dividend payments from our subsidiaries. However, PRC regulations currently permit the payment of dividends only out of accumulated profits, as determined in accordance with PRC accounting standards and regulations. Our subsidiaries in China are also required to set aside a portion of their after-tax profits as certain reserve funds according to PRC accounting standards and regulations. The PRC government also imposes controls on the conversion of CNY into foreign currencies and the remittance of currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. Furthermore, if our subsidiaries in China incur debt in the future, the debt covenants may restrict their ability to pay dividends or make other payments. If we or our subsidiaries are unable to receive dividend from the operating companies due to contractual or other limitations on the payment of dividends, we may be unable to pay dividends on our common shares.

Governmental control of currency conversion may affect payment of our obligations and the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive all of our revenues in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency dominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

See Item 10.D. for further details of exchange controls in the PRC.

The fluctuation of the Renminbi may materially and adversely affect your investment.

The exchange rate of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. As we rely entirely on revenues earned in the PRC, any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues and financial condition. Conversely, if we convert our Renminbi into U.S. dollars, should we determine to pay dividends on our common shares or for other business purposes, appreciation of the Renminbi against the U.S. dollar could affect the amount of U.S. dollars we convert. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar could have a material adverse effect on our business, financial condition and results of operations resulting in a lower income, a charge to our income statement and a reduction in the value of these U.S. assets.

Under a policy dating to the second half of 2005, the CNY is permitted to fluctuate within a narrow and managed range against a basket of certain foreign currencies. This change in policy has resulted in an over 32% appreciation of

the CNY against the U.S. dollar up to December 31, 2012. While the international reaction to the CNY revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible exchange rate policy, which could result in a further and more significant appreciation of the CNY against the U.S. dollar. While the appreciation of the CNY against the U.S. dollar has not always been steady, it is generally believed that the CNY will continue to appreciate as economic conditions improve.

Recent PRC State Administration of Foreign Exchange (SAFE) Regulations regarding offshore financing activities by PRC residents, have undergone continuous changes which may increase the administrative burden we face and create regulatory uncertainties that could adversely affect the implementation of our acquisition strategy, and a failure by our shareholders who are PRC residents to make any required applications and filings pursuant to such regulations may prevent us from being able to distribute profits and could expose us and our PRC resident shareholders to liability under PRC law.

In 2005, the SAFE promulgated regulations in the form of public notices, which require registrations with, and approval from, the SAFE on direct or indirect offshore investment activities by PRC resident individuals. The SAFE regulations require that if an offshore company directly or indirectly formed by or controlled by PRC resident individuals, known as SPC, intends to acquire a PRC company, such acquisition will be subject to strict examination by the SAFE. The regulation also requires PRC resident individuals to repatriate all dividends of the SPC. Without registration with the SAFE by PRC resident individuals, the PRC entity may not be able to remit any of its profits out of the PRC as dividends or otherwise. Violation of the regulation may be deemed an evasion of foreign exchange rules and Mr. Li Feilie may be liable for a penalty. However, there are uncertainties regarding the interpretation and application of current or future PRC laws and regulations, including the regulations established by the SAFE. To date, no registration has been filed with the SAFE. Even if it is determined that registration with the SAFE is required, management believes that applicable filings with the SAFE can be made at any time, and management does not foresee significant difficulties in obtaining the SAFE's approval should it be required.

We may be adversely affected by the outcome of the administrative proceedings brought by the SEC against five accounting firms in China.

The SEC has recently brought administrative proceedings against five accounting firms in China, alleging that they refused to provide documents requested by the SEC relating to ongoing investigations into certain other China-based companies. We were not and are not subject to any of these SEC investigations, nor are we involved in the proceedings brought by the SEC against the accounting firms. However, the independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC is affiliated with one of the five accounting firms named in the SEC's proceedings and we may be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies whose financial statements are audited by these accounting firms. If the SEC prevails in the proceedings, the China-based affiliate of our independent auditors and the other four accounting firms in China that were named in the proceedings may be barred from practicing before the SEC and hence be unable to continue to serve as the auditors for, or participate in audits of, China-based companies such as the Company. If none of the China-based auditors are able to continue to be auditors for, or participate in audits of, China-based companies listed in the U.S., we will not be able to meet the reporting requirements under the Exchange Act, which may ultimately result in our deregistration from the SEC reporting requirements, delisting of our common shares from NASDAQ and possible regulatory sanctions. The market for our common shares may be adversely affected by any such actions.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies whose securities are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the

United States and professional standards. Because the China-based affiliate of our auditor is located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, the China-based affiliate of our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by the PCAOB.

Inspection of other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future auditor quality. The inability of the PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedure. In addition, any deficiencies in the audit and/or quality control procedures of the China-based affiliate of our independent registered public accountants could cause infirmities in the audit process that adversely affect the accuracy of the audit of our financial statements. As a result, investors may be deprived of the benefits of PCAOB inspections.

Risks Relating to Foreign Private Issuer Status

Because our assets are located outside of the United States and all of our directors and all our officers reside outside of the United States, it may be difficult for you to enforce your rights based on U.S. Federal Securities Laws against us and our officers and directors or to enforce a judgment of a United States court against us or our officers and directors in the PRC.

We are a British Virgin Islands company, and our officers and directors are non-residents of the United States, our assets are located in the PRC and our operations are conducted in the PRC. Therefore, it may not be possible to effect service of process on such persons in the United States, and it may be difficult to enforce any judgments rendered against us or them. Moreover, there is doubt whether courts in the British Virgin Islands or the PRC would enforce (a) judgments of United States courts against us, or our directors or officers based on the civil liability provisions of the securities laws of the United States or any state, or (b) in original actions brought in the British Virgin Islands or the PRC, liabilities against us or any non-residents based upon the securities laws of the United States or any state.

Our status as a foreign private issuer results in less information being available about us than about domestic reporting companies.

We are foreign private issuer and are not required to file as much information about us as domestic issuers are required to file. In this regard:

.
we are not required to file quarterly reports on Form 10-Q and our annual reports on Form 20-F are subject to disclosure requirement that differ from Form 10-K;

.
we are exempt from the provisions of Regulation FD aimed at preventing issuers from making selective disclosures;

.
the SEC proxy statement and information statement rules do not apply to us; and

.
our officers, directors and principal shareholders are not required to file reports detailing their beneficial ownership of our shares.

Since there is generally greater information available about domestic issuers than about foreign private issuers such as us, the information we are not required to provide may make it more difficult to make investment decisions about us.

Our status as a foreign private issuer allows us to adopt IFRS accounting principles, which are different than accounting principles under U.S. GAAP. In addition, filers of financial statements under IFRS are not currently subject to the SEC's XBRL requirements which may provide less information to investors than is provided by filers utilizing XBRL.

We have adopted and presented our financial statements in accordance with IFRS accounting principles. IFRS is an internationally recognized body of accounting principles that are used by many companies outside of the United States to prepare their financial statements; and the SEC recently permitted foreign private issuers such as the Company to prepare and file their financial statements in accordance with IFRS rather than U.S GAAP. IFRS accounting principles are different from those of U.S. GAAP, and SEC rules do not require us to provide a reconciliation of IFRS accounting principles to those of U.S GAAP. Accordingly, we suggest that readers of our financial statements familiarize themselves with the provisions of IFRS accounting principles in order to better understand the differences between these two sets of principles.

In addition, the SEC requires most reporting companies to provide financial statements in their periodic reports that include XBRL tagging cross references that provide the reader with a greater understanding of the components of line items contained in financial statements. However, the SEC has not yet developed taxonomy to enable filers of IFRS financial statements, such as the Company, to include XBRL tagging in their financial statements. Until such time as the SEC develops taxonomy to allow IFRS filers to include XBRL tagging, IFRS filers will be relieved of the obligation to provide XBRL tagging with their financial statements, and readers will not have the benefit of XBRL tagging when reviewing our financial statements.

As a foreign private issuer we are not subject to certain requirements that other NASDAQ listed issuers are required to comply with, some of which are designed to provide information to and protect investors.

Our common shares are currently listed on the NASDAQ Capital Market and, for so long as our securities continue to be listed, we will remain subject to the rules and regulations established by NASDAQ applicable to listed companies. As permitted under NASDAQ rules applicable to foreign private issuers such as China Natural Resources, we have determined to adhere to the exemptions provided by the relevant NASDAQ rules, and as a result:

.
a majority of the members on our Board of Directors are not independent as defined by NASDAQ rules;

.
our independent directors do not hold regularly scheduled meetings in executive session;

.
while executive compensation is recommended by our Compensation Committee which is comprised of independent directors, the compensation of our executive officers is not determined by an independent committee of the board or by the independent members of the Board of Directors, and our CEO may be present in the deliberations concerning his compensation;

.
related party transactions are not required to be reviewed or approved by our audit committee or other independent body of the Board of Directors;

.
we are not required to solicit shareholder approval of stock plans, including those in which our officers or directors may participate; stock issuances that will result in a change in control; the issuance of our stock in related party acquisitions or other acquisitions in which we may issue 20% or more of our outstanding shares; or, below market issuances of 20% or more of our outstanding shares to any person; and

.
we are not required to hold an in-person annual meeting to elect directors and transact other business customarily conducted at an annual meeting.

As a result of an exemption from NASDAQ rules applicable to foreign private issuers, our related party transactions may not receive the type of independent review process that other NASDAQ-listed companies receive, and the terms of these transactions may not be as favorable as could be obtained from unrelated parties.

We have historically engaged in a substantial number of transactions with related parties in the ordinary course of business, predominantly with our Chairman and Chief Executive Officer and/or companies that he owns or controls. These transactions are described in greater detail elsewhere in this report. In general, NASDAQ rules require that related party transactions be reviewed by an audit committee or other committee comprised of independent directors. However, under NASDAQ rules applicable to foreign private issuers such as our company, we are exempt from certain NASDAQ requirements, including the requirement applicable to independent director review of related party transactions. This exemption is available to us because the laws of the British Virgin Islands, our home jurisdiction, do not mandate independent review of related party transactions.

Notwithstanding the foregoing, non-recurring related party transactions (i.e., related party transactions that are not in the ordinary course of business) are submitted for approval by our Board of Directors, following disclosure of the related party's interest in the transaction, and, in all cases, board approval has historically included the unanimous approval of our independent directors. In addition, our annual audited financial statements, including the related party transactions reported therein, are approved by our audit committee, which is comprised solely of independent directors. However, except to the limited extent described above, these transactions are not individually reviewed or approved solely by independent directors, and our Chairman and Chief Executive Officer is often present during the approval process and is permitted to cast a vote as a board member. While management believes that related party transactions are on terms at least as favorable to the Company as could be obtained from unrelated parties, there is no assurance that such is the case, or that shareholders would not be better protected if we were not exempt from, or we chose to voluntarily comply with, the NASDAQ rule.

Risks Related to our Common Shares

There are a limited number of our common shares in the public float and trading in our shares is not active; therefore, our common shares tend to experience price volatility.

There are currently approximately 9,448,397 of our common shares in the public float and, in general, there has not been an active trading market for our shares. Our shares tend to trade along with other shares of public companies whose operations are based in the People's Republic of China, and, at times, in tandem with other natural resource companies. These shares tend to exhibit periods of extreme volatility and price fluctuations, even when there are no events peculiar to the Company that appear to warrant price changes. We cannot assure you that price volatility will not continue in the future or, as a result thereof, that market prices will reflect actual values of our company.

As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The share price could, for example, decline precipitously in the event that a large number of shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without adverse impact on its share price. As a consequence of this enhanced risk, more risk-averse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be in the case with the stock of a seasoned issuer.

Our Chief Executive Officer and his affiliates control us through their stock ownership and their interests may differ from other shareholders.

Li Feilie, our Chief Executive Officer, beneficially owns approximately 59% of our outstanding common shares, and as a result, Mr. Li is and will continue to be able to influence the outcome of shareholder votes on various matters, including the election of directors and extraordinary corporate transactions such as business combinations. Mr. Li's interests may differ from those of other shareholders. Additional information relating to the beneficial ownership of our securities is contained elsewhere in this report under Security Ownership of Certain Beneficial Owners and Management.

The rights of our shareholders are governed by British Virgin Islands law, the provisions of which may not be as favorable to shareholders as under U.S. law.

Since we are a British Virgin Islands company, the rights of our shareholders may be more limited than those of shareholders of a United States corporation. In this regard, our directors are permitted to take action that, under the laws of most states of the United States, require shareholder approval. These actions include authorizing reorganizations, asset sales (of less than 50% of our total assets) and amendments to our Memorandum and Articles of Association (that do not vary the rights of shareholders).

The elimination of monetary liability against our directors, officers and employees under our articles of association and the existence of indemnification of our directors, officers and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers and employees.

Our articles of association contains provisions which eliminate the liability of our directors for monetary damages to us and to our stockholders to the maximum extent permitted under the corporate laws of the British Virgin Islands. We may provide contractual indemnification obligations under agreements with our directors, officers and employees. These indemnification obligations could result in our incurring substantial expenditures to cover the cost of settlement

or damage awards against directors, officers and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage us from bringing a lawsuit against directors, officers and employees for breach of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our shareholders against our directors, officers and employees even though such actions, if successful, might otherwise benefit us Company and our shareholders.

It is not possible to foresee all risks that may affect us. Moreover, we cannot predict whether we will successfully effectuate our current business plan. Each prospective purchaser is encouraged to carefully analyze the risks and merits of an investment in the shares and should take into consideration when making such analysis, among others, the Risk Factors discussed above.

ITEM 4.

INFORMATION ON THE COMPANY

A.

History and Development of the Company

From Inception Until 2006

China Resources was incorporated as Magenta Corp. on January 15, 1986, in the State of Nevada. China Resources had no operating business until control of it was acquired in December 1994, by the former shareholders of CHNR, who exchanged all of the issued and outstanding shares of capital stock of CHNR for 108,000 shares of China Resources' common stock. As a result of the acquisition, the former shareholders of CHNR acquired 90% of the then issued and outstanding shares of common stock of China Resources, and CHNR became a wholly owned subsidiary of China Resources. CHNR was incorporated in the British Virgin Islands on December 14, 1993.

On December 9, 2004, China Resources merged with and into CHNR (the Redomicile Merger). The Redomicile Merger was consummated through an exchange of shares of China Resources for shares of CHNR on a one-for-one basis. As a result of the Redomicile Merger, the Company became domiciled in the British Virgin Islands and CHNR succeeded to the rights and obligations of China Resources under its existing agreements and relationships. Prior to the Redomicile Merger, the Company's common shares were traded on the NASDAQ Capital Market under the symbol CHRB. Following the Redomicile Merger, the trading symbol was changed to CHNR.

Since its incorporation, the Company has sought, acquired and operated various business opportunities that management believed could be operated profitably. Most recently, from 2003 until 2006, the Company operated an advertising, promotion and public relations business, which was disposed of in July 2006.

Reverse Acquisition of Feishang Mining

On February 3, 2006, the Company consummated the acquisition of all of the issued and outstanding capital stock of Feishang Mining (the Acquisition). Feishang Mining beneficially owns 100% of the capital stock of Wuhu Feishang, a company established under the laws of the PRC, which is principally engaged in the mining of zinc, iron and other minerals for distribution in the PRC. We acquired the capital stock of Feishang Mining from Feishang Group, a British Virgin Islands company. Mr. Li Feilie, our Chief Executive Officer and Chairman, is the sole beneficial owner of Feishang Group. In consideration for our receipt of the shares of Feishang Mining, the Company issued 9,980,593 of its common shares to Feishang Group, representing approximately 86.4% of the Company's then issued and outstanding common shares (after giving effect to the exchange of 320,000 outstanding preferred shares for 320,000 common shares), and issued to Feishang Group warrants (the "Warrants") to purchase an additional 4,500,000 common shares. Ching Lung Po, director, Chief Executive Officer and Chairman of the Company resigned at the closing of the Acquisition, and Li Feilie, Chairman of Feishang Mining, was appointed as director, Chief Executive Officer and Chairman of the Company. The Company's other directors and executive officers were not changed as a result of the Acquisition.

The Warrants entitled the holder to purchase: 2,000,000 common shares at an exercise price of \$4.00 per share for a period of two years from the closing date; 1,500,000 common shares at an exercise price of \$4.50 per share for a period of three years from the closing date; and 1,000,000 shares at an exercise price of \$5.00 per share for a period of

four years from the closing date. The Warrants were fully exercised by Feishang Group, our principal shareholder, and the Company received gross proceeds of US\$8,000,000, US\$6,750,000 and US\$5,000,000 in connection therewith during the years ended December 31, 2008, 2009 and 2010, respectively.

Non-ferrous Metal Exploration and Mining Activities

Wuhu Feishang

Wuhu Feishang was established as a Sino-foreign joint stock limited liability company between Wuhu City Feishang Industrial Development Company Limited (WFID) (50%) and Feishang International Holdings Limited (FIH) on June 21, 2002 with tenure of 20 years from the date of its business license. The tenure can be extended by agreement between the joint venture partners with the necessary approval from the relevant government agencies. The registered capital of Wuhu Feishang is CNY12 million (US\$1.93 million), of which CNY6 million (US\$0.96 million) was contributed by each of WFID and FIH. In May 2003, Wuhu Feishang acquired the entire business of Anhui Fanchang Zinc and Iron Mine, a state-owned enterprise (Anhui Fanchang). In April 2005, WFID and FIH transferred their interests in Wuhu Feishang to Feishang Mining, at cost, and since the date of such transfer, Feishang Mining has been the owner of 100% of the capital stock of Wuhu Feishang.

Other Non-ferrous Metal Exploration Activities and Internal Restructuring

On June 12, 2007, Yunnan Mining was formed as a wholly-owned subsidiary of Wuhu Feishang. The registered capital of Yunnan Mining is CNY50 million (US\$8.02 million). On September 10, 2007, Yunnan Mining entered into an agreement to form Hainan Nonferrous Metal as a stock company under the laws of the PRC. Yunnan Mining and its nominee collectively owned a 48% joint venture interest of Hainan Nonferrous Metal, which was formed to engage in the exploration, development, mining and sale of nonferrous metals in Hainan Province and other regions in the PRC.

On January 17, 2008, Yunnan Mining consummated the acquisition of a 45% equity interest in Guangdong Longchuan for a purchase price of CNY0.9 million (US\$0.14 million) and a 45% interest in the exploration right for a purchase price of CNY38.00 million (US\$6.10 million) at a mine designated as Silver and Multi-Metallic Ore (Jinshizhang Mine), located at Jinshizhang District, Longchuan County, Guangdong Province. The interests were acquired from Beijing SinoTech Institute of Mineral Exploration Co. Ltd. (BSTIME) (15%) and Lueyang Longda Stone Casting Co. Ltd. (LLSC) (30%), unrelated parties, for a total purchase price of CNY38.90 million (US\$6.24 million).

Pursuant to an agreement dated February 29, 2008, between Yunnan Mining and China Coal, a wholly owned subsidiary of the Company established in January 2008, China Coal agreed to invest US\$47.61 million (CNY296.64 million) in Yangpu Lianzhong (accounted for as 97.2% of the enlarged capital of Yangpu Lianzhong), of which US\$15 million (CNY93.46 million) was paid on May 8, 2008. Pursuant to a trust arrangement on March 2, 2008, Yunnan Mining's 2.8% equity interest in Yangpu Lianzhong was transferred to China Coal such that Yangpu Lianzhong became a wholly owned subsidiary of China Coal. China Coal is currently dormant other than its investment in Yangpu Lianzhong.

On November 21, 2008, in an internal group restructuring, Yunnan Mining transferred its interest in Guangdong Longchuan to Yangpu Lianzhong at a cost of CNY0.9 million (US\$0.14 million), and since the date of transfer, Yangpu Lianzhong has owned a 45% equity interest in Guangdong Longchuan.

On December 3, 2008, in an internal group restructuring, Yunnan Mining transferred its interest in Hainan Nonferrous Metal to Yangpu Lianzhong, for a consideration of CNY32.64 million (US\$5.24 million). Since the date of such transfer, Yangpu Lianzhong, together with its nominee, collectively has owned a 48% equity interest in Hainan Nonferrous Metal.

In October 2009, Yunnan Mining acquired exploration rights to the Baiguochong Mine. The Baiguochong Lead-Zinc Mine is located in E Shan Town, Fanchang County, Anhui Province in the PRC, approximately six kilometers south of Fanchang County.

On January 26, 2010, Yangpu Lianzhong disposed of its 45% equity interest in Guangdong Longchuan to an unaffiliated third party for consideration (including assigned debt) of approximately CNY44.55 million (US\$7.15 million).

On December 17, 2010, Yangpu Lianzhong disposed of its 48% equity interest in Hainan Nonferrous Metal to an unaffiliated third party for consideration of approximately CNY30 million (US\$4.81 million).

Coal Development and Mining

Newhold and Guizhou Yongfu

Newhold was incorporated under the laws of the British Virgin Island in July 2008. Newhold operated, through its wholly owned subsidiaries Feishang Yongfu and Yangpu Shuanghu, and its 70%-owned subsidiary Guizhou Yongfu, a company established under the laws of the PRC in Guizhou Province. At the time of incorporation, Newhold was wholly owned by Feishang Group, a related party controlled by Mr. Li Feilie, our Chairman and Chief Executive Officer.

On January 12, 2009, the Company acquired all the issued and outstanding capital stock of Newhold, and its wholly-owned subsidiaries described below (collectively, the Yongfu Coal Group) from Feishang Group and assumed the outstanding indebtedness owed by Newhold to the Shareholder on the closing date. The purchase price was CNY287.73 million (US\$46.18 million) and was determined by reference to the estimated amount of coal resources of not less than 120 million tonnes reflected in a technical review report dated December 2008.

Feishang Yongfu was established as a limited liability company in June 2008 under the laws of Hong Kong with an initial share capital of HK\$1.00 (US\$0.13) by Wong Wah On Edward, a director, CFO and Corporate Secretary of the Company. In August 2008, Wong Wah On Edward transferred his equity interest in Feishang Yongfu to Newhold, at HK\$1.00 (US\$0.13), and since the date of such transfer, Newhold has been the owner of 100% of the paid-up capital of Feishang Yongfu.

Yangpu Shuanghu was established as a limited liability company in May 2004 under the laws of the PRC with an initial registered capital of CNY1 million (US\$0.16 million) by Wu Tianping and Zhu Zheng, unrelated parties. In March 2008, Wu Tianping and Zhu Zheng transferred their respective equity interests in Yangpu Shuanghu to Zhang Huachun and Yang Haibi, related parties, for total consideration of CNY1 million (US\$0.16 million). In July 2008, Zhang Huachun and Yang Haibi transferred their respective equity interests in Yangpu Shuanghu to Feishang Yongfu, at a total consideration of CNY1 million (US\$0.16 million), and since the date of such transfer, Feishang Yongfu has been the owner of 100% of the paid-up capital of Yangpu Shuanghu.

Guizhou Yongfu was established as a limited liability company in December 2005 under the laws of the PRC with an initial registered capital of CNY1 million (US\$0.16 million) by Li Qing (80% interest) and Li Lihui (20% interest), unrelated parties. In June 2006, the registered capital of Guizhou Yongfu was increased to CNY16.88 million (US\$2.71 million), with the increase being paid by the equity owners pro-rata to their ownership interests. In July 2008, Li Lihui transferred all his equity interest and Li Qing transferred part of his equity interest in Guizhou Yongfu to Yangpu Shuanghu, at cost. In July 2008, the registered capital of Guizhou Yongfu was increased by CNY83.12 million (US\$13.34 million) to CNY100 million (US\$16.05 million), of which CNY58.18 million (US\$9.34 million) of the increase was paid up by Yangpu Shuanghu (upon which its interest became 70%) and CNY24.94 million (US\$4.00 million) was paid by Li Qing (upon which its interest became 30%) on November 13, 2008. On September 21, 2010, in an internal group restructuring, Yangpu Shuanghu transferred its 70% interest in Guizhou Yongfu to Guizhou Puxin, for consideration of CNY70 million (US\$11.23 million).

Pineboom and Guizhou Dayun

Pineboom was incorporated under the laws of the British Virgin Islands in May 2008. Pineboom operated through its wholly owned subsidiaries Feishang Dayun and Yangpu Dashi, and its wholly owned subsidiary Guizhou Dayun, a company established under the laws of the PRC in Guizhou Province. At the time of incorporation, Pineboom was beneficially wholly owned by Feishang Group.

On July 10, 2009, the Company acquired all the issued and outstanding capital stock of Pineboom and its wholly-owned subsidiaries described below (collectively, the Dayun Coal Group) from the Shareholder and assumed the outstanding indebtedness owed to the Shareholder by Dayun Coal Group. The final purchase price was approximately CNY154.38 million (US\$24.78 million) and was determined by reference to the estimated amount of coal resources of not less than 100 million tonnes reflected in the July 2008 technical review report.

Feishang Dayun was established as a limited liability company in June 2008 under the laws of Hong Kong with an initial share capital of HK\$1.00 (US\$0.13) by Wong Wah On Edward, a director, CFO and Corporate Secretary of the Company. In July 2008, Wong Wah On Edward transferred his equity interest in Feishang Yongfu to Pineboom, at HK\$1.00 (US\$0.13), and since the date of such transfer, Pineboom has been the owner of 100% of the paid-up capital of Feishang Dayun.

Yangpu Dashi was established as a limited liability company in April 2004 under the laws of the PRC with an initial registered capital of CNY1 million (US\$0.16 million) by Li Xuezhuan and Kang Jing, unrelated parties. In March,

2008, Li Xuezhuan and Kang Jing transferred their respective equity interests in Yangpu Dashi to Wan Chunpeng and Dang Junyan, related parties, at a total consideration of CNY1 million (US\$0.16 million). In July 2008, Wan Chunpeng and Dang Junyan transferred their respective equity interests in Yangpu Shuanghu to Feishang Dayun, for total consideration of CNY1 million (US\$0.16 million), and since the date of such transfer, Feishang Dayun has been the owner of 100% of the paid-up capital of Yangpu Dashi. On July 12, 2011, in an internal group restructuring, Feishang Dayun transferred its 100% interest in Yangpu Dashi to Guizhou Puxin, for consideration of CNY1.02 million (US\$0.16 million).

Guizhou Dayun was established as a limited liability company in April 2004 under the laws of the PRC with an initial registered capital of CNY1 million (US\$0.16 million) by Yu Xiang (50.0% interest), Wang Fang (40.0% interest) and Wang Yongzhi (10.0% interest), unrelated parties. In May 2004, the registered capital of Guizhou Dayun was increased to CNY4 million (US\$0.64 million) through an additional capital injection of CNY1 million (US\$0.16 million) by Liu Min and CNY2 million (US\$0.32 million) by Yu Xiang. As a result of the additional capital, Guizhou Dayun became owned 62.5% by Yu Xiang, 25.0% by Liu Min, 10.0% by Wang Fang and 2.5% by Wang Yongzhi. In June 2008, Yu Xiang, Liu Min, Wang Fang and Wang Yongzhi transferred all their respective equity interests in Guizhou Dayun, at a total cost of CNY4 million (US\$0.64 million), to Yangpu Dashi. Since the date of such transfer, Yangpu Dashi has been the owner of 100% of the paid-up capital of Guizhou Dayun. In July 2011, the registered capital of Guizhou Dayun was increased by CNY146 million (US\$23.43 million) to CNY150 million (US\$24.07 million).

Wealthy Year and Subsidiaries

Wealthy Year was incorporated under the laws of the British Virgin Islands in January 2010. Wealthy Year currently operates, through its wholly owned subsidiaries Smartact, Guizhou Fuyuantong and Guizhou Puxin, and its six majority-owned subsidiaries, i.e., Baiping Mining, Dayuan Coal, Gouchang Coal, Linjiaao Coal, Xinsong Coal, Guizhou Yongfu, and its five direct and indirect wholly owned subsidiaries, i.e., Bijie Feishang, Yangpu Dashi (and its direct subsidiary Guizhou Dayun), Jinsha Juli, Shenzhen Chixin, all companies established under the laws of the PRC in Guizhou Province. Wealthy Year treats the business of its nine subsidiaries (the Wealthy Year Subsidiaries) except Bijie Feishang (which is currently dormant) and Yangpu Dashi enterprises principally engaged in the acquisition, coal mine development and coal mine operation in the PRC as its principal business activities.

On April 30, 2010, the Company acquired all the issued and outstanding capital stock of Wealthy Year and the Wealthy Year Subsidiaries (collectively, the "Wealthy Year Coal Group") except Guizhou Yongfu, Beijing Feishang, Yangpu Dashi (and its subsidiary, Guizhou Dayun), Jinsha Juli, and Shenzhen Chixin from the Shareholder and assumed the outstanding indebtedness then owed by Wealthy Year Coal Group (which was at that time comprised Baiping Mining, Dayuan Coal, Gouchang Coal, Linjiaao Coal and Xinsong Coal) to the Shareholder (the Indebtedness) on the closing date. The total purchase price for the common shares and Indebtedness was US\$87 million (CNY542.06 million). At the time of incorporation, Wealthy Year was wholly owned by Feishang Group.

Smartact was established as a limited liability company in January 2010 under the laws of Hong Kong with an initial share capital of HK\$1.00 (US\$0.13) by Wong Wah On Edward, a director, CFO and Corporate Secretary of the Company. In April 2010, Wong Wah On Edward transferred his equity interest in Smartact to Wealthy Year, for HK\$1.00 (US\$0.13), and since the date of such transfer, Wealthy Year has been the owner of 100% of the paid-up capital of Smartact.

Guizhou Fuyuantong was established as a limited liability company in March 2010 under the laws of the PRC with a registered capital of CNY10 million (US\$1.60 million) by Ren Xiaogang, a related party. In April 2010, Ren Xiaogang transferred his equity interest in Guizhou Fuyuantong to Smartact, for total consideration of CNY10 million (US\$1.60 million), and since the date of such transfer, Smartact has been the owner of 100% of the paid-up capital of Guizhou Fuyuantong.

Guizhou Puxin was established as a limited liability company in January 2009 under the laws of the PRC with a registered capital of CNY150 million (US\$24.07 million) by Yangpu Jindin Industrial Co. Ltd. (99%) and Zhang Xiaofeng (1%), unrelated parties. In March 2010, Yangpu Jindin Industrial Co. Ltd. and Zhang Xiaofeng transferred their respective equity interests in Guizhou Puxin to Guizhou Fuyuantong, for total consideration of CNY150 million

(US\$24.07 million), and since the date of such transfer, Guizhou Fuyuantong has been the owner of 100% of the paid-up capital of Guizhou Puxin.

Baiping Mining was established as a limited liability company in January 2009 under the laws of the PRC with a registered capital of CNY58 million (US\$9.31 million) by Li Liangbo (68.88% interest), Zhang Li (22.08% interest) and Tan Guihua (9.04% interest), unrelated parties. In March 2009, Zhang Li and Tan Guihua transferred all their respective equity interests to Li Liangbo, at cost. In April 2009, Li Liangbo transferred 70% of his equity interest in Baiping Mining to Guizhou Puxin, at cost, and since the date of such transfer, Guizhou Puxin has been the owner of 70% of the paid-up capital of Baiping Mining.

Dayuan Coal was established as a limited liability company in January 2009 under the laws of the PRC with a registered capital of CNY46 million (US\$7.38 million) by Li Shenggen, an unrelated party. In March 2009, Li Shenggen transferred 99% of his equity interest in Dayuan Coal to Guizhou Puxin, at cost, and since the date of such transfer, Guizhou Puxin has been the owner of 99% of the paid-up capital of Dayuan Coal.

Gouchang Coal was established as a limited liability company in September 2009 under the laws of the PRC with a registered capital of CNY40 million (US\$6.42 million) by Huang Bin, an unrelated party. In December 2009, Huang Bin transferred 99% of his equity interest in Gouchang Coal to Guizhou Puxin, at cost, and since the date of such transfer, Guizhou Puxin has been the owner of 99% of the paid-up capital of Gouchang Coal.

Linjiaao Coal was established as a limited liability company in November 2008 under the laws of the PRC with a registered capital of CNY30.60 million (US\$4.91 million) by Lin Peilin (70% interest), Chen Daowang (20% interest) and Zheng Shengjian (10% interest), all unrelated parties. In March 2009, Zheng Shengjian transferred 9% of his 10% equity interest, and Lin Peilin and Chen Daowang transferred all their respective equity interests in Linjiaao Coal, to Guizhou Puxin, at cost, and since the date of such transfer, Guizhou Puxin has been the owner of 99% of the paid-up capital of Linjiaao Coal.

Xinsong Coal was established as a limited liability company in November 2008 under the laws of the PRC with a registered capital of CNY60 million (US\$9.63 million) by Cai Songqing (10% interest), Hu Chunlan (50% interest) and Jiang Honghai (40% interest), unrelated parties. In March 2009, Cai Songqing transferred 9% of his 10% equity interest, and Hu Chunlan and Jiang Honghai transferred all their respective equity interests in Xinsong Coal to Guizhou Puxin, at cost, and since the date of such transfer, Guizhou Puxin has been the owner of 99% of the paid-up capital of Xinsong Coal.

On September 12, 2010, in an internal group restructuring, Yangpu Shuanghu transferred its 70% interest in Guizhou Yongfu to Guizhou Puxin, for consideration of CNY70 million (US\$11.23 million), and since the date of such transfer, Guizhou Puxin has been the owner of 70% of the paid-up capital of Guizhou Yongfu.

On October 19, 2010, Guizhou Puxin formed Bijie Feishang as a limited liability company under the laws of the PRC with a registered capital of CNY10 million (US\$1.60 million). Bijie Feishang is currently dormant.

On July 12, 2011, in an internal group restructuring, Feishang Dayun transferred its 100% interest in Yangpu Dashi to Guizhou Puxin, for consideration of CNY1.02 million (US\$0.16 million).

On July 18, 2012, Guizhou Puxin formed Shenzhen Chixin as a limited liability company under the laws of the PRC with a registered capital of CNY1 million (US\$0.16 million). Shenzhen Chixin is engaged in the provision of management and consulting services to the other companies in the group.

On November 16, 2012, Guizhou Puxin and Bijie Feishang formed Jinsha Juli as a limited liability company under the laws of the PRC with a registered capital of CNY10 million (US\$1.60 million). Jinsha Juli is currently dormant.

Other Matters

The Company has not been a party to any bankruptcy, receivership or similar proceedings, trade suspensions or cease trade orders by any regulatory authority.

The Company's executive offices are located at Room 2205, 22/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong, telephone +852 28107205. The Company does not currently maintain an agent in the United States.

B.

Business Overview

Through our operating subsidiaries, we are currently engaged in:

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The acquisition and exploitation of mining rights, including the exploration, mineral extraction, processing and sales of iron, zinc and other nonferrous metals extracted or produced at mines primarily located in Anhui Province in the PRC; and

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The acquisition and exploitation of mining rights, including the exploration, construction, development and operation of coal mines located in Guizhou Province, the PRC.

The following table summarizes the activities of our major operating subsidiaries:

| Business Segment | Name of Subsidiaries | Effective Interest controlled by the Company | Principal Activities |
|---|-----------------------------|---|---|
| Mining of Zinc, Iron and Other Non-Ferrous Metals | Wuhu Feishang | 100% | (i) Exploitation and Ore Processing of Zinc and Iron in its Yangchong Mine in Anhui Province, the PRC |
| | Yunnan Mining | 100% | (ii) Exploration of its Sichong Mine in Anhui Province, the PRC (i) Exploration of its Baiguochong Mine in Anhui Province, the PRC (ii) |
| Coal Development and Mining | Guizhou Yongfu | 70% | Exploration of its Luojiachong Mine in Anhui Province, the PRC Application for pilot run for its Yongsheng Mine in Guizhou Province, the PRC |
| | Guizhou Dayun | 100% | Anthracite mine construction of its Dayun Mine in Guizhou Province, the PRC |
| | Baiping Mining | 70% | Anthracite mining in its Baiping Mine in Guizhou Province, the PRC |
| | Dayuan Coal | 99% | Application for pilot run for its Dayuan Mine in Guizhou Province, the PRC |
| | Gouchang Coal | 99% | Anthracite mining in its Gouchang Mine in Guizhou Province, the PRC |
| | Linjiaao Coal | 99% | Anthracite mining in its Zhulinzhai Mine in Guizhou Province, the PRC |
| | Xinsong Coal | 99% | Anthracite mining in its Liujiaba Mine in Guizhou Province, the PRC |

BUSINESS SEGMENT I - Mining of Zinc, Iron and Other Non-Ferrous Metals

Our metal mining operations are conducted by Wuhu Feishang, a PRC company that is wholly-owned by Feishang Mining. Wuhu Feishang is principally engaged in the mining of zinc, iron, and other minerals and nonferrous metals for distribution in the PRC.

We also conduct our non-ferrous metal exploration activities through Yunnan Mining, and, through January 26, 2010 and December 17, 2010, we conducted the non-ferrous metal exploration activities of our two unconsolidated investees - Guangdong Longchuan and Hainan Nonferrous Metal, respectively, through Yangpu Lianzhong.

Industry Overview of Our Major Products

Zinc

Zinc (chemical element symbol Zn) is a silvery metal that quickly tarnishes to a blue-gray appearance and is ideal for anticorrosion, as well as heat and electricity conduction. Since zinc has a relatively high place in the galvanic series of metals and consequently demonstrates excellent resistance to atmospheric corrosion, the major application of zinc is in galvanizing – a zinc coating on steel to prevent corrosion, which accounts for approximately 50% of the total world zinc consumption. Zinc is also the principal material used in dry batteries. Other applications of zinc include production of brass, die-casting zinc alloy, zinc oxide, etc. Zinc products are widely used in the infrastructure, housing, communication, household appliance and automobile sectors. Most of the world's production is concentrated in Australia, Canada, China and Peru, which together account for 60% of the world's total. China is the world's largest zinc producing and consuming country.

Initial data compiled by the International Lead and Zinc Study Group (ILZSG) for the year 2012 showed that global output of refined zinc metal was 12.66 million tonnes, representing a drop of 0.36 million tonnes from 2011 usage. The global refined zinc metal production dropped by 3.5% in 2012 as compared to 2011.

Zinc cash settlement price and three-month forward price on the London Mercantile Exchange (LME) averaged US\$1,948 (CNY12,137) per tonne and US\$1,965 (CNY12,243) per tonne, respectively, during 2012, 11.1% and 11.2% lower than during 2011. The three-month forward price of zinc peaked at US\$2,195 (CNY13,676) per tonne and bottomed at US\$1,750 (CNY10,904) per tonne in the year of 2011.

The following table shows the production, consumption and prices of zinc in China over the past five years:

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------------|--------|--------|--------|--------|--------|
| Metal production (in thousand tonnes) | 3,942 | 4,186 | 5,210 | 5,344 | 4,850 |
| Consumption (in thousand tonnes) | 3,820 | 4,310 | 4,950 | 5,200 | 5,350 |
| Average price (CNY/ tonne) | 15,465 | 13,721 | 17,967 | 16,922 | 15,249 |

Source: China Non-ferrous Metal Industry Association and ILZSG

Iron

Iron (chemical element symbol Fe) is a lustrous, silvery soft metal. It is the most abundant metal in metallic meteorites. Iron and iron alloys are the most common source of ferromagnetic materials in everyday use. Iron ore is one of the key compounds for producing crude steel which is used mainly by the infrastructure, real estate, shipbuilding and automobile sectors. Most of the world's production of iron is concentrated in Australia, Brazil, the PRC, India and South Africa, which together account for over 70% of the world's total.

World production of iron ore in 2012 is estimated to be 2.28 billion tonnes, and is estimated to reach 2.7 billion tonnes in 2015. World iron ore production is dominated by three companies: Companhia Vale do Rio Doce (Brazil), Rio Tinto Plc (Australia) and BHP Billiton Limited (Australia). These three companies together produced 677.80 million tonnes of iron in 2011, and they are estimated to produce 975 million tonnes in 2015, which would account for 36% of the global iron ore production. The market share of these three companies is expected to drop, and with it, their monopoly positions, according to China Industry Research Network (www.chinairn.com).

China produced 1,310 million tonnes of iron-ore in 2012, increased by 14.5% compared with 2011, according to National Bureau of Statistics of China. China imported 744 million tonnes of iron ore in 2012, increased by 8.4% from 686 million tonnes in 2011. The average CIF price of the imported iron ore was US\$128.6 (CNY801) per tonne, down 21.6% from 2011. Australia, Brazil, and South Africa are the major exporters of iron ore to China, according to General Administration of Customs of the PRC.

The price of iron ore has been increasing sharply in recent years, and new mining capacity is expected to continue to be placed into operation. According to China Iron and Steel Association, more than 300 iron-ore mines in over 40 countries are under construction or being planned and 380 million tonnes of additional capacity will be brought into operation by the end of 2013. With the slowdown of global economic growth, particularly the decrease in the economic growth rate of China, it is generally believed that the price for iron ore may remain depressed for the near term.

Chinese domestic production of iron ore increased by 14.5% in 2012, however the tightening measures on real estate market which commenced in 2010 has caused growth in the demand for iron ore to contract. The domestic supply and the overseas import of iron ore exceeded domestic demand in China in 2012. At the end of 2012, the inventory in major Chinese seaports was 73.14 million tonnes, decreased by 24.01 million tonnes from 2011.

Micaceous Iron Oxide

Micaceous Iron Oxide (MIO) (chemical compound symbol Fe_2O_3) is a crystalline form of iron oxide that differs from the more familiar red, yellow, and brown forms of iron oxide pigments. Like other forms of iron oxide, MIO is a very inert material. It is insoluble in water, organic solvents, and alkalis, and is only slightly soluble in strong acids at elevated temperatures. It is un-reactive to most chemicals and is heat stable up to its melting point of over 1,000 degrees centigrade and is non-toxic, non-oxidizing, non-corrosive, and non-flammable. As a result of its properties, the use of coatings containing MIO pigments is becoming increasingly popular in manufacturing and industries, and for use in products such as durable antiseptic coating paint, primer and finish paint on steel structures.

Wuhu Feishang

Overview of Wuhu Feishang

Wuhu Feishang's principal activity is the mining of zinc, iron and other minerals for distribution in the PRC. Wuhu Feishang currently operates a mine located in Fanchang County, Wuhu City, Anhui Province, the PRC, for which it has acquired mining rights: the Yangchong Mine contains iron and zinc minerals. The mine produced approximately 23,200 tonnes of iron and 1,160 tonnes of zinc in 2011, and approximately 13,400 tonnes of iron and 100 tonnes of zinc in 2012. Wuhu Feishang's acquisition of the entire business of Anhui Fanchang in May 2003, included without limitation, the mining rights to Yangchong Mine, and Zaoyuan Mine which ceased operation in October 2009 due to depletion of all of the mineral ore, as well as the properties and the processing facilities of the mines. Wuhu City is located in the northwestern Yangtze River Delta and is in the approximate center of East China, approximately 384 kilometers from Shanghai. In August 2007, Wuhu Feishang acquired exploration rights to a third mine – the Sichong Mine – where preliminary exploration is presently being conducted.

Wuhu Feishang's principal activities are conducted in two areas – mining and ore processing. Mining activities consist of opening of ore deposits, cutting and stopping (excavation in successive layers), mine transportation, and planning, designing and construction relating to mining operations. Ore processing is the second stage in our operation through which ores are converted into nonferrous metal concentrates (zinc, iron, micaceous iron oxide grey and copper concentrates) as salable products. To produce metal concentrates, we segregate the useful components of ores from useless stones through physical (such as magnetic separation) or chemical methods, or a combination of the two, and then collect the useful metal components through a number of concentration methods.

The metallurgical process of our zinc and iron concentrates products are identified below:

MINING CONSISTS OF:

Drilling Blasting Ore Drawing Fragmentation Hauling Hoisting Transportation

ORE PROCESSING CONSISTS OF:

Crushing Grinding Classifying Flotation

IN THE CASE OF ZINC CONCENTRATES PRODUCT, THE FOLLOWING ADDITIONAL PROCESSES OCCUR FOLLOWING FLOTATION:

Pooling Mineral Concentrate Dehydration Finished Zinc Concentrates Product

IN THE CASE OF IRON CONCENTRATES PRODUCT, THE FOLLOWING ADDITIONAL PROCESSES OCCUR FOLLOWING FLOTATION:

Magnetic Separation Finished Iron Concentrates Product

The metallurgical process of our micaceous iron oxide grey product is as follows:

Raw Ore Crushing Ball Milling Classifying Two Stages Separation Swing Bed Free Setting
Baking Powder Screening Finished Micaceous Iron Oxide Grey Product

Our metal concentrates products are sold to downstream smelting companies for further smelting and refining into respective metals. Additional information relating to our salable products, the markets in which we participate and the determination of market prices is as follows:

Zinc: Our zinc concentrates product is sold in its entirety to Huludao Zinc Industry Co., Ltd., a Shenzhen-listed company which is located in Huludao City, Liaoning Province, the PRC, and which is primarily engaged in the zinc smelting business. The price of our zinc concentrates is generally set at 50% (to be adjusted by the grading of the product) of the monthly average price of #0 electrolytic zinc announced by Shanghai Nonferrous Metals on its website (www.smm.com.cn).

Iron: Our iron concentrates product is sold to iron smelting plants located in Anhui Province, the PRC. The price of our iron concentrate is generally negotiated with reference to the regional average purchase price and the information announced by China Commodity Marketplace on its website (www.chinaccm.com).

Micaceous Iron Oxide: Our MIO products are primarily sold to chemical and paint manufacturers in East China, Shanghai and Jiangsu Province, the PRC, for manufacturing various types of paints for ships, ocean-engineering and pleasure boats. The price of our MIO is generally negotiated with reference to the demand and supply in the market and the price of competitors. We discontinued the production of MIO during 2012 due to the unsatisfactory economic return of MIO products.

The average selling prices per metric tonne of our major metal products for each of the three years ended December 31, 2010, 2011 and 2012, are set forth in the following table:

| Major Product | 2010 <i>CNY/MT</i> | 2011 <i>CNY/MT</i> | 2012 <i>CNY/MT</i> |
|---|------------------------------|------------------------------|------------------------------|
| Zinc (based on zinc concentrates grade 42% ~ 44%) | 10,358 | 10,294 | 9,190 |
| Iron concentrates (Grade 65% ~ 66%) | 1,047 | 1,241 | 986 |
| Micaceous Iron Oxide Grey (Grade 160, 240, 320) | 1,949 | 1,920 | 1,942 |

The following table summarizes the production quantity and sales quantity of our metal products for each of the years ended December 31, 2008, 2009, 2010, 2011 and 2012 included in continuing operations.

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|-------------|-------------|-------------|-------------|-------------|
| Production quantity (in tonnes): | | | | | |
| Zinc (based on zinc concentrates grade 42% ~ 44%) | 795 | 644 | 1,485 | 1,160 | 100 |
| Iron concentrates (Grade 65% ~ 66%) | 54,150 | 59,500 | 34,060 | 23,200 | 13,400 |
| Micaceous iron oxide grey (Grade 160, | 1,025 | 1,001 | 1,119 | 1,249 | 85 |

| | | | | | |
|---|--------|--------|--------|--------|--------|
| 240, 320) | | | | | |
| Sales quantity (in tonnes): | | | | | |
| Zinc (based on zinc concentrates grade 42% ~ 44%) | 907 | 740 | 1,408 | 1,013 | 258 |
| Iron concentrates (Grade 65% ~ 66%) | 53,888 | 58,779 | 35,042 | 21,163 | 10,114 |
| Micaceous iron oxide grey (Grade 160, 240, 320) | 1,099 | 744 | 1,007 | 1,424 | 428 |

Yangchong Mine

The Yangchong Mine is an underground mine located in Fanyang Town, Fanchang County, Anhui Province in the PRC, the centre of which has a geological coordinate EL 118°08' 00" , NL 31°05' 40" . The mine is approximately 4.2 kilometers west of Fanchang County and 13.5 kilometers southeast of Digang Town. Access to the mine is via Province Road 321 approximately 40 kilometers from Wuhu City. Yangchong Mine has a total mining area of 0.186 square kilometers. The Yangchong Mine contains iron and zinc.

The area's mining history dates back to the early 1990s. An exploration and development campaign was completed by Nanchang Engineering & Research Institute of Nonferrous Metal in 1991, with a planned daily mining capacity of approximately 100 tonnes of ore. Full scale ore production started in 1999, and the daily mining capacity gradually increased to approximately 900 tonnes of ore in 2007.

Since all mineral resources in the PRC are owned by the State, the Company's right to extract minerals at Yangchong Mine is licensed to Wuhu Feishang by the State for a period of years (see "Government Regulation" below). The Company is the only party that is currently licensed to mine the Yangchong Mine. The Company's current license to mine the Yangchong Mine expires on November 24, 2014, and may be renewed upon expiry.

Yangchong Mine is a zinc-iron underground mine. The formations are believed to date from the Silurian to Triassic ages, with deposits in limestone and dioritic porphyritic contact belt. Ore bodies consist of zinc, magnetite and composite iron bed. The general course of the mine is N85°E, with NNE inclination of 70°. There are three ore bodies found in the area. Ore body I is mainly zinc-iron paragenetic deposits. The low side of the ore body is uncontinuous magnetite deposits. Ore body II consists of zinc-iron paragenetic deposits and zinc deposits. Ore body III consists of continuous deposits and iron deposits.

The following diagrams show the geography of Yangchong Mine and its surrounding areas:

Wuhu Feishang entered into an agreement with State-owned Assets Supervision and Administration Commission of Fanchang County, Anhui Province in 2002 entitling Wuhu Feishang to use the land covering the 169,172 square meters factory site for 50 years thereafter, and the 184,806 square meters mining site for 20 years thereafter, respectively.

Access to the underground workings at the Yangchong Mine is via a ramp from the surface and connecting numerous levels. At the end of 2006, the exploitation of the Yangchong Mine 50 meters below sea level was completed. Since early 2007, the principal working levels lay between the elevations of 50 and 150-meters below sea level. The electricity supply in the mining area is mainly provided by East China Grid, with a 500 kilo voltage of transmission base located in 3 kilometers east of Yangchong Mine.

Yangchong Mine is located near the Yangtze River, in which surface and underground water resources are abundant. The source of tap water, which is used for domestic and production purposes, primarily comes from underground water.

Wuhu Feishang outsources its mine extraction to an unrelated third party Wenzhou Mining Engineering Co. Ltd. Wuhu Feishang renewed the mining outsourcing contract with the subcontractor, running from January 1, 2012 to December 31, 2012, for outsourcing the mine extraction work of Yangchong Mine. Under the agreement, the subcontractor charges a service fee of CNY69.10 (US\$11.09) per tonne of ore extracted, and CNY13.00 (US\$2.09) per tonne of useless stone removal. For the developing of ramps, the subcontractor charged a service fee of CNY2,600.00 (US\$417.30) per extra meter of inclined shaft and CNY1,860.00 (US\$298.53) per extra meter of flat shaft. Except for the outsourced mining of raw minerals to an unrelated third party (as described above), all ore processing procedures are performed by Wuhu Feishang. Raw minerals extracted from Yangchong Mine are processed into iron and zinc metals in factories located near the mine.

The operation of Wuhu Feishang was affected by the production suspension order affecting all mines in Wuhu city in the fourth quarter of 2011 imposed by the Wuhu municipal government for inspection as a result of a mine accident in Wuhu city. The suspension order was lifted in the first quarter of 2012. In addition, Wuhu Feishang ceased its own production for mine recovery from June 2012 to October 2012.

All equipment, infrastructure and facilities material to Wuhu Feishang's operations are believed to be in good condition. The plant was constructed in 1991 and has been periodically upgraded. The processing plant is capable of producing approximately 600 tonnes of finished products per day. The processing facilities process raw ore from the Yangchong Mine. All processing facilities and equipment of Wuhu Feishang were acquired from Nanchang Non-ferrous Metallurgy Designing Organization, a Class-A corporation in China in designing and producing equipment for the mining industry. All technology and equipment meet the industrial standard as required by the relevant government authorities. Site infrastructure includes roads, water supply system, electric supply system, warehouses, living quarters, dining facilities and an administration building. At December 31, 2011 and 2012, the net book value of property, plant and equipment of Yangchong Mine was approximately CNY14.31 million (US\$2.30 million) and CNY13.18 million (US\$2.12 million), respectively.

As of December 31, 2012, the reserve and mineralized material estimates of Yangchong Mine are as follows:

| | As of December 31, 2012 | |
|----------------|-------------------------|------------------------|
| | Probable Reserve | Average quality of ore |
| | (in metal tonnes) | |
| Yangchong Mine | | |
| Zinc | 4,505 | 5.82% |
| Iron | 67,673 | 44.76% |

Note:

The probable reserve as of December 31, 2012 has been adjusted by removing those reserves extracted by the Company's past mining activities. Based on the 2011 production levels, the length of the mining activity of our probable reserves for Yangchong mine is approximately 3 years for iron and 4 years for zinc respectively. The mine dilution loss and the mining recovery factor of Yangchong Mine are approximately 10% and 90%, respectively. The metallurgical recovery factor of zinc and iron are approximately 96% and 87%, respectively.

Zaoyuan Mine

The Zaoyuan Mine is also an underground mine located in Fanyang Town, Fanchang County, Anhui Province in the PRC, the centre of which has a geological coordinate EL 118°12' 47" , NL 31°08' 54" . The mine is approximately 8.5 kilometers east of Fanchang County and 17 kilometers southeast of Digang Town. Access to the mine is via Province Road 321 approximately 40 kilometers through Wuhu City. Zaoyuan Mine has a total mining area of approximately 0.0136 square kilometers. Prior to depletion of minable resources, the Zaoyuan Mine contained mainly iron.

The Zaoyuan Mine has been in operation since 1998. In 2006, the monthly mining capacity of the Zaoyuan Mine was approximately 4,000 tonnes of iron ore. The Company is the only party that is currently licensed to mine the Zaoyuan Mine. The Company's license to mine the Zaoyuan Mine expired on October 31, 2009, and the Company did not renew the license, as the minable resources of this mine were depleted. Zaoyuan Mine ceased its operations in October 2009.

The net book value of property, plant and equipment of Zaoyuan Mine at December 31, 2011 and 2012 were nil as they were fully depreciated and scrapped. All of the minable reserves of Zaoyuan mine had been fully extracted in 2009.

Sichong Mine

During the year ended December 31, 2007, Wuhu Feishang acquired exploration rights to Sichong Mine for CNY700,000 (US\$112,349). The geological coordinate of this property is EL 118°10' 33" ~ 118°11' 28" and NL 31°01' 30" ~ 31°03' 00" covering a site area of 3.73 square kilometers. The Sichong Gold-Silver-Lead-Zinc Mine is located in Suncun Town, Fanchang County, Anhui Province in the PRC, approximately 4 kilometers south of Fanchang County with an exploration permit running from November 29, 2011 to November 29, 2013, upon expiry of which Wuhu Feishang intends to renew the permit. The mine has engaged Geological Brigade of East-China Metallurgy Geological Exploration Bureau, Anhui Hydro-geology Survey & Engineering Geology Survey Corporation and Shandong Zhengyuan Geological Exploration Institute to carry out prospecting which includes geophysical, geochemical and drilling works, and as of December 31, 2012, expenses of approximately CNY3.08 million (US\$0.49 million) had been incurred in general and administrative expense. While results of preliminary prospecting suggest that the mine contains mineable quantities of gold, silver, lead and zinc, until further exploration and analysis is completed, we cannot predict the nature and extent of minerals contained at the mines, or the commercial viability of pursuing a plan of extraction. We plan to renew the exploration right upon expiry in November 2013, and commence drilling in 2014. The total budgeted amount for this project is approximately CNY4.15 million (US\$0.67 million). This exploration project is expected to be financed by internally-generated funds.

Suppliers

As a mining enterprise, Wuhu Feishang's ore is mined from Yangchong Mine and, through October 2009, Zaoyuan Mine. Wuhu Feishang purchases explosives and other auxiliary raw material from suppliers mainly located in Anhui Province, the PRC. For explosives, the purchases are made on a cash on delivery basis. For other auxiliary materials, normal credit terms are granted by major suppliers ranging from 30 to 60 days on an open account basis.

For the years ended December 31, 2010, 2011 and 2012, the largest five suppliers accounted for 36%, 62% and 60%, respectively, of Wuhu Feishang's purchases. For the years ended December 31, 2010, 2011 and 2012, the largest supplier accounted for 12%, 36% and 19%, of Wuhu Feishang's purchases, respectively.

Customers

Wuhu Feishang sells all of its zinc and iron products to companies in the PRC. All of Wuhu Feishang's zinc products were sold to a single customer, Huludao Zinc Industry Co., Ltd., which is the largest zinc smelter in Asia. Zinc production contributed 1.51% and 1.50% of the Company's sales and gross profit, respectively, in 2012. Most sales to Huludao were made on cash on delivery basis. For iron and other products, sales are generally made under sales contracts with customers, typically with a one-year term. Over 90% of these sales (including sales to Huludao) are made on cash on delivery basis. For the others, management may extend up to three months' credit to customers who are determined to be creditworthy.

For the three years ended December 31, 2010, 2011 and 2012, Wuhu Feishang's five largest customers accounted for 95%, 96% and 99% of Wuhu Feishang's sales, respectively. During the year ended December 31, 2010, the three largest customers accounted for 55%, 27% and 8%, respectively, of Wuhu Feishang's sales. During the year ended December 31, 2011, the three largest customers accounted for 41%, 24% and 17%, respectively, of Wuhu Feishang's sales. During the year ended December 31, 2012, the three largest customers accounted for 53%, 16% and 15%, respectively, of Wuhu Feishang's sales.

Competition

Wuhu Feishang faces competition from Nanjing Xixia Lead Zinc Silver Mine (Nanjing Xixia) which produces 20,000 tonnes of zinc annually. Huludao sources zinc metal from both Nanjing Xixia and Wuhu Feishang. However, as the annual demand of zinc metal of Huludao is 300,000 tonnes and Wuhu Feishang has a long-standing sales relationship with Huludao, management believes that Wuhu Feishang will be able to renew its sales contract with Huludao as it has in the past. In addition, Wuhu Feishang faces competition from other smaller mines around the region, including Tongling Fenghuang with an annual production capacity of 100,000 tonnes, for its iron products. However, management believes that Wuhu Feishang enjoys a competitive advantage based upon its high product quality and purity, and lower cost of production.

Research and Sampling Procedures

In order to examine the anomalies in the exploration areas, and evaluate their prospecting potential, comprehensive research is undertaken substantially as follows:

(a)

Conduct field geology work and sample check to a number of anomalies in the exploration area and study their formation. Carry out engineering exercise and sampling procedure on discovered ore bodies or anomalies found in geochemical prospecting. Analyze the ore body location, mineralization and abnormality distributions.

(b)

Based on the results of geochemical prospecting, carry out mountain land engineering in the anomalous region with highest probability of mineralization. Develop long trench exploration activities on the section line on the targeted area to reveal the anomaly, and set up additional short trench to control the surface if needed.

(c)

Exploration drilling: Based on the distribution data of ore bodies obtained from mountain land engineering, other geological and condition factors, conduct a few shallow drilling to check the anomaly in the targeted mineralization zone in order to obtain the data regarding mineralization distribution, scale and grade. This provides the basis for next step exploration.

A brief description of our sampling procedures is as follows:

(a)

Sample collection: Collect 200g of secondary halo sample from B eluvium at a depth of 10-30 cm. Sampling is taken from two different points in a range within 1/4 dot pitch distance from the measuring points. If the sampling cannot be conducted in the area near measuring points due to bed rock or surface water body, then an additional sampling will be picked up within a wide range of 10 meters. The reason for skipped sampling should be documented on the result map.

(b)

Sample preparation: The sample will be dehydrated, sieved through 60-mesh stainless-steel-wire-mesh, and blended in diagonal method. It will then be placed into paper packaging, assigned code, delivered to the laboratory, rotary split and sieved into 0.093mm fractions. Afterwards, it will be screened through 160 mesh sieve. Finally, semi-quantitative spectroscopic analysis will be carried out.

(c)

Sample analysis: There are four analytical methodologies adopted to analyze the samples - direct reading spectrometry; polarographic analysis; chemical spectrometry; and X-ray fluorescence spectrometry.

(d)

Quality examination and analysis: During chemical analysis, those samples with abnormal results or obtained from anomalous sectors will be selected for spot chemical test. Usually, 5% out of the samples will be picked up.

We have developed our exploration program to comply with the following PRC protocols and/ or specifications:

Specifications of survey for geological and mineral resources exploration (DZ/ T0091);

General requirements for solid mineral exploration (GB/ T13908 - 2002);

Specifications for drafting geological report on solid mineral resources & closed pit (DZ/ T0033 - 2002);

Geologic exploration standard of iron, manganese and chromium mineral resources (DZ/ T0200 - 2002);

Geologic exploration standard of copper, lead, zinc, silver, nickel and molybdenum mineral resources (DZ/ T0214 - 2002); and

Rules for data compilation and comprehensive research on geological and mineral resources exploration materials (DZ/ T0079 - 1993).

Yunnan Mining

During the year ended December 31, 2009, Yunnan Mining acquired exploration rights to Baiguochong Mine for consideration of CNY800,000 (US\$128,399). The geological coordinate of this property is EL 118°11' 30" ~ 118°12' 15" and NL 31°02' 00" ~ 31°03' 15" covering a site area of 2.72 square kilometers. The Baiguochong Lead-Zinc Mine is located in E Shan Town, Fanchang County, Anhui Province in the PRC, approximately 6 kilometers south of Fanchang County with an exploration permit running from May 28, 2010 to May 28, 2012. Application for renewal of this exploration permit was in 2012 but we have not received any response from the county government. The mine has engaged Geological Brigade of East-China Metallurgy Geological Exploration Bureau to carry out prospecting which includes geophysical and drilling works, and, to date, has incurred exploration expenses of approximately CNY2.50 million (US\$0.40 million). While the results of preliminary prospecting suggest that the mine contains mineable quantities of lead and zinc, until further exploration and analysis is completed, we cannot predict the nature and extent of minerals contained at the mines, or the commercial viability of pursuing a plan of extraction. The total budgeted amount for this exploration project is anticipated to be CNY4 million (US\$0.64 million). This project is expected to be financed by internally-generated funds.

During the year ended December 31, 2011, Yunnan Mining acquired exploration rights to Luojiachong Mine for consideration of CNY600,000 (US\$96,299). The geological coordinate of this property is EL 118°05' 15" ~ 118°07' 00" and NL 30°59' 00" ~ 31°00' 15" covering a site area of 5.81 square kilometers. The Luojiachong Copper-Polymetallic

Mine is located in the west of Chisha Town, Fanchang County, Anhui Province in the PRC, approximately 15 kilometers southeast of Fanchang County with an exploration permit running from June 22, 2010 to June 22, 2012. Application for renewal of this exploration permit was lodged in 2012 but we have not received any response from the county government. The mine has engaged Geological Brigade of East-China Metallurgy Geological Exploration Bureau to carry out prospecting which includes geophysical works, and incurred exploration expenses of approximately CNY0.43 million (US\$0.07 million). While the results of preliminary prospecting suggest that the mine contains minerals of iron, copper, lead, zinc, gold and silver, until further exploration and analysis is completed, we cannot predict the nature and extent of minerals contained at the mines, or the commercially viability of pursuing a plan of extraction.

Yangpu Lianzhong

Yangpu Lianzhong is currently dormant. The 45% equity interest in Guangdong Longchuan (which had been conducting exploration activities at Silver and Multi-Metallic Ore, located at Jinshizhang District, Longchuan County, Guangdong Province) and 48% equity interest in Hainan Nonferrous Metal (which had been conducting exploration activities at 12 mines located in Hainan Province, PRC), originally held by Yangpu Lianzhong, were disposed of to an unaffiliated party on January 26, 2010 and December 17, 2010 respectively.

Government Regulation of Iron/ Zinc/ Non-ferrous Metal Mining Activities

Under the Mineral Resources Law, all mineral resources in the PRC are owned by the State. Mining rights are granted by the State permitting recipients to conduct mining activities in a specific mining area during the specified license period. Although Wuhu Feishang believes its licenses will continue to be renewed, as necessary, there can be no assurance that such will be the case or that Wuhu Feishang will be able to exploit the entire mineral resources of its mines during its license period. If Wuhu Feishang fails to renew its mining rights upon expiry or if it cannot effectively utilize the resources within a license period, the operation and performance of Wuhu Feishang may be adversely affected.

Wuhu Feishang's mining rights entitle it to undertake mining activities and infrastructure and ancillary work, in compliance with applicable laws and regulations, within the specific area covered by the license during the license period. Wuhu Feishang is required to submit a mining proposal and feasibility studies to the relevant government authority; and is also obligated to pay a resources compensation fee to the State in an amount equal to 2% of annual sales of zinc and iron concentrates. Resources compensation fees of CNY768,800 (US\$123,391), CNY733,700 (US\$117,758) and CNY277,935 (US\$44,608) were paid in 2010, 2011 and 2012, respectively. The natural resources fee for the renewal of the mining rights to Yangchong Mine of CNY3,002,900 (US\$481,960) was paid in December 2005 whereas that of Zaoyuan Mine of CNY354,000 (US\$56,816) was paid in October 2006. Natural resources fees are not required to be paid in connection with the grant of exploration rights and, therefore, no natural resources fees are payable for the Sichong Mine and Baiguochong Mine until such time, if any, as we seek mining rights with respect to those mines.

The State Environmental Protection Administration Bureau is responsible for the supervision of environmental protection in, the implementation of national standards for environmental quality and discharge of pollutants for, and the supervision of the environmental management system of the PRC. Environmental protection bureaus at the county level or above are responsible for environmental protection within their jurisdictions.

The laws and regulations governing environmental protection require each company to lodge environmental impact statements for a construction project with the environmental protection bureaus at the county level. These statements must be filed prior to the commencement of construction, expansion or modification of a project. The environmental protection bureaus inspect new production facilities and determine compliance with applicable environmental standards, prior to the commencement of operations.

The Environmental Protection Law requires production facilities that may cause pollution or produce other toxic materials to take steps to protect the environment and establish an environmental protection and management system. The system includes the adoption of effective measures to prevent and control exhaust gas, sewage, waste residues, dust or other waste materials. Entities discharging pollutants must register with the relevant environmental protection authorities.

Penalties for breaching the Environmental Protection Law include a warning, payment of a penalty calculated on the damage incurred, or payment of a fine. When an entity fails to adopt preventive measures or control facilities that meet the requirements of environmental protection standards, it is subject to suspension of production or operations and for payment of a fine. Material violations of environmental laws and regulations causing property damage or casualties may result in criminal liabilities.

Management believes that Wuhu Feishang is in material compliance with all applicable environmental protection requirements of the State.

BUSINESS SEGMENT II - Coal Development and Mining

Industry Overview

Coal is a combustible, sedimentary, organic rock which is composed primarily of carbon, hydrogen and oxygen. The fossil fuel is formed from vegetation which has been consolidated between other rock strata and altered by the combined effects of pressure and heat over millions of years to form the coal seams mined today.

The degree of change undergone by a coal as it matures from peat to anthracite known as coalification has an important bearing on its physical and chemical properties and is referred to as the rank of the coal. The following diagram summarizes the different types of coal and their associated end-uses.

Summary of Coal Types

Source: World Coal Institute, The Coal Resource (2005)

Low rank coals, such as lignite and sub-bituminous coals are typically softer, friable materials with a dull, earthy appearance. They are characterized by high moisture levels and low carbon content, and therefore low energy content. Higher rank coals, such as coking coal and anthracite are generally harder and stronger and often have a black, vitreous lustre. They contain more carbon, have lower moisture content, and produce more energy. Anthracite is at the top of the rank scale and has a correspondingly higher carbon and energy content and a lower level of moisture.

Anthracite is the highest quality coal it has the greatest calorific value, low moisture content, the lowest percentage of volatiles and the highest carbon content. It is also a scarce resource, accounting for only ca. 1% of total world coal reserves. Anthracite is classified into three grades, depending on its carbon content. Standard grade anthracite is used as fuel and for power generation. Higher grades are used in steelmaking, and have other uses in the metallurgy industry.

Coal is one of the largest and most important energy resources in the world. Coal is also the major fuel used for generating electricity worldwide, particularly in mainland China. According to the BP Statistical Review 2012, the world total coal production in 2011 reached 3,955.5 million tonnes (oil equivalent), up 6.1% from 2010. The world's major coal producers are China, the United States, Australia, India, Indonesia, Russian Federation, and South Africa. China was the largest coal producer in the world in 2011, providing 49.5% of the world production. The world total coal consumption in 2011 amounted to 3,724.3 million tonnes (oil equivalent), up 5.4% compared with 2010. China, the United States, India, Japan, South Africa, Russian Federation and South Korea are the major coal consuming nations. China was the largest consumer of coal in 2011, accounting for 49.4% of world consumption. China contributed 69.2% of growth in global production and 84.9% of growth in global consumption.

In 2012, China's coal imports totaled 289 million tonnes, increased by 29.8% from 222.7 million tonnes in 2011, and the average price of the imported coal was US\$99.5 (CNY620) per tonne, dropped 13.2% from 2011. Strong import growth has occurred in China due to a combination of factors, including lower international coal prices and dropping freight rates, growing electricity demand and limited growth in domestic production.

The following table shows the production and consumption of raw coal in China over the past 5 years:

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Production (in million tonnes) | 2,716 | 3,050 | 3,240 | 3,520 | 3,660 |
| Consumption (in million tonnes) | 2,740 | 3,020 | 3,180 | 3,480 | 3,567 |

Source: National Bureau of Statistics of China, National Energy Administration

Coal Mining Operations

Our coal mining operation involves four main processes, i.e. mine construction, coal production, marketing and sales, and environmental protection.

Mine Construction: Following receipt of approvals from relevant mining authorities, construction of the mine project will be developed in three main stages: (a) pre-construction work; (b) construction of shaft engineering and civil engineering; and (c) electrical equipment installation engineering and complementary scheme of production system. The pre-construction work provides the foundation for future mine construction and planning for overall construction management. This phase includes leveling the land with a supply of water, electricity, road and telecommunications. Construction operations and program budgeting for the shaft engineering are carried out in strict compliance with applicable requirements of the safety code. We use various shaft engineering techniques such as drilling and blasting, slugging and tunneling, shotcrete and rock bolt support in mine construction. Quality control, construction stage control and investment control are also implemented during the construction phase. At the same time, six complementary systems are incorporated, including power supply system, draft system, drainage system, pressure ventilation system, elevation and transportation system, gas drainage system, and monitoring system. Following primary examination of the mine construction and receipt of necessary approvals, a three to six months trial production run will then take place.

Coal Production: Longwall caving mining technology and coal blasting methodology are adopted in our coal mining operation. Raw coal is transported by scraper conveyor or belt transportation system. A fully mechanized coal mining method is applied to those coal working faces with good geologic structure and stable coal seams with thickness

above two meters. Raw coal is then transported by the main tunnel belt conveyor to the work site on the ground for screening and grading processing where it is stored for load-out to customers. Coal mining faces are supported by individual hydraulic prop and articulated roof beam. Waste edge prop and security system of roof fall are adopted to secure the safety of workers.

Marketing and Sales: After loading to trucks from the ground warehouse of the mine, coal products are delivered to Qianbei power plant or other customers. It is the responsibility of marketing personnel to establish sales networks, contract management, provide customer support, and collect customer payments on time.

Environmental Protection: Our mining operations seek to ensure that the "three wastes" (waste gas, waste water and industrial residue) are disposed of in accordance with the relevant provisions of the Environmental Protection Law of the PRC. In addition, we are required by PRC law to reclaim and restore mining sites to their prior condition after completion of mining operations. Reclamation activity typically involves the removal of buildings, equipment, machinery and other physical remnants of mining, restoration of land features in mined-out areas, dumping sites and other mining area, and contouring, covering and re-vegetation of waste rock piles and other disturbed areas, as appropriate.

The following diagrams show the geography of our coal mines and their surrounding areas:

Business of Guizhou Puxin

Following internal group restructurings completed in September 2010 and July 2011, Guizhou Puxin currently owns a 70% equity interest in Guizhou Yongfu, a 100% equity interest in Yangpu Dashi (which in turn owns 100% equity interest in Guizhou Dayun), a 70% equity interest in Baiping Mining, a 99% equity interest in Dayuan Coal, a 99% equity interest in Gouchang Coal, a 99% equity interest in Linjiaao Coal, and a 99% equity interest in Xinsong Coal.

In addition to holding interests in its mining subsidiaries, Guizhou Puxin also conducts certain incidental coal trading activities. Coal trading in the PRC requires the possession of a Coal Trading Qualification Permit. Guizhou Puxin holds a Coal Trading Qualification Permit (permit number 20520101010822) granted by the Guizhou Energy Bureau, which is due to expire on March 10, 2016. Guizhou Puxin purchases coal both from its own coal mines and independent third parties; and sells the coal to independent third parties. For the years ended December 31, 2010, 2011 and 2012, the Company recorded turnover in coal trading of CNY nil (US\$ nil), CNY33.06 million (US\$5.31 million) and CNY1.12 million (US\$0.18 million) respectively.

Business of Guizhou Yongfu (Yongsheng Mine)

On November 8, 2007, the Guizhou Provincial Department of Land and Resources granted Guizhou Yongfu a coal mining right (mining right permit number 5200000711822) covering 18.234 square kilometers located in Huajuexiang, Jinsha County, Guizhou Province, the PRC, with an annual production capacity of 600,000 tonnes, which will expire in November 2027, subject to renewal upon expiry. The geological coordinate of this property is EL 106°23 00 ~ 106°25 45 and NL 27°10 00 ~ 27°13 00 . The name of this lode property is “Yongsheng Mine”. The first phase (north wing) of construction of the coal mine, which is designed for 900,000 tonnes’ production capacity, was completed in March 2013, at which time an application for a pilot run was submitted. First phase construction included the main declined shaft, water supply system, power supply system, main haulage drift, shaft transportation system, security and surveillance system, industrial site, and road improvement. The project, with a total cost incurred of approximately CNY399.78 million (US\$64.16 million), was approximately 74% completed as of December 31, 2012. The estimated construction cost of the project is approximately CNY542.30 million (US\$87.04 million). The second phase (south wing) construction of Yongsheng Mine is in the planning stage.

Yongsheng Mine is located approximately 30 kilometers south-east of Jinsha County in Guizhou Province and 80 kilometers north-west of Guiyang, the capital of Guizhou Province. A 50 kilometers county road leads to Yongsheng Mine from Jinsha County, which is 70 kilometers from the Nanbai railway station in Zunyi County and is linked to Zunyi by the 326 National Road. From Yongsheng Mine, Guiyang-Zunyi-Chongxihe Highway is accessed via the Changba and Shatu township roads and high-graded highway are accessed by Liuguang and Wujiang rivers. A highway linking Jinsha County to Guiyang that passes by Huajue has been planned and will traverse through the vicinity of the mine. Upon the completion of this highway, the direct route from Yongsheng Mine to Guiyang will be less than 140 kilometers.

There are two incoming aerial high voltage transmission lines installed to the Yongsheng Mine, one in the east and one in the west. The two 35kV power circuits for Yongsheng Mine are both supplied from the Gaoping 110/ 35kV substation. Unpolluted water can be supplied from several sources including the Wujiang River and water discharged from the underground mines.

The coal-bearing formation of Yongsheng Mine is mainly comprised of a set of the clastic rock series of Upper Permian s Longtan Formation (P21), with a thickness of 131.51~161.83 meters, averaging 147.02 meters. The rock types include mudstone, argillaceous limestone, fine-grained sandstone, siltstone, silty argillite, argillaceous siltstone,

carbonaceous mudstone, claystone and coal. They are in various colors, such as light gray, gray, dark gray and grayish black. The hanging wall is clastic rocks with limestone interbedding of Upper Permian's Changxing Formation (P2c). The footwall of coal formations are Limestone of Lower Permian's Maokou Formation (P2m).

Prior to 1995, only regional level exploration work had been carried out in Jinsha County. Since 1999, the Guizhou Province Mining Bureau 102 teams carried out a more detailed study of the geology of the potential Jinsha County coal mine including simple coal quality; and exploration program that evaluated the potential northern mining area development for structure, coal quality and mining characteristics. In 2006, the same team completed the second stage report by undertaking a drilling exploration program.

Yongsheng Mine is located within a system of NNE trending multiple, and strata dip is generally 5-15 degrees. Although some eight coal seams exist in the area, there is potential to mine only five seams in the mining area due to the thinness of the other three seams. Two seams, C8 and C12, are minable over the whole licensed area. One seam, C11, is minable over most of the area. Two seams, C9 and C10, are able to be mined over part of the area. The coal seams of Yongsheng Mine are described in the following table:

| Minable Seam Numbers | Seam Thickness (Min-Max in meters) | Average Seam Thickness (in meters) |
|----------------------|---------------------------------------|---------------------------------------|
| C8 | 1.8-3.9 | 2.8 |
| C9 | 0.2-1.8 | 0.9 |
| C10 | 0.3-2.4 | 0.8 |
| C11 | 0.3-1.6 | 1.1 |
| C12 | 1.3-2.5 | 1.7 |

In accordance with applicable PRC laws, we are not permitted to obtain safe production and coal production permits covering Guizhou Yongfu's mines (see Government Regulation of Coal Mining Activities, below) until completion of inspection of the construction/ development project and the pilot run. Thereafter, commercial production is expected to commence.

The mining right premium of Guizhou Yongfu was determined by the Guizhou Provincial Department of Land and Resources to be CNY89.54 million (US\$14.37 million). Guizhou Yongfu has paid CNY36 million (US\$5.78 million) as of December 31, 2012. The remaining balance of CNY53.54 million (US\$8.59 million) is payable in five installments over a five-year period to the Guizhou Provincial Department of Land and Resources, of which, CNY10.71 million (US\$1.72 million) is payable in 2013. The outstanding payable bears interest at a rate stipulated by the People's Bank of China from year to year and the interest rate of mining rights payable for the year of 2012 is 6.55%.

Guizhou Yongfu has reached lease agreements relating to 119,411 square meters of land with the affected village residents. Guizhou Yongfu paid approximately (a) CNY3.34 million (US\$0.54 million) compensation in respect of these agreements up to December 31, 2012, (b) CNY2.10 million (US\$0.34 million), and CNY1.43 million (US\$0.23 million) to the Jinsha County government in November 2010 and December 2010, respectively, to change the zoning of the 85,974 square meters mine area from agriculture land use to industrial use, and (c) CNY1.15 million (US\$0.18 million) land acquisition fee to the Jinsha County government. In addition, Guizhou Yongfu has incurred a CNY6.30 million (US\$1.01 million) disaster prevention fee, and paid a CNY0.98 million (US\$0.16 million) relocation expense to the affected village residents up to December 31, 2012.

As Yongsheng Mine is a newly constructed anthracite mine which commenced construction in 2009, no summary of production and sale tonnages has been provided.

Guizhou Yongfu obtained a JORC-compliant independent technical report covering Yongsheng Mine from Behre Dolbear & Company Asia, Inc. in September 2011. Behre Dolbear & Company Asia, Inc. is an affiliate of Behre Dolbear Group, Inc, a mineral industry advisory and consulting group, with offices in 11 cities internationally including in China, Mongolia, the United States, Canada, Australia, Mexico and Chile, which specializes in performing mineral industry studies for mining companies, financial institutions and natural resource firms. The following table describing the coal reserves at Yongsheng Mine has been extracted from the report:

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| Yongsheng Mine | Proven Reserve as of May 1, 2011 (in million tonnes) | Probable Reserve as of May 1, 2011 (in million tonnes) | Recoverable Reserve as of May 1, 2011 (in million tonnes) | Btu (in MJ/ kg) | Sulfur (in %) | Assigned to Existing Facilities |
|-------------------|--|--|---|--------------------|------------------|---------------------------------------|
| Anthracite | 4.00 | 49.05 | 53.05 | 28.62 | 1.27 | Yes |

The following table describes the coal reserves at Yongsheng Mine as of December 31, 2012:

| Yongsheng Mine | Proven Reserve as of December 31, 2012 (in million tonnes) | Probable Reserve as of December 31, 2012 (in million tonnes) | Recoverable Reserve as of December 31, 2012 (in million tonnes) |
|----------------|--|--|---|
| Anthracite | 3.93 | 49.05 | 52.98 |

The determination of JORC-compliant reserves uses procedures and protocols that are different from the procedures and protocols generally recognized in the United States for the determination of proven and probable reserves. While there are technical accounting variations between proven and probable reserves determined under JORC-compliant protocols and protocols compliant with SEC Industry Guide 7, management understands that those variations do not result in any material differences between the proven and probable reserves of the Company, whether determined under JORC-compliant protocols or protocols compliant with Industry Guide 7.

Management continues to believe that the PRC remains the world's largest consumer of coal and that prospects in the PRC's coal market will improve. The current development strategy of Guizhou Yongfu is to complete the construction of its coal mine and the pilot run according to its planned schedule.

Business of Guizhou Dayun (Dayun Mine)

On March 6, 2011, Guizhou Provincial Department of Land and Resources granted Guizhou Dayun a coal mining right (mining right permit number C5200002011031120112455) covering 16.9035 square kilometers located in Gaopingxiang, Jinsha County, Guizhou Province, the PRC, with an annual production capacity of 600,000 tonnes, which will expire in March 2031, subject to renewal upon expiry. The geological coordinate of this property is EL 106°25'30" ~ 106°27'30" and NL 27°10'30" ~ 27°17'45". The name of this lode property is "Dayun Mine". Guizhou Dayun started the pre-construction design of Dayun Mine in late 2011, and the construction includes the main declined shaft, water supply system, power supply system, main haulage drift, shaft transportation system, security and surveillance system, industrial site, and road improvement. The estimated construction cost of the first phase (with an annual designed production capacity of 900,000 tonnes) is approximately CNY376 million (US\$60.35 million), and the construction work is expected to be completed by the end of 2014. The construction cost is expected to be funded by internal resources and bank borrowings. According to the initial plans, it is anticipated that Dayun Mine will undergo a future second phase of construction.

Dayun Mine is located approximately 40 kilometers south-east of Jinsha County in Guizhou Province and 90 kilometers north-west of Guiyang, the provincial capital of Guizhou Province. A 60 kilometers county road leads to Dayun Mine from Jinsha County, which is 70 kilometers from the Nanbai railway station in Zunyi County and is linked to Zunyi City by the 326 National Road. From Dayun Mine, Guiyang-Zunyi-Chongxihe Highway is accessed via the Changba and Shatu Township Roads and high-graded highway are accessed by Liuguang and Wujiang rivers. A highway linking Jinsha County to Guiyang that passes by Gaoping is planned and will traverse through the vicinity of the mine. Upon completion of this highway, the direct route from Dayun Mine to Guiyang will be less than 150 kilometers.

There are three electricity transformer substations close to Dayun Mine, Changba 110kV substation, Gaoping 35kV substation, and Yongsheng Mine's 35kV substation. These substations can provide stable electricity supply to Dayun Mine. Unpolluted water can be supplied from several spring steams, Mushuiyi reservoir, and Liuguang River, a sub-branch of Wujiang River.

The coal formation of Dayun Mine is the same as that of Yongsheng Mine.

Prior to 2000, several regional explorations had been carried out in Jinsha County. From 2004 to 2006, the Guizhou Province Mining Bureau 102 team carried out a geological survey of Dayun Mine, and a general exploration program evaluating the potential mining area and simple coal quality. From November 2007 to January 2008, a co-design, conducted by the same team and Coal Mine Design Institute of Guizhou Province, developed the initial mining plan. In July 2008, the same 102 team carried out an additional drilling exploration and calculated the mine's indicated and inferred resources. In October 2008, a second phase mining plan was designed and brought to implementation.

Dayun Mine is located within a system of NNE trending multiple and strata dip is generally 8-13 degrees. There is the potential to mine four seams out of a total of twelve seams in the licensed area. The seams M8 and M12 are minable over the whole area, and two seams, M6, and M11, are thick enough to be mined over most of the licensed area. The coal seams of Dayun Mine are described in the following table:

| Minable Seam Numbers | Seam Thickness (Min-Max in meters) | Average Seam Thickness (in meters) |
|----------------------|---------------------------------------|---------------------------------------|
| M6 | 0.3-3.3 | 1.7 |
| M8 | 1.1-5.0 | 2.7 |
| M11 | 0.5-2.9 | 1.2 |
| M12 | 0.8-3.6 | 2.0 |

In accordance with applicable PRC laws, we are not permitted obtain safe production and coal production permits covering Dayun Mine (see Government Regulation of Coal Mining Activities , below) until completion of inspection of the construction/development project and the pilot run. Thereafter, commercial production is expected to commence.

The mining right premium of Guizhou Dayun was determined by the Guizhou Provincial Department of Land and Resources to be CNY72.99 million (US\$11.71 million). Guizhou Dayun has paid CNY26.35 million (US\$4.23 million) through December 31, 2012. The remaining balance of CNY46.64 million (US\$7.49 million) at December 31, 2012 is payable in four installments over a four-year period to the Guizhou Provincial Department of Land and Resources commencing in 2013. The outstanding payable bears interest at a rate stipulated by the People's Bank of China from year to year and the range of the interest rates of mining rights payable for the year of 2012 is 6.15%-6.40%.

Guizhou Dayun has reached lease agreement with the Daqiao village committee relating to 120,346 square meters of land to be used as the industrial site of the Dayun Mine. Guizhou Dayun paid (a) CNY5.33 million (US\$0.86 million) in respect of the agreement for use of the land, (b) a CNY8.30 million (US\$1.33 million) land acquisition fee to the Jinsha County government and (c) CNY5.28 million (US\$0.85 million) in relocation expense to the affected village residents up to December 31, 2012.

As Dayun Mine is a newly constructed anthracite mine which commenced construction in late 2011, no summary of production and sale tonnages has been provided.

Guizhou Dayun obtained a JORC-compliant independent technical report covering Dayun Mine from Behre Dolbear & Company Asia, Inc. in September 2011. The following table describing the coal resources at Dayun Mine has been extracted from the report:

| Dayun Mine | Proven Reserve as of May 1, 2011 (in million tonnes) | Probable Reserve as of May 1, 2011 (in million tonnes) | Recoverable Reserve as of May 1, 2011 (in million tonnes) | Btu (in MJ/ kg) | Sulfur (in %) | Assigned to Existing Facilities |
|------------|---|---|--|--------------------|------------------|---------------------------------|
| Anthracite | 12.50 | 84.79 | 97.29 | 28.03 | 2.12 | Yes |

The following table describes the coal reserves at Dayun Mine as of December 31, 2012:

| Dayun Mine | Proven Reserve as of December 31, 2012 (in million tonnes) | Probable Reserve as of December 31, 2012 (in million tonnes) | Recoverable Reserve as of December 31, 2012 (in million tonnes) |
|------------|--|--|---|
| Anthracite | 12.50 | 84.79 | 97.29 |

The determination of JORC-compliant reserves uses procedures and protocols that are different from the procedures and protocols generally recognized in the United States for the determination of proven and probable reserves. While there are technical accounting variations between proven and probable reserves determined under JORC-compliant protocols and protocols compliant with SEC Industry Guide 7, management understands that those variations do not result in any material differences between the proven and probable reserves of the Company, whether determined under JORC-compliant protocols or protocols compliant with Industry Guide 7.

The current development strategy of Guizhou Dayun is to complete the construction of its coal mine and the pilot run according to its planned schedule.

Business of Baiping Mining (Baiping Mine)

On November 3, 2011, Baiping Mining was granted a coal mining right (mining right permit number C52000020111112012106) to 3.0143 square kilometers located in Gaoping, Jinsha County, Guizhou Province, the PRC, with an annual production capacity of 150,000 tonnes, which will expire in August 2014. The geological coordinate of this property is EL 106°24 06 ~ 106°25 21 and NL 27°15 00 ~ 27°16 04 . The name of this lode property “Baiping Mine”. The first phase construction of Baiping Mine, which is designed for 300,000 tonnes of coal production capacity, was completed in December 2010. Baiping Mine started its commercial run in April 2011 with an annual production capacity, as stipulated in the mining right permit and the coal production permit, of 150,000 tonnes of anthracite. Baiping Mine is in the process of applying for a 300,000 tonnes mining right permit and it is anticipated that such permit will be obtained in 2013. Baiping Mine intends to apply for a 300,000 tonnes coal production permit upon the issuance of new mining right license. The second phase construction of Baiping Mine is to accommodate a total of 600,000 tonnes designed coal production capacity. The second phase construction is designed as an upgraded mine development project on the ventilation declined shaft, water supply system, power system, shaft transportation system, security and surveillance system. The second phase construction is being planned and has not yet commenced. The estimated cost for the second phase construction is approximately CNY117.47 million (US\$18.85 million). The construction cost is expected to be funded by internal resources and bank borrowings.

Baiping Mine is located approximately 50 kilometers south-east of Jinsha County in Guizhou Province and 80 kilometers north-west of Guiyang, the provincial capital of Guizhou Province. A 50 kilometers county road leads to Baiping Mine from Jinsha County, which is 70 kilometers from the Nanbai railway station in Zunyi County and is linked to Zunyi City by the 326 National Road. From Baiping Mine, Guiyang-Zunyi-Chongxihe Highway is accessed via the Changba and Shatu Township Roads and high-graded highway are accessed by Liuguang and Wujiang rivers. A highway linking Jinsha County to Guiyang that passes by Huajue is planned and will traverse through the vicinity of the mine. Upon the completion of this highway, the direct route from Baiping Mine to Guiyang will be less than 140 kilometers.

The electricity supply of Baiping Mining is mainly provided by Gaoping substation of Jinsha County, with 110/ 35kV of transmission base located in 5 kilometers of Baiping Mine. Unpolluted water can be supplied from several sources, including water discharged from underground and spring water.

The coal-bearing formation of Baiping Mine mainly consists of a set of the clastic rock series of Upper Permian s Longtan Formation (P2l), with a thickness of 90~10 meters. The rock types include mudstone, argillaceous siltstone, siltstone, silty argillite, sideritic limestone interbedding, and coal seams. The rocks are light gray, gray, dark gray and grayish black in color. The hanging wall of coal formation is clastic rocks with limestone interbedding of Upper Permian s Changxing Formation (P2c). The footwall of coal formation is limestone of Lower Permian s Maokou Formation (P2m).

In 2003, the Guizhou Province Mining Bureau 102 team carried out a geological survey of the Baiping Mine. Baiping Mine was built in 2003 with an annual production capacity of 90,000 tonnes, and the capacity was expanded to 150,000 tonnes in 2006. In November 2009, the Coal Mine Design Institute of Jiangxi Province designed an expansion plan to further increase the annual capacity of Baiping Mine to 300,000 tonnes, and the new declined shafts have been under constructing since then.

Baiping Mine has a total of twelve coal seams in the area. Five seams, C4, C5, C7, C8 and C12, are eligible to be mined over the whole licensed area. The coal seams of the Baiping Mine are described in the following table:

| Minable Seam Number | Seam Thickness (Min-Max in meters) | Average Seam Thickness (in meters) |
|---------------------|---------------------------------------|---------------------------------------|
| C4 | 1.6-3.0 | 2.1 |
| C5 | 1.3-1.9 | 1.6 |
| C7 | 1.4-2.1 | 1.8 |
| C8 | 1.2-2.3 | 1.8 |
| C12 | 1.3-3.6 | 2.3 |

The mining right premium of Baiping Mining was determined by the Guizhou Provincial Department of Land and Resources to be CNY3.41 million (US\$0.55 million). Baiping Mining has fully paid the outstanding amount as of December 31, 2010.

Baiping Mining has reached land lease agreements covering 41,994 square meters with the affected village committees and village residents; and has paid approximately CNY0.76 million (US\$0.12 million) compensation in respect of these agreements. In addition, Baiping Mining obtained a temporary 10,877 square meters land use right from the Bureau of Land and Resources of Jinsha County. Baiping Mining paid approximately CNY0.11 million (US\$0.02 million) in respect of this temporary land use right.

The following table summarizes the production quantity and sales quantity of our anthracite products for the period ended from March 18, 2010 (date of acquisition) to December 31, 2010, the year ended December 31, 2011 and the year ended December 31, 2012.

| | 2010 | 2011 | 2012 |
|----------------------------------|--------|---------|---------|
| Production quantity (in tonnes): | | | |
| Anthracite | 65,046 | 159,185 | 292,000 |
| Sales quantity (in tonnes): | | | |
| Anthracite | 71,158 | 152,564 | 302,886 |

Baiping Mining obtained a JORC-compliant independent technical report covering Baiping Mine from Behre Dolbear & Company Asia, Inc. in September 2011. The following table describing the coal resources at Baiping Mine has been extracted from the report:

| Baiping Mine | Proven Reserve as of May 1, 2011 (in million tonnes) | Probable Reserve as of May 1, 2011 (in million tonnes) | Recoverable Reserve as of May 1, 2011 (in million tonnes) | Btu (in MJ/ kg) | Sulfur (in %) | Assigned to Existing Facilities |
|--------------|--|--|---|--------------------|------------------|---------------------------------------|
| Anthracite | 4.00 | 19.04 | 23.04 | 28.33 | 2.35 | Yes |

The following table describes the coal reserves at Baiping Mine as of December 31, 2012:

| Baiping Mine | Proven Reserve as of December 31, 2012 (in million tonnes) | Probable Reserve as of December 31, 2012 (in million tonnes) | Recoverable Reserve as of December 31, 2012 (in million tonnes) |
|--------------|--|--|---|
| Anthracite | 3.58 | 19.04 | 22.62 |

The determination of JORC-compliant reserves uses procedures and protocols that are different from the procedures and protocols generally recognized in the United States for the determination of proven and probable reserves. While there are technical accounting variations between proven and probable reserves determined under JORC-compliant

protocols and protocols compliant with SEC Industry Guide 7, management understands that those variations do not result in any material differences between the proven and probable reserves of the Company, whether determined under JORC-compliant protocols or protocols compliant with Industry Guide 7.

Business of Dayuan Coal (Dayuan Mine)

On March 15, 2013, Dayuan Coal was granted a coal mining right (mining right permit number C5200002011051120118585) to 1.6490 square kilometers located in Xinfang, Nayong County, Guizhou Province, the PRC, with an annual production capacity of 300,000 tonnes, which will expire in March 2023. The geological coordinate of this property is EL 105°07' 31" ~ 105°08' 42" and NL 26°38' 06" ~ 26°38' 52". The name of this lode property "Dayuan Mine". Dayuan Coal had been constructing a new production system designed for an annual production capacity of 300,000 tonnes since July 2009, and the construction was completed by December 2012. Dayuan Coal is in the processing of applying for a 300,000 tonnes safe production permit and coal production permit. It is expected that the two permits will be obtained in the fourth quarter of 2013.

Dayuan Mine is located approximately 22 kilometers west of Nayong County in Guizhou Province and seven kilometers from Yangchang power plant. A county road leading to 307 provincial road from Dayuan Mine to Guiyang, the provincial capital of Guizhou Province, is about 300 kilometers.

The prior production system used a dual-circuit power supply: one loop from Yangchang substation and the other loop from Xinfang substation; both are 10kV. The new production system uses a single power supply from Xinfang substation with 10kV. The prior system of Dayuan Mine used mountain spring water located 1.5 kilometers away and underground water. The new system uses household tap water and river water.

The coal-bearing formation of Dayuan Mine is mainly a set of clastic rock series of Upper Permian's Longtan Formation (P2l), with an average thickness of 289.51 meters. The rock types include yellowish brown mudstone, sandy mudstone, and grayish green colored, medium or thick bedded sand layers, siltstone, fine sandstone, and coal seams. The hanging wall is clastic rocks with limestone interbedding of Upper Permian's Changxing Formation (P2c), with a thickness of 20~25 meters, averaging 22 meters. The footwall is basalt of Upper Permian's Emeishan Formation.

Prior to 2000, several simple exploration works had been carried out in Dayuan Mine. In 2002, Guizhou Mengte Resources Exploration Company Limited carried out a geological survey and evaluation of the coal resource in this area. In 2004, the Survey and Design Institute of Guizhou University re-designed the mining plan of Dayuan Mine. In 2007, Guizhou Nonferrous Geological Bureau carried out a general survey to evaluate the coal resource of Dayuan Mine.

Dayuan Mine contains 84 coal seams. Four seams, C3, C5, C6, and C7, are minable over the whole licensed area. The coal seams of the Dayuan Mine are described in the following table:

| Minable Seam Numbers | Seam Thickness (Min-Max in meters) | Average Seam Thickness (in meters) |
|----------------------|---------------------------------------|---------------------------------------|
| C3 | 0.4-2.1 | 1.1 |
| C5 | 0.8-8.6 | 3.5 |
| C6 | 0.8-1.2 | 1.0 |
| C7 | 0.5-1.5 | 1.0 |

Dayuan Coal obtained mining rights for the Dayuan Mine for a total consideration of CNY13.38 million (US\$2.15 million) prior to the Company's acquisition of Wealthy Year. The last installment of the purchase price, which amounted to CNY2.49 million (US\$0.40 million), was paid by Dayuan Coal to the Guizhou Provincial Department of Land and Resources in October 2011.

Dayuan Coal has reached land lease agreements covering 72,814 square meters and relocation agreements with the village committee of Pingdong Village, Xinfang Town, Nayong County and the affected village residents; and has agreed to pay approximately a total of CNY0.59 million (US\$0.09 million) compensation and CNY4.17 million (US\$0.67 million) relocation expense in respect of these agreements. Dayuan Coal has also obtained a temporary 4,528 square meters land use right for one year from the Bureau of Land and Resources of Nayong County. Dayuan Coal has paid approximately CNY0.11 million (US\$0.02 million) in respect of this temporary land use right.

The following table summarizes the production quantity and sales quantity of our anthracite products for the period ended from March 18, 2010 (date of acquisition) to December 31, 2010, the year ended December 31, 2011 and 2012.

As Dayuan Mine had not completed its mine upgrade development project, and obtained all necessary permits, until May 2012, no summary of production and sale tonnages for 2011 or 2012 is provided.

| | 2010 | 2011 | 2012 |
|----------------------------------|-------------|-------------|-------------|
| Production quantity (in tonnes): | | | |
| Anthracite | 9,555 | | |
| Sales quantity (in tonnes): | | | |
| Anthracite | 10,847 | | |

Dayuan Coal obtained a JORC-compliant independent technical report covering Dayuan Mine from Behre Dolbear & Company Asia, Inc. in September 2011. The following table describing the coal resources at Dayuan Mine has been extracted from the report:

| Dayuan Coal | Proven Reserve as of May 1, 2011 (in million tonnes) | Probable Reserve as of May 1, 2011 (in million tonnes) | Recoverable Reserve as of May 1, 2011 (in million tonnes) | Btu (in MJ/ kg) | Sulfur (in %) | Assigned to Existing Facilities |
|-------------|--|--|---|--------------------|------------------|---------------------------------------|
| Anthracite | 3.00 | 5.27 | 8.27 | 25.79 | 1.16 | Yes |

The following table describes the coal reserves at Dayuan Mine as of December 31, 2012:

| Dayuan Mine | Proven Reserve as of December 31, 2012 (in million tonnes) | Probable Reserve as of December 31, 2012 (in million tonnes) | Recoverable Reserve as of December 31, 2012 (in million tonnes) |
|-------------|--|--|---|
| Anthracite | 2.99 | 5.27 | 8.26 |

The determination of JORC-compliant reserves uses procedures and protocols that are different from the procedures and protocols generally recognized in the United States for the determination of proven and probable reserves. While there are technical accounting variations between proven and probable reserves determined under JORC-compliant protocols and protocols compliant with SEC Industry Guide 7, management understands that those variations do not result in any material differences between the proven and probable reserves of the Company, whether determined under JORC-compliant protocols or protocols compliant with Industry Guide 7.

Business of Gouchang Coal (Gouchang Mine)

On April 8, 2011, Gouchang Coal was granted a 90,000 tonnes coal mining right (mining right permit number C5200002009121120048406) to 1.7198 square kilometers located in Kunzhai, Nayong County, Guizhou Province, the PRC, with an annual production capacity of 90,000 tonnes, which will expire in April 2017. The geological coordinate of this property is EL 105°10' 30" ~ 105°11' 15" and NL 26°54' 15" ~ 26°55' 00". The name of this lode property is "Gouchang Mine". The first phase coal mine construction was completed in November 2010. Gouchang Mine started commercial run in May 2011 with an annual production capacity, as stipulated in the mining right permit and the coal production permit, of 90,000 tonnes of anthracite. According to the coal mine consolidation policy promulgated by the Guizhou government on March 22, 2013, Gouchang Coal has been required to cease operation until the end of 2014, and thereafter consolidate nearby coal mines and apply for a 450,000 tonnes mining right permit.

Gouchang Mine is located approximately 24 kilometers northwest of Nayong County in Guizhou Province. A county road leading to 307 provincial road from Gouchang Mine to Guiyang, the provincial capital of Guizhou Province, is about 300 kilometers.

Gouchang Coal uses the national agricultural dual-circuit power supply: one loop from Nayong Weixin substation and the other from Kunzhai substation; both are 10kV. Gouchang Mine uses spring water from a nearby mountain.

The coal-bearing formation of Gouchang Mine mainly comprises a set of the clastic rock series of Upper Permian's Longtan Formation (P2l), with a thickness of 220-268 meters. The rock types include claystone, mudstone, fine sandstone, siltstone, and coal seams. The hanging wall is clastic rocks with limestone interbedding of Upper Permian's Changxing Formation (P2c), with a thickness between 35.5 meters and 41 meters, averaging 40 meters. The footwall is light to dark gray colored, medium or thick bedded massive limestone of Lower Permian's Maokou Formation (P2m), with a thickness greater than 100 meters.

In 2007, Guizhou Province Mining Bureau carried out a simple geological survey of the Gouchang Mine, and found three minable seams. In 2009, the Guizhou Province Mining Bureau 102 team carried out a drilling exploration program that evaluated the coal quality and mining characteristics.

Gouchang Mine contains 44 coal seams. Five seams, M5-1, M5-2, M6-1, M6-2 and M13, are minable over the whole licensed area. The coal seams of the Gouchang Mine are described in the following table:

| Minable Seam Numbers | Seam Thickness (Min-Max in meters) | Average Seam Thickness (in meters) |
|----------------------|---------------------------------------|---------------------------------------|
| M5-1 | 0.2-3.0 | 2.6 |
| M5-2 | 1.2-4.6 | 3.2 |
| M6-1 | 0.9-2.3 | 1.7 |
| M6-2 | 0.4-1.4 | 1.2 |
| M13 | 1.0-1.2 | 1.1 |

Gouchang Coal obtained mining rights for the Gouchang Mine for a total consideration of CNY11.75 million (US\$1.89 million) prior to the Company's acquisition of Wealthy Year. The last installment of the mining rights payable, which amounted to CNY1.75 million (US\$0.28 million), was paid by Gouchang Coal to the Guizhou Provincial Department of Land and Resources in May 2012.

Gouchang Coal has reached land lease agreements covering 43,476 square meters with the village committee and the affected village residents. Gouchang Coal has paid CNY0.57 million (US\$0.09 million) compensation in respect of these agreements. Gouchang Coal has also obtained a temporary 11,329 square meters land use right for one year from the Bureau of Land and Resources of Nayong County. Gouchang Coal has paid approximately CNY0.11 million (US\$0.02 million) in respect of this temporary land use right.

The following table summarizes the production quantity and sales quantity of our anthracite products for the period ended from March 18, 2010 (date of acquisition) to December 31, 2010, the year ended December 31, 2011 and the year ended December 31, 2012. As Gouchang Mine has not completed its upgraded mine development project until March 2011, no summary of production and sale tonnages is provided for 2010.

| | 2010 | 2011 | 2012 |
|----------------------------------|------|--------|--------|
| Production quantity (in tonnes): | | | |
| Anthracite | | 96,068 | 53,362 |
| Sales quantity (in tonnes): | | | |
| Anthracite | | 89,245 | 49,095 |

Gouchang Coal obtained a JORC-compliant independent technical report covering Gouchang Mine from Behre Dolbear & Company Asia, Inc. in September 2011. The following table describing the coal resources at Gouchang Mine has been extracted from the report:

| Gouchang Coal Proven Reserve as of May 1, 2011 (in million tonnes) | Probable Reserve as of May 1, 2011 (in million tonnes) | Recoverable Reserve as of May 1, 2011 (in million tonnes) | Btu (in MJ/ kg) | Sulfur (in %) | Assigned to Existing Facilities |
|---|---|--|--------------------|------------------|---------------------------------|
| | | | | | |

| | | | | | | |
|------------|------|------|------|-------|------|-----|
| Anthracite | 2.00 | 3.85 | 5.85 | 27.80 | 1.10 | Yes |
|------------|------|------|------|-------|------|-----|

The following table describes the coal reserves at Gouchang Mine as of December 31, 2012:

| Gouchang Mine | Proven Reserve as of December 31, 2012 (in million tonnes) | Probable Reserve as of December 31, 2012 (in million tonnes) | Recoverable Reserve as of December 31, 2012 (in million tonnes) |
|---------------|--|--|---|
| Anthracite | 1.87 | 3.85 | 5.72 |

The determination of JORC-compliant reserves uses procedures and protocols that are different from the procedures and protocols generally recognized in the United States for the determination of proven and probable reserves. While there are technical accounting variations between proven and probable reserves determined under JORC-compliant protocols and protocols compliant with SEC Industry Guide 7, management understands that those variations do not result in any material differences between the proven and probable reserves of the Company, whether determined under JORC-compliant protocols or protocols compliant with Industry Guide 7.

Business of Linjiaao Coal (Zhulinzhai Mine)

On April 27, 2011, Linjiaao Coal was granted a coal mining right (mining right permit number C5200002011031120108782) to 1.4104 square kilometers located in Xinhua, Liuzhi Special Zone, Guizhou Province, the PRC, with an annual production capacity of 300,000 tonnes, which will expire in July 2018. The geological coordinate of this property is EL 105°26' 28" ~ 105°28' 17" and NL 25°21' 48" ~ 25°23' 32". The name of this lode property "Zhulinzhai Mine". Since July 2009, Zhulinzhai Mine had been under construction for a new production system designed for an annual production capacity of 300,000 tonnes. The construction was completed in April 2011. Zhulinzhai Mine passed its pilot run test in March 2012. The safe production permit and the coal production permit were granted on March 6, 2012 and April 16, 2012, respectively, and the mine commenced its commercial run in April 2012.

Zhulinzhai Mine is located approximately 30 kilometers northeast of Liuzhi Special Zone in Guizhou Province. A county road leading to 307 provincial road from Zhulinzhai Mine to Guiyang is about 230 kilometers. Liuzhi Special Zone can also be accessed via Guikun railway to Guiyang, the provincial capital of Guizhou Province.

Linjiaao Coal uses double-circuit power from China Southern power grid, with 35kV transmission base located in 10 kilometers of Xinhua town of Liuzhi Special Zone. The water supply of Linjiaao Coal is from nearby springs and underground water.

The coal-bearing formation of Zhulinzhai Mine comprises a set of clastic rock series of Upper Permian's Longtan Formation (P2l), with a thickness of 369.21~397.15 meters, and 382.67 in average. The rock types include gray to dark gray sandy mudstone, siltstone, fine sandstone, with interbeddings of dark gray, gray, or grayish black colored mudstone, claystone, thin-bedded limestone, as well as the grayish black to black carbonaceous mudstone and coal seams. The hanging wall is 18~48 meters thick clastic rocks with limestone interbedding of Upper Permian's Changxing Formation (P2c). The footwall is basalt of Upper Permian's Emeishan Formation, with a thickness over 100 meters.

Prior to 2003, several regional exploration works had been carried out in Xinhua Village, where Zhulinzhai Mine is located. From November 2003 to October 2004, Guizhou Province Mining Bureau 113 team carried out a geological survey of Xinhua village. From October 2005 to October 2006, Henda Exploration Company Limited carried out a general exploration of Xinhua village evaluating the coal reserves, and the reserves were approved by Guizhou Provincial Department of Land and Resources.

Zhulinzhai Mine contains 32 seams. Five seams, C6, C16, C18, C27 and C30 are thick enough to be mined over most of the licensed area. The coal seams of Zhulinzhai Mine are described in the following table:

| Coal Seam | Seam Thickness (Min-Max in meters) | Average Seam Thickness (in meters) |
|-----------|---------------------------------------|---------------------------------------|
| C6 | 3.5-4.5 | 3.9 |
| C16 | 1.1-2.2 | 1.5 |
| C18 | 1.2-3.2 | 1.7 |
| C27 | 0.8-3.2 | 2.0 |
| C30 | 1.0-2.2 | 1.5 |

Linjiaao Coal obtained mining right for the Linjiaao coal mine for a total consideration of CNY19.88 million (US\$3.19 million) prior to the Company's acquisition of Wealthy Year. This obligation, which amounted to CNY3.20 million (US\$0.51 million) at December 31, 2012, is payable by Linjiaao Coal in 2013. The outstanding balance bears interest at a floating rate stipulated by the People's Bank of China from year to year and the interest rate of mining rights payable for the year of 2012 is 6.40%.

Linjiaao Coal has reached land lease agreements covering 37,913 square meters and relocation agreements with the Tianba village committee and the affected village residents. Linjiaao Coal has paid approximately CNY1.06 million (US\$0.17 million) compensation and CNY5.32 million (US\$0.85 million) relocation expense in respect of these agreements. Linjiaao Coal has also obtained a temporary 5,014 square meters land use right for two years from the Bureau of Land and Resources of Liuzhi Special Zone. Linjiaao Coal has paid approximately CNY0.08 million (US\$0.01 million) in respect of this temporary land use right.

The following table summarizes the production quantity and sales quantity of our anthracite products for the period ended from March 18, 2010 (date of acquisition) to December 31, 2010, the year ended December 31, 2011 and the year ended December 31, 2012. As Zhulinzhai Mine had not completed its upgrading mine development project from June 2009 to February 2012, no summary of production and sale tonnages is provided for 2010 and 2011.

| | 2010 | 2011 | 2012 |
|----------------------------------|-------------|-------------|-------------|
| Production quantity (in tonnes): | | | |
| Anthracite | | | 65,111 |
| Sales quantity (in tonnes): | | | |
| Anthracite | | | 75,281 |

Linjiaao Coal obtained a JORC-compliant independent technical report covering Zhulinzhai Mine from Behre Dolbear & Company Asia, Inc. in September 2011. The following table describing the coal resources at Zhulinzhai Mine has been extracted from the report:

| Linjiaao Coal | Proven Reserve as of May 1, 2011 (in million tonnes) | Probable Reserve as of May 1, 2011 (in million tonnes) | Recoverable Reserve as of May 1, 2011 (in million tonnes) | Btu (in MJ/ kg) | Sulfur (in %) | Assigned to Existing Facilities |
|---------------|--|--|---|--------------------|------------------|---------------------------------------|
| Anthracite | 2.25 | 7.41 | 9.66 | 28.14 | 1.81 | Yes |

The following table describes the coal reserves at Zhulinzhai Mine as of December 31, 2012:

| Zhulinzhai Mine | Proven Reserve as of December 31, 2012 (in million tonnes) | Probable Reserve as of December 31, 2012 (in million tonnes) | Recoverable Reserve as of December 31, 2012 (in million tonnes) |
|-----------------|--|--|---|
| Anthracite | 2.18 | 7.41 | 9.59 |

The determination of JORC-compliant reserves uses procedures and protocols that are different from the procedures and protocols generally recognized in the United States for the determination of proven and probable reserves. While there are technical accounting variations between proven and probable reserves determined under JORC-compliant protocols and protocols compliant with Industry Guide 7, management understands that those variations do not result in any material differences between the proven and probable reserves of the Company, whether determined under JORC-compliant protocols or protocols compliant with Industry Guide 7.

Business of Xinsong Coal (Liujiaba Mine)

On March 31, 2011, Xinsong Coal was granted a coal mining right (mining right permit number C5200002009091120036374) to 3.7891 square kilometers located in Xinhua, Liuzhi Special Zone, Guizhou Province, the PRC, with an annual production capacity of 300,000 tonnes, which will expire in September 2019. The geological

coordinate of this property is EL 105°29' 30" ~ 105°30' 50" and NL 26°24' 00" ~ 26°25' 15". The name of this lode property "Liujiaba Mine". Liujiaba Mine ceased its prior production system in December 2010 as required by the Coal Mining Bureau of Guizhou Province as part of a mine consolidation initiative. The construction of Liujiaba Mine's new production system commenced in July 2009, and the construction design of Liujiaba Mine is based on an annual production capacity of 300,000 tonnes. The construction was completed in December 2011. Liujiaba Mine completed its pilot run in October 2012 and obtained the safe production license in November 2012 and coal production license in December 2012.

Liujiaba Mine is located approximately 21 kilometers northeast of Liuzhi Special Zone in Guizhou Province. A county road leading to 307 provincial road from Liujiaba Mine to Guiyang is about 230 kilometers. Liuzhi Special Zone can also be accessed via Guikun railway to Guiyang, the provincial capital of Guizhou Province.

Xinsong Coal uses double-circuit power from China Southern power grid, with 35kV transmission base located in 10 kilometers of Xinhua town of Liuzhi Special Zone. Xinsong Coal uses spring water.

The coal-bearing formation of Liujiaba Mine consists of a set of clastic rock series of Upper Permian's Longtan Formation (P21), with a thickness of 260~395 meters, and 328 meters in average. The rock types include mudstone, sandy mudstone, siltstone, fine sandstone, and medium or thick bedded sand layers, siltstone, fine sandstone, and coal seams. The hanging wall is 40 meters thick clastic rocks with limestone interbedding of Upper Permian's Changxing Formation (P2c). The footwall is basalt of Upper Permian's Emeishan Formation, with a thickness over 30 meters.

Prior to 2003, several regional exploration works had been carried out in Xinhua Village, where Liujiaba Mine is located. From November 2003 to October 2004, the Guizhou Province Mining Bureau 113 team carried out a geological survey of Xinhua Village. From October 2005 to October 2006, Henda Exploration Company Limited carried out a general exploration of Xinhua Village evaluating the coal reserve.

Liujiaba Mine contains 45 coal seams. Three seams are thick enough to be mined over most of the licensed area. The coal seams of Liujiaba Mine are described in the following table:

| Coal Seam | Seam Thickness (Min-Max in meters) | Average Seam Thickness (in meters) |
|-----------|---------------------------------------|---------------------------------------|
| M27 | 0.9-6.3 | 4.6 |
| M28 | 0.8-5.9 | 3.3 |
| M30 | 1.0-6.5 | 4.6 |

Xinsong Coal obtained mining right for Xinsong coal mine for a total consideration of CNY25.98 million (US\$4.17 million) prior to the Company's acquisition of Wealthy Year. This obligation was prepaid by Xinsong Coal to the Guizhou Provincial Department of Land and Resources in May 2011.

Xinsong Coal has reached land lease agreements covering 49,278 square meters with the Tianba Village committee and the affected village residents. Xinsong Coal has paid CNY1.64 million (US\$0.26 million) compensation in respect of these agreements. Xinsong Coal has also obtained a temporary 2,369 square meters land use right for two years from the Bureau of Land and Resources of Liuzhi Special Zone. Xinsong Coal has paid approximately CNY0.04 million (US\$0.01 million) in respect of this temporary land use right.

The following table summarizes the production quantity and sales quantity of our anthracite products for the period ended from March 18, 2010 (date of acquisition) to December 31, 2010, the year ended December 31, 2011 and the year ended December 31, 2012. As Liujiaba Mine underwent an upgrading mine development project in 2011, there was no production in 2011; however a summary of sale tonnages of anthracite in 2011 from the production in the previous year is provided.

| | 2010 | 2011 | 2012 |
|----------------------------------|--------|-------|--------|
| Production quantity (in tonnes): | | | |
| Anthracite | 84,473 | | 25,680 |
| Sales quantity (in tonnes): | | | |
| Anthracite | 84,357 | 1,438 | 7,943 |

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Xinsong Coal obtained a JORC-compliant independent technical report covering Liujiaba Mine from Behre Dolbear & Company Asia, Inc. in September 2011. The following table has been extracted from the report:

| Xinsong Coal | Proven Reserve as of May 1, 2011 (in million tonnes) | Probable Reserve as of May 1, 2011 (in million tonnes) | Recoverable Reserve as of May 1, 2011 (in million tonnes) | Btu (in MJ/ kg) | Sulfur (in %) | Assigned to Existing Facilities |
|--------------|--|--|---|--------------------|------------------|---------------------------------------|
| Anthracite | 2.25 | 11.76 | 14.01 | 23.95 | 2.30 | Yes |

The following table describes the coal reserves at Liujiaba Mine as of December 31, 2012:

| Liujiaba Mine | Proven Reserve as of December 31, 2012 (in million tonnes) | Probable Reserve as of December 31, 2012 (in million tonnes) | Recoverable Reserve as of December 31, 2012 (in million tonnes) |
|---------------|--|--|---|
| Anthracite | 2.18 | 11.76 | 13.94 |

The determination of JORC-compliant reserves uses procedures and protocols that are different from the procedures and protocols generally recognized in the United States for the determination of proven and probable reserves. While there are technical accounting variations between proven and probable reserves determined under JORC-compliant protocols and protocols compliant with SEC Industry Guide 7, management understands that those variations do not result in any material differences between the proven and probable reserves of the Company, whether determined under JORC-compliant protocols or protocols compliant with Industry Guide 7.

Customers and Competition

Guizhou Province ranks fifth in terms of coal resources in China and is the largest coal producing province in southern China. Unlike northern China, where there are many large size coal miners, many small to medium size coal mines and coal washing plants are scattered throughout Guizhou Province. Guizhou Province is also the primary power-exporting province in Southwest China.

Most of coal products are sold as thermal coal to coal-fired power plants in 2012. During the financial year ended December 31, 2012, the three largest customers accounted for 24%, 24% and 7%, respectively, of the coal segment's sales. They were all coal-fired power plants located in Guizhou province. The fifth largest customer of the coal division was a chemical plant in Guizhou province, accounting for approximately 5% of the coal segment's sales. With the increase in anthracite coal output, we plan to sell more of our raw coal products to coal traders, coal washing plants, and in particular, chemical plants in Guizhou Province in the future.

The price of coal is now determined primarily by market conditions. However, temporary guidelines may be issued to limit price increases if the price of thermal coal increases significantly or is likely to increase significantly, according to the Price Law of the PRC.

Government Regulation of Coal Mining Activities

China's coal industry is subject to extensive regulation by the PRC government, including State, provincial and county-level authorities. These regulations govern a wide range of areas, including, but not limited to, investments, exploration, production, mining rights, distribution, trading, transportation and exports related to coal, and investments, generation, pricing, dispatch and tariffs related to power. In addition, coal operations are subject to fees and taxes, as well as safety and environmental protection laws and regulations.

Under the Mineral Resources Law, all mineral resources in the PRC are owned by the State. According to the Coal Law and the Mineral Resources Law, the exploration and exploitation of coal is subject to supervision under the Mineral Resources Law and the relevant local mineral resource bureaus and coal administration departments. Upon approval, an exploration license for each proposed mine or a mining right permit for each mine will be granted by the relevant local mineral resource bureau responsible for supervising and inspecting exploration and exploitation of mineral resources in the jurisdiction. Annual reports are required to be filed by the holders of mining right permits

with the administrative authorities that issued the permits. A coal producer must also obtain a coal production permit for each of its mines in order to begin production and sale of coal in China. In addition, the production capacity of each coal mine is subject to annual review. All coal producers are required to achieve certain reserve recovery rates and a failure to achieve the applicable recovery rate may result in penalties, including revocation of production permits of coal producers.

The State Administration of Work Safety (the SAWS) and the State Administration of Coal Mine Safety (the SACMS) under the supervision of the SAWS are the PRC government authorities exercising control over and supervision of the safety of coal production. In order to proceed with the construction of a coal mine project, the project's safety designs and procedures must be examined and approved by the SACMS or its local offices. Upon the completion of a coal mine construction project and before the commencement of production, further inspection and approval by the SACMS or its local offices of the facilities and conditions is required. The SACMS also conducts regular safety inspections of coal producers pursuant to the Safety Production Law, the Mining Safety Law of the PRC and applicable safety regulations. In addition, each operating coal mine is required to apply for a coal production safety permit from the SACMS or its provincial bureau. The coal production safety permits are valid for an initial period of three years, after which they are subject to renewal.

Pursuant to the Provisional Regulation of Resources Tax and the Rules Administering Levy of Mine Resource Compensation Fees , resources taxes and resources compensation fees are levied on the coal industry. Since 2004, the Ministry of Finance and the State Administration of Taxation have issued a series of notices on coal resources taxation adjustments. The coal resources tax rates of Guizhou Province have been increased, and the current provincial government guided-rate for resources tax and resources compensation fee is CNY2.5 (US\$0.40) per tonne and CNY3.5 (US\$0.56) per tonne, respectively. However, county-level governments may levy at rates higher than provincial government guided-rates. The resources tax and resources compensation fee is levied at CNY8 (US\$1.28) per tonne and CNY6 (US\$0.96) per tonne, respectively, in Liuzhi Special Zone, where Linjiaao Coal and Xinsong Coal are located. The resources compensation fee is levied at CNY3.6 (US\$0.58) per tonne, in Nayong, where Gouchang Coal and Dayuan Coal are located.

The State Administration for Environmental Protection is responsible for overall supervision and control of environmental protection in China. It formulates national standards for discharging waste materials and environmental protection and monitors the PRC environmental protection system. Environmental protection bureaus at the county level and above are responsible for environmental protection within their respective areas of jurisdiction.

The PRC Environmental Protection Law (the Environmental Protection Law) requires all operations that produce pollutants or other hazards to take environmental protection measures, and to establish an environmental protection responsibility system. Such system includes the adoption of effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials. Any entity that discharges waste material must report to and register with the relevant environmental protection authority.

If an enterprise fails to report or register the environmental pollution caused by it, it is subject to receiving a warning or penalty. Enterprises which fail to restore the environment or remedy the effects of the pollution within the prescribed time are also subject to penalty or termination of their business licenses. Enterprises which have polluted and endangered the environment are responsible for remedying the danger and effects of the pollution, as well as for the payment of compensation for any losses or damages suffered as a result of such environmental pollution. A material violation of the Environmental Protection Law that causes a material loss to public and private belongings or personal injuries or death may result in criminal liability.

Mining rights are granted by the State permitting recipients to conduct mining activities in a specific mining area during the license period. Although management believes that the Company will be able to renew its licenses upon expiry, there can be no assurance that such will occur or that the coal mines will be able to exploit the entire coal resources of its mine during its license period. If management is unable to renew mining rights upon expiry or if the Company cannot effectively utilize the resources within a license period, the operation and performance of our coal mines may be adversely affected.

A mining rights permit entitles the holder to undertake mining activities and infrastructure and ancillary work, in compliance with applicable laws and regulations, within the specific area covered by the license during the license period. Holders are required to submit a mining proposal and feasibility studies to the relevant authority. As required by applicable PRC laws in respect of undeveloped coal mines, coal mine operators are required to conduct trial production and subsequently obtain regulatory certifications to commence commercial production. In order to commence commercial production, a coal mine must obtain permits including (a) a mining right permit; (b) a safe production permit; and (c) a coal production permit. To date, all seven of the Company's coal mines have obtained their respective mining right permits. Baiping Mine, Gouchang Coal, Xinsong Coal and Linjiaao Coal have also obtained safe production and coal production permits and management believes that the remaining three coal mines will receive their safe production and coal production permits following completion of mine construction.

The PRC government places significant regulatory requirements on coal mines with respect to employee safety. We regard occupational health and safety as one of our most important responsibilities and have implemented a number of measures to ensure compliance with stringent PRC regulatory requirements.

From 2008 to 2012, the employee fatality rate for the coal mines was 8.189, 10.687, 17.678, nil and nil persons per million tonnes of raw coal production, respectively. This was higher than the average rate for coal mines in China, which was 1.182, 0.892, 0.749, 0.564 and 0.374 persons per million tonnes, respectively, for the years of from 2008 to 2012, according to statistics published by State Administration of Work Safety, the PRC. We believe that the higher-than-average fatality rate during the year from 2008 to 2010 was caused by the low production volume of those coal mines; the lack of safety awareness of the previous mine owners prior to our acquisition of Wealthy Year; and the lag time required to upgrade our safety facilities. From 2008 to 2012, there were one, two, seven, five and nine employee injuries respectively for the coal mines. There are no published national statistics on employee injury rates.

Each of our operating coal mines has a safety management team that performs monthly safety inspections, or more frequently as deemed necessary. We have compiled an internal safety management manual for mine operations and adopted detailed safety procedures that meet State Coal Mine Safety Guidelines.

With an aim towards preventing accidents, we conduct regular training sessions for our employees to improve their safety awareness and knowledge. We are committed to further reducing our fatality rate and maintaining high safety standards at our production facilities. Subsequent to our acquisition of Wealthy Year, in order to ensure employee safety and avoid accidents, we upgraded and/ or are upgrading our facilities, including, but not limited to, installing double ventilation shafts and dual power supplies, sewage treatment systems, use of steel support instead of timber support and gas drainage systems. We also provide various healthcare benefits to our full-time employees in accordance with applicable laws and regulations.

BUSINESS SEGMENT ADJUSTMENT Corporate Activities

Feishang Management

Feishang Management was incorporated in the PRC on October 6, 2008. It is a wholly owned subsidiary of Yunnan Mining and is engaged in the provision of management and consulting services to the other companies in the group.

FMH Services

FMH Services is a Florida company incorporated in November 2007 in connection with a proposed transaction that was not consummated. FMH Services, which is wholly owned by CHNR, is currently dormant.

Sunwide

Sunwide was incorporated in the British Virgin Islands on January 22, 2001. Sunwide is a wholly owned subsidiary of CHNR and is currently dormant.

Silver Moon

Silver Moon is a British Virgin Islands company incorporated on March 24, 2000. Silver Moon, which is 80%-owned by CHNR, is not currently engaged in active business operations.

C.

Organizational Structure

China Natural Resources is a holding company owning the following subsidiaries, with the interests indicated (as of April 24, 2013):

| | | | | | | | |
|------------------|------------------------|----------------|-----------------------|---------------------|---------|--------------------|----------|
| CHNR | | | | | | | |
| (BVI) | | | | | | | |
| 100% | 100% | 80% | 100% | 100% | 100% | 100% | 100% |
| FMH Services | Feishang Mining | Silver Moon | Wealthy Year | China Coal | Sunwide | Newhold | Pineboom |
| (Florida, US) | (BVI) | (BVI) | (BVI) | (HK) | (BVI) | (BVI) | (BVI) |
| | 100% | | 100% | 100% | | 100% | 100% |
| | Wuhu Feishang | | Smartact | Yangpu Lianzhong | | Feishang | Feishang |
| | (PRC) | | (HK) | (PRC) | | Yongfu | Dayun |
| | | | | | | (HK) | (HK) |
| | 100% | | 100% | | | 100% | |
| | Yunnan Mining | | Guizhou Fuyuantong | | | Yangpu Shuanghu | |
| | (PRC) | | (PRC) | | | (PRC) | |
| | 100% | | 100% | | | | |
| | Feishang Management | | Guizhou Puxin | | | | |
| | (PRC) | | (PRC) | | | | |
| | | | 99% | Linjiaao | | | |
| | | | | Coal | | | |
| | | | | (PRC) | | | |
| | | | 99% | Gouchang | | | |
| | | | | Coal | | | |

(PRC)

99% Xinsong

Coal

(PRC)

99% Dayuan

Coal

(PRC)

70% Baiping

Mining

(PRC)

70% Guizhou

Yongfu

(PRC)

100% Shenzhen
Chixin

(PRC)

100% Bijie
Feishang

(PRC)

1%

99% Jinsha Juli

(PRC)

| | | | |
|------|--------|------|---------|
| 100% | Yangpu | 100% | Guizhou |
| | Dashi | | Dayun |

(PRC)

(PRC)

See Item 4.B. above and Exhibit 8 for descriptions of the Company's subsidiaries.

D.

Property, Plant and Equipment

The Company's administrative offices and its principal subsidiaries are located in Hong Kong, Wuhu (Anhui Province), Guiyang, Liuzhi Special Zone, Nayong County, Jinsha County (Guizhou Province), and Shenzhen (Guangdong Province) in the PRC.

On July 1, 2008, the Company and Anka Consultants Limited, a related party, entered into a new license agreement to replace the office sharing agreement in respect of the Company's new head office in Hong Kong. The agreement was renewed on July 1, 2012. The total area of the office is approximately 368 square meters in which the Company shares 238 square meters. The license agreement provides that the Company shares certain costs and expenses in connection with its use of the office, in addition to some of the accounting and secretarial services and day-to-day office administration provided by Anka Consultants Limited. For the years ended December 31, 2010, 2011 and 2012, the Company paid its share of rental expenses and rates to Anka Consultants Limited amounting to approximately CNY982,000 (US\$157,609), and CNY849,000 (US\$136,263), and CNY1,005,000 (US\$161,301) respectively.

The offices, mining sites and other processing facilities of Wuhu Feishang are all located in Wuhu City, Anhui Province in the PRC. Wuhu Feishang's office premises, processing facilities and warehouses cover a total gross area of approximately 26,000 square meters. As is typical in the PRC, the PRC government owns all of the land on which the improvements and mines are situated. Wuhu Feishang assumed the rights to use the land and its leasehold properties when it acquired the entire business of Anhui Fanchang, Wuhu Feishang's predecessor.

The office of Guizhou Puxin is located in Guiyang City, Guizhou Province, in the PRC. Prior to April 2012, Guizhou Puxin rented its office covering a total gross area of 1,063.44 square meters. In September 2011, Guizhou Puxin purchased commercial properties covering a total gross area of 866.37 square meters. Guizhou Puxin terminated the leasing agreement of the rented office and moved its office to the purchased property in April 2012.

The office and mining site of Guizhou Yongfu are located in Huajue, Jinsha County, Guizhou Province in the PRC. Guizhou Yongfu's office premises, processing facilities and warehouses cover a total gross area of approximately 119,411 square meters.

The office and mining site of Guizhou Dayun is located in Jinsha County and its mining site is located in Gaoping, Jinsha County, Guizhou Province in the PRC. Guizhou Dayun's office covers a total gross area approximately 120,346 square meters.

The office and mining site of Baiping Mining are located in Gaoping, Jinsha County, Guizhou Province in the PRC. Baiping Mining's office premises, processing facilities and warehouses cover a total gross area of approximately 41,994 square meters.

The office and mining site of Dayuan Coal are located in Xinfang, Nayong County, Guizhou Province in the PRC. Dayuan Coal's office premises, processing facilities and warehouses cover a total gross area of approximately 72,814 square meters.

The office and mining site of Gouchang Coal are located in Kunzhai, Nayong County, Guizhou Province in the PRC. Gouchang Coal's office premises, processing facilities and warehouses cover a total gross area of approximately 43,476 square meters.

The office and mining site of Linjiaao Coal are located in Xinhua, Liuzhi Special Zone, Guizhou Province in the PRC. Linjiaao Coal's office premises, processing facilities and warehouses cover a total gross area of approximately 37,913 square meters.

The office and mining site of Xinsong Coal are located in Xinhua, Liuzhi Special Zone, Guizhou Province in the PRC. Xinsong Coal's office premises, processing facilities and warehouses cover a total gross area of approximately 49,278 square meters.

For the years ended December 31, 2010, 2011, and 2012, the Company incurred capital expenditures (excluding fees for renewal of mining rights) of CNY249.00 million (US\$39.96 million), and CNY349.63 million (US\$56.11 million), and CNY362.63 million (US\$58.20 million) respectively.

See Item 4.B. for the details of the property, plants and equipment used by each of the mines and Item 5.B. for the Company's material commitments for capital expenditures.

ITEM 4A.

UNRESOLVED STAFF COMMENTS

No disclosure is required in response to this Item.

ITEM 5.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Forward-Looking Statements

The following discussion contains statements that constitute forward-looking statements within the meaning of Federal securities laws. These statements include, without limitation, statements regarding the intentions, beliefs and current expectations of Company management with respect to the Company's policies regarding investments, dispositions, financings, conflicts of interest and other matters; and trends affecting the Company's financial condition or results of operations. Forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statement as a result of various factors. Among the risks and uncertainties that could cause our actual results to differ from our forward-looking statements are our intent, belief and current expectations as to business operations and operating results, uncertainties regarding the governmental, economic and political circumstances in the People's Republic of China, risks and hazards associated with the Company's mining activities, uncertainties associated with metal and coal price volatility, uncertainties associated with the Company's reliance on third-party contractors, uncertainties relating to possible future increases in operating expenses, including costs of labor and materials, and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission, including without limitation the information set forth in Item 3.D. of this report under the heading, "Risk Factors." With respect to forward-looking statements that include a statement of its underlying assumptions or bases, the Company cautions that, while it believes its assumptions or bases are reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, the Company, or its management, expresses an expectation or belief as to future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished.

The following discussion and analysis of the results of operations and the Company's financial position should be read in conjunction with the consolidated financial statements and accompanying notes for the years ended December 31, 2010, 2011 and 2012 included elsewhere herein.

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements for the year ended December 31, 2011 were the first the Group has prepared in accordance with IFRS.

A.

Operating Results

Revenues and Gross Profit

Revenue for sales of all products is recognized when title passes to the customer in accordance with the relevant sales agreement, generally upon product acceptance by the customer.

2012 vs 2011

The Company's total sales for the year ended December 31, 2012 increased by CNY8.52 million (US\$1.37 million), or 5.75%, to CNY156.67 million (US\$25.15 million) from CNY148.15 million (US\$23.78 million) for the year ended December 31, 2011. The modest increase was mainly contributed by: (i) an approximately 78.91% higher sales volume of anthracite from 243,247 tonnes for the year of 2011 to 435,205 tonnes for the year ended December 31, 2012; and (ii) an increase in the average selling price per tonne of anthracite coal production from CNY297 (US\$48) for the year of 2011 to CNY324 (US\$52) for the year ended December 31, 2012, but was offset by (x) a decrease in the production volume and the average selling price per tonne of zinc and iron concentrates by the metal segment; and (y) the drop in the anthracite trading business amounting to CNY31.94 million (US\$5.13 million) in 2012.

Sales of internally-produced anthracite in our coal segment increased by CNY68.67 million (US\$11.02 million), or 95.18%, from CNY72.15 million (US\$11.58 million) in 2011 to CNY140.82 million (US\$22.60 million) in 2012. The increase was mainly contributed by the rise in both the production capacity and the selling price of anthracite in 2012. The sales volume of anthracite mined increased by 191,958 tonnes from 243,247 tonnes in 2011 to 435,205 tonnes in 2012. The increase was primarily attributable to the higher production of Baiping Mining and the commencement of commercial production of Linjiaao and Xinsong Coal in 2012. The average selling price of internally-produced anthracite was CNY324 (US\$52) per tonne in 2012, representing an increase of CNY27 (US\$4.33), or 9.09%, from CNY297 (US\$48) in 2011.

Anthracite trading activities in our coal segment are considered incidental to our core business and constituted a relatively small business in early 2012. Sales totaled CNY1.12 million (US\$0.18 million) in 2012.

Sales generated from our metal segment's operation were mainly derived from sales of zinc concentrates, iron concentrates and micaceous iron oxide-grey. Sales of zinc dropped by CNY8.06 million (US\$1.29 million), or 77.28%, from CNY10.43 million (US\$1.67 million) in 2011 to CNY2.37 million (US\$0.38 million) in 2012. The decrease was primarily attributable to the decrease in both our zinc sales volume and sales price in 2012. In 2012, we sold 258 tonnes of zinc, representing a decrease of 755 tonnes, or 75%, from 1,013 tonnes in 2011. The decrease in zinc concentrates production was due to (i) the production suspension order of all mines in Wuhu city in the fourth quarter of 2011 (which was lifted in the first quarter of 2012) by Wuhu municipal government for inspection as a result of a mine accident in Wuhu city; and (ii) the suspension of production for mine recovery from June 2012 to October 2012. In addition, the selling price of zinc in 2012 decreased by CNY1,104 (US\$177) per tonne, or 10.73%, from CNY10,294 (US\$1,652) in 2011 to CNY9,190 (US\$1,475) in 2012. Sales of iron concentrates also dropped by CNY16.28 million (US\$2.61 million), or 62.02%, from CNY26.25 million (US\$4.21 million) in 2011 to CNY9.97 million (US\$1.60 million) in 2012. The decrease in iron concentrates sales was mainly caused by a drop in both iron sales volume and sales price in 2012. The sales volume of iron decreased by 11,049 tonnes from 21,163 tonnes in 2011 to 10,114 tonnes in 2012. The decrease in iron concentrates production was caused by the production suspensions described above. The average selling price of iron was CNY986 (US\$158) per tonne in 2012, representing a drop of CNY255 (US\$41), or 20.55%, from CNY1,241 (US\$199) in 2011. Sales of micaceous iron oxide-grey decreased by CNY1.90 million (US\$0.30 million), or 69.60%, from CNY2.73 million (US\$0.44 million) in 2011 to CNY0.83 million (US\$0.13 million) in 2012. The decrease was mainly due to cessation of micaceous iron oxide-grey operations. We sold 428 tonnes of micaceous iron oxide-grey in 2012, representing an decrease of 996 tonnes, or 69.94% from 1,424 tonnes in 2011. However, the average selling price of micaceous iron oxide-grey slightly increased by CNY22 (US\$4) per tonne, or 1.15%, from CNY1,920 (US\$308) in 2011 to CNY1,942 (US\$312) in 2012.

The Company's gross profit for the year ended December 31, 2012 decreased to CNY51.74 million (US\$8.30 million) with a gross profit margin of 33.03%, compared to CNY52.62 million (US\$8.45 million) with a gross profit margin of 35.52% for the year ended December 31, 2011. The approximately CNY0.88 million (US\$0.14 million), or 1.66%, drop in gross profit, was mainly due to (i) the decrease in iron and zinc selling prices and production volume in the metal segment compared to the prior year; and (ii) the increase in the internally-produced anthracite in our coal segment in 2012. The gross profit or gross profit margin on sales of internally-produced anthracite in our coal segment for the year ended December 31, 2012 was CNY46.04 million (US\$7.39 million) or approximately 32.70%, compared to CNY28.09 million (US\$4.51 million) or approximately 38.94% for the year ended December 31, 2011. The increase in gross profit was primarily due to the increase of anthracite volume sold and the rise in the selling price of anthracite.

The gross profit or gross profit margin on sales of zinc concentrates for the year ended December 31, 2012 was CNY0.78 million (US\$0.13 million) or 32.67%, compared to CNY6.11 million (US\$0.98 million) or 58.61% for the same period in 2011. The drop in gross profit was mainly caused by the decrease in zinc volume sold. The gross profit or gross profit margin on sales of iron for the year ended December 31, 2012 was CNY4.77 million (US\$0.77 million), or approximately 47.84%, compared to CNY14.57 million (US\$2.34 million), or 55.51% for the same period in 2011. The decrease in gross profit was primarily caused by the drop in both iron volume sold and selling price of iron concentrates.

The metal division recorded a gross loss of CNY0.37 million (US\$0.06 million) on sales of micaceous iron oxide-grey for the year ended December 31, 2012, as compared to a gross loss of CNY1.01 million (US\$0.16 million) for the same period in 2011. The gross loss was mainly due to an increase in the price of raw materials purchased, together with a drop in the sales volume of micaceous iron oxide-grey.

2011 vs 2010

The Company's total sales for the year ended December 31, 2011 increased by CNY54.80 million (US\$8.80 million), or 58.70%, to CNY148.15 million (US\$23.78 million) from 93.35 million (US\$14.98 million) for the year ended December 31, 2010. The increase was mainly comprised of (i) results from the new anthracite trading business amounting to CNY33.06 million (US\$5.31 million) in 2011; (ii) an approximately 46.22% higher production volume of anthracite during the entire 2011 year, compared to only nine months of anthracite mining operations during the prior period; (iii) an increase in the average selling price per tonne of anthracite coal production from CNY232 (US\$37) for the year of 2010 to CNY297 (US\$48) for the year ended December 31, 2011, and (iv) an increase in the average selling price per tonne of iron concentrates from CNY1,047 (US\$168) for the year ended December 31, 2010 to CNY1,241 (US\$199) for the same period of 2011, which is partially off-set by the drop in production volume of zinc and iron concentrates by the metal segment.

Sales of internally-produced anthracite in our coal segment increased by CNY33.48 million (US\$5.37 million), or 86.59%, from CNY38.67 million (US\$6.21 million) in 2010 to CNY72.15 million (US\$11.58 million) in 2011. The increase was mainly contributed by the rise in both sales volume and selling price in 2011. The sales volume of anthracite mined increased by 76,885 tonnes from 166,362 tonnes in 2010 to 243,247 tonnes in 2011. The increase was primarily attributable to the commencement of commercial production of Gouchang Coal in 2011. The average selling price of internally-produced anthracite was CNY297 (US\$48) per tonne in 2011, representing an increase of CNY65 (US\$10), or 28.02%, from CNY232 (US\$37) in 2010.

Anthracite trading in our coal segment constituted a new business in 2011. Sales totaled CNY33.06 million (US\$5.31 million) in 2011.

Sales generated from our metal segment's operation were mainly derived from sales of zinc concentrates, iron concentrates and micaceous iron oxide-grey. Sales of zinc dropped by CNY4.15 million (US\$0.67 million), or 28.44%, from CNY14.58 million (US\$2.34 million) in 2010 to CNY10.43 million (US\$1.67 million) in 2011. The decrease was primarily attributable to the decrease in both our zinc sales volume and sales price in 2011. In 2011, we sold 1,013 tonnes of zinc, representing a decrease of 394 tonnes, or 28%, from 1,408 tonnes in 2010. The decrease in zinc concentrates production was primarily due to the temporary production suspension order of all mines in Wuhu city in the fourth quarter of 2011 by the Wuhu municipal government for inspection as a result of a mine accident in Wuhu city. In addition, the selling price of zinc in 2011 slightly decreased by CNY64 (US\$10) per tonne, or 0.61%, from CNY10,358 (US\$1,662) in 2010 to CNY10,294 (US\$1,652) in 2011. Sales of iron concentrates also dropped by CNY10.44 million (US\$1.68 million), or 28.45%, from CNY36.69 million (US\$5.89 million) in 2010 to CNY26.25 million (US\$4.21 million) in 2011. The decrease in iron concentrates sales was mainly caused by a drop in sales volume in 2011, partly offset by a rise in the selling price of iron concentrates. The sales volume of iron decreased by 13,879 tonnes from 35,042 tonnes in 2010 to 21,163 tonnes in 2011. The decrease in iron concentrates production was primarily due to the temporary production suspension order of all mines in Wuhu city in the fourth quarter of 2011 by Wuhu municipal government for inspection as a result of a mine accident in Wuhu city. The average selling price of iron is CNY1,241 (US\$199) per tonne in 2011, representing an increase of CNY194 (US\$31), or 18.47%, from CNY1,047 (US\$168) in 2010. Sales of micaceous iron oxide-grey increased by CNY0.77 million (US\$0.12 million), or 39.34%, from CNY1.96 million (US\$0.31 million) in 2010 to CNY2.73 million (US\$0.44 million) in 2011. The increase was due to an increase in sales volume of micaceous iron oxide-grey, partly offset by a slight decrease in the average selling price of micaceous iron oxide-grey in 2011. We sold 1,424 tonnes of micaceous iron oxide-grey in 2011, representing an increase of 417 tonnes, or 41.41% from 1,007 tonnes in 2010. However, the average selling price of micaceous iron oxide-grey dropped slightly by CNY29 (US\$5) per tonne, or 1.51%, from CNY1,949 (US\$313) in 2010 to CNY1,920 (US\$308) in 2011.

The Company's gross profit for the year ended December 31, 2011 increased to CNY52.62 million (US\$8.45 million) with a gross profit margin of 35.52%, compared to CNY39.82 million (US\$6.39 million) with a gross profit margin of 42.65% for the year ended December 31, 2010. Gross profit increased approximately CNY12.80 million (US\$2.05 million), or 32.15%, was mainly due to (i) an increase in the anthracite trading business by our coal segment in 2011; and (ii) a rise in iron selling prices of approximately 18.74% compared to the prior year in the metal segment, partly offset by a decrease in iron production volume of approximately 39.61%. The gross profit or gross profit margin on sales of internally-produced anthracite in our coal segment for the year ended December 31, 2011 was CNY28.09 million (US\$4.51 million) or approximately 38.94%, compared to CNY13.22 million (US\$2.12 million) or approximately 34.18% for the period from March 18, 2010 (acquisition date) to December 31, 2010. The increase in gross profit was primarily due to the increase of anthracite volume sold and the increase of anthracite selling price. The gross profit or gross profit margin on sales of anthracite trading in our coal segment for the year ended December 31, 2011 was CNY2.83 million (US\$0.45 million) or approximately 8.56%.

The gross profit or gross profit margin on sales of zinc for the year ended December 31, 2011 was CNY6.11 million (US\$0.98 million) or 58.61%, compared to CNY7.59 million (US\$1.22 million) or 52.08% for the same period in 2010. The slight drop in gross profit was mainly caused by the decrease in zinc volume sold. The gross profit or gross profit margin on sales of iron for the year ended December 31, 2011 was CNY14.57 million (US\$2.34 million), or approximately 55.51%, compared to CNY18.76 million (US\$3.01 million), or 51.52% for the same period in 2010. The decrease in gross profit was primarily caused by the decrease in iron volume sold, which was partly offset by a higher selling price of iron concentrates.

The metal division recorded a gross loss of CNY1.01 million (US\$0.16 million) on sales of micaceous iron oxide-grey for the year ended December 31, 2011, as compared to a gross loss of CNY0.28 million (US\$0.04 million) for the same period in 2010. The gross loss was mainly due to an increase in the price of raw materials purchased, together with a slight drop in the selling price of micaceous iron oxide-grey.

Administrative Expenses

2012 vs 2011

Administrative expenses are mainly comprised of salaries and staff welfare expenses, contribution to retirement fund, utilities, depreciation expenses, impairment of exploration right, legal and professional fees, travel and entertainment expenses, losses on suspension of production and office expenses.

Administrative expenses in 2012 increased by CNY23.09 million (US\$3.71 million), or 31.34% to CNY96.76 million (US\$15.53 million) from CNY73.67 million (US\$11.82 million) in 2011. This increase was mainly caused by (i) the increase in professional expense amounting to CNY9.14 million (US\$1.47 million) in relation to the preparation of proposed spin-off of its coal division outside the US; (ii) the increase in payroll expense amounting to CNY7.94 million (US\$1.27 million) due to the increase in administrative staff; and (iii) the rise in entertainment expense of CNY3.54 million (US\$0.57 million) following the expansion in operation.

2011 vs 2010

Administrative expenses in 2011 decreased by CNY15.12 million (US\$2.43 million), or 17.03% to CNY73.67 million (US\$11.82 million) from CNY88.79 million (US\$14.25 million) in 2010. The decrease in 2011 was mainly due to the full recognition of share-based compensation amounting to CNY26.02 million (US\$4.18 million) in 2010, partly

offset by the increase in salary, entertainment, travelling expense and office expense attributable to the new coal segment amounting to CNY8.91 million (US\$1.43 million).

Other Operating Expenses, net

2012 vs 2011

Other operating expense for the year ended December 31, 2012 increased by CNY2.53 million (US\$0.41 million) from CNY1.55 million (US\$0.25 million) for the year ended December 31, 2011 to CNY4.08 million (US\$0.66 million). The increase was primarily caused by the increase in mine recovery expense of Yangchong mine amounting to CNY3.51 million (US\$0.56 million). The increase was partly offset by the one-off government grant by the metal segment amounting to CNY1.02 million (US\$0.16 million).

2011 vs 2010

Other operating expense for the year ended December 31, 2011 decreased by CNY7.48 million (US\$1.20 million) to CNY1.55 million (US\$0.25 million) from CNY9.03 million (US\$1.45 million) for the year ended December 31, 2010. The drop was primarily attributable to (i) the decrease in the penalty for operation accident amounting to CNY3.30 million (US\$0.53 million); and (ii) the decrease in the compensation cost to local residents for the closure of old production system amounting to CNY2.60 million (US\$0.42 million).

Finance Cost

2012 vs 2011

Finance cost increased to CNY44.86 million (US\$7.20 million) in 2012, from CNY32.22 million (US\$5.17 million) in 2011. This increase was mainly caused by (i) the rise in the average interest rate of bank borrowing from 7.65% for the same period of 2011 to 8.34% for the year of 2012; and (ii) the increase in bank borrowing for 2012, as compared to 2011.

2011 vs 2010

Finance cost increased to CNY32.22 million (US\$5.17 million) in 2011, from CNY6.01 million (US\$0.96 million) in 2010. This increase was mainly caused by (i) the rise in base lending rate as stipulated by the People's Bank of China, for example, from 5.81% as of December 31, 2010 to 6.56% as of December 31, 2011 for a one-year loan; and (ii) the increase in bank borrowing for 2011, as compared to 2010.

Gain on Disposal of Associates

2012 vs 2011

No gain in disposal of associates was recorded for the years ended December 31, 2012 and 2011.

2011 vs 2010

No gain in disposal of associates was recorded for the year ended December 31, 2011. Gain on disposal of associates of CNY30.57 million (US\$4.91 million) in 2010 was attributable to a CNY7.27 million (US\$1.17 million) gain from the disposal of a 45% equity interest in Guangdong Longchuan in January 2010, and CNY23.30 million (US\$3.74 million) from the disposal of a 48% equity interest in Hainan Nonferrous Metal in December 2010.

Gain from Bargain Purchase of a Subsidiary

2012 vs 2011

No gain from bargain purchase of a subsidiary was recorded for the year ended December 31, 2012 and 2011.

2011 vs 2010

No gain from bargain purchase of a subsidiary was recorded for the year ended December 31, 2011. Gain from bargain purchase of a subsidiary of CNY624.15 million (US\$100.17 million) in 2010 was derived from the acquisition

of Guizhou Puxin and its subsidiaries other than Guizhou Yongfu, Bijie Feishang and Yangpu Dashi (and its direct subsidiary Guizhou Dayun) in March 2010. The difference between the fair value recognized by the Shareholder of CNY774.15 million (US\$124.25 million) and the purchase price paid to unrelated third parties by the Shareholder of CNY150 million (US\$24.07 million) was recognized as gain from the bargain purchase of a subsidiary in 2010.

Non-operating Income (Expense), net

2012 vs 2011

Non-operating income (expense) for the year ended December 31, 2012 decreased by CNY6.70 million (US\$1.08 million) to a net expense of CNY2.40 million (US\$0.39 million) from a net income of CNY4.30 million (US\$0.69 million) for the year ended December 31, 2011. The decrease was primarily caused by (i) the write back of over-accrued liabilities amounting to CNY5.26 million (US\$ 0.84 million) by the metal segment in 2011 which did not recur in 2012; (ii) the increase in sponsorships and special contribution to the community and government organizations amounting to CNY1.45 million (US\$0.23 million).

2011 vs 2010

Non-operating income (expense) for the year ended December 31, 2011 increased by CNY6.17 million (US\$0.99 million) to a net income of CNY4.30 million (US\$0.69 million) from a net expense of CNY1.87 million (US\$0.30 million) for the year ended December 31, 2010. The increase was primarily attributable to the reversal of long-outstanding payables amounting to CNY5.26 million (US\$0.84 million) in the metal segment that were deemed to be no longer due.

Income Tax Expense

Management believes that the Company is not subject to taxes in the United States.

Under the current laws of the BVI, dividends and capital gains arising from the Company's investments in the BVI are not subject to income taxes and no withholding tax is imposed on payments of dividends to the Company.

The Company's subsidiaries in the PRC are subject to a PRC enterprise income tax rate of 25% applicable to both foreign investment enterprises and domestic companies.

2012 vs 2011

Income tax expense turned from an expense of CNY14.04 million (US\$2.25 million) in 2011 to a benefit of CNY16.18 million (US\$2.60 million) in 2012. The decrease was mainly contributed by (i) the decrease in deferred income tax expense amounting to CNY29.97million (US\$4.81 million) arising from the recognition of deferred tax assets amounting to CNY31.81 million (US\$5.11 million) in 2012; and (ii) the decrease in current income tax expense amounting to CNY0.25 million (US\$0.04 million).

2011 vs 2010

Income tax expense increased to CNY14.04 million (US\$2.25 million) in 2011 from CNY12.22 million (US\$1.96 million) in 2010. The rise was mainly caused by the increase in current income tax expense amounting to CNY3.66 million (US\$0.59 million), which was partly offset by the decrease in deferred income tax expense amounting to CNY1.84 million (US\$0.30 million).

Profit (Loss) Attributable to Owners of the Company

2012 vs 2011

As a result of the foregoing, loss attributable to owners of the Company increased by CNY23.72 million (US\$3.81 million) from a net loss of CNY65.98 million (US\$10.59 million) for the year ended December 31, 2011 to a net loss of CNY89.70 million (US\$14.40 million) for the year ended December 31, 2012. The increase was mainly due to (i) the increase of administrative expenses by amounting to CNY23.09 million (US\$3.71 million) in 2012; (ii) the increase of finance cost by amounting to CNY12.64 million (US\$2.03 million) in 2012; and (iii) the increase of non-operating expense by amounting to CNY6.70 million (US\$1.08 million) in 2012. The increase was partly offset by the decrease in income tax expense amounting to CNY30.22 million (US\$4.85 million).

2011 vs 2010

As a result of the foregoing, profit (loss) attributable to owners of the Company decreased by CNY638.23 million (US\$102.43 million) from a net profit of CNY572.25 million (US\$91.85 million) for the year ended December 31, 2010 to a net loss of CNY65.98 million (US\$10.59 million) for the year ended December 31, 2011. The drop was mainly due to (i) the one-time item in 2010, including CNY624.15 million (US\$100.17 million) bargained purchase gain relating to Guizhou Puxin's acquisition in 2010 and the gain amounting to CNY30.57 million (US\$4.91 million) on the disposal of a 45% equity interest in Guangdong Longchuan and a 48% interest in Hainan Non-ferrous Metal in 2010, and (ii) the increase of finance cost by CNY26.21 million (US\$4.21 million) in 2011. The decrease was partly offset by (i) the CNY12.80 million (US\$2.05 million) increase in gross profits; and (ii) the share-based compensation amounting to CNY26.02 million (US\$4.18 million) which was fully recognized in 2010.

Critical Accounting Policies

Our financial statements reflect the selection and application of accounting policies which require management to make significant estimates and assumptions. We believe that the following are some of the more significant judgment areas in the application of our accounting policies that currently affect our financial condition and results of operations.

Revenue recognition

The Group sells its products pursuant to sales contracts entered into with its customers. Revenue for all products is recognized when the significant risks and rewards of ownership have passed to the customer and when collectability is reasonably assured. The passing of the significant risks and rewards of ownership to the customer is based on the terms of the sales contract, generally upon delivery and acceptance of the product by the customer.

In accordance with the relevant tax laws in the PRC, value-added taxes (VAT) is levied on the invoiced value of sales and is payable by the purchaser. The Group is required to remit the VAT it collects to the tax authority, but may deduct the VAT it has paid on eligible purchases. The difference between the amounts collected and paid is presented as VAT recoverable or payable balance in the consolidated statements of financial position.

The price adjustment fund (PAF) was imposed by the Guizhou Provincial Government of the PRC at predetermined rates and on the quantity of coal sold by entities operated in the Guizhou Province. The PAF paid can be claimed as a deductible expense for corporate income tax purposes and the amount claimed is based on the actual amount paid.

Property, plant and equipment

Property, plant and equipment is comprised of buildings, mining structures, mining rights, machinery and equipments, motor vehicle, exploration rights and construction in progress.

Exploration rights are capitalized and amortized over the term of the license granted to the Group by the authorities.

When proved and probable reserves have been determined, costs incurred to develop coal mines are capitalized as part of the cost of the mining structures.

Buildings, mining structures, machinery and equipment, and motor vehicles are stated at cost less accumulated depreciation and any impairment losses. Expenditures for routine repairs and maintenance are expensed as incurred.

Mining rights are stated at cost less accumulated amortization and any impairment losses. The costs of mining rights are initially capitalized when purchased. If proven and probable reserves are established for a property and it has been determined that a mineral property can be economically developed, costs are capitalized and are amortized upon productions based on actual units of production over the estimated proven and probable reserves of the mines. For mining rights in which proven and probable reserves have not yet been established, the Group assesses the carrying value for impairment at the end of each reporting period. The Group's rights to extract minerals are contractually limited by time. However, the Group believes that it will be able to extend licenses, as it has in the past.

Mining related buildings & mining structures and mining related machinery & equipment are stated at cost less accumulated depreciation and any impairment losses. Those mining related assets for which probable reserves have been established are depreciated upon production based on actual units of production over the estimated proven and probable reserves of the mines.

Reserve estimates are reviewed when information becomes available that indicates a reserve change is needed, or at a minimum once a year. Any material effect from changes in estimates is considered in the period the change occurs.

Depreciation is calculated on the straight-line basis over each asset's estimated useful life down to the estimated residual value of each asset. Estimated useful lives are as follows:

| | |
|--|---------------|
| Non-mining related buildings | 15 - 35 years |
| Non-mining related machinery and equipment | 5 - 15 years |
| Motor vehicles | 5 - 8 years |

Residual values, useful lives and the depreciation method are reviewed and, adjusted if appropriate, at each reporting date.

When properties are retired or otherwise disposed, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposition is recognized in income statements.

Construction in progress is carried at cost and is to be depreciated when placed into service over the estimated useful lives or units of production of those assets. Construction costs are capitalized as incurred. Interest is capitalized as incurred during the construction period.

Exploration and evaluation costs

Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralization in existing coal bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is expensed as incurred.

Once the exploration right to explore has been acquired, exploration and evaluation expenditure is charged to income statements as incurred, unless a future economic benefit is more likely than not to be realized. Exploration and evaluation assets acquired in a business combination are initially recognized at fair value. They are subsequently stated at cost less accumulated impairment.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible or intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated income statements or consolidated statements of comprehensive income, either as an expense as it relates to operating activities or as a component of the applicable categories of other comprehensive income or loss.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

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where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

.

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

.

where the deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

.

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Asset retirement obligations

The Group's legal or constructive obligations associated with the retirement of non-financial assets are recognized at fair value at the time the obligations are incurred and if it is probable that an outflow of resources will be required to settle the obligation, and a reasonable estimate of fair value can be made. Upon initial recognition of a liability, a corresponding amount is capitalized as part of the carrying amount of the related property, plant and equipment. Asset retirement obligations are regularly reviewed by management and are revised for changes in future estimated costs and regulatory requirements. Changes in the estimated timing of retirement or future estimated costs are dealt prospectively by recording an adjustment against the carrying value of the provision and a corresponding adjustment to property and equipment. Depreciation of the capitalized asset retirement cost is generally determined on a units-of-production basis. Accretion of the asset retirement obligation is recognized over time and generally will escalate over the life of the producing asset, typically as production declines. Accretion is included in the finance cost in the consolidated income statements. Any difference between the recorded obligation and the actual costs of reclamation is recorded in income statements in the period the obligation is settled.

Issued but not yet effective International Financial Reporting Standards

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|--|
| IFRS 1 Amendments | Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Government Loans</i> |
| IFRS 7 Amendments | Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> |
| IFRS 9 | <i>Financial Instruments</i> ⁴ |
| IFRS 10 | <i>Consolidated Financial Statements</i> ² |
| IFRS 11 | <i>Joint Arrangements</i> ² |
| IFRS 12 | <i>Disclosure of Interests in Other Entities</i> ² |
| IFRS 10, IFRS 11, and IFRS 12 Amendments | Amendments to IFRS 10, IFRS 11 and IFRS 12 <i>Transition Guidance</i> ² |
| IFRS 10, IFRS 12 and IAS 27 (2011) Amendments | Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) <i>Investment Entities</i> |
| IFRS 13 | <i>Fair Value Measurement</i> ² |
| IAS 1 Amendments | Amendments to IAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ¹ |
| IAS 19 Amendments | Amendments to IAS 19 <i>Employee Benefits</i> ² |
| IAS 27 (Revised) | <i>Separate Financial Statements</i> ² |
| IAS 28 (Revised) | <i>Investments in Associates and Joint Ventures</i> ² |
| IAS 32 Amendments | Amendments to IAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ³ |
| IFRIC 20* <i>Annual Improvements 2009-2011 Cycle</i> | <i>Stripping Costs in the Production Phase of a Surface Mine</i> ² Amendments to a number of IFRSs issued in May 2012 ² |

* Not applicable to the Group since all mines are underground

¹ Effective for annual periods beginning on or after July 1, 2012

² Effective for annual periods beginning on or after January 1, 2013

³ Effective for annual periods beginning on or after January 1, 2014

⁴ Effective for annual periods beginning on or after January 1, 2015

Further information about those IFRSs that are expected to significantly affect the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from January 1, 2013.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortized cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the *Additions*) and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the *Additions* were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option (*FVO*). For these *FVO* liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income (*OCI*). The remainder of the change in fair value is presented in the income statement, unless presentation of the fair value change in respect of the liability's credit risk in *OCI* would create or enlarge an accounting mismatch in the income statement. However, loan commitments and financial guarantee contracts which have been designated under the *FVO* are scoped out of the *Additions*.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from January 1, 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgment to determine which entities are controlled, compared with the requirements in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly-Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Group is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12 and the consequential amendments to IAS 27 and IAS 28 from January 1, 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from January 1, 2013.

The IAS 1 amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from January 1, 2013.

The IAS 19 Amendments include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The amendments introduce significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt the IAS 19 Amendments from January 1, 2013.

The IAS 32 Amendments clarify the meaning of *currently has a legally enforceable right to set off* for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on January 1, 2014.

The Group has already commenced an assessment of the related impact of the above revised standards, amendments and interpretations on the Group's financial statements and is not expecting any significant impact on the Group's financial position and results.

Improvements to IFRSs

Apart from the above, the IASB has also issued improvements to IFRSs which set out amendments to a number of IFRSs primarily with a view to remove inconsistencies and clarify wording. The adoption of those amendments upon their effective dates did not have any material impact on the accounting policies, financial position or performance of the Group. While the adoption of some of the amendments when they will become effective after July 1, 2012 may result in changes in accounting policy, none of them are expected to have a material financial impact on the Group.

B.**Liquidity and Capital Resources**

The Company's primary liquidity needs are to fund operating expenses, capital expenditures and acquisitions. To date, the Company has financed its working capital requirements and capital expenditures through internally generated cash, proceeds from sales of securities, short-term/ long-term bank loans and non-interest bearing loans from the Shareholder and its affiliates.

Total debt consists of the following:

| | 2011 | December 31, | |
|--|----------------|---------------------|-----------------|
| | <i>CNY 000</i> | <i>CNY 000</i> | 2012 |
| | | | <i>US\$ 000</i> |
| Bank Loans | | | |
| Guizhou Yongfu CNY200 million long-term loan | 188,742 | 200,000 | 32,100 |
| Guizhou Yongfu CNY50 million long-term loan | 50,000 | 45,000 | 7,222 |
| Guizhou Puxin CNY150 million long-term loan | 150,000 | 100,000 | 16,050 |
| Guizhou Puxin CNY20 million short-term loan | 20,000 | | |
| Guizhou Puxin CNY30 million short-term loan | 30,000 | | |
| Guizhou Puxin CNY50 million short-term loan | 50,000 | | |
| Guizhou Puxin CNY70 million short-term loan | 70,000 | | |
| Guizhou Puxin CNY20 million short-term loan | | 20,000 | 3,210 |
| Guizhou Puxin CNY30 million short-term loan | | 30,000 | 4,815 |
| Guizhou Puxin CNY100 million short-term loan | | 100,000 | 16,050 |
| Guizhou Puxin CNY60 million short-term loan | | 60,000 | 9,630 |
| Guizhou Puxin CNY25 million short-term loan | | 25,000 | 4,012 |
| Guizhou Puxin CNY30 million short-term loan | | 30,000 | 4,815 |
| Xinsong Coal CNY50 million long-term loan | 50,000 | 50,000 | 8,025 |
| Linjiaao Coal CNY90 million long-term loan | 90,000 | 81,630 | 13,101 |
| Guizhou Dayun CNY300 million long-term loan | 50,000 | 180,000 | 28,890 |
| Guizhou Dayun CNY150 million long-term loan | | 10,000 | 1,605 |
| Dayuan Coal CNY100 million long-term loan | | 81,900 | 13,145 |
| Mining right payables | | | |
| Guizhou Yongfu | 59,538 | 53,538 | 8,593 |
| Guizhou Dayun | 58,300 | 46,640 | 7,486 |
| Gouchang Coal | 1,752 | | |
| Linjiaao Coal | 6,400 | 3,200 | 514 |
| Non-interest bearing loans from the Shareholder and its affiliates | 447,134 | 677,663 | 108,764 |
| Total | 1,321,866 | 1,794,571 | 288,027 |

On February 2, 2009, Guizhou Yongfu, an indirect 70%-owned subsidiary of the Company, entered into a bank financing agreement to fund construction and development of the Yongsheng Mine, a coal mine located in Huajuexiang, Jinsha County, Guizhou Province, in the PRC. Guizhou Yongfu owns the mining rights to the Yongsheng Mine. The CNY200 million (US\$32.10 million) long-term loan is being provided by the Chongqing

Branch of China Minsheng Banking Corp. Ltd. The loan is to be paid in annual installments of principal commencing in 2013 and terminating in 2017. Repayment of the loans is expected to be financed by the operating cash flow of Guizhou Yongfu and other forms of bank borrowings/ equity financing. The loan bears interest, payable quarterly, at a floating rate equal to 30% above the over-5-year base lending rate stipulated by The People's Bank of China (currently 6.55% per annum, resulting in a current annual interest rate of 8.52% per annum). The loan is also secured by Guizhou Yongfu's mining permit covering the mine, and payment of the loan is guaranteed by Pingxiang Iron & Steel Co. Ltd. (Pingxiang). Pingxiang was a related company controlled by Mr. Li Feilie, who is also an executive officer, director and the principal beneficial owner of the Company. Upon the disposition by Mr. Li Feilie in January 2013, Pingxiang became an independent third party thereafter. Guizhou Yongfu fully drew down CNY200.00 million (US\$32.10 million) of the loan by December 31, 2012. The Yongsheng Mine is under construction. Guizhou Yongfu intends to finance the balance of the estimated construction costs through a combination of internally generated funds and additional third-party loans. The CNY2 million (US\$0.32 million) first installment of the loan was repaid on January 31, 2013 and the CNY8 million (US\$1.28 million) second installment of the loan was repaid on March 14, 2013.

On January 12, 2010, Guizhou Yongfu received a CNY50 million (US\$8.02 million) long-term bank loan from Bank of China Corp. Ltd., to be repaid in installments over five years commencing in 2012. The purpose of the loan is to finance the construction of the Yongsheng Mine. The loan bears a floating annual interest rate of 6.55% (the over-5-year official base lending rate stipulated by The People's Bank of China) (currently 6.55% per annum). Guizhou Yongfu fully drew down the loan in January 2010. The loan is secured by Guizhou Yongfu's mining permit covering the mine, and the payment of the loan is guaranteed by Pingxiang. The CNY5 million (US\$0.80 million) first installment of the loan was repaid on January 16, 2012 and CNY10 million (US\$1.60 million) second installment of the loan was repaid on January 16, 2013.

On June 10, 2010, Guizhou Puxin received a CNY10 million (US\$1.60 million) short-term bank loan from Guiyang Branch of Shanghai Pudong Development Bank Co. Ltd., with a maturity date of June 8, 2011. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 20% above the then 1-year base lending rate stipulated by The People's Bank of China (5.31% per annum, resulting in an annual interest rate of 6.372% per annum). Guizhou Puxin fully drew down the loan in June 2010. The payment of the loan is guaranteed by Wuhu Port Co. Ltd. (Wuhu Port), a related company. The loan was repaid on June 8, 2011.

On June 18, 2010, Guizhou Puxin received a CNY20 million (US\$3.21 million) short-term bank loan from Guiyang Branch of Shanghai Pudong Development Bank Co. Ltd., with a maturity date of June 18, 2011. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 20% above the then 1-year base lending rate stipulated by The People's Bank of China (5.31% per annum, resulting in an annual interest rate of 6.372% per annum). Guizhou Puxin fully drew down the loan in June 2010. The payment of the loan is guaranteed by Wuhu Port. The loan was repaid on June 15, 2011.

On August 24, 2010, Guizhou Puxin received a CNY150 million (US\$24.07 million) long-term bank loan from the Chongqing Branch of China Minsheng Banking Corp. Ltd. to finance the acquisition of business projects. The loan is to be repaid in two installments, i.e., CNY50 million (US\$8.02 million) and CNY100 million (US\$16.05 million), on December 31, 2012 and August 11, 2013, respectively. The loan bears interest, payable quarterly at a floating rate of 30% above the 3-year base lending rate stipulated by The People's Bank of China (currently 6.15% per annum, resulting in a current annual interest rate of 8.00% per annum). Guizhou Puxin fully drew down the loan as of September 2010. The loan is guaranteed by Mr. Li Feilie, who is also an executive officer, director and principal beneficial owner of the Company. The loan is also guaranteed by Baiping Mining, Dayuan Coal, Gouchang Coal, Linjiaao Coal, Xinsong Coal, and Guizhou Yongfu, and Wuhu Port. In addition, the loan is collateralized by a pledge of the outstanding capital stock of Baiping Mining, Dayuan Coal, Gouchang Coal, Linjiaao Coal, and Xinsong Coal. The CNY50 million (US\$8.02 million) first installment of the loan was repaid on December 31, 2012.

On December 14, 2010, Guizhou Puxin received a CNY70 million (US\$11.23 million) short-term bank loan from China Minsheng Banking Corp. Ltd., to be repaid on December 13, 2011. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears interest, payable quarterly at a floating rate equal to 20% above the 1-year base lending rate stipulated by The People's Bank of China (6.56% per annum, resulting in a current annual interest rate of 7.872% per annum). Guizhou Puxin fully drew down the loan in December 2010. The loan is guaranteed by Wuhu Port and WFID, related companies. The loan was repaid on December 13, 2011.

On February 1, 2011, Guizhou Puxin received a CNY20 million (US\$3.21 million) short-term bank loan from China Merchant Bank Limited, to be repaid on January 31, 2012. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a floating annual interest rate equal to 20% above the 1-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in a current annual interest rate of 7.20% per annum). Guizhou Puxin fully drew down the loan in February 2011. The loan is guaranteed by WFID. The

loan was repaid on January 30, 2012.

On February 25, 2011, Guizhou Puxin received a CNY30 million (US\$4.81 million) short-term bank loan from China Merchant Bank Limited, to be repaid on February 24, 2012. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a floating annual interest rate equal to 20% above the 1-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in a current annual interest rate of 7.20% per annum). Guizhou Puxin fully drew down the loan in February 2011. The loan is guaranteed by WFID. The loan was repaid on February 24, 2012.

On April 12, 2011, Guizhou Puxin received a CNY70 million (US\$11.23 million) short-term (six-month) banker's acceptance facility from Bank of Chongqing. The facility allows Guizhou Puxin to provide payment assurance to parties, as needed. The facility is secured by a CNY21 million (US\$3.37 million) bank deposit and guaranteed by WFID. The facility was fully repaid on October 12, 2011.

On May 5, 2011, Xinsong Coal received a CNY50 million (US\$8.02 million) long-term bank loan from the Chongqing Branch of China Minsheng Banking Corp. Ltd., to be repaid in installments over two years commencing in 2013. The purpose of the loan is to finance the improvement project of the Xinsong Mine. The loan bears a floating annual interest rate equal to 30% above the 3-year base lending rate stipulated by The People's Bank of China from time to time (currently 6.15% per annum, resulting in a current annual interest rate of 8.00% per annum). Xinsong Coal fully drew down loan in May 2011. The loan is secured by Xinsong Coal's mining permit covering the mine. The loan is also guaranteed by WFID. The CNY5 million (US\$0.80 million) first installment of the loan is due to be repaid on May 5, 2013.

On June 30, 2011, Guizhou Puxin received a CNY50 million (US\$8.02 million) short-term bank loan (twelve-month) from Shanghai Pudong Development Bank. The purpose of the loan is to finance the working capital of Guizhou Puxin. The payment of the loan is guaranteed by Wuhu Port. The loan bears a floating annual interest rate equal to 50% above the 1-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in a current annual interest rate of 9.00% per annum). Guizhou Puxin fully drew down the loan in July 2011. The loan was repaid on July 1, 2012.

On August 23, 2011, Linjiaao Coal received a CNY90 million (US\$14.44 million) long-term bank loan from Bank of Chongqing to be repaid in installments payable from June 2013 to August 2015. The purpose of the loan is to finance the improvement project of the Zhulinzhai Mine. The payment of the loan is guaranteed by Mr. Li Feilie and WFID. The loan bears a floating annual interest rate equal to the 5-year base lending rate stipulated by The People's Bank of China (currently 6.40% per annum). In addition, Linjiaao paid Bank of Chongqing a lump sum of CNY14.37 million (US\$2.31 million) as a consulting fee for arranging the loan. Linjiaao Coal fully drew down the loan during the period from August to December 2011. The CNY8 million (US\$1.28 million) first installment of the loan is due to be repaid on June 30, 2013.

On October 18, 2011 and October 26, 2011, Guizhou Puxin received CNY60 million (US\$9.63 million) and CNY10 million (US\$1.60 million) short-term (six-month) working capital facilities from Bank of Chongqing. The facilities are secured by a CNY21 million (US\$3.37 million) bank deposit and guaranteed by WFID. The facilities bear lump sum finance charge payment of CNY35,000 (US\$5,617). The facilities were fully repaid on March 30, 2012.

On December 19, 2011, Guizhou Dayun received a CNY300 million (US\$48.15 million) long-term bank loan from China Merchants Bank Corp. Ltd., to finance the improvement project of Dayun Mine. The loan is to be repaid in installments over three years commencing in 2015. The loan bears a floating annual interest rate equal to 30% above the over-5-year base lending rate stipulated by The People's Bank of China from time to time (currently 6.55% per annum, resulting in a current annual interest rate of 8.52% per annum). Guizhou Dayun drew down CNY50 million (US\$8.02 million), CNY100 million (US\$16.05 million) and CNY30 million (US\$4.81 million) of the loan in December 2011, January 2012 and March 2012, respectively. The balance of the loan facility can be drawn down as needed in accordance with the construction plan for the mine. The loan is guaranteed by Mr. Li Feilie, Feishang Enterprise, Gouchang Coal and Dayuan Coal. The loan is also secured by the mining permit of Guizhou Dayun. In addition, the loan is collateralized by a pledge of the outstanding capital stock of Dayun Coal.

On January 31, 2012, Guizhou Puxin received and drew down in full in February 2012 a CNY20 million (US\$3.21 million) short-term bank loan from China Merchants Bank Corp. Ltd., to be repaid on January 30, 2013. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 30% above the 1-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in an annual interest rate of 7.80% per annum). The loan is guaranteed by WFID. The loan was repaid on January 28, 2013.

On February 27, 2012, Guizhou Puxin received and drew down in full a CNY30 million (US\$4.81 million) short-term bank loan from China Merchants Bank Corp. Ltd., to be repaid on February 26, 2013. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 30% above the 1-year base lending rate stipulated by The People's Bank of China (6.00% per annum, resulting in an annual interest rate of 7.80% per annum). The loan is guaranteed by WFID. The loan was repaid on February 26, 2013.

On April 20, 2012, Guizhou Puxin received and drew down in full a CNY100 million (US\$16.05 million) short-term bank loan from China Minsheng Banking Corporation Limited, to be repaid on April 20, 2013. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears interest, payable quarterly at a floating rate equal to 50% above the 1-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in a current annual interest rate of 9.00% per annum). The loan is guaranteed by WFID. The loan was repaid on April 20, 2013.

On June 26, 2012, Dayuan Coal received a CNY100 million (US\$16.05 million) long-term bank loan from the Guizhou Branch of Bank of Communication to be repaid in installments over three years commencing in December 2012. The purpose of the loan is to finance the improvement project of the Dayuan Mine. The loan bears a floating annual interest rate equal to 30% above the three-year base lending rate stipulated by The People's Bank of China from time to time (currently 6.15% per annum, resulting in a current annual interest rate of 8.00% per annum). Dayuan Coal drew down CNY85 million (US\$13.64 million) up to December 31, 2012. The CNY15 million (US\$2.41 million) balance of the loan was drawn down on January 11, 2013. The CNY3.10 million (US\$0.50 million) first instalment was repaid on December 31, 2012.

On July 20, 2012, Guizhou Puxin received a CNY60 million (US\$9.63 million) short-term trust loan from CITIC Trust to be repaid on July 10, 2013. The loan bears a floating interest rate equal to 50% above the one-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in an annual interest rate of 9.00% per annum). The loan is guaranteed by Wuhu Port. Guizhou Puxin fully drew down the loan on July 20, 2012.

On September 27, 2012, Guizhou Puxin received a CNY25 million (US\$4.01 million) short-term bank loan from Industrial and Commercial Bank of China Limited to be repaid on October 7, 2013. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a floating annual interest rate equal to 20% above the one-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in an annual interest rate of 7.20% per annum). The loan is guaranteed by each of Feishang Enterprise and Mr. Li Feilie. Guizhou Puxin fully drew down the loan on October 8, 2012.

On November 2, 2012, Guizhou Puxin received a CNY30 million (US\$4.81 million) short-term bank loan from China Everbright Bank Chongqing Branch to be repaid on November 2, 2013. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 7.20% per annum. The loan is guaranteed by Feishang Enterprise. Guizhou Puxin fully drew down the loan on November 2, 2012.

On December 17, 2012, Guizhou Dayun received a CNY150 million (US\$24.07 million) long-term bank loan from Jinsha Sub-branch of Industrial and Commercial Bank of China Limited, to be repaid six years following the date of the initial drawdown. The purpose of the loan is to finance the construction and development of the Dayun Mine. The loan is guaranteed by Feishang Enterprise and Mr. Li Feilie. The loan bears a floating annual interest rate equal to 10% above the over-five-year base lending rate stipulated by The People's Bank of China from time to time (currently 6.55% per annum, resulting in a current annual interest rate of 7.21% per annum). Guizhou Dayun drew down CNY10 million (US\$1.60 million) on December 26, 2012. The CNY140 million (US\$22.47 million) balance of the loan is

expected to be drawn down in accordance with the construction plan for the Dayun Mine.

On January 29, 2013, Guizhou Puxin received and fully drew down a CNY20 million (US\$3.21 million) short-term bank loan from China Merchants Bank Corp. Ltd., to be repaid on January 28, 2014. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 30% above the 1-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in an annual interest rate of 7.80% per annum). The loan is guaranteed by WFID.

On February 4, 2013, Guizhou Puxin received and fully drew down a CNY20 million (US\$3.21 million) short-term bank loan from China Everbright Bank Chongqing Branch to be repaid on February 3, 2014. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 6.30% per annum. The loan is guaranteed by Feishang Enterprise and Mr. Li Feilie.

On February 27, 2013, Guizhou Puxin received and fully drew down a CNY30 million (US\$4.81 million) short-term bank loan from China Merchants Bank Corp. Ltd., to be repaid on February 26, 2014. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 30% above the 1-year base lending rate stipulated by The People's Bank of China (6.00% per annum, resulting in an annual interest rate of 7.80% per annum). The loan is guaranteed by WFID.

In March 2013, Guizhou Puxin and certain of its subsidiaries received and fully drew down a total of CNY83.60 million (US\$13.42 million) long-term entrust loans from Yangpu Banghua Industrial Company Limited, an unrelated third party, to be repaid in March 2016. The purpose of the loans are to finance working capital, mine construction and debt settlement. The loans bear fixed interest rate equal to 20% above the three-year base lending rate stipulated by The People's Bank of China from time to time (currently 6.15% per annum, resulting in a current annual interest rate of 7.38% per annum).

On March 27, 2013, Guizhou Puxin received and fully drew down a CNY400.00 million (US\$64.20 million) short-term bank loan from China Minsheng Banking Corporation Limited, to be repaid on March 27, 2014. The purpose of the loan is to satisfy indebtedness owed by Guizhou Puxin to two of its fellow subsidiaries. The loan bears interest, payable quarterly at a floating rate equal to 20% above the 1-year base lending rate stipulated by The People's Bank of China (currently 6.00% per annum, resulting in a current annual interest rate of 7.20% per annum). The loan is guaranteed by Xinsong Coal.

On March 29, 2013, Guizhou Puxin received and fully drew down CNY50 million (US\$8.02 million) short-term bank loan from Chongqing Bank Guiyang Branch to be repaid on March 28, 2014. The purpose of the loan is to finance the working capital of Guizhou Puxin. The loan bears a fixed annual interest rate equal to 40% above the one-year base lending rate stipulated by The People's Bank of China from time to time (currently 6.00% per annum, resulting in a current annual interest rate of 8.40% per annum). The loan is guaranteed by Feishang Enterprise.

See Item 5.F. for a summary of our contractual obligations for future cash payments at December 31, 2012.

We believe that the Company is in material compliance with its material financial or other covenants in respect of the aforesaid bank financing agreements.

Revenue and expenses of our PRC subsidiaries are denominated in Renminbi. We pay our corporate expenses in either Hong Kong dollars or US dollars. Conversion of Renminbi is strictly regulated by the Chinese Government. Under PRC foreign exchange rules and regulations, payment of routine transactions under current accounts, including trade and service transactions and payment of dividends, may be made in foreign currencies without prior approval from the SAFE but are subject to procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, such as direct investment and capital contribution. These transactions must be approved by the SAFE. See Item 10.D. for a further discussion of exchange controls in the PRC.

As of December 31, 2012, the breakdown of cash (in thousands) held in different currencies are as follows:

| Currency and Amount | CNY Equivalent | US\$ Equivalent |
|----------------------------|-----------------------|------------------------|
| CNY204,348 | 204,348 | 32,797 |
| HK\$1,772 | 1,425 | 229 |
| US\$830 | 5,171 | 830 |
| Total | 210,944 | 33,856 |

The Company's cash in HK\$ and US\$ were mainly generated from our financing activities including proceeds from the placement of shares, and proceeds from the exercise of employees' stock options and warrants. The Company expects to maintain a balanced portfolio of foreign currencies in order to meet its cash obligations in different currencies for its expenses, capital expenditures and acquisitions. Management does not anticipate the payment of dividends or any similar profit distribution from the Company's PRC subsidiaries in the foreseeable future.

The following table sets forth the Company's cash flow for each of the three years ended December 31, 2010, 2011 and 2012:

| | Years Ended December 31, | | |
|---|---------------------------------|-------------------------------|-------------------------------|
| | 2010 CNY'000 | 2011 CNY'000 | 2012 CNY'000 |
| Cash at beginning of year | 186,582 | 126,685 | 136,587 |
| Net cash provided by (used in) operating activities | 28,645 | (62,132) | (80,979) |
| Net cash used in investing activities | (372,755) | (494,839) | (365,384) |
| Net cash provided by financing activities | 274,499 | 566,990 | 520,753 |
| Net (decrease) increase in cash | (69,611) | 10,019 | 74,390 |
| Effect of exchange rate changes on cash | 9,714 | (117) | (33) |
| Cash at end of year | 126,685 | 136,587 | 210,944 |

The following table sets forth the Company's financial condition and liquidity at the dates indicated:

| | Years Ended December 31, | | |
|---------------------------|---------------------------------|-------------|-------------|
| | 2010 | 2011 | 2012 |
| Current ratio | 0.54x | 0.44x | 0.32x |
| Working capital (CNY'000) | (151,986) | (329,313) | (750,624) |
| Gearing ratio | 52% | 58% | 67% |

The Company's net cash used by operating activities was CNY80.98 million (US\$13.00 million) in 2012 and CNY62.13 million (US\$9.97 million) in 2011. They were mainly caused by the operating losses for the corresponding years.

The Company had a net cash outflow from investing activities of CNY365.38 million (US\$58.64 million) in 2012, compared to a net cash outflow of 494.84 million (US\$79.42 million) in 2011. The decrease was mainly due to (a) a net cash partial payment of CNY125.66 million (US\$20.17 million) on the acquisition of Wealthy Year in 2011, which did not recur in 2012; (b) a decrease in term deposits to CNY3.65 million (US\$0.59 million) in 2012 from CNY20.00 million (US\$3.21 million) in 2011.

Net cash provided by financing activities was CNY520.75 million (US\$83.58 million) in 2012, compared to the CNY566.99 million (US\$91.00 million) in 2011. This was mainly attributable to (a) the net proceeds of CNY273.16 million (US\$43.84 million) from bank loan to finance the construction/ technical innovation of the coal mines; and (b) the net advances from related parties of CNY233.68 million (US\$37.51 million).

As of December 31, 2012, the Company has a working capital deficiency of CNY750.62 million (US\$120.47 million), and the Company has undrawn loan facilities totaling CNY275.00 million (US\$44.14 million). The Shareholder has confirmed its continuous financial support to the Company. Subsequent to year end, the Company has secured additional loan facilities totaling CNY603.60 million (US\$96.88 million). The Company is in the process of negotiating loan renewals with its banks. The Company also has held discussions with its bankers about its future borrowing needs and no matters have been drawn to management's attention to suggest that renewal may not be forthcoming on acceptable terms. The Company's internal forecasts and projections, taking account of reasonably possibly changes in trading performance, operating as well as capital expenditures, continued Shareholder support and the availability of bank facilities, demonstrate that the Company should be able to operate within the level of its current capacity.

Our liquidity, including our working capital, has been affected by many factors including:

.

Funding of our on-going mining activities through internally generated funds;

.

The timing of expenditures in relation to when our accounts receivable are paid;

.

Our ability to secure bank financing as and when required, on acceptable terms;

.

Our difficulty in accessing US capital markets to fund PRC operations, in part because investment strategies of institutional investors may be affected by companies that engage in both metal ore and coal mining operations.;

.

A lack of development of US trading markets for our securities, which has hampered our ability to use our securities as currency to fund acquisitions, business combinations and similar transactions; and

.

Differing liquidity needs of the metals segment and the coal segment.

As a result of the foregoing, management continues to evaluate the most effective ways in which to grow our operations, provide for liquidity and maximize shareholder values. In this regard, the Company has engaged two investment bankers to jointly advise management with respect to a possible spin-off of to shareholders and foreign listing of the spun-off entity.

As of December 31, 2012, the Company had capital commitments of approximately CNY94.63 million (US\$15.19 million) in respect of the mine construction and upgraded mine development projects of the coal mines. As of December 31, 2011, the Company had capital commitments of approximately CNY102.94 million (US\$16.52 million) in respect of the mine construction and upgraded mine development projects of the coal mines. The Company intends to finance the capital commitments by internal resources and bank borrowings. See Item 5.F. for a tabular payment schedule of capital commitments of the Company.

The share-based compensation expense, arising from the grant of options to the Chairman and CEO in 2008 to purchase 1,000,000 common shares, amounted to CNY26.02 million (US\$4.18 million) each year from 2008 to 2010. It did not have any impact on the Company's cash flow as it represented the fair value of the stock options granted to officers, directors and key employees without cash outlay.

Except as disclosed above, there have been no significant changes in the Company's financial condition and liquidity during the years ended December 31, 2010, 2011 and 2012. The Company believes that its internally generated funds, bank loans and financial support from the Shareholder will be sufficient to satisfy its anticipated working capital and mine construction needs for at least the next 12 months. However, we continue to evaluate expansion and growth prospects as they are presented to us from time to time and will continue to do so in the ordinary course. We anticipate that there will be significant capital expenditures ahead in the event of additional acquisitions. We expect to fund acquisitions with cash-on-hand, the issuance of our debt or equity securities, or a combination of both, and we may use our securities to raise capital to be used to fund operations. The use of our securities in this manner may be dilutive to shareholders.

C.

Research and development, patents and licenses, etc.

The Company did not incur any significant amounts on company-sponsored research and development activities during each of the last three fiscal years.

D.

Trend information

Except as set forth in the following paragraph, the Company does not believe that there have been recent trends in production, sales and inventory, the state of the order book and costs and selling prices since the latest financial year, nor any known trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect of the Company's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

Management is cautiously optimistic about the PRC economy, although it is difficult to predict the demand for and the future price trend of iron, zinc, anthracite and other ore, and recent trend information suggests a less than robust less

optimism for the price of metals in the near term. These uncertainties may continue to have an impact on the current and future operating results and the financial condition of the Company.

E.

Off balance sheet arrangements

Under SEC regulations, we are required to disclose our off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. An off-balance sheet arrangement means a transaction, agreement or contractual arrangement to which any entity that is not consolidated with us is a party, under which we have:

.

Obligations under certain guarantee contracts;

.

A retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;

.

Any obligation under a derivative instrument that is both indexed to our stock and classified in stockholder's equity, or not reflected, in our statement of financial position; and

Any obligation arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

As of December 31, 2012, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

F.

Tabular disclosure of contractual obligations

| Contractual Obligations as at December 31, 2012 | Payments due by period | | | | Later years CNY 000 |
|--|------------------------|-----------------|----------------------|----------------------|---------------------------|
| | Total CNY 000 | 2013 CNY 000 | 2014-2015 CNY 000 | 2016-2017 CNY 000 | |
| Repayment on bank loan | 1,013,530 | 443,900 | 339,630 | 230,000 | |
| Interest payment on bank loan | 149,070 | 64,488 | 70,770 | 13,812 | — |
| Payment on mining right payable | 103,378 | 25,568 | 44,735 | 33,075 | — |
| Interest payment on mining right payable | 39,380 | 6,666 | 15,656 | 17,058 | — |
| Operating lease obligations | 1,825 | 1,245 | 580 | — | — |
| Capital commitments | 94,625 | 91,467 | 3,158 | — | — |
| Assets retirement obligations | 10,558 | — | — | — | 10,558 |
| Total | 1,412,366 | 633,334 | 474,529 | 293,945 | 10,558 |

G.

Safe Harbor

The safe harbor provided in Section 27A of the Securities Act and Section 21E of the Exchange Act, or the statutory safe harbors, applies to forward-looking information provided pursuant to Item 5.F above. For our cautionary statement on the forward looking statement in this Annual Report, see [Forward-Looking Statements](#) on page iii of this Annual Report.

ITEM 6.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management**Executive Officers and Directors**

The following table sets forth the current directors and executive officers of the Company, and their ages and positions with the Company:

| Name | Age | Position |
|--------------------|------------|--|
| Li Feilie | 47 | Chairman of the Board of Directors and Chief Executive Officer |
| Tam Cheuk Ho | 50 | Director and Executive Vice President |
| Wong Wah On Edward | 49 | Director, Chief Financial Officer and Secretary |
| Lam Kwan Sing | 43 | Non-employee Director |
| Ng Kin Sing | 50 | Non-employee Director |
| Yip Wing Hang | 46 | Non-employee Director |

Mr. Li Feilie was appointed as a director, Chief Executive Officer and Chairman of the Board on February 3, 2006 following consummation of the acquisition of Feishang Mining. Mr. Li has served as a director of Feishang Mining since September 2004. Mr. Li served as the Chairman of Wuhu Feishang from June 2002 to June 2004. Mr. Li has been the chairman of Feishang Industrial, WFID and Wuhu Port, companies beneficially owned by him, since June 2000, December 2001 and October 2002, respectively. He has also served as director of Pingxiang since July 2003. From March 2002 to April 2004, Mr. Li served as the chairman of Fujian Dongbai (Group) Co. Ltd. Mr. Li graduated from the Economic Department of Peking University and was awarded a Master's degree from the Graduate School of Peking University.

Mr. Tam Cheuk Ho has served as a director of CHNR since December 23, 1993, and as its Chief Financial Officer from November 22, 2004 until January 2008. He served as the Chief Financial Officer and a director of China Resources from December 2, 1994 until completion of the Redomicile Merger. On January 2, 2008, Mr. Tam was promoted to the office of Executive Vice President and, in connection therewith, resigned his position as Chief Financial Officer. From July 1984 through January 1992, he worked at Ernst & Young, Hong Kong and his last position was Audit Manager, and from February 1992 through September 1992, as Financial Controller at Tack Hsin Holdings Limited, a listed company in Hong Kong, where he was responsible for accounting and financial functions. From October 1992, through December 1994, Mr. Tam was Finance Director of Hong Wah (Holdings) Limited. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a certified public accountant (practicing) in Hong Kong. He holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong.

Mr. Wong Wah On Edward has been a director of CHNR since January 25, 1999, its Secretary since February 1, 1999 and served as Financial Controller from November 22, 2004 until January 2008. He served as Corporate Secretary, Financial Controller and a director of China Resources from December 30, 1997 until completion of the Redomicile Merger. On January 2, 2008, Mr. Wong was promoted to the office of Chief Financial Officer and, in connection therewith, resigned his position as Financial Controller. From October 1992 through December 1994, Mr. Wong was the Deputy Finance Director of Hong Wah (Holdings) Limited. From July 1988 through October 1992, he worked at Ernst & Young, Hong Kong and his last position was Audit Supervisor. He received a professional diploma in Company Secretaryship and Administration from the Hong Kong Polytechnic University. He is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an associate of the Hong Kong Institute of Chartered Secretaries. He is also a certified public accountant (practicing) in Hong Kong.

Mr. Lam Kwan Sing has been a non-employee director and a member of CHNR's audit committee and nominating and governance committee since November 22, 2004, and a member of its compensation committee since November 1, 2007. He served as a director and a member of the audit committee of China Resources from March 20, 2003 until completion of the Redomicile Merger. From August 2010 to present, Mr. Lam has been the executive director of Rising Development Holdings Limited, a Hong Kong listed company, where he is responsible for corporate development. From May 2008 to July 2010, Mr. Lam was the executive director of Neo-China Land Group (Holdings) Limited, a Hong Kong listed company. In 2007, Mr. Lam served as the executive director of Forefront Group, a Hong Kong listed company. From 2002 to 2006, Mr. Lam served as the executive director of New Times Group Holdings Limited, a Hong Kong listed company. From 2000 to 2002, Mr. Lam was the business development manager of China Development Corporation Limited, a Hong Kong listed company. From 1997 to 2000, he was the business development manager of Chung Hwa Development Holdings Limited, a Hong Kong listed company. From 1995 to 1997, Mr. Lam was the assistant manager (Intermediaries supervision) of Hong Kong Securities and Futures Commission. Mr. Lam holds a Bachelor's degree in Accountancy from the City University of Hong Kong.

Mr. Ng Kin Sing has been a non-employee director and a member of CHNR's audit committee and nominating and governance committee since November 22, 2004, and a member of its compensation committee since November 1, 2007. He served as a director and a member of the audit committee of China Resources from February 1, 1999 until completion of the Redomicile Merger. From March 2012 to present, Mr. Ng has been the director of Sky Innovation Limited, a private investment company. From April 1998 to February 2012, Mr. Ng was the managing director of Action Plan Limited, a private securities investment company. From November 1995 until March 1998, Mr. Ng was sales and dealing director for NatWest Markets (Asia) Limited; and from May 1985 until October 1996, he was the dealing director of BZW Asia Limited, an international securities brokerage house. Mr. Ng holds a Bachelor's degree in Business Administration from the Chinese University of Hong Kong.

Mr. Yip Wing Hang has been a non-employee director and a member of CHNR's audit committee and nominating and governance committee since June 26, 2006, and a member of its compensation committee since November 1, 2007. From October 2010 to present, Mr. Yip has been the marketing director of Athena Financial Services Limited responsible for the sale and distribution of financial products. From February 2002 to September 2010, he was the marketing director of Hantec Investment Consultant Limited. From May 1997 to February 2002, Mr. Yip was the senior manager of CCIC Finance Limited. Mr. Yip holds a Masters degree in Accounting and Finance from the Lancaster University, UK.

Key Employees

The following table sets forth the senior management of metal segment and coal segment, and their ages and positions with metal segment and coal segment:

| Name | Age | Position |
|-------------|-----|---|
| Xu Chengyin | 51 | Director and General Manager of Wuhu Feishang |
| Han Weibing | 42 | Vice President of CHNR's Coal Division |
| Wan Huojin | 67 | General Manager of CHNR's Coal Division |

Mr. Xu graduated from Changsha Metallurgical Industrial School, and he holds a bachelor's degree in management from Hunan Correspondence Institute of Party School of CPC. Prior to joining Wuhu Feishang, Mr. Xu was the Deputy General Manager of Anhui Xinke New Materials Co., Ltd., which is a China A share listed company. Mr. Xu has more than twenty years experience in the metal smelting industry. Mr. Xu Chengyin has been the Director and General Manager of Wuhu Feishang since November 2011.

Mr. Han Weibing has been the Vice President of our Coal Division since January 2012. Mr. Han joined Feishang Group in 2009 and has extensive experience in the coal mining industry. From 1995 until 2009, Mr. Han served as Deputy General Manager (Human Resources) for China International Marine Containers (Group) Ltd. (CIMC), a listed company in the PRC principally engaged in the manufacture and sale of transportation equipment, such as containers, road transport vehicles and airport ground-handling equipment. Mr. Han held several management positions in business administration and human resources management at CIMC. Mr. Han earned his M.B.A. from Business School of Wright State University, and his E.M.B.A from Sun Yat-sen University. Mr. Han's experience includes the publication of one of his articles in the field of human resources management in case studies used at universities in China.

Mr. Wan Huojin has been the General Manager of our Coal Division since June 2010. From September 2008 to May 2010, Mr. Wan was the Deputy General Manager of our Coal Division. From 2001 to 2007, Mr. Wan was the Head of Fengcheng Mining Bureau, Jiangxi Province. Mr. Wan graduated from the Coal Industry Department of Pingxiang Coal Mining College.

Family Relationships

There are no family relationships between any of the individuals identified above. There are no arrangements or understandings between major shareholders, customers, suppliers or others pursuant to which any of the individuals identified above was selected as a director or member of senior management.

B.

Compensation**Executive Compensation**

The following table sets forth the amount of compensation that was paid, earned and/or accrued and awards made under the Company's equity compensation plan during the fiscal year ended December 31, 2012, to each of the individuals identified in Item 6(A) above.

| Name | Compensation (US\$) | Number of options to purchase Common Shares | Exercise price (US\$/ share) | Expiration date |
|-------------------------------|--------------------------------|--|---|----------------------------|
| <u>Directors and Officers</u> | | | | |
| Li Feilie | | | | |
| Tam Cheuk Ho | | | | |
| Wong Wah On Edward | | | | |
| Lam Kwan Sing | 7,692 | | | |
| Ng Kin Sing | 7,692 | | | |
| Yip Wing Hang | 7,692 | | | |
| <u>Senior Management</u> | | | | |
| Xu Chengyin | 19,099 | | | |
| Han Weibing | 52,162 | | | |
| Wan Huojin | 54,489 | | | |

The Company and its subsidiaries have not set aside or accrued any amounts to provide pension, retirement or similar benefits to the Company's directors.

Effective October 1, 2008, we entered into Service Agreements with each of Li Feilie, our Chairman and Chief Executive Officer, Tam Cheuk Ho, our Executive Vice President, and Wong Wah On Edward, our Chief Financial Officer. Each of the Agreements contains customary provisions to protect our confidential information and trade secrets and, in addition, provides that:

·
the initial term of the Service Agreement will be three years and shall continue thereafter unless and until terminated by a party on not less than three months' notice;

·
the executive will serve as an executive officer of the Company in such capacity and with such responsibilities as are determined by the Board of Directors;

·
we are to compensate the executive with an annual fee of US\$1.00, plus such equity awards as may from time to time be determined by our Compensation Committee;

·
the executive's annual fee will be reviewed annually by the Compensation Committee and may be adjusted in the discretion of the Committee with the approval of the Board of Directors;

·
the Service Agreement may be terminated in the event of the death or incapacity of the executive or upon the occurrence of other customary grounds for termination;

·
for two years following expiration of the Agreement, the executive may not compete with the business of the Company in the PRC, or solicit employees or customers of the Company;

·
the executive be indemnified for liabilities incurred in good faith during the course of the performance of his services to the Company;

·
the executive serve on our Board of Directors if requested to do so by the board, without additional consideration; and

the executive be reimbursed for reasonable expenses incurred in the performance of his responsibilities under the Agreement.

In view of the Company's desire to maximize its fiscal resources at this early stage of the Company's mining operations, each of the Company's employee directors has agreed to serve as an executive officer of the Company for a nominal amount of cash compensation (US\$1.00 dollar per year). The annual amount of cash compensation may be increased at the end of each year of service at a rate to be determined by the Compensation Committee and approved by the Board of Directors. Our executive directors may, based upon a determination by the Compensation Committee and approval of the board, be granted equity awards under the Company's equity compensation plan. There are no current contracts, agreements or understandings to increase the annual cash compensation payable to any of our executive directors. For each of the three years ended December 31, 2012, no increases in cash compensation were determined by the Compensation Committee under the Service Agreements, and we paid or accrued \$nil, \$nil and \$nil, respectively, for cash compensation to our executive officers for their services as such.

The Company has no other employment contracts with any of its executive officers or directors and maintains no retirement, fringe benefit or similar plans for the benefit of its executive officers or directors. The Company may, however, enter into employment contracts with its officers and key employees, adopt various benefit plans and begin paying compensation to its officers and directors as it deems appropriate to attract and retain the services of such persons.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information relating to our outstanding stock option plans as of December 31, 2012:

| Plan Category | Number of Securities to be | Weighted-average exercise price of outstanding options, warrant and rights | Number of securities remaining available for future |
|--|---|---|--|
| | issued upon exercise of outstanding options, warrants and rights | | issuance under equity compensation plans (excluding securities reflected in column (a)) |
| Equity compensation plans approved by security holders | | | |
| 2003 Equity Compensation Plan | | N/A | 1,602,183 |
| Equity compensation plans not approved by security holders | | N/A | |
| Total | | N/A | 1,602,183 |

Stock Option Plan

The purposes of the 2003 Equity Compensation Plan (the 2003 Plan) are to:

.

Encourage ownership of our common stock by our officers, directors, employees and advisors;

.

Provide additional incentive for them to promote our success and our business; and

.

Encourage them to remain in our employ by providing them with the opportunity to benefit from any appreciation of our common shares.

On December 18, 2003, our Board of Directors and shareholders approved and adopted the 2003 Plan. The 2003 Plan is administered by the Board of Directors or a committee designated by the board (the Plan Committee). The 2003 Plan allows the Plan Committee to grant various incentive equity awards not limited to stock options. The Company has reserved a number of common shares equal to 20% of the issued and outstanding common shares of the Company, from time-to-time, for issuance pursuant to options granted (Plan Options) or for restricted stock awarded (Stock Grants) under the 2003 Plan. Stock Appreciation Rights may be granted as a means of allowing participants to pay the exercise price of Plan Options. Stock Grants may be made upon such terms and conditions as the Committee

determines. Stock Grants may include deferred stock awards under which receipt of Stock Grants is deferred, with vesting to occur upon such terms and conditions as the Committee determines.

The Committee will determine, from time to time, those of our officers, directors, employees and consultants to whom Stock Grants and Plan Options will be granted, the terms and provisions of the respective Stock Grants and Plan Options, the dates such Plan Options will become exercisable, the number of shares subject to each Plan Option, the purchase price of such shares and the form of payment of such purchase price. Plan Options and Stock Grants will be awarded based upon the fair market value of our common shares at the time of the award. All questions relating to the administration of the 2003 Plan, and the interpretation of the provisions thereof are to be resolved at the sole discretion of the Committee.

Options granted under the 2003 may be either incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, or non-qualified options. The exercise price of incentive stock options may not be less than 100% of the fair market value of the underlying shares as of the date of grant. The exercise price of non-qualified options may not be less than 85% of the fair market value of the underlying shares as of the date of grant.

During the years ended December 31, 2010, 2011 and 2012, the Committee did not grant any options to employees and officers to purchase the Company's common shares under the 2003 Plan. A total of 1,602,183 shares were available for grant as of December 31, 2012. The 2003 Plan terminates on December 18, 2013.

C.

Board Practices

As provided by Article 74 of our Memorandum and Articles of Association, directors, solely for purposes of determining the term for which they will serve, are classified as Class I, Class II and Class III directors, with approximately one-third of the total number of directors being allocated to each Class. Each director is to hold office for a three-year term expiring immediately following the annual meeting of shareholders held three years following the annual meeting at which he or she was elected.

At the annual meeting of shareholders in 2012, Messrs. Lam Kwan Sing and Yip Wing Hang were elected to serve as Class II directors until immediately following the annual meeting to be held in 2015 and until their successors have been duly elected and qualified. Messrs. Li Feilie and Ng Kin Sing serve as Class I directors until immediately following the annual meeting to be held in 2014 and until their successors have been duly elected and qualified. Messrs. Tam Cheuk Ho and Wong Wah On Edward serve as Class III directors until immediately following the annual meeting to be held in 2013 and until their successors have been duly elected and qualified. Messrs. Lam Kwan Sing, Yip Wing Hang and Ng Kin Sing is each an independent director as such term is used in applicable rules and regulations of the Securities and Exchange Commission and in NASDAQ Marketplace Rule 5605(a)(2). We are not required to maintain a Board of Directors consisting of a majority of independent directors based upon an exemption from NASDAQ requirements applicable to foreign private issuers whose home jurisdiction does not require the board of directors to consist of a majority of independent directors.

Our officers are elected annually at the Board of Directors meeting following each annual meeting of shareholders, and hold office until their respective successors are duly elected and qualified, subject to their earlier death, resignation or removal, and the terms of applicable employment agreements.

Commencing July 1, 2006, we pay our independent directors a monthly directors fee equal to HK\$5,000 (US\$641). We do not otherwise pay fees to directors for their attendance at meetings of the Board of Directors or of committees; however, we may adopt a policy of making such payments in the future. We will reimburse out-of-pocket expenses incurred by directors in attending board and committee meetings. During the fiscal year ended December 31, 2012, no long-term incentive plans or pension plans were in effect with respect to any of the Company's executive officers or directors.

Audit Committee

Our Board of Directors has established an audit committee that operates pursuant to a written charter. Our audit committee, whose members currently consists of Yip Wing Hang, Lam Kwan Sing and Ng Kin Sing, is principally responsible for ensuring the accuracy and effectiveness of the annual audit of the financial statements. The duties of the audit committee include, but are not limited to:

.

- appointing and supervising our independent registered public accounting firm;

.

- assessing the organization and scope of the company's interim audit function;

·
reviewing the scope of audits to be conducted, as well as the results thereof;

·
approving audit and non-audit services provided to us by our independent registered public accounting firm; and

·
overseeing our financial reporting activities, including our internal controls and procedures and the accounting standards and principles applied.

Each member of the Audit Committee is an independent director, as such term is used in applicable rules and regulations of the Securities and Exchange Commission and in NASDAQ Marketplace Rule 5605(a)(2).

Nominating and Corporate Governance Committee; Shareholder Nominees for Director

Our Board of Directors has established a Nominating and Corporate Governance Committee that operates pursuant to a written charter. The current members of the Nominating and Corporate Governance Committee are Ng Kin Sing, Lam Kwan Sing and Yip Wing Hang. Each member of the Nominating and Corporate Governance Committee is an independent director, as such term is used in NASDAQ Marketplace Rule 5605(a)(2).

The Nominating and Corporate Governance Committee is responsible for providing oversight on a broad range of issues surrounding the composition and operation of our Board of Directors. In particular, the responsibilities of the Nominating and Corporate Governance Committee include:

·
identifying individuals qualified to become members of the Board of Directors;

·
determining the slate of nominees to be recommended for election to the Board of Directors;

reviewing corporate governance principles applicable to us, including recommending corporate governance principles to the Board of Directors and administering our Code of Ethics;

assuring that at least one Audit Committee member is an audit committee financial expert within the meaning of regulatory requirements; and

carrying out such other duties and responsibilities as may be determined by the Board of Directors.

The Nominating and Corporate Governance Committee is required to meet at least once annually, and more frequently if the committee deems it to be appropriate. The committee may delegate authority to one or more members of the committee; provided that any decisions made pursuant to such delegated authority are presented to the full committee at its next scheduled meeting. Discussions pertaining to the nomination of directors are required to be held in executive session.

The Nominating and Corporate Governance Committee will consider candidates for directors proposed by shareholders, although no formal procedures for submitting the names of candidates for inclusion on management's slate of director nominees have been adopted. Until otherwise determined by the Nominating and Corporate Governance Committee, a member who wishes to submit the name of a candidate to be considered for inclusion on management's slate of nominees at the next annual meeting of shareholders must notify our Corporate Secretary, in writing, no later than June 30 of the year in question of its desire to submit the name of a director nominee for consideration. The written notice must include information about each proposed nominee, including name, age, business address, principal occupation, telephone number, shares beneficially owned and a statement describing why inclusion of the candidate would be in our best interests. The notice must also include the proposing member's name and address, as well as the number of shares beneficially owned. A statement from the candidate must also be furnished, indicating the candidate's desire and ability to serve as a director. Adherence to these procedures is a prerequisite to the board's consideration of the shareholder's candidate. Once a candidate has been identified, the Nominating and Corporate Governance Committee reviews the individual's experience and background, and may discuss the proposed nominee with the source of the recommendation. If the Nominating and Corporate Governance Committee believes it to be appropriate, committee members may meet with the proposed nominee before making a final determination whether to include the proposed nominee as a member of management's slate of director nominees to be submitted for election to the board.

Compensation Committee

Our Board of Directors has established a Compensation Committee that operates pursuant to a written charter. The current members of the Compensation Committee are Ng Kin Sing, Lam Kwan Sing and Yip Wing Hang. Each member of the Compensation Committee is an independent director, as such term is used in NASDAQ Marketplace Rule 5605(a)(2).

The Compensation Committee is responsible for:

Formulating corporate goals and objectives relevant to compensation payable to the CEO and other executive officers;

Evaluating the performance of the CEO and other executive officers in light of these goals and objectives;

Recommending to the board for its adoption and approval, compensation payable to the CEO and other executive officers, including (a) annual base salary level, (b) annual incentive opportunity level, (c) long-term incentive opportunity level, (d) employment agreements, severance arrangements, and change in control agreement/provisions, in each case as, when and if appropriate, and (e) any special or supplemental benefits;

Administering and supervising the Company's incentive compensation plans, including equity compensation plans;

Recommending to the board for its adoption and approval, awards to be made under the Company's incentive compensation plans, including equity compensation plans; and

Generally supporting the Board of Directors in carrying out its overall responsibilities relating to executive compensation.

The Compensation Committee is required to meet at least once annually, and more frequently if the committee deems it to be appropriate. The committee may delegate authority to one or more members of the committee; provided that any decisions made pursuant to such delegated authority are promptly communicated to all other committee members.

NASDAQ Requirements

Our common shares are currently listed on the NASDAQ Capital Market and, for so long as our securities continue to be listed, we will remain subject to the rules and regulations established by NASDAQ Stock Market as being applicable to listed companies. NASDAQ has adopted, and from time-to-time adopts, amendments to its Marketplace Rule 5600 that imposes various corporate governance requirements on listed securities. Section (a)(3) of Marketplace Rule 5615 provides that foreign private issuers such as our company are required to comply with certain specific requirements of Marketplace Rule 5600, but, as to the balance of Marketplace Rule 5600, foreign private issuers are not required to comply if the laws of their home jurisdiction do not otherwise mandate compliance with the same or substantially similar requirement.

We currently comply with those specifically mandated provisions of Marketplace Rule 5600. In addition, we have elected to voluntarily comply with certain other requirements of Marketplace Rule 5600, notwithstanding that our home jurisdiction does not mandate compliance with the same or substantially similar requirements; although we may in the future determine to cease voluntary compliance with those provisions of Marketplace Rule 5600 that are not mandatory. However, we have elected not to comply with the following provisions of Marketplace Rule 5600, since the laws of the British Virgin Islands do not require compliance with the same or substantially similar requirements:

.
a majority of our directors are not independent as defined by NASDAQ rules (rather, one-half of the members of our Board of Directors are independent);

.
our independent directors do not hold regularly scheduled meetings in executive session (rather, all board members may attend all meetings of the Board of Directors);

.
the compensation of our executive officers is recommended but not determined by an independent committee of the board or by the independent members of the Board of Directors, and our CEO may be present in the deliberations concerning his compensation;

.
related party transactions are not required to be reviewed and we are not required to solicit member approval of stock plans, including those in which our officers or directors may participate; stock issuances that will result in a change in control; the issuance of our stock in related party acquisitions or other acquisitions in which we may issue 20% or more of our outstanding shares; or, below market issuances of 20% or more of our outstanding shares to any person; and

.
we are not required to hold an in-person annual meeting to elect directors and transact other business customarily conducted at an annual meeting (rather, we complete these actions by written consent of holders of a majority of our voting securities).

We may in the future determine to voluntarily comply with one or more of the foregoing provisions of Marketplace Rule 5600.

D.

Employees

As of December 31, 2012, (a) the metal segment employed 348 persons on a full time basis, (b) the coal segment employed 1,643 persons on a full time basis, and (c) the corporate segment employed 18 persons on a full time basis. The Company believes that its relations with employees are generally good.

The following table sets out the number of employees at the end of each of the past two financial years, including their principal category of activity and geographic location.

| | | Years Ended December 31, | |
|-----------|---|---------------------------------|-------------|
| | | 2011 | 2012 |
| Hong Kong | Accounting, administration and management | 7 | 7 |
| | | 7 | 7 |
| The PRC | Accounting, administration and management | 145 | 192 |
| | Sales and quality inspection | 14 | 26 |
| | Purchasing and supplies | 23 | 28 |
| | Production | 1,164 | 1,526 |
| | Cashier | 11 | 12 |
| | Others | 157 | 218 |
| | | 1,514 | 2,002 |
| Total | | 1,521 | 2,009 |

E.**Share Ownership**

The following table sets forth, as of April 24, 2013, the share ownership of the Company's common shares by each of our directors, executive officers and key employees.

As of April 24, 2013, there were 24,910,916 common shares issued and outstanding. Unless otherwise indicated, each person has sole investment and voting power with respect to all shares shown as beneficially owned. The term "beneficial owner" of securities refers to any person who, even if not the record owner of the securities, has or shares the underlying benefits of ownership. These benefits include the power to direct the voting or the disposition of the securities or to receive the economic benefit of ownership of the securities. A person also is considered to be the "beneficial owner" of securities that the person has the right to acquire within 60 days by option or other agreement. Beneficial owners include persons who hold their securities through one or more trustees, brokers, agents, legal representatives or other intermediaries, or through companies in which they have a "controlling interest", which means the direct or indirect power to direct the management and policies of the entity. The Company's directors and executive officers do not have different voting rights than other shareholders of the Company.

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|--|-------------------------|
| Li Feilie | 14,780,593(1) | 59.33% |
| Tam Cheuk Ho | 281,926 | 1.13% |
| Wong Wah On Edward | 400,000 | 1.61% |
| Lam Kwan Sing | | |
| Ng Kin Sing | | |
| Yip Wing Hang | | |
| Xu Chengyin | | |
| Han Weibing | | |
| Wan Huojin | | |
| Officers and directors as a group (9 persons) | 15,462,519 | 62.07% |

(1)

Consists of (a) 14,480,593 outstanding common shares held in the name of Feishang Group, a British Virgin Islands corporation that is wholly owned by Mr. Li, and (b) 300,000 outstanding common shares held by Mr. Li.

ITEM 7.**MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A.****Major Shareholders**

Major Shareholders

The following table sets forth, as of April 24, 2013, to the knowledge of management, the share ownership of each person who is the beneficial owner of more than 5% of our outstanding common shares.

As of April 24, 2013, there were 24,910,916 common shares issued and outstanding. Unless otherwise indicated, each person has sole investment and voting power with respect to all shares shown as beneficially owned. The term beneficial owner of securities refers to any person who, even if not the record owner of the securities, has or shares the underlying benefits of ownership. These benefits include the power to direct the voting or the disposition of the securities or to receive the economic benefit of ownership of the securities. A person also is considered to be the beneficial owner of securities that the person has the right to acquire within 60 days by option or other agreement. Beneficial owners include persons who hold their securities through one or more trustees, brokers, agents, legal representatives or other intermediaries, or through companies in which they have a controlling interest, which means the direct or indirect power to direct the management and policies of the entity. The Company's major shareholders do not have different voting rights than other shareholders of the Company.

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---------------------------------|--|-------------------------|
| Li Feilie | 14,780,593(1) | 59.33% |
| Rosetta Stone Capital Limited | 2,250,000(2) | 9.03% |

(1)

Consists of (a) 14,480,593 outstanding common shares held in the name of Feishang Group, a British Virgin Islands corporation that is wholly owned by Mr. Li, and (b) 300,000 outstanding common shares held by Mr. Li.

(2)

Consists of 2,250,000 outstanding common shares. Based upon its filings with the SEC, we understand that Rosetta Stone Capital Limited is owned 32.5% by Mr. Guozhong Xie, 29.17% by Keen View Investments Limited, 29.17% by Sun Fortune Investments Limited, 5.83% by Smartmind Investments Limited and 3.33% by Mr. Yuen Kin Lo. Mr. Guozhong Xie is the sole director of Rosetta Stone Capital Limited, Ms. Pan Pan Hui is the sole shareholder and director of Keen View Investments Limited, Ms. Yi Mei Liu is a controlling shareholder and director of Sun Fortune Investments Limited and Ms. Yunxiao Zhao is the sole shareholder and director of Smartmind Investments Limited. We also understand that Rosetta Stone Capital Limited maintains an office at 10th Floor, Center Point, 181 Gloucester Road, Hong Kong.

Significant Changes in Ownership

During the past three years, there have been no significant changes in the percentage ownership held by any major shareholder.

Geographic Breakdown of Shareholders

Based upon a review of our shareholder records as of December 31, 2012, on that date our common shares were held of record by a total of 181 persons, 168 of whom, who held approximately 29.15% of our outstanding common shares on that date, were located in the United States (host country). Shares registered in the name(s) of intermediaries were assumed to be held by residents of the same country in which the intermediary was located.

Control

To our knowledge, (a) there are no arrangements the operation of which may, at a subsequent date, result in a change in control of the Company and (b) except as otherwise disclosed in this Annual Report, we are not directly or indirectly owned or controlled by any other corporation, by any foreign government or by any other natural or legal person, severally or jointly.

B.

Related Party Transactions

Business Acquisitions

On April 30, 2010, the Company acquired all of the issued and outstanding capital stock of Wealthy Year, a BVI company, from Feishang Group, a related party. Mr. Li Feilie, our Chief Executive Officer and Chairman is the sole beneficial owner of Feishang Group. The terms of the acquisition are described under Item 4.A., above.

Commercial Transactions with Related Companies

Commercial transactions with related companies are summarized as follows:

Years Ended December 31,

| | 2010 | 2011 | 2012 |
|---|----------------|----------------|----------------|
| | CNY 000 | CNY 000 | CNY 000 |
| CHNR's payment of its share of office rental, rates and others to Anka Consultants Limited (Anka) (1) | 982 | 1,234 | 1,385 |

(1)

The Company and Anka, a private Hong Kong company that is owned by certain directors of the Company, entered into an office sharing agreement, whereby the Company's head office in Hong Kong is shared on an equal basis between the two parties. The office sharing agreement also provides that the Company and Anka shall share certain costs and expenses in connection with its use of the office, in addition to some of the accounting and secretarial services and day-to-day office administration provided by Anka.

Receivables/ Payables with Related Parties

Loans with related companies are summarized as follows:

| | As of December 31, | |
|---|---------------------------|----------------|
| | 2011 | 2012 |
| | CNY 000 | CNY 000 |
| <u>Receivables from related parties</u> | | |
| Other receivables | | |
| Wuhu Feishang Non-metal Material Co. Ltd. (WFNM) (1) | 774 | |
| <u>Payables to related parties</u> | | |
| Feishang Enterprise Group Limited (Feishang Enterprise) (2) | 184,477 | 411,053 |
| Feishang Group (3) | 262,657 | 266,610 |

(1)

Represents payments made by Wuhu Feishang on behalf of WFNM and offset against amounts owed by Wuhu Feishang to WFNM. The maximum outstanding amount during the year ended December 31, 2012 was CNY774,000 (US\$124,226).

(2)

Payable to Feishang Enterprise from Feishang Management for the net amount of expenses paid by Feishang Enterprise on behalf of Guizhou Puxin and certain other subsidiaries.

(3)

Payable to Feishang Group for the acquisition of Wealthy Year.

WFNM, Feishang Enterprise, and Feishang Group are entities controlled by Mr. Li Feilie who is also an executive officer, director, and principal beneficial owner of the Company.

Loan Guarantee provided by Related Companies

See Item 5.B. above for a more detailed description of the loans that have been guaranteed by related parties.

C.

Interests of Experts and Counsel

No disclosure is required in response to this Item.

ITEM 8.

FINANCIAL INFORMATION

A.

Consolidated Statements and Other Financial Information

The Company's Consolidated Financial Statements for the fiscal years ended December 31, 2010, 2011 and 2012 are included herewith as Appendix A and are incorporated herein by reference.

We have no direct business operations, other than through the ownership of our subsidiaries. We have not paid any dividends on our common shares and we have no current intention of paying dividends in the foreseeable future, it being our intention to retain earnings to support the development of our business. However, should we, as a holding company, decide in the future to pay any dividends, they will be paid at the discretion of the Company's Board of Directors and will be dependent upon distributions, if any, made by its subsidiaries, and on the Company's results of operations, its financial condition and other factors deemed relevant by the Board of Directors. In addition, our operating subsidiaries are subject to restrictions on their ability to make distributions to us, including as a result of restrictions imposed under PRC law.

See Item 3.A. for the details of reserve allocation of PRC's subsidiaries.

There are no legal or arbitration proceedings (including governmental proceedings pending or known to be contemplated), including those relating to bankruptcy, receivership or similar proceedings and those involving any third party, which may have, or have had in the recent past, significant effects on the Company's financial position or profitability. Moreover, there are no material proceedings in which any director, any member of senior management, or any of our affiliates is either a party adverse to us or our subsidiaries or has a material interest adverse to us or our subsidiaries.

B.**Significant Changes**

There have been no significant changes that have occurred since the date of the annual financial statements included in this report.

ITEM 9.**THE OFFER AND LISTING****A.****Offer and Listing Details**

The following table sets forth the annual high and low last trade prices of our common shares as reported by The NASDAQ Stock Market for each of the five preceding fiscal years. The prices are inter-dealer prices, without retail markup, markdown or commission.

| Period | | High | | Low |
|--------------------|----|-------------|----|------------|
| Fiscal Year ended: | | | | |
| December 31, 2012 | \$ | 9.06 | \$ | 3.61 |
| December 31, 2011 | \$ | 17.05 | \$ | 6.80 |
| December 31, 2010 | \$ | 17.87 | \$ | 8.27 |
| December 31, 2009 | \$ | 14.83 | \$ | 8.82 |
| December 31, 2008 | \$ | 26.30 | \$ | 7.99 |

The following table sets forth the high and low last trade prices of our common shares as reported by The NASDAQ Stock Market for each fiscal quarter of 2011 and 2012. The prices are inter-dealer prices, without retail markup, markdown or commission.

| Period | | High | | Low |
|----------------------------------|----|-------------|----|------------|
| 2012 Fiscal Year, quarter ended: | | | | |
| March 31, 2012 | \$ | 9.06 | \$ | 7.06 |
| June 30, 2012 | \$ | 7.82 | \$ | 3.61 |
| September 30, 2012 | \$ | 8.54 | \$ | 3.66 |
| December 31, 2012 | \$ | 6.54 | \$ | 4.30 |
| 2011 Fiscal Year, quarter ended: | | | | |
| March 31, 2011 | \$ | 17.05 | \$ | 12.22 |
| June 30, 2011 | \$ | 13.76 | \$ | 8.83 |
| September 30, 2011 | \$ | 11.86 | \$ | 8.00 |
| December 31, 2011 | \$ | 10.40 | \$ | 6.80 |

The following table sets forth the monthly high and low last trade prices of our common shares as reported by The NASDAQ Stock Market for each month during the six months preceding the date of this report. The prices are inter-dealer prices, without retail markup, markdown or commission, and do not necessarily reflect actual transactions.

| Period | High | | Low | |
|-------------------|------|------|-----|------|
| Month Ended: | | | | |
| March 31, 2013 | \$ | 5.30 | \$ | 4.70 |
| February 28, 2013 | \$ | 5.99 | \$ | 4.80 |
| January 31, 2013 | \$ | 6.18 | \$ | 4.34 |
| December 31, 2012 | \$ | 5.25 | \$ | 4.30 |
| November 30, 2012 | \$ | 5.85 | \$ | 5.21 |
| October 31, 2012 | \$ | 6.54 | \$ | 5.68 |

B.

Plan of Distribution

No disclosure is required in response to this Item.

C.

Markets

Our common shares have been listed on the NASDAQ Capital Market since November 22, 2004, under the symbol CHNR . From August 7, 1995 until November 22, 2004, our common stock was listed on the NASDAQ Small Cap market under the symbol CHRB .

D.

Selling Shareholders

No disclosure is required in response to this Item.

E.

Dilution

No disclosure is required in response to this Item.

F.

Expenses of the Issue

No disclosure is required in response to this Item.

ITEM 10.

ADDITIONAL INFORMATION

A.

Share Capital

No disclosure is required in response to this Item.

B.

Memorandum and Articles of Association

Charter. Our charter documents consist of our Memorandum of Association and our Articles of Association. The Memorandum of Association loosely resembles the Articles of Incorporation of a United States corporation, and the Articles of Association loosely resembles the bylaws of a United States corporation. A brief description of our Memorandum of Association and Articles of Association follows, including a summary of material differences between the corporate laws of the United States and those of the British Virgin Islands. This description and summary does not purport to be complete and does not address all differences between United States and British Virgin Islands corporate laws. Copies of our Memorandum of Association and Articles of Association have been filed as exhibits to

this report and readers are urged to review these exhibits in their entirety for a complete understanding of the provisions of our charter documents.

Corporate Powers. We have been registered in the British Virgin Islands since December 14, 1993, under British Virgin Islands International Business Company number 102930. Clause 4 of our Articles of Association states that the objects for which we are established are to engage in any act or activity which is not prohibited by any laws in force in the British Virgin Islands.

Directors. Article 73 of our Articles of Association provides that our Board of Directors shall consist of not less than three nor more than 25 directors. Article 74 of our Articles of Association provides that directors, solely for purposes of determining the term for which they will serve, are classified as Class I, Class II and Class III directors, with approximately one-third of the total number of directors being allocated to each Class. Each director is to hold office for a three-year term expiring immediately following the annual meeting of shareholders held three years following the annual meeting at which he or she was elected.

With the prior or subsequent approval by a resolution of shareholders, the directors may, by a resolution of directors, fix the emoluments of directors with respect to services to be rendered in any capacity to us. At the annual meeting of shareholders held in 2008, the shareholders adopted resolutions providing that (a) all emoluments to directors previously fixed by the Board of Directors are hereby approved and ratified and (b) the Board of Directors is hereby empowered and authorized to (c) fix all future emoluments to directors, for their services in all capacities to the Company, without further approval or ratification by Shareholders, and (d) in the Board's discretion, to amend or repeal Clause 80 of our Articles and Memorandum of Association accordingly; except to the extent not permitted by applicable committee charter, law, rule or regulation, including applicable requirements of any exchange on which the Company's securities are listed. The board has not yet formally amended or repealed Clause 80 of the Articles and Memorandum of Association.

The directors may, by a resolution of directors, exercise all the powers of the Company to borrow money. There is no age limit requirement for retirement or non-retirement of directors. A director shall not require a share qualification.

Directors may be natural persons or companies, in which event the company may designate a person as its representative as director. Directors may remove a director for cause. A director may appoint an alternate to attend meetings and vote in the place and stead of the director. No agreement or transaction between us and one or more of our directors or any person in which any of our directors has a financial interest is void or voidable by reason of the presence, vote or consent by such interested director at the meeting at which such agreement or transaction is approved if the material facts of the interest of each director are disclosed in good faith or known to the other directors. Directors do not have the authority to appoint new auditors such appointment must be made by the shareholders.

Share Rights, Preferences and Restrictions. We are authorized to issue 210,000,000 shares consisting of 200,000,000 common shares of no par value, and 10,000,000 preferred shares of no par value. The preferred shares may be issued in series having such rights, preferences and limitations as are determined by our Board of Directors at the time of issuance. In accordance with our Memorandum of Association, our Board of Directors has designated a series of preferred shares, consisting of 320,000 shares and designated Series B preferred shares. Series B preferred shares are entitled to one vote for each share, shall be entitled to vote on each matter that is submitted for a vote of common shareholders and shall be aggregated with outstanding common shares for all voting purposes. Series B preferred shares have no preemptive or other subscription rights and are not subject to future calls or assessments. There are no redemption or sinking fund provisions applicable to the Series B preferred shares and holders thereof have no rights whatsoever to dividends or to distributions upon our liquidation. No Series B preferred shares are outstanding.

No purchase, redemption or other acquisition of shares shall be made unless out of surplus (as defined by the International Business Companies Act) and unless the directors determine that immediately after the purchase, redemption or other acquisition we will be able to satisfy our liabilities as they become due in the ordinary course of business, and the realizable value of our assets will not be less than the sum of our total liabilities, other than deferred taxes, as shown in the books of account, and our capital and, in the absence of fraud, the decision of the directors as to the realizable value of our assets is conclusive, unless a question of law is involved. All dividends unclaimed for three years after having been declared may be forfeited by resolution of the directors for our benefit. Cumulative voting for directors is not authorized. We may redeem any of our own shares for fair value. All common shares have the same rights with regard to dividends and distributions upon our liquidation.

Changing Share Rights. The rights of each class and series of shares that we are authorized to issue shall be set out in the Memorandum of Association unless the Memorandum of Association states that such rights are to be fixed by the resolution of directors. If the authorized capital is divided into different classes, the rights attached to any class may be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class and of the holders of not less than three-fourths of the issued shares of any other class which may be affected by such variation.

Shareholder Meetings. The directors may convene meetings of our shareholders at such times and in such manner and places as the directors consider necessary or desirable. The directors shall convene such a meeting upon the written request of shareholders holding 30 percent or more of our outstanding voting shares. At least seven days notice of the meeting shall be given to the shareholders whose names appear on the share register. A majority of our outstanding shares entitled to vote must be present at a meeting of shareholders in order to constitute a quorum and the affirmative vote of a majority of those present and entitled to vote shall be required in order to approve action by shareholders. However, in the event a meeting of shareholders is adjourned due to the absence of a quorum, the minimum number of shares that must be present in order to constitute a quorum shall be reduced to one-third. Notwithstanding the foregoing, our Memorandum of Association provides that any action that may be taken at a meeting of shareholders may be taken without a meeting if the action is approved by written consent of a majority of shareholders.

Restrictions on Rights to Own Securities. There are no limitations on the rights to own our securities.

Change in Control Provisions. There are no provisions of our Memorandum of Association or Articles of Association that would have an effect of delaying, deferring or preventing a change in our control and that would operate only with respect to a merger, acquisition or corporate restructuring involving us.

Disclosure of Share Ownership. There are no provisions of our Memorandum of Association or Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed.

Dispute Resolution. Our Articles of Association provides that any differences between us and our shareholders or their legal representatives relating to the intent, construction, incidences or consequences of our Articles of Association or the British Virgin Islands International Business Companies Act, including any breach or alleged breach of our Articles of Association or the International Business Companies Act, or relating to our affairs shall be resolved by arbitration before two arbitrators (unless the parties agree to arbitrate before one arbitrator), who shall jointly appoint an umpire.

Applicable Law. Under the laws of most jurisdictions in the US, majority and controlling shareholders generally have certain fiduciary responsibilities to the minority shareholders. Shareholder action must be taken in good faith and actions by controlling shareholders which are obviously unreasonable may be declared null and void. British Virgin Islands law protecting the interests of minority shareholders may not be as protective in all circumstances as the law protecting minority shareholders in US jurisdictions.

While British Virgin Islands law does permit a shareholder of a British Virgin Islands company to sue its directors derivatively, that is, in the name of, and for the benefit of, our Company and to sue a company and its directors for his benefit and for the benefit of others similarly situated, the circumstances in which any such action may be brought, and the procedures and defenses that may be available in respect of any such action, may result in the rights of shareholders of a British Virgin Islands company being more limited than those of shareholders of a company organized in the US.

Our directors have the power to take certain actions without shareholder approval, including an amendment of our Memorandum of Association or Articles of Association (unless such amendment varies the rights attached to shares) or an increase or reduction in our authorized capital, which would require shareholder approval under the laws of most US jurisdictions. In addition, the directors of a British Virgin Islands company, subject in certain cases to court approval but without shareholder approval, may, among other things, implement a reorganization, certain mergers or consolidations with a subsidiary, the sale, transfer, exchange or disposition of any assets, property, part of the business, or securities of the company, or any combination (provided the assets do not represent more than 50% of the total assets of the company and the sale is not outside of the usual or ordinary course of the company's business), if they determine it is in the best interests of the company. Our ability to amend our Memorandum of Association and Articles of Association without shareholder approval could have the effect of delaying, deterring or preventing a change in our control without any further action by the shareholders, including a tender offer to purchase our common shares at a premium over then current market prices.

The International Business Companies Act of the British Virgin Islands permits the creation in our Memorandum and Articles of Association of staggered terms of directors, cumulative voting, shareholder approval of corporate matters by written consent, and the issuance of preferred shares. Currently, our Memorandum and Articles of Association provide for (a) shareholder approval of corporate matters by majority written consent, (b) staggered terms of directors and (c) the issuance of preferred shares.

As in most US jurisdictions, the Board of Directors of a British Virgin Islands company is charged with the management of the affairs of the company. In most US jurisdictions, directors owe a fiduciary duty to the corporation and its shareholders, including a duty of care, under which directors must properly apprise themselves of all reasonably available information, and a duty of loyalty, under which they must protect the interests of the corporation and refrain from conduct that injures the corporation or its shareholders or that deprives the corporation or its shareholders of any profit or advantage. Many US jurisdictions have enacted various statutory provisions which permit the monetary liability of directors to be eliminated or limited.

Under British Virgin Islands law, liability of a corporate director to the corporation is primarily limited to cases of willful malfeasance in the performance of his duties or to cases where the director has not acted honestly and in good faith and with a view to the best interests of the company. However, under our Memorandum of Association, we are authorized to indemnify any director or officer who is made or threatened to be made a party to a legal or administrative proceeding by virtue of being one of our directors or officers, provided such person acted honestly and in good faith and with a view to our best interests and, in the case of a criminal proceeding, such person had no reasonable cause to believe that his conduct was unlawful. Our Memorandum of Association also enable us to indemnify any director or officer who was successful in such a proceeding against expense and judgments, fines and amounts paid in settlement and reasonably incurred in connection with the proceeding.

Unlike most corporate laws in the United States, directors of a British Virgin Islands company may be companies. Moreover, any director may appoint an alternate to attend meetings and vote in the place and stead of the director appointing the alternate. It is unclear of the effect of such an appointment on the fiduciary obligations of the director making the appointment.

Changes in Capital. Requirements to effect changes in capital are not more stringent than is required by law.

C.

Material Contracts

Other than contracts entered into the ordinary course of business, during the two preceding fiscal years the Company has entered into the following material contracts (which are included as exhibits to this report):

.

Letter Agreement dated January 12, 2009 by and between Feishang Group and CHNR.

.

Loan Agreement dated February 2, 2009 by and between Guizhou Yongfu and China Minsheng Banking Corp. Ltd.

.

Letter Agreement dated July 10, 2009 by and between Feishang Group and CHNR.

.

Agreement by and between Yangpu Lianzhong and Dongguan City Zhongxian Industrial Investment Co., Ltd. on Stock Transfer of Guangdong Longchuan.

.

Agreement for the Sale and Purchase of the Entire Issued Share Capital in Wealthy Year dated April 30, 2010 by and between Feishang Group and CHNR.

.

Loan Agreement dated August 24, 2010 by and between Guizhou Puxin and China Minsheng Banking Corp. Ltd.

.

Agreement dated November 30, 2010 by and between Yangpu Lianzhong and Feishang Copper on Stock Transfer of Hainan Nonferrous Metal.

.

Loan Agreement dated December 14, 2010 by and between Guizhou Puxin and China Minsheng Banking Corp. Ltd.

.

Sales and Purchase Master Contract dated June 1, 2011 by and between Huludao Zinc Industry Co., Ltd. and Wuhu Feishang.

.

Loan Agreement dated December 19, 2011 by and between Guizhou Dayun and China Merchant Bank Limited.

.

Loan Agreement dated December 17, 2012 by and between Guizhou Dayun and Industrial and Commercial Bank of China.

.

Loan Agreement dated March 27, 2013 by and between Guizhou Puxin and China Minsheng Banking Corp. Ltd.

D.

Exchange Controls

There are no material British Virgin Islands laws, decrees, regulations or other legislation that impose foreign exchange controls on us or that affect our payment of dividends, interest or other payments to non-resident holders of our capital stock. British Virgin Islands law and our Memorandum of Association and Articles of Association impose no limitations on the right of non-resident or foreign owners to hold or vote our common shares. However, we operate through subsidiaries located in the PRC and the payment of dividends by PRC companies is subject to numerous restrictions imposed under PRC law, including restrictions on the conversion of local currency into United States dollars and other currencies and the expatriation of local currency out of the PRC.

The principal regulation governing foreign currency exchange in the PRC is the Foreign Currency Administration Rules (1996) as amended. Conversion of Renminbi is strictly regulated by the PRC Government. Under PRC foreign exchange rules and regulations, payment of routine transactions under current accounts, including trade and service transactions and payment of dividends, may be made in foreign currencies without prior approval from the SAFE but are subject to procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, such as direct investment, loans or investments in securities outside the PRC and capital contribution. These transactions must be approved by the SAFE.

Pursuant to the Foreign Currency Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the SAFE for trade and service-related exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange, subject to a cap approved by the SAFE, to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC authorities may limit or eliminate the ability of foreign-invested enterprises to purchase and retain foreign currencies in the future.

The principal regulations governing distribution of dividends by foreign-invested companies include:

.

The Sino-foreign Equity Joint Venture Law (1979), as amended;

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The Regulations of Implementation of the Sino-foreign Equity Joint Venture Law (1983) as amended;

.

The Foreign Investment Enterprise Law (1986) as amended; and

.

The Regulations of Implementation of the Foreign Investment Enterprise Law (1990) as amended.

Under these regulations, foreign-invested enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in the PRC are required to set aside at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless such reserve funds have reached 50% of their respective registered capital. These reserves are not distributable as cash dividends.

In addition, our wholly owned subsidiaries are required to allocate portions of their after-tax profits to their enterprise expansion funds and staff welfare and bonus funds at the discretion of their boards of directors. Allocations to these statutory reserves and funds can only be used for specific purposes and are not transferable to us in the forms of loans, advances or cash dividends.

E.

Taxation

The following is a summary of anticipated material U.S. federal income and British Virgin Islands tax consequences of an investment in our common shares. The summary has been prepared based upon management's understanding of applicable tax consequences, but has not been reviewed by counsel or other experts in U.S. or British Virgin Islands taxation. The summary does not address all possible tax consequences relating to an investment in our common shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which, such as dealers in securities, insurance companies and tax-exempt entities, may be subject to special rules. In particular, the discussion does not address the tax consequences under state, local and other non-U.S. and non-British Virgin Islands tax laws. Accordingly, each prospective investor should consult its own tax advisor regarding the particular tax consequences to it of an investment in the common shares. The discussion below is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to change.

United States Federal Income Taxation

The following discussion addresses only the material U.S. federal income tax consequences to a U.S. person, defined as a U.S. citizen or resident, a U.S. corporation, or an estate or trust subject to U.S. federal income tax on all of its income regardless of source, making an investment in the common shares. For taxable years beginning after December 31, 1996, a trust will be a U.S. person only if:

-
- a court within the United States is able to exercise primary supervision over its administration; and
-
- one or more United States persons have the authority to control all of its substantial decisions.

In addition, the following discussion does not address the tax consequences to a person who holds or will hold, directly or indirectly, 10% or more of our common shares, which we refer to as a 10% Shareholder. Non-U.S. persons and 10% Shareholders are advised to consult their own tax advisors regarding the tax considerations incident to an investment in our common shares.

A U.S. investor receiving a distribution of our common shares will be required to include such distribution in gross income as a taxable dividend, to the extent of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. Any distributions in excess of our earnings and profits will first be treated, for U.S. federal income tax purposes, as a nontaxable return of capital, to the extent of the U.S. investor's adjusted tax basis in our common shares, and then as gain from the sale or exchange of a capital asset, provided that our common shares constitutes a capital asset in the hands of the U.S. investor. U.S. corporate shareholders will not be entitled to any deduction for distributions received as dividends on our common shares.

Gain or loss on the sale or exchange of our common shares will be treated as capital gain or loss if our common shares is held as a capital asset by the U.S. investor. Such capital gain or loss will be long-term capital gain or loss if the U.S. investor has held our common shares for more than one year at the time of the sale or exchange.

A holder of common shares may be subject to backup withholding at the rate of 31% with respect to dividends paid on our common shares if the dividends are paid by a paying agent, broker or other intermediary in the United States or by a U.S. broker or certain United States-related brokers to the holder outside the United States. In addition, the proceeds of the sale, exchange or redemption of common shares may be subject to backup withholding, if such proceeds are paid by a paying agent, broker or other intermediary in the United States.

Backup withholding may be avoided by the holder of common shares if such holder:

.

is a corporation or comes within other exempt categories; or

.

provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding and otherwise complies with the backup withholding rules.

In addition, holders of common shares who are not U.S. persons are generally exempt from backup withholding, although they may be required to comply with certification and identification procedures in order to prove their exemption.

Any amounts withheld under the backup withholding rules from a payment to a holder will be refunded or credited against the holder's U.S. federal income tax liability, if any, provided that amount withheld is claimed as federal taxes withheld on the holder's U.S. federal income tax return relating to the year in which the backup withholding occurred. A holder who is not otherwise required to file a U.S. income tax return must generally file a claim for refund or, in the case of non-U.S. holders, an income tax return in order to claim refunds of withheld amounts.

British Virgin Islands Taxation

Under the International Business Companies Act of the British Virgin Islands as currently in effect, a holder of common shares who is not a resident of British Virgin Islands is exempt from British Virgin Islands income tax on dividends paid with respect to the common shares and all holders of common shares are not liable for British Virgin Islands income tax on gains realized during that year on sale or disposal of such shares; British Virgin Islands does not currently impose a withholding tax on dividends paid by a company incorporated under the International Business Companies Act.

There are no capital gains, gift or inheritance taxes levied by the British Virgin Islands on companies incorporated under the International Business Companies Act. In addition, the common shares are not subject to transfer taxes, stamp duties or similar charges.

There is no income tax treaty or convention currently in effect between the United States and the British Virgin Islands.

F.

Dividends and Paying Agents

No disclosure is required in response to this Item.

G.

Statement by Experts

No disclosure is required in response to this Item.

H.

Documents on Display

The documents concerning the Company that are referred to in this Annual Report may be inspected at the Company's principal executive offices at Room 2205, 22/F, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong. Certain documents described in response to Item 19 of this Annual Report are filed with this report and others are incorporated by reference to documents previously filed by the Company with the United States Securities and Exchange Commission. The documents that are filed herewith or incorporated by reference can be viewed on the SEC's web site at www.sec.gov.

I.

Subsidiary Information

See Exhibit 8 for further information about our subsidiaries.

ITEM 11.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency exchange rate risk

All of the Company's sales and purchases are made domestically and are denominated in Renminbi. The administrative expenses of the Company's head office in Hong Kong are denominated either in United States dollars or Hong Kong dollars. As the reporting currency of the Company's consolidated financial statements is Renminbi, the Company has material market risk with respect to currency fluctuation between Hong Kong dollars and United States dollars to Renminbi and translation difference may arise on consolidation. The Company may also suffer an exchange loss when it converts Renminbi to other currencies, such as Hong Kong dollars or United States dollars. If market conditions allow, the Company endeavors to match the currency used in operating/ investing activities with that used in financing activities. We have not engaged any foreign currency contract to hedge our potential foreign currency exchange exposure, if any.

Interest rate risk

We are exposed to interest rate risk arising from our interest bearing debts, namely, fixed rate bank loans, floating rate bank loans, and floating rate mining right payables. An upward fluctuation in interest rates increases the cost of new bank loan and the cost of servicing our floating rate bank loans and mining right payables. We do not use interest rate derivatives to hedge our interest rate exposure.

As of December 31, 2012, the interest rates for only 12.53% of our interest bearing debts were fixed. The weighted average tenure of the outstanding fixed interest rate loan was approximately 0.45 years. As of December 31, 2011, fixed interest rate loan constituted approximately 8.00% of our total outstanding interest bearing debts. The weighted average tenure of the outstanding fixed interest rate loan was approximately 0.25 years. The weighted average tenure of the outstanding fixed interest rate loan has been decreased from 0.25 years in 2011 to 0.45 years in 2012. A fixed interest rate can reduce the volatility of finance costs in uncertain markets. In view of the anticipated increases in interest rates, the Company intends to seek more bank loans with fixed interest rates.

The following table sets forth additional information about the expected maturity dates of our outstanding bank loan and mining right payable as of December 31, 2012:

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|--|-------------|-------------|-------------|-------------|-------------|--------------|
| | <i>(CNY in millions, except percentages)</i> | | | | | | |
| Bank loan, including current portion of long-term debt. | | | | | | | |
| Principal @fixed rate | 140.00 | | | | | | 140.00 |
| Average interest rate | 8.181% | | | | | | |
| Principal @floating rate | 303.90 | 143.00 | 196.63 | 170.00 | 60.00 | | 873.53 |
| Interest rates | 7.976% | 7.464% | 8.028% | 8.413% | 8.515% | | |
| Mining right payable | | | | | | | |
| Principal @floating rate | 25.57 | 22.37 | 22.37 | 22.37 | 10.71 | | 103.38 |
| Average interest rates | 6.457% | 6.388% | 6.483% | 6.480% | 6.550% | | |

Commodity price risk

The Company is exposed to fluctuation in the prices of zinc, iron and anthracite which we produce and/ or trade. These commodity prices can fluctuate widely and are affected by factors beyond our control which affect our earnings and cashflow. We have not engaged in any formal hedging transactions to manage possible price fluctuations.

The following table sets forth the sensitivity analysis of the commodity price change to the Company's sales revenue and gross profit in 2012:

| | 2012 | Coal Price | | Zinc Price | | Iron Price | |
|--------------|--------|---|---------|------------|--------|------------|--------|
| | | + 10% | - 10% | + 10% | - 10% | + 10% | - 10% |
| | Actual | | | | | | |
| | | <i>(CNY in millions, except percentage)</i> | | | | | |
| Total Sale | 156.67 | +14.19 | -14.19 | +0.24 | -0.24 | +1.00 | -1.00 |
| % Change | | +9.06% | -9.06% | +0.15% | -0.15% | +0.64% | -0.64% |
| Gross Profit | 51.74 | +14.08 | -14.08 | +0.24 | -0.24 | +1.00 | -1.00 |
| % Change | | +27.21% | -27.21% | +0.46% | -0.46% | +1.93% | -1.93% |

There are no material changes in the quantitative figures between 2012 and 2011.

ITEM 12.**DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

No disclosure is required in response to this Item.

PART II

ITEM 13.

DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There are no defaults, dividend arrearages and delinquencies or other information required to be disclosed in response to this Item.

ITEM 14.

MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

There have been no modifications to the rights of security holders and there is no other information to disclose in response to this Item.

ITEM 15.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). As of December 31, 2012, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures.

In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon that evaluation and subsequent evaluations conducted in connection with the audit of the Company's consolidated financial statements for the year ended December 31, 2012, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's rules and regulations.

Management's Report on Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Exchange Act defines

internal control over financial reporting as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and includes those policies and procedures that:

.

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

.

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

.

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on our assessment, we determined that, as of December 31, 2012, the Company's internal control over financial reporting was effective based on those criteria.

Ernst & Young, our independent registered public accounting firm, has performed an audit of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, and, as part of its audit, has issued its report on the effectiveness of the Company's internal control over financial reporting herein as of December 31, 2012. Ernst & Young's report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, which is not required to be provided under current rules of the Securities and Exchange Commission but has been furnished voluntarily by the Company, is included in this annual report on Form 20-F on page F-3. This audit is performed in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our independent registered public accounting firm was given unrestricted access to all financial records and related data.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the fiscal year 2012 and that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

ITEM 16.

[Reserved]

ITEM 16A.

AUDIT COMMITTEE FINANCIAL EXPERT

In general, an audit committee financial expert within the meaning of Item 407(d)(5) of Regulation S-K, is an individual member of the Audit Committee who:

.

understands generally accepted accounting principles and financial statements,

.

is able to assess the general application of such principles in connection with accounting for estimates, accruals and reserves,

.

has experience preparing, auditing, analyzing or evaluating financial statements comparable to the breadth and complexity to the our financial statements,

.

understands internal controls over financial reporting, and

.

understands audit committee functions.

An audit committee financial expert may acquire the foregoing attributes through:

.

education and experience as a principal financial officer, principal accounting officer, controller, public accountant, auditor or person serving similar functions;

.

experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person serving similar functions; experience overseeing or assessing the performance of companies or public accounts with respect to the preparation, auditing or evaluation of financial statements; or

.

other relevant experience.

Our Board of Directors has determined that Mr. Yip Wing Hang and Mr. Lam Kwan Sing are each an audit committee financial expert within the meaning of Item 407(d)(5) of Regulation S-K. Each of our audit committee financial experts is independent as that term is used in NASDAQ Marketplace Rule 5605(a)(2).

Item 16B.

CODE OF ETHICS

A Code of Ethics is a written standard designed to deter wrongdoing and to promote:

.
honest and ethical conduct,

.
full, fair, accurate, timely and understandable disclosure in regulatory filings and public statements,

.
compliance with applicable laws, rules and regulations,

.
the prompt reporting violation of the code, and

.
accountability for adherence to the Code of Ethics.

We have adopted a Code of Ethics that is applicable to all of our employees, and also contains provisions that apply only to our Chief Executive Officer, principal financial and accounting officers and persons performing similar functions. A copy of our Code of Ethics is incorporated by reference as Exhibit 11 to this Annual Report.

ITEM 16C.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table shows the fees that we paid or expect to pay for audit and other services provided by Ernst & Young.

| | Fiscal 2011 | Fiscal 2012 |
|--------------------|--------------------|--------------------|
| Audit Fees | US\$667,207 | US\$497,544 |
| Audit-Related Fees | US\$95,315 | US\$389,208 |
| Tax Fees | | |
| All Other Fees | | |
| Total | US\$762,522 | US\$886,752 |

Audit Fees This category includes the audit of our annual financial statements and services that are normally provided by the independent auditors in connection with engagements for those fiscal years. This category also includes advice on audit and certain other services that arose during, or as a result of, the audit or the review of interim financial statements. The services for the fees disclosed under this category include consultation regarding our correspondence with the SEC and other accounting consulting.

Audit-Related Fees This category consists of assurance and related services by the independent auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under **Audit Fees**.

Tax Fees This category consists of professional services rendered by the Company's independent registered public accounting firm for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

All Other Fees This category consists of fees for other miscellaneous items.

The Audit Committee has adopted a procedure for pre-approval of all fees charged by the Company's independent registered public accounting firm. Under the procedure, the Audit Committee approves the engagement letter with respect to audit, tax and review services. Other fees are subject to pre-approval by the entire Committee, or, in the period between meetings, by a designated member of the Audit Committee. Any such approval by the designated member is disclosed to the entire Audit Committee at the next meeting. The audit fees paid to Ernst & Young with respect to fiscal year 2012 were pre-approved by the Audit Committee.

ITEM 16D.

EXEMPTION FROM THE LISTING STANDARDS FOR THE AUDIT COMMITTEE

There have been no exemptions from listing standards required to be disclosed in response to this Item.

ITEM 16E.

PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

There have been no purchases of equity securities required to be disclosed in response to this Item.

ITEM 16F.

CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

No disclosure is required in response to this Item.

ITEM 16G.

CORPORATE GOVERNANCE

Our common shares are currently listed on the NASDAQ Capital Market and, for so long as our securities continue to be listed, we will remain subject to the rules and regulations established by the NASDAQ Stock Market that apply to listed companies. NASDAQ rules include various corporate governance requirements applicable to listed securities. While all NASDAQ-listed companies are subject to certain of these corporate governance requirements, foreign private issuers such as our company are exempt from other corporate governance requirements if the laws of their home jurisdiction do not otherwise require compliance. Since our home jurisdiction does not mandate compliance with some of these NASDAQ rules, we have opted out of compliance with them. A more detailed description of the NASDAQ requirements that we are not subject to is contained elsewhere in this report under Item 6.C Board Practices; NASDAQ Requirements.

ITEM 16H. MINE SAFETY DISCLOSURE

All of the Company's mining rights cover mines located in the People's Republic of China and, accordingly, no disclosure is required in response to this Item.

PART III

ITEM 17.

FINANCIAL STATEMENTS

No disclosure is required in response to this Item.

ITEM 18.

FINANCIAL STATEMENTS

The following financial statements are filed as a part of this Form 20-F in Appendix A hereto:

Reports of Independent Registered Public Accounting Firm, together with consolidated financial statements for the Company and subsidiaries, including:

a.

Consolidated statements of financial position as of December 31, 2011 and 2012

b.

Consolidated income statements for the years ended December 31, 2010, 2011 and 2012

c.

Consolidated statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012

d.

Consolidated statements of changes in equity for the years ended December 31, 2010, 2011 and 2012

e.

Consolidated statements of cash flows for the years ended December 31, 2010, 2011 and 2012

f.

Notes to consolidated financial statements.

ITEM 19.

EXHIBITS

The following Exhibits are filed as part of this Form 20-F:

| Exhibit No. | Exhibit Description |
|--------------------|---|
| 1.1 | Articles of Association Incorporation of the Registrant (<i>filed as Annex B to Form S-4 filed September 24, 2004, and incorporated herein by reference</i>). |
| 1.2 | Amended and Restated Memorandum of Association of the Registrant (<i>filed as Annex A to Form S-4 filed September 24, 2004, and incorporated herein by reference</i>). |
| 1.3 | Board of Directors Resolutions Designating Series B Preferred Stock and Establishing Rights, Preferences and Limitations (<i>filed as Exhibit 1.3 to Annual Report on Form 20-F for the fiscal year ended December 31, 2004, and incorporated herein by reference</i>). |
| 4.1 | China Resources Development, Inc., 2003 Equity Compensation Plan (<i>filed as Appendix B to Schedule 14A, filed November 20, 2003, and incorporated herein by reference</i>). |
| 4.2 | Acquisition Agreement dated January 24, 2006 by and between China Natural Resources, Inc., Feishang Mining Holdings Limited and Feishang Group Limited (<i>furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished January 25, 2006, and incorporated herein by reference</i>). |
| 4.3 | Founder Shareholders Agreement of Hainan Nonferrous Metal Mining Co. Ltd. dated September 10, 2007 by and among Yunnan Feishang Mining Co. Ltd., Hainan Jindi Industry Corporation, Yangpu Fengyu Industry Development Co. Ltd. and six individual residents of the People's Republic of China (<i>English translation of original Chinese version furnished as Exhibit 99.1 to the Current Report on Form 6-K furnished September 18, 2007, and incorporated herein by reference</i>). |
| 4.4 | Trust Agreement of Shareholding dated September 5, 2007 by and between Yunnan Feishang Mining Co. Ltd. and Yangpu Fengyu Industry Development Co. Ltd. (<i>English translation of original Chinese version furnished as Exhibit 99.2 to the Current Report on Form 6-K furnished September 18, 2007, and incorporated herein by reference</i>). |

| Exhibit No. | Exhibit Description |
|-------------|--|
| 4.5 | Agreement dated December 28, 2007 by and among Beijing SinoTech Institute of Mineral Exploration Co. Ltd., Lueyang Longda Stone Casting Co. Ltd. and Yunnan Feishang Mining Co. Ltd. <i>(English translation of original Chinese version furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished January 11, 2008, and incorporated herein by reference).</i> |
| 4.6 | Investors Agreement in respect of Guizhou Pucheng Mining Co. Ltd. dated January 26, 2008 by and among Yunnan Feishang Mining Co. Ltd., Yangpu Lianzhong Mining Co. Ltd. and Jiangxi Province Coal Group Company <i>(English translation of original Chinese version furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished February 7, 2008, and incorporated herein by reference).</i> |
| 4.7 | Agreement dated February 20, 2008 by and between Feishang Group Limited and China Natural Resources, Inc. in relation to the Sale and Purchase of the Entire Issued Share Capital and the Shareholder s Loan of Mark Faith Technology Development Limited <i>(furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished February 29, 2008, and incorporated herein by reference).</i> |
| 4.8 | Agreement for the Sale and Purchase of the Entire Issued Share Capital in Pineboom Investments Limited dated July 11, 2008 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished July 15, 2008, and incorporated herein by reference).</i> |
| 4.9 | Agreement for the Sale and Purchase of the Entire Issued Share Capital in Newhold Investments Limited dated August 11, 2008 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished August 13, 2008, and incorporated herein by reference).</i> |
| 4.10 | Service Agreement dated as of October 1, 2008 by and between the Company and Li Feilie <i>(furnished as Exhibit 99.2 to the Current Report on Form 6-K furnished November 10, 2008, and incorporated herein by reference).</i> |
| 4.11 | Service Agreement dated as of October 1, 2008 by and between the Company and Tam Cheuk Ho <i>(furnished as Exhibit 99.3 to the Current Report on Form 6-K furnished November 10, 2008, and incorporated herein by reference).</i> |
| 4.12 | Service Agreement dated as of October 1, 2008 by and between the Company and Wong Wah On Edward <i>(furnished as Exhibit 99.4 to the Current Report on Form 6-K furnished November 10, 2008, and incorporated herein by reference).</i> |
| 4.13 | Agreement for the Sale and Purchase of the Shares in Mark Faith Technology Development Limited dated December 30, 2008 by and between China Natural Resources, Inc. and Joysight Limited <i>(furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished January 6, 2009, and incorporated herein by reference).</i> |
| 4.14 | Letter Agreement dated January 12, 2009 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(furnished as Exhibit 10.2 to the Current Report on Form 6-K furnished January 20, 2009, and incorporated herein by reference).</i> |
| 4.15 | Loan Agreement dated February 2, 2009 by and between Guizhou Yongfu Mining Co., Limited and China Minsheng Banking Corp. Ltd. <i>(filed as Exhibit 4.21 to the Annual Report on Form 20-F filed June 29, 2009, and incorporated herein by reference).</i> |
| 4.16 | Letter Agreement dated July 10, 2009 by and between Feishang Group Limited and China Natural Resources, Inc. <i>(furnished as Exhibit 10.2 to the Current Report on Form 6-K furnished July 16, 2009, and incorporated herein by reference).</i> |
| 4.17 | Agreement for the Sale and Purchase of the Shares in Mark Faith Technology Development Limited dated September 29, 2009 by and between China Natural Resources, Inc. and Joysight Limited |

(furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished October 6, 2009, and incorporated herein by reference).

4.18 Agreement by and between Yangpu Lianzhong Mining Co., Ltd. and Dongguan City Zhongxian Industrial Investment Co., Ltd. on Stock Transfer of Guangdong Longchuan Jinshi Mining Development Co., Ltd. *(furnished as Exhibit 10.1 to the Current Report on Form 6-K furnished February 9, 2010, and incorporated herein by reference).*

4.19 Agreement for the Sale and Purchase of the Entire Issued Share Capital in Wealthy Year Limited dated April 30, 2010 by and between Feishang Group Limited and China Natural Resources, Inc. *(furnished as Exhibit 4.1 to the Current Report on Form 6-K furnished May 11, 2010, and incorporated herein by reference).*

| Exhibit No. | Exhibit Description |
|-------------|--|
| 4.20 | Loan Agreement dated August 24, 2010 by and between Guizhou Puxin Energy Co., Ltd. and China Minsheng Banking Corp. Ltd. <i>(filed as Exhibit 4.21 to the Annual Report on Form 20-F filed June 30, 2011, and incorporated herein by reference)</i> |
| 4.21 | Agreement dated November 30, 2010 by and between Yangpu Lianzhong Mining Co., Ltd. and Bayannaer City Feishang Copper Co., Ltd. on Stock Transfer of Hainan Nonferrous Metal Mining Co. Limited <i>(filed as Exhibit 4.22 to the Annual Report on Form 20-F filed June 30, 2011, and incorporated herein by reference)</i> |
| 4.22 | Loan Agreement dated December 14, 2010 by and between Guizhou Puxin Energy Co., Ltd. and China Minsheng Banking Corp. Ltd. <i>(filed as Exhibit 4.23 to the Annual Report on Form 20-F filed June 30, 2011, and incorporated herein by reference)</i> |
| 4.23 | Sales and Purchase Master Contract dated June 1, 2011 by and between Huludao Zinc Industry Co., Ltd. and Wuhu Feishang Mining Development Co., Ltd <i>(filed as Exhibit 4.24 to the Annual Report on Form 20-F filed June 30, 2011, and incorporated herein by reference)</i> . |
| 4.24 | Loan Agreement dated December 19, 2011 by and between Guizhou Dayun Mining Co., Ltd. and China Merchant Bank Limited. <i>(filed as Exhibit 4.25 to the Annual Report on Form 20-F filed April 27, 2012, and incorporated herein by reference)</i> |
| <u>4.25</u> | Loan Agreement dated December 17, 2012 by and between Guizhou Dayun Mining Co., Ltd. and Industrial and Commercial Bank of China Limited. <i>(filed herewith)</i> |
| <u>4.26</u> | Loan Agreement dated March 27, 2013 by and between Guizhou Puxin Energy Co., Ltd. and China Minsheng Banking Corp. Ltd. <i>(filed herewith)</i> |
| 6 | Computation of Earnings Per Share for Fiscal Year ended December 31, 2012 <i>(contained in Financial Statements filed herewith)</i> . |
| 7 | Computation of Ratios for Fiscal Years ended December 31, 2010, 2011 and 2012 <i>(filed herewith)</i> . |
| 8 | Subsidiaries of the Registrant <i>(filed herewith)</i> . |
| 11 | Code of Ethics <i>(filed as Exhibit 14 to Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003, and incorporated herein by reference)</i> . |
| <u>12.1</u> | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 <i>(filed herewith)</i> . |
| <u>12.2</u> | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 <i>(filed herewith)</i> . |
| <u>13.1</u> | CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <i>(filed herewith)</i> . |
| <u>13.2</u> | CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <i>(filed herewith)</i> . |
| <u>15.1</u> | Consent of Ernst & Young to incorporation of audit report dated April 29, 2013 into registration statement on Form S-8 (SEC File No. 333-146790) and registration statement on Form F-3 (SEC File No. 333-163702) <i>(filed herewith)</i> . |

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA NATURAL RESOURCES, INC.

Date: April 29, 2013

By: /s/ LI FEILIE
Li Feilie, CEO

APPENDIX A

CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firms, together with consolidated financial statements for the Company and subsidiaries, including:

a.

Consolidated statements of financial position as of December 31, 2011 and 2012

b.

Consolidated income statements for the years ended December 31, 2010, 2011 and 2012

c.

Consolidated statements of comprehensive income for the years ended December 31, 2010, 2011 and 2012

d.

Consolidated statements of changes in equity for the years ended December 31, 2010, 2011 and 2012

e.

Consolidated statements of cash flows for the years ended December 31, 2010, 2011 and 2012

f.

Notes to consolidated financial statements.

CHINA NATURAL RESOURCES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

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| Consolidated statements of financial position | F-4 F-5 |
| Consolidated income statements | F-6 |
| Consolidated statements of comprehensive income | F-7 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of

China Natural Resources, Inc.

We have audited the accompanying consolidated statements of financial position of China Natural Resources, Inc. (the Company) and its subsidiaries (the Group) as of December 31, 2012 and 2011, and the related consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2012 and 2011 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group's internal control over financial reporting as of December 31, 2012, based on criteria established on Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 29, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young

Certified Public Accountants

Hong Kong

April 29, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders of

China Natural Resources, Inc.

We have audited internal control over financial reporting of China Natural Resources, Inc. and its subsidiaries as of December 31, 2012, based on criteria established on Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The management of China Natural Resources, Inc. is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.

In our opinion, China Natural Resources, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of China Natural Resources, Inc. and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and our report dated April 29, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young

Certified Public Accountants

Hong Kong

April 29, 2013

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2012

(Amounts in thousands)

| | Notes | 2011 CNY | December 31, 2012 CNY | 2012 US\$ |
|--|-------|------------------|-----------------------------|----------------|
| ASSETS | | | | |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 4 | 2,053,173 | 2,349,914 | 377,157 |
| Rehabilitation fund | 5 | 26,019 | 33,052 | 5,305 |
| Prepayments | 8 | 80,418 | 117,123 | 18,798 |
| Deferred tax assets | 21 | 2,825 | 6,916 | 1,110 |
| TOTAL NON-CURRENT ASSETS | | 2,162,435 | 2,507,005 | 402,370 |
| CURRENT ASSETS | | | | |
| Inventories | 6 | 11,787 | 18,403 | 2,954 |
| Trade and bills receivables | 7 | 31,205 | 49,275 | 7,909 |
| Prepayments | 8 | 13,091 | 5,992 | 961 |
| Other receivables | | 21,289 | 31,909 | 5,122 |
| Due from related companies | 23 | 774 | | |
| Restricted bank deposits | | 21,000 | 7,082 | 1,137 |
| Term deposits with an original maturity over three months | | 20,000 | 23,650 | 3,796 |
| Cash and cash equivalents | | 136,587 | 210,944 | 33,855 |
| TOTAL CURRENT ASSETS | | 255,733 | 347,255 | 55,734 |
| TOTAL ASSETS | | 2,418,168 | 2,854,260 | 458,104 |

The accompanying notes are an integral part of these consolidated financial statements.

CHINA NATURAL RESOURCES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

DECEMBER 31, 2011 AND 2012

(Amounts in thousands)

| | Notes | 2011 CNY | December 31, 2012 CNY | 2012 US\$ |
|--|-------|------------------|-----------------------------|------------------|
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Trade and bills payables | 9 | 70,882 | 104,199 | 16,724 |
| Other payables and accrued liabilities | 10 | 52,173 | 79,923 | 12,830 |
| Interest-bearing loans | 11 | 225,000 | 443,900 | 71,245 |
| Due to related companies | 23 | 184,477 | 411,053 | 65,973 |
| Interest payable | | 5,979 | 9,093 | 1,459 |
| Taxes payable | | 23,923 | 24,143 | 3,875 |
| Mining rights payable | 12 | 22,612 | 25,568 | 4,104 |
| TOTAL CURRENT LIABILITIES | | 585,046 | 1,097,879 | 176,210 |
| NET CURRENT LIABILITIES | | (329,313) | (750,624) | (120,476) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,833,122 | 1,756,381 | 281,894 |
| NON-CURRENT LIABILITIES | | | | |
| Interest-bearing loans | 11 | 523,742 | 569,630 | 91,425 |
| Due to the Shareholder | 23 | 262,657 | 266,610 | 42,790 |
| Interest payable | | 18,205 | 17,894 | 2,872 |
| Deferred tax liabilities | 21 | 290,043 | 267,004 | 42,854 |
| Mining rights payable | 12 | 103,378 | 77,810 | 12,488 |
| Asset retirement obligations | 13 | 9,204 | 10,558 | 1,695 |
| TOTAL NON-CURRENT LIABILITIES | | 1,207,229 | 1,209,506 | 194,124 |
| TOTAL LIABILITIES | | 1,792,275 | 2,307,385 | 370,334 |
| EQUITY | | | | |
| Issued capital | 24 | 312,081 | 312,081 | 50,088 |
| Other capital reserves | 24 | 536,872 | 536,872 | 86,167 |
| Reserves | | 19,209 | 49,793 | 7,989 |
| Accumulated losses | | (322,714) | (443,001) | (71,101) |
| Other comprehensive losses | | (5,240) | (2,811) | (451) |

| | | | |
|--|-----------|-----------|---------|
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | 540,208 | 452,934 | 72,692 |
| NON-CONTROLLING INTERESTS | 85,685 | 93,941 | 15,078 |
| TOTAL EQUITY | 625,893 | 546,875 | 87,770 |
| TOTAL LIABILITIES AND EQUITY | 2,418,168 | 2,854,260 | 458,104 |

The accompanying notes are an integral part of these consolidated financial statements.

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CHINA NATURAL RESOURCES, INC.

CONSOLIDATED INCOME STATEMENTS

YEARS ENDED DECEMBER 31, 2010, 2011 AND 2012

(Amounts in thousands, except share and per share data)

| | | Year Ended December 31, | | | |
|--|-------|-------------------------|-------------|-------------|--------------|
| | Notes | 2010 CNY | 2011 CNY | 2012 CNY | 2012 US\$ |
| REVENUES | 14 | 93,354 | 148,151 | 156,667 | 25,145 |
| COST OF SALES | 15 | (53,539) | (95,534) | (104,925) | (16,841) |
| GROSS PROFIT | | 39,815 | 52,617 | 51,742 | 8,304 |
| SELLING AND DISTRIBUTION EXPENSES | | (3,303) | (3,282) | (3,887) | (624) |
| ADMINISTRATIVE EXPENSES | | (88,787) | (73,668) | (96,759) | (15,529) |
| OTHER OPERATING EXPENSES, NET | | (9,031) | (1,545) | (4,081) | (655) |
| OPERATING LOSS | | (61,306) | (25,878) | (52,985) | (8,504) |
| FINANCE COSTS | 16 | (6,007) | (32,215) | (44,858) | (7,200) |
| INTEREST INCOME | 19 | 1,112 | 1,713 | 2,622 | 421 |
| SHARE OF LOSSES OF ASSOCIATES | | (6,310) | | | |
| GAIN ON DISPOSAL OF ASSOCIATES | 17 | 30,571 | | | |
| GAIN FROM BARGAIN PURCHASE OF A SUBSIDIARY | 3 | 624,148 | | | |
| NON-OPERATING (EXPENSES) INCOME, NET | | | | | |