

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:

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Environmental concerns;

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Safety concerns; and

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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 Fei